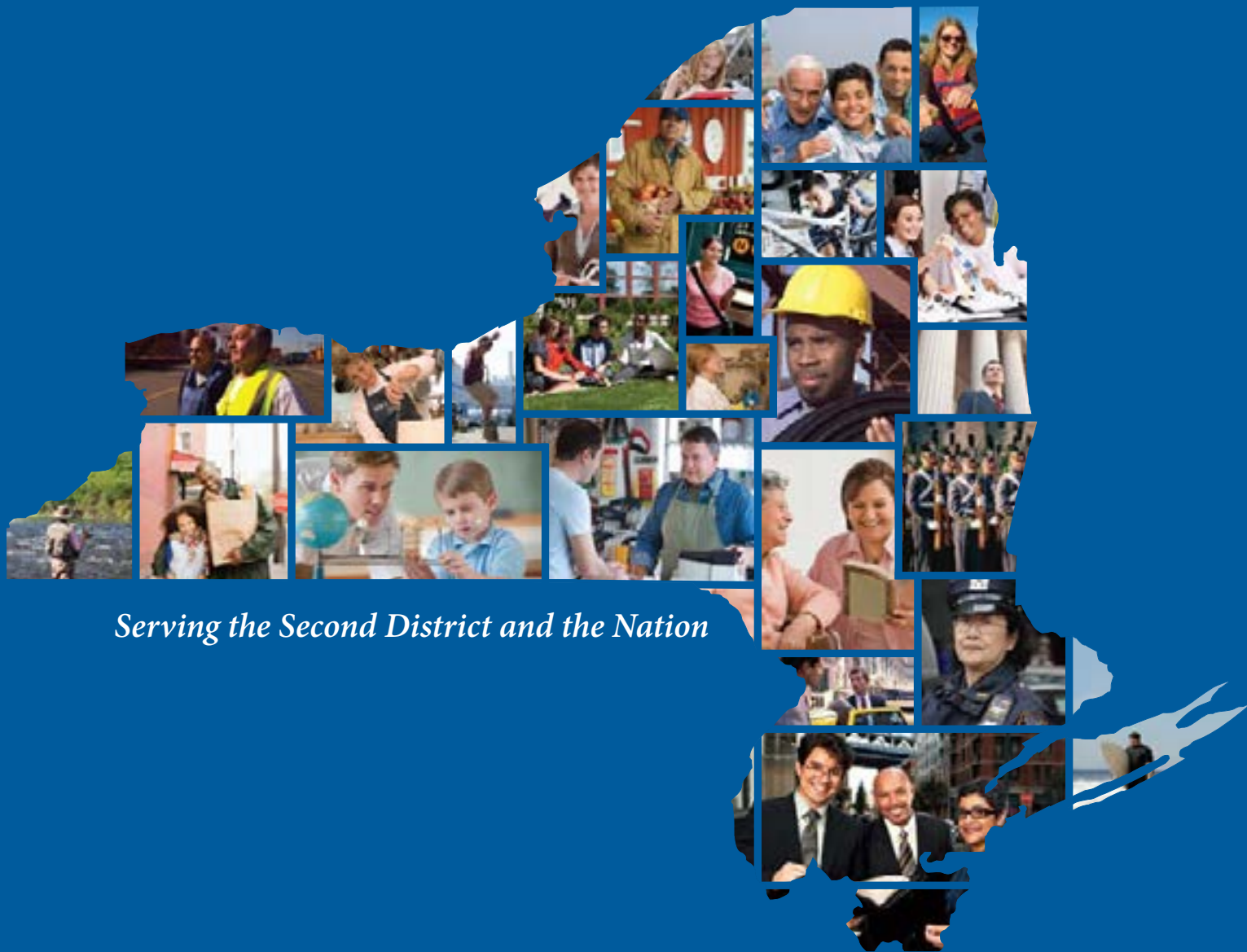
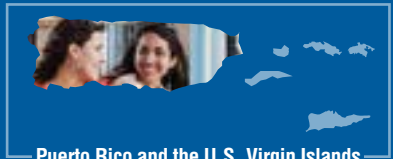


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# FEDERAL RESERVE BANK *of* NEW YORK



*Serving the Second District and the Nation*



Puerto Rico and the U.S. Virgin Islands

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# Federal Reserve Bank of New York

## Annual Report

*For the year ended  
December 31, 2010*



*On the cover:*

*The Federal Reserve's Second District comprises New York State; the twelve northern counties of New Jersey; Fairfield County, Connecticut; the Commonwealth of Puerto Rico; and the U.S. Virgin Islands.*

SECOND FEDERAL RESERVE DISTRICT

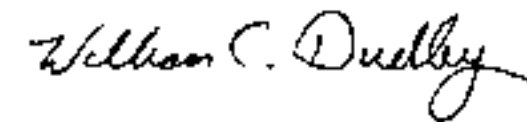
July 2011

To the Depository Institutions in  
the Second Federal Reserve District:

It is my pleasure to send you the ninety-sixth annual report of the Federal Reserve Bank of New York, covering the year 2010.

Following the "Letter from the President," the *2010 Annual Report* presents detailed tables, with extensive notes, on the Bank's financial condition.

I hope you will find the information we present interesting and useful.

A handwritten signature in black ink that reads "William C. Dudley". The signature is written in a cursive style with a large, sweeping initial 'W'.

William C. Dudley  
President

Federal Reserve Bank of New York  
33 Liberty Street  
New York, N.Y. 10045-0001  
Phone: (212) 720-5000

[www.newyorkfed.org](http://www.newyorkfed.org)

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# Letter from the President

portfolios through purchases of other longer term assets—actions that drove down yields more broadly and helped support equity prices.

The New York Fed's Markets Group, with the assistance of the Research and Statistics Group and other areas of the Bank, advised the FOMC on its balance sheet policy options and implemented the program as instructed by the Committee. The program was no silver bullet, but it achieved its desired goal of easing financial conditions, stabilizing inflation expectations at levels consistent with the FOMC's medium-term inflation objectives, and supporting growth.

The asset purchase program was put into effect with minimal market disruption and without an undesirably large rise in inflation risk premia. I believe that it contributed to a firming of economic activity around year-end, although the recovery remained distinctly subpar into 2011.

Even as the Bank was executing the program, it continued to prepare for the time when the FOMC would need to tighten monetary policy again. To this end, the New York Fed tested new tools—first, reverse repurchase agreements using System Open Market Account securities as collateral and, second, term deposits offered to depository

institutions. These tools can be used to reinforce the Fed's basic tool of paying interest on reserves and will help ensure that, even in a world where banks have excess reserves, the Fed can achieve the level of short-term interest rates it has targeted in the money markets.

#### ■ Gradual Exit from Emergency Facilities

As financial market functioning continued to improve through 2010, the Bank closed or wound down many of the special liquidity facilities put in place at the peak of the financial crisis. These facilities helped stabilize our market-based financial system in order to sustain the flow of credit to households and businesses in the real economy.

For example, the Term Asset-Backed Securities Loan Facility (better known as TALF) ended in June 2010, after arranging more than \$71.1 billion in loans to fund consumer and small business credit. This facility alone supported more than a million auto loans, several hundred thousand student loans, and tens of thousands of small businesses. It did so while generating \$721 million in net income with no losses to date.

The Commercial Paper Funding Facility, which backstopped the short-term commercial paper market used by many financial and nonfinancial firms to fund

receivables, also ended in 2010—again without a single loss, and having accumulated more than \$6 billion in net income for the public.

In addition, the Bank in 2010 made significant progress in helping new management stabilize American International Group, Inc. (AIG) so that the firm no longer posed a risk to financial stability and could begin repaying its public obligations. This effort culminated in the announcement on September 30, 2010, of the AIG recapitalization plan.

In accordance with the plan, on January 14, 2011, AIG repaid the New York Fed's loans, including interest and fees, thereby terminating Fed assistance to the company. Repayment of the New York Fed's loans was an important step in the eventual repayment of all of AIG's obligations to the U.S. government.

In addition, the three Maiden Lane special-purpose vehicles—limited liability companies that hold assets transferred as part of the Federal Reserve's efforts to prevent the disorderly failure of Bear Stearns and AIG—all increased in value over the course of 2010. As of December 31, 2010, the value of the assets in all three portfolios exceeded the balances of the loans extended by the New York Fed, in two cases by a considerable margin.

#### ■ Financial Reform: The Dodd-Frank Act and the Basel III Framework

The damage caused by the financial crisis underscored the urgent need to strengthen financial regulation and build a more systematic and dynamic risk oversight framework. The New York Fed is deeply committed to supporting these efforts in the United States and globally.

In 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), bringing far-reaching regulatory change to the nation's financial system. It charged the Federal Reserve System with important new financial stability responsibilities and required the Federal Reserve and other financial regulatory agencies to take a macroprudential approach to supervision and regulation. Such an approach focuses on risks to the system as a whole as well as the external costs imposed by the failure of any firm or critical market infrastructure.

The Bank will be required to implement many of the new rules under the Dodd-Frank Act, and in 2010 we began preparing for these changes. We are also firmly committed to supporting Federal Reserve Chairman Ben Bernanke in his role as a member of the new Financial Stability Oversight Council, which was created by the Act to bring together regulators from across the nation to identify and address risks to financial stability and promote market discipline.

*The New York Fed tested new tools [that] can be used to reinforce the Fed's basic tool of paying interest on reserves and will help ensure that, even in a world where banks have excess reserves, the Fed can achieve the level of short-term interest rates it has targeted in the money markets.*

*The damage caused by the financial crisis underscored the urgent need to strengthen financial regulation and build a more systematic and dynamic risk oversight framework. The New York Fed is deeply committed to supporting these efforts in the United States and globally.*

*The Bank in 2010 increased its efforts to attract and retain a diverse staff with deep expertise, strong leadership capabilities, high ethical standards, and a broad range of technical skills.*

In 2010, the Bank's Financial Institution Supervision Group made important contributions to the development of an enhanced set of prudential measures for globally active banks under the Basel III framework. Basel III is aimed at improving the ability of large globally active banks to absorb financial and economic shocks and to maintain the supply of credit to the real economy in times of stress without the need for taxpayer support. The agreements reached in 2010 require banks to hold more and better-quality capital, guard more effectively against the risks run by banks, and give banks greater incentives to recapitalize promptly with private sector funds when they incur losses.

The New York Fed also contributed to many other efforts to strengthen international regulatory coordination. Bank senior managers chaired or co-chaired the Committee on Payment and Settlement Systems, the Financial Stability Board's Over-the-Counter (OTC) Derivatives Working Group, the OTC Derivatives Regulators' Forum, and the OTC Derivatives Supervisors Group.

All told, important progress was made in 2010 and continues into 2011. Nevertheless, it is essential that we stay the course. The strengthened financial stability regime we are aiming for is still under construction. Many important decisions await us, particularly concerning the implementation of the Dodd-Frank Act and the Basel III agreements.

We foresee occasions when promoting financial stability will require actions that are opposed by parts of the financial services industry. In such circumstances, we should listen carefully to industry perspectives, but we should make our decisions based exclusively on our assessment of the public interest.

At the New York Fed, we recognize the need to focus attention on the reform of market structures and practices as well as the reform of bank regulation. As part of a market-based reform agenda, the Bank in May 2010 produced a white paper identifying weaknesses in the infrastructure of the tri-party repo market and eliciting comments from a wide variety of market participants on the reform proposals of a Bank-sponsored task force. This initiative promises to bring about material improvements in tri-party repo practices. However, more can be done to strengthen this critical market.

#### OUR CHALLENGES

##### ■ Develop World-Class Human Capital and Systems

Our greatest asset at the New York Fed is the quality of the people who work here and their commitment to serve the public. Still, we must always strive to improve our ability to attract, develop, and challenge top talent in a culture of meritocracy in which people at all levels are encouraged to question received wisdom—in a manner that is oriented toward action rather than debate for its own sake.

Because we want the Bank to have the best people, we need to draw broadly from all parts of our community. We actively seek the differences in background and experience that provide varied perspectives for our work. To this end, the Bank in 2010 increased its efforts to attract and retain a diverse staff with deep expertise, strong leadership capabilities, high ethical standards, and a broad range of technical skills.

In addition, we want our people to be thought leaders in their field. This is a core responsibility for members of our Research and Statistics Group, but we see it as a goal that extends to all areas of the Bank's policy work and operations.

A world-class institution requires world-class technology that is secure against ever-increasing cyber-threats. Our technology must also be robust, so that it can respond effectively to shifting demands and priorities in a cost-effective fashion. In 2010, we undertook a number of efforts to update our technology.

Some of our largest modernization projects involved the Fedwire® Securities Service and the Fedwire® Funds Service, which provide vital services to financial institutions. Over the next several years, we expect to pursue further improvements to Fedwire® technology. We recognize that our success in this endeavor will be measured in large part by our ability to implement important enhancements in a manner that minimizes disruptions to our customers.

##### ■ Build Capacity in the Area of Financial Stability

A further challenge for the Bank is to increase our capacity to promote financial stability across many different dimensions. To this end, we need to develop an organizational mindset that focuses on system risk and, at the same time, to take concrete steps to strengthen our people and processes. The cross-disciplinary approach that we put in place during the crisis can provide an important building block for this work. So too can the enhanced risk management infrastructure we developed in 2010 with the creation of the Risk Oversight Committee and other actions.

Although financial stability is the responsibility of the whole Bank, a heavy share of the burden will inevitably fall on the Financial Institution Supervision Group. Strengthening our practice of supervision, particularly as it applies to the largest financial institutions, is a top priority for 2011 and beyond.

##### ■ Connect Globally and Locally

To succeed in its public mission in a rapidly transforming international economy, the Bank needs a global orientation and a richly textured understanding of developments around the world that affect our economic outlook and prospects for financial stability.

In 2010, our Emerging Markets and International Affairs Group provided key insights into the sovereign debt crisis in Europe. In the medium term, we need to

*As we think globally, we also have to connect locally, investing the time to build relationships with the public we serve in our own Second District. These outreach initiatives, if conducted in a structured manner, can provide valuable direct insight into Main Street economic concerns and the viewpoints of a wide range of stakeholders.*

*As the crisis recedes in memory, the natural reflex may be to grow complacent. However, much more can be done to make the global and national financial system resilient and robust. There can be no return to pre-crisis business as usual.*

strengthen further our relationships with emerging economies in light of their ever-larger and fast-changing role in the global economic system.

As we think globally, we also have to connect locally, investing the time to build relationships with the public we serve in our own Second District. These outreach initiatives, if conducted in a structured manner, can provide valuable direct insight into Main Street economic concerns and the viewpoints of a wide range of stakeholders, including small business owners, community bankers, workers, and moderate-income groups. Certainly, I can say that the Bank's regional outreach program has given me important new perspectives on the District and national economies.

#### MOVING AHEAD

In preparing for the challenges ahead, we must be persistent and disciplined in our approach. As the crisis recedes in memory, the natural reflex may be to grow complacent. However, much more can be done to make the global and national financial system resilient and

William C. Dudley  
July 22, 2011

robust. There can be no return to pre-crisis business as usual.

We will not be able to avert all future failures or crises, but we can improve our ability to limit the frequency, severity, and breadth of their impact. We must be steadfast in pursuing our commitment to make the system more stable while we protect the dynamism of our economy as it fuels growth. We must also constantly challenge our assumptions about monetary policy, and incorporate awareness of global economic developments in all that we do.

We must act with transparency and honesty, acknowledging the limits of our scope. Central banks are not all-powerful, and monetary policy is a limited tool. No single regulatory institution, or even all regulators acting in concert, can guarantee that future financial crises will not occur. What we at the New York Fed can promise is a deep commitment to vigilance and a continual effort to use our abilities and the powers entrusted to us to advance the public interest in financial stability as the foundation of prosperity and growth.

We are committed to this essential mission.

## Management's Report on Internal Control over Financial Reporting



## Management's Report on Internal Control over Financial Reporting

To the Board of Directors of the  
Federal Reserve Bank of New York:

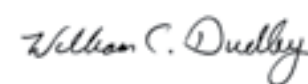
March 22, 2011

The management of the Federal Reserve Bank of New York (FRBNY) is responsible for the preparation and fair presentation of the Consolidated Statements of Condition, Consolidated Statements of Income and Comprehensive Income, and Consolidated Statements of Changes in Capital as of December 31, 2010 (the Consolidated Financial Statements). The Consolidated 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 as set forth in the *Financial Accounting Manual for Federal Reserve Banks (FAM)*, and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the Consolidated Financial Statements are, in all material respects, fairly presented in conformity with the accounting principles, policies, and practices documented in the *FAM* and include all disclosures necessary for such fair presentation.

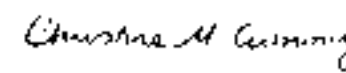
The management of the FRBNY is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the Consolidated Financial Statements. Such internal control is designed to provide reasonable assurance to management and to the Board of Directors regarding the preparation of the Consolidated Financial Statements in accordance with the *FAM*. Internal control contains self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in internal control are reported to management and appropriate corrective measures are implemented.

Even effective internal control, 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. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

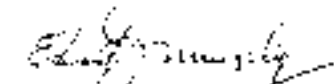
The management of the FRBNY assessed its internal control over financial reporting reflected in the Consolidated Financial Statements, based upon the criteria established in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the FRBNY maintained effective internal control over financial reporting as it relates to the Consolidated Financial Statements.



William C. Dudley  
President



Christine M. Cumming  
First Vice President



Edward F. Murphy  
Principal Financial Officer

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# External Auditor Independence

## EXTERNAL AUDITOR INDEPENDENCE

In 2010, the Board of Governors engaged Deloitte & Touche LLP (D&T) for the audits of the individual and combined financial statements of the Reserve Banks and the consolidated financial statements of the limited liability companies (LLCs) that are associated with Federal Reserve actions to address the financial crisis and are consolidated in the financial statements of the Federal Reserve Bank of New York. Fees for D&T's services are estimated to be \$8.0 million, of which

approximately \$2.0 million were for the audits of the LLCs.<sup>1</sup> To ensure auditor independence, the Board of Governors requires that D&T be independent in all matters relating to the audit. Specifically, D&T 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 Reserve Banks, or in any other way impairing its audit independence. In 2010, the Bank did not engage D&T for any non-audit services.

<sup>1</sup> Each LLC will reimburse the Board of Governors for the fees related to the audit of its financial statements from the entity's available net assets.

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# Consolidated Financial Statements

### Independent Auditors' Report

To the Board of Governors  
of the Federal Reserve System  
and the Board of Directors  
of the Federal Reserve Bank of New York:

We have audited the accompanying Statements of Condition of the Federal Reserve Bank of New York and its subsidiaries (collectively "FRBNY") as of December 31, 2010 and 2009 and the related Consolidated Statements of Income and Comprehensive Income, and of Changes in Capital for the years then ended, which have been prepared in conformity with accounting principles established by the Board of Governors of the Federal Reserve System. We also have audited the internal control over financial reporting of the FRBNY as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The FRBNY's management is responsible for these Consolidated Financial Statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these Consolidated Financial Statements and an opinion on the FRBNY's internal control over financial reporting based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the Consolidated Financial Statements included examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

The FRBNY's internal control over financial reporting is a process designed by, or under the supervision of, the FRBNY's principal executive and principal financial officers, or persons performing similar functions, and effected by the FRBNY's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Consolidated Financial Statements for external purposes in accordance with the accounting principles established by the Board of Governors of the Federal Reserve System. The FRBNY's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and

## CONSOLIDATED STATEMENTS OF CONDITION

as of December 31, 2010, and December 31, 2009

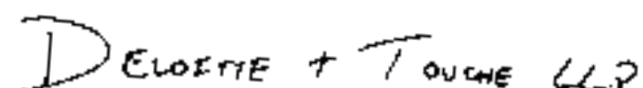
(in millions)

dispositions of the assets of the FRBNY; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of Consolidated Financial Statements in accordance with the accounting principles established by the Board of Governors of the Federal Reserve System, and that receipts and expenditures of the FRBNY are being made only in accordance with authorizations of management and directors of the FRBNY; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the FRBNY's assets that could have a material effect on the Consolidated Financial Statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Note 4 to the Consolidated Financial Statements, the FRBNY has prepared these Consolidated Financial Statements in conformity with accounting principles established by the Board of Governors of the Federal Reserve System, as set forth in the *Financial Accounting Manual for Federal Reserve Banks*, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on such Consolidated Financial Statements of the differences between the accounting principles established by the Board of Governors of the Federal Reserve System and accounting principles generally accepted in the United States of America are also described in Note 4.

In our opinion, such Consolidated Financial Statements present fairly, in all material respects, the financial position of the FRBNY as of December 31, 2010 and 2009, and the results of its operations for the years then ended, on the basis of accounting described in Note 4. Also, in our opinion, the FRBNY maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.



March 22, 2011  
New York, New York

ASSETS	2010	2009
Gold certificates	\$ 4,038	\$ 3,895
Special drawing rights certificates	1,818	1,818
Coin	71	77
Loans:		
Depository institutions	36	77,757
Term Asset-Backed Securities Loan Facility (measured at fair value)	24,853	48,183
American International Group, Inc., net	20,603	21,250
System Open Market Account:		
Treasury securities, net	435,373	315,035
Government-sponsored enterprise debt securities, net	62,421	65,418
Federal agency and government-sponsored enterprise mortgage-backed securities, net	409,969	359,186
Foreign currency denominated assets, net	7,560	6,724
Central bank liquidity swaps	22	2,733
Other investments	—	2
Consolidated variable interest entities:		
Investments held by consolidated variable interest entities (of which \$68,469 and \$71,648 are measured at fair value as of December 31, 2010 and 2009, respectively)	68,666	81,380
Preferred interests	26,385	25,106
Accrued interest receivable	5,808	4,948
Bank premises and equipment, net	316	322
Interdistrict settlement account	225,756	120,324
Other assets	304	203
<b>Total assets</b>	<b>\$1,293,999</b>	<b>\$1,134,361</b>

**CONSOLIDATED STATEMENTS OF CONDITION**

as of December 31, 2010, and December 31, 2009

(in millions)

LIABILITIES AND CAPITAL	2010	2009
Federal Reserve notes outstanding, net	\$ 318,897	\$ 326,127
System Open Market Account:		
Securities sold under agreements to repurchase	24,362	30,383
Other liabilities	—	235
Consolidated variable interest entities:		
Beneficial interest in consolidated variable interest entities (measured at fair value)	10,051	5,095
Other liabilities (of which \$203 and \$143 are measured at fair value as of December 31, 2010 and 2009, respectively)	921	1,316
Deposits:		
Depository institutions	536,589	525,907
Treasury, general account	140,773	186,632
Treasury, supplementary financing account	199,964	5,001
Other deposits	16,770	36,094
Funds from American International Group, Inc. asset dispositions, held as agent	26,896	—
Interest payable to depository institutions	62	60
Accrued benefit costs	1,335	1,423
Deferred credit items	10	14
Accrued interest on Federal Reserve notes	1,877	1,075
Other liabilities	128	115
<b>Total liabilities</b>	<b>1,278,635</b>	<b>1,119,477</b>
Capital paid-in	7,682	7,442
Surplus (including accumulated other comprehensive loss of \$3,412 and \$3,440 at December 31, 2010 and 2009, respectively)	7,682	7,442
<b>Total capital</b>	<b>15,364</b>	<b>14,884</b>
<b>Total liabilities and capital</b>	<b>\$1,293,999</b>	<b>\$1,134,361</b>

**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

for the years ended December 31, 2010, and December 31, 2009

(in millions)

	2010	2009
<b>INTEREST INCOME</b>		
Loans:		
Depository institutions	\$ 43	\$ 644
Term Asset-Backed Securities Loan Facility	750	414
American International Group, Inc., net	2,728	3,996
Primary Dealer Credit Facility	—	37
System Open Market Account:		
Securities purchased under agreements to resell	—	4
Treasury securities, net	10,633	8,775
Government-sponsored enterprise debt securities, net	1,414	792
Federal agency and government-sponsored enterprise mortgage-backed securities, net	18,074	7,927
Foreign currency denominated assets, net	64	78
Central bank liquidity swaps	3	568
Investments held by consolidated variable interest entities	4,440	9,820
<b>Total interest income</b>	<b>38,149</b>	<b>33,055</b>
<b>INTEREST EXPENSE</b>		
System Open Market Account:		
Securities sold under agreements to repurchase	38	37
Beneficial interest in consolidated variable interest entities	277	267
Deposits:		
Depository institutions	1,411	1,117
Term Deposit Facility	2	—
<b>Total interest expense</b>	<b>1,728</b>	<b>1,421</b>
Provision for loan restructuring	—	2,621
<b>Net interest income after provision for loan restructuring</b>	<b>36,421</b>	<b>29,013</b>

**CONSOLIDATED STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME**  
for the years ended December 31, 2010, and December 31, 2009  
(in millions)

	<u>2010</u>	<u>2009</u>
<b>NONINTEREST INCOME (LOSS)</b>		
Term Asset-Backed Securities Loan Facility, unrealized gains (losses)	(436)	557
System Open Market Account:		
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net	313	355
Foreign currency gains, net	160	59
Consolidated variable interest entities:		
Investments held by consolidated variable interest entities gains (losses), net	8,180	(1,937)
Beneficial interest in consolidated variable interest entities losses, net	(4,679)	(1,903)
Dividends on preferred interests	1,279	106
Income from services	75	67
Compensation received for service costs provided	4	4
Reimbursable services to government agencies	115	113
Other income	130	260
<b>Total noninterest income (loss)</b>	<u>5,141</u>	<u>(2,319)</u>
<b>OPERATING EXPENSES</b>		
Salaries and benefits	514	480
Occupancy	65	55
Equipment	26	22
Compensation paid for service costs incurred	32	33
Assessments:		
Board of Governors operating expenses and currency costs	251	216
Bureau of Consumer Financial Protection and Office of Financial Research	13	—
Net periodic pension expense	512	658
Professional fees related to consolidated variable interest entities	104	125
Other	284	278
<b>Total operating expenses</b>	<u>1,801</u>	<u>1,867</u>
Net income prior to distribution	<u>39,761</u>	<u>24,827</u>
Change in funded status of benefit plans	<u>28</u>	<u>1,031</u>
<b>Comprehensive income prior to distribution</b>	<u>\$39,789</u>	<u>\$25,858</u>
Distribution of comprehensive income:		
Dividends paid to member banks	\$ 455	\$ 413
Transferred to surplus and change in accumulated other comprehensive income	240	1,835
Payments to Treasury as interest on Federal Reserve notes	39,094	23,610
<b>Total distribution</b>	<u>\$39,789</u>	<u>\$25,858</u>

**CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL**  
for the years ended December 31, 2010, and December 31, 2009  
(in millions, except share data)

	<u>Capital Paid-In</u>	<u>Surplus</u>			<u>Total Capital</u>
		<u>Net Income Retained</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Surplus</u>	
<b>Balance at January 1, 2009</b> (112,148,532 shares)	\$5,607	\$10,078	\$(4,471)	\$5,607	\$11,214
Net change in capital stock issued (redeemed) (36,685,306 shares)	1,835	—	—	—	1,835
Transferred to surplus and change in accumulated other comprehensive income	—	804	1,031	1,835	1,835
<b>Balance at December 31, 2009</b> (148,833,838 shares)	<u>\$7,442</u>	<u>\$10,882</u>	<u>\$(3,440)</u>	<u>\$7,442</u>	<u>\$14,884</u>
Net change in capital stock issued (redeemed) (4,811,841 shares)	240	—	—	—	240
Transferred to surplus and change in accumulated other comprehensive income	—	212	28	240	240
<b>Balance at December 31, 2010</b> (153,645,679 shares)	<u>\$7,682</u>	<u>\$11,094</u>	<u>\$(3,412)</u>	<u>\$7,682</u>	<u>\$15,364</u>



## FEDERAL RESERVE BANK OF NEW YORK

### *Notes to Consolidated Financial Statements*

#### 1. STRUCTURE

The Federal Reserve Bank of New York (Bank) is part of the Federal Reserve System (System) and is one of the twelve Federal 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 serves the Second Federal Reserve District, which includes the State of New York; the twelve northern counties of New Jersey; Fairfield County, Connecticut; the Commonwealth of Puerto Rico; and the U.S. Virgin Islands.

In accordance with the Federal Reserve Act, supervision and control of the Bank is 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 of the Federal Reserve System (Board of Governors) to represent the public, 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. 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.

In addition to the twelve Reserve Banks, the System also consists, in part, of the 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 Bank and, on a rotating basis, four other Reserve Bank presidents.

## 2. OPERATIONS AND SERVICES

The Reserve Banks perform a variety of services and operations. These functions include participating in formulating and conducting monetary policy; participating in the payment system, including large-dollar transfers of funds, automated clearinghouse (ACH) operations, and check collection; distributing coin and currency; performing fiscal agency functions for the U.S. Department of the Treasury (Treasury), certain federal agencies, and other entities; serving as the federal government's bank; providing short-term loans to depository institutions; providing loans to individuals, partnerships, and corporations in unusual and exigent circumstances; serving consumers and communities by providing educational materials and information regarding financial consumer protection rights and laws and information on community development programs and activities; and supervising bank holding companies, state member banks, and U.S. offices of foreign banking organizations. Certain services are provided to foreign and international monetary authorities, primarily by the Bank.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), which was signed into law and became effective on July 21, 2010, changed the scope of some services performed by the Reserve Banks. Among other things, the Dodd-Frank Act establishes a Bureau of Consumer Financial Protection (Bureau) as an independent bureau within the Federal Reserve System that will have supervisory authority over some institutions previously supervised by the Reserve Banks under delegated authority from the Board of Governors in connection with those institutions' compliance with consumer protection statutes; limits the Reserve Banks' authority to provide loans in unusual and exigent circumstances to lending programs or facilities with broad-based eligibility; and vests the Board of Governors with all supervisory and rule-writing authority for savings and loan holding companies.

The FOMC, in conducting monetary policy, establishes policy regarding domestic open market operations, oversees these operations, and issues authorizations and directives to the Bank to execute transactions. The FOMC authorizes and directs the Bank to conduct operations in domestic markets, including the direct purchase and sale of Treasury securities, federal agency and government-sponsored enterprise (GSE) debt securities, federal agency and GSE mortgage-backed securities (MBS), the purchase of these securities under agreements to resell, and the sale of these securities under agreements to repurchase. The Bank holds the resulting securities and agreements in a portfolio known as the System Open Market Account (SOMA).

The Bank is authorized to lend the Treasury securities and federal agency and GSE debt securities that are held in the SOMA.

In addition to authorizing and directing operations in the domestic securities market, the FOMC authorizes the Bank to conduct operations in foreign markets in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC to carry out the System's central bank responsibilities. Specifically, the FOMC authorizes and directs the Bank to hold balances of, and to execute spot and forward foreign exchange and securities contracts for, fourteen foreign currencies and to invest such foreign currency holdings, while maintaining adequate liquidity. The Bank is authorized and directed by the FOMC to maintain reciprocal currency arrangements with the Bank of Canada and the Bank of Mexico and to "warehouse" foreign currencies for the Treasury and the Exchange Stabilization Fund (ESF).

Although the Reserve Banks are separate legal entities, they collaborate in the delivery of certain services to achieve greater efficiency and effectiveness. This collaboration takes the form of centralized operations and product or function 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 Banks. In some cases, costs incurred by a Reserve Bank for services provided to other Reserve Banks are not shared; in other cases, the Reserve Banks are reimbursed for costs incurred in providing services to other Reserve Banks. Major services provided by the Bank on behalf of the FOMC or System and for which the costs were not reimbursed by the other Reserve Banks include the management of SOMA, the Wholesale Product Office, the System Credit Risk Technology Support function, the Valuation Support team, centralized business administration functions for wholesale payments services, and three national information technology operations dealing with incident response, remote access, and enterprise search.

## 3. FINANCIAL STABILITY ACTIVITIES

The Reserve Banks have implemented the following programs that support the liquidity of financial institutions and foster improved conditions in financial markets.

### Large-Scale Asset Purchase Programs

The FOMC authorized and directed the Bank to purchase \$300 billion of longer term Treasury securities to help improve conditions in private credit markets. The Bank began the purchases of these Treasury securities in March 2009 and completed

them in October 2009. On August 10, 2010, the FOMC announced that the Federal Reserve will maintain the level of domestic securities holdings in the SOMA portfolio by reinvesting principal payments from GSE debt securities and federal agency and GSE MBS in longer term Treasury securities. On November 3, 2010, the FOMC announced its intention to expand the SOMA portfolio holdings of longer term Treasury securities by an additional \$600 billion by June 2011. The FOMC will regularly review the pace of these securities purchases and the overall size of the asset purchase program and will adjust the program as needed to best foster maximum employment and price stability.

The FOMC authorized and directed the Bank to purchase GSE debt securities and federal agency and GSE MBS, with a goal to provide support to mortgage and housing markets and to foster improved conditions in financial markets more generally. The Bank was authorized to purchase up to \$175 billion in fixed-rate, noncallable GSE debt securities and \$1.25 trillion in fixed-rate federal agency and GSE MBS. Purchases of GSE debt securities began in November 2008, and purchases of federal agency and GSE MBS began in January 2009. The Bank completed the purchases of GSE debt securities and federal agency and GSE MBS in March 2010. The settlement of all federal agency and GSE MBS transactions was completed by August 2010.

#### Central Bank Liquidity Swaps

The FOMC authorized and directed the Bank to establish central bank liquidity swap arrangements, which could be structured as either U.S. dollar liquidity or foreign currency liquidity swap arrangements. U.S. dollar liquidity swap arrangements were authorized with fourteen foreign central banks to provide liquidity in U.S. dollars to overseas markets. The authorization for these swap arrangements expired on February 1, 2010. In May 2010, U.S. dollar liquidity swap arrangements were reestablished with the Bank of Canada, the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank; these arrangements will expire on August 1, 2011.

Foreign currency liquidity swap arrangements provided the Reserve Banks with the capacity to offer foreign currency liquidity to U.S. depository institutions. The authorization for these swap arrangements expired on February 1, 2010.

#### Lending to Depository Institutions

The Term Auction Facility (TAF) promoted the efficient dissemination of liquidity by providing term funds to depository institutions. The last TAF auction was conducted on March 8, 2010, and the related loans matured on April 8, 2010.

#### Lending to Primary Dealers

The Term Securities Lending Facility (TSLF) promoted liquidity in the financing markets for Treasury securities. Under the TSLF, the Bank could lend up to an aggregate amount of \$200 billion of Treasury securities held in the SOMA to primary dealers on a secured basis for a term of twenty-eight days. The authorization for the TSLF expired on February 1, 2010.

The Term Securities Lending Facility Options Program (TOP) offered primary dealers the opportunity to purchase an option to draw upon short-term, fixed-rate TSLF loans in exchange for eligible collateral. The program was suspended effective with the maturity of the June 2009 TOP options, and authorization for the program expired on February 1, 2010.

The Primary Dealer Credit Facility (PDCF) was designed to improve the ability of primary dealers to provide financing to participants in the securitization markets. Primary dealers could obtain secured overnight financing under the PDCF in the form of repurchase transactions. The authorization for the PDCF expired on February 1, 2010, and the last loan matured on May 13, 2009.

The Transitional Credit Extension (TCE) program provided liquidity support through secured loans to broker-dealers that were in the process of transitioning to the bank holding company structure. The authorization for the TCE program expired on February 1, 2010, and the last loan matured on April 29, 2009.

#### Other Lending Facilities

The Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF) provided funding to depository institutions and bank holding companies to finance the purchase of eligible high-quality asset-backed commercial paper (ABCP) from money market mutual funds. The Federal Reserve Bank of Boston administered the AMLF and was authorized to extend these loans to eligible borrowers on behalf of the other Reserve Banks. The authorization for the AMLF expired on February 1, 2010.

The Commercial Paper Funding Facility (CPFF program) enhanced the liquidity of the commercial paper market in the United States by increasing the availability of term commercial paper funding to issuers and by providing greater assurance to both issuers and investors that issuers would be able to roll over their maturing commercial paper. The authorization to purchase high-quality commercial paper through the CPFF program expired on February 1, 2010. The Commercial Paper Funding Facility LLC (CPFF) was a Delaware limited liability company formed on

October 14, 2008, in connection with the implementation of the CPFF program, to purchase eligible three-month unsecured commercial paper and ABCP directly from eligible issuers using the proceeds of loans made to CPFF by the Bank. The Bank's loans to CPFF were eliminated in consolidation of CPFF into the Bank's financial statements. The last commercial paper purchased by the CPFF matured on April 26, 2010, and the CPFF was dissolved on August 30, 2010. CPFF's financial statements as of May 31, 2010, and for the period January 1, 2010, through May 31, 2010, and as of and for the year ended December 31, 2009, were last published on August 30, 2010.

The Term Asset-Backed Securities Loan Facility (TALF) assisted financial markets in accommodating the credit needs of consumers and businesses of all sizes by facilitating the issuance of asset-backed securities (ABS) collateralized by a variety of consumer and business loans. The Board of Governors authorized the Bank to offer TALF loans collateralized by newly issued ABS and legacy commercial mortgage-backed securities (CMBS) until March 31, 2010, and TALF loans collateralized by newly issued CMBS until June 30, 2010. Under the TALF, the Bank was authorized to lend up to \$200 billion to eligible borrowers.

TALF loans have maturities up to five years and are secured by eligible collateral, with the Bank having lent an amount equal to the value of the collateral, as determined by the Bank, less a margin. Loan proceeds were disbursed to the borrower contingent on receipt by the Bank's custodian of the eligible collateral, an administrative fee, and, if applicable, a margin.

The TALF loans were extended on a nonrecourse basis. If the borrower does not repay the loan, the Bank will enforce its rights in the collateral and may sell the collateral to TALF LLC, a Delaware limited liability company, established on February 4, 2009, for the purpose of purchasing such assets. As of December 31, 2010, the Bank has not enforced its rights to the collateral because there have been no defaults.

Pursuant to a put agreement with the Bank, TALF LLC has committed to purchase assets that secure a TALF loan at a price equal to the principal amount outstanding plus accrued but unpaid interest, regardless of the fair value of the collateral. Funding for the TALF LLC's purchases of these securities is derived first through the fees received by TALF LLC from the Bank for this commitment and any interest earned on its investments. In the event that such funding proves insufficient for the asset purchases that TALF LLC has committed to make under the put agreement, the Treasury committed to lend up to \$20 billion, and on March 25, 2009, the Treasury funded \$100 million. On July 19, 2010, this commitment was

reduced to \$4.3 billion to reflect the fact that only \$43 billion of TALF loans were outstanding when the program closed to new lending on June 30, 2010. Treasury's loan to TALF LLC bears interest at a rate of the one-month London interbank offered rate (Libor) plus 300 basis points. In addition to Treasury's commitment, the Bank committed, as a senior lender, to lend up to \$180 billion to TALF LLC if it needed the funding to purchase assets pursuant to the put agreement. The Bank's maximum exposure was subsequently reduced to \$38.7 billion when the program closed to new lending. Any loan that the Bank makes to TALF LLC would be senior to any Treasury loan and would bear interest at a rate of the one-month Libor plus 100 basis points. To the extent that Treasury and the Bank have extended credit to TALF LLC, their loans are secured by all of the assets of TALF LLC. The Bank is the managing member and the controlling party of TALF LLC and will remain the controlling party as long as it retains an economic interest in TALF LLC. After TALF LLC has paid all operating expenses and principal due to the Bank, the remaining proceeds of the portfolio holdings will be distributed in the following order: principal due to Treasury, interest due to the Bank, and interest due to Treasury. Any residual cash flows will be shared between the Bank, which will receive 10 percent, and the Treasury, which will receive 90 percent.

#### Support for Specific Institutions

##### *Bear Stearns Companies, Inc.*

To facilitate the merger of The Bear Stearns Companies, Inc. (Bear Stearns) and JPMorgan Chase & Co. (JPMC), the Bank extended credit to Maiden Lane LLC (ML) in June 2008. ML is a Delaware limited liability company formed by the Bank to acquire certain assets of Bear Stearns and to manage those assets over time, in order to maximize the potential for the repayment of the credit extended to ML and to minimize disruption to the financial markets. The assets acquired by ML were valued at \$29.9 billion as of March 14, 2008, the date that the Bank committed to the transaction, and largely consisted of federal agency and GSE MBS, nonagency residential mortgage-backed securities (RMBS), commercial and residential mortgage loans, and derivatives and associated hedges.

The Bank extended a senior loan of approximately \$28.8 billion and JPMC extended a subordinated loan of \$1.15 billion to finance the acquisition of the assets. The loans are collateralized by all of the assets of ML through a pledge to the collateral agent. The Bank is the sole and managing member and the controlling party of ML and will remain as such as long as the Bank retains an economic interest in ML. The interest rate on the senior loan is the primary credit rate in effect from time to time. The interest rate on the JPMC subordinated loan is the primary credit rate

plus 450 basis points. JPMC bears losses associated with the portfolio through its subordinated loan plus accrued interest on the loan. Once the principal and interest are paid, residual gains, if any, will be allocated to the Bank. The two-year accumulation period that followed the closing date for ML ended on June 26, 2010. Consistent with the terms of the ML transaction, the distributions of the proceeds realized on the asset portfolio held by ML, after payment of certain fees and expenses, now occur on a monthly basis unless otherwise directed by the Bank.

*American International Group, Inc.*

In September 2008, the Board of Governors authorized the Bank to lend to American International Group, Inc. (AIG). Initially, the Bank provided AIG with a revolving line of credit collateralized by the pledge of a substantial portion of the assets of AIG. Under the provisions of the original agreement, the Bank was authorized to lend up to \$85 billion to AIG for two years at the three-month Libor, with a floor of 350 basis points, plus 850 basis points. In addition, the Bank assessed AIG a one-time commitment fee of 200 basis points on the full amount of the commitment and a fee of 850 basis points per annum on the undrawn credit line. A condition of the credit agreement was that AIG would issue to a trust, for the sole benefit of the fiscal treasury, preferred shares convertible to approximately 78 percent of the issued and outstanding shares of the common stock of AIG. The AIG Credit Facility Trust (AIG Trust) was formed January 16, 2009, and the preferred shares were issued to the AIG Trust on March 4, 2009. The AIG Trust had three independent trustees who control the AIG Trust's voting and consent rights. The Bank cannot exercise voting or consent rights.

The Board and the Treasury announced a restructuring of the government's financial support to AIG in November 2008. As part of the restructuring, the Treasury purchased \$40 billion of newly issued AIG preferred shares under the Troubled Asset Relief Program (TARP). The majority of the TARP funds were used to pay down AIG's debt to the Bank. In addition, the terms of the original credit agreement were modified to reduce the revolving line of credit to \$60 billion; reduce the interest rate to the three-month Libor with a floor of 350 basis points, plus 300 basis points; reduce the fee on undrawn funds to 75 basis points; and extend the term of the agreement to five years. The other material terms of the funding were unchanged. These revised terms were more consistent with terms generally available to other entities with similar credit risk.

Concurrent with the November 2008 restructuring of its financial support to AIG, the Bank established two limited liability companies (LLCs). The Bank extended credit to Maiden Lane II LLC (ML II), a Delaware limited liability company formed to purchase nonagency RMBS from the reinvestment pool of the securities lending portfolios of several regulated U.S. insurance subsidiaries of AIG. ML II borrowed \$19.5 billion from the Bank and used the proceeds to purchase nonagency RMBS that had an approximate fair value of \$20.8 billion as of October 31, 2008, from AIG's domestic insurance subsidiaries. The Bank is the sole and managing member and the controlling party of ML II and will remain as the controlling party as long as the Bank retains an economic interest in ML II. As part of the agreement, the AIG subsidiaries also received from ML II a fixed deferred purchase price of up to \$1.0 billion, plus interest on any such fixed deferred purchase price outstanding. The interest rate on the Bank's senior loan is one-month Libor plus 100 basis points, and the interest rate on the fixed deferred purchase price is one-month Libor plus 300 basis points. After ML II has first paid the Bank's senior loan, including accrued and unpaid interest, and then the fixed deferred purchase price in full, including accrued and unpaid interest, any net proceeds will be divided between the Bank, which is entitled to receive five-sixths, and the AIG subsidiaries, which are entitled to receive one-sixth. The Bank's loan and the fixed deferred purchase price payable to the AIG subsidiaries are collateralized by all of the assets of ML II through a pledge to the collateral agent.

The Bank also extended credit to Maiden Lane III LLC (ML III), a Delaware limited liability company formed to purchase ABS collateralized debt obligations (CDOs) from certain third-party counterparties of AIG Financial Products Corp. (AIGFP). In connection with the acquisitions, the third-party counterparties agreed to terminate their related credit default swap (CDS) contracts with AIGFP. ML III borrowed approximately \$24.3 billion from the Bank, and AIG provided an equity contribution of \$5 billion to ML III. The proceeds were used to purchase ABS CDOs with a fair value of \$29.6 billion. The counterparties received \$26.8 billion net of principal, interest received, and finance charges paid. ML III also made a payment to AIGFP of \$2.5 billion, representing the return of excess collateral previously posted by AIGFP with the counterparties. The Bank is the managing member and the controlling party of ML III and will remain as the controlling party as long as the Bank retains an economic interest in ML III. Net proceeds received by ML III will first be applied to repay the Bank's senior loan plus interest at the one-month Libor plus 100 basis points. The Bank's senior loan is collateralized by all of the assets of ML III through a pledge to the collateral agent. After the Bank is paid in full, AIG, or its assignee, is entitled to receive repayment of its equity contribution plus interest at the one-month Libor plus 300 basis points. After ML III has paid the Bank's senior loan and AIG's equity contribution in full, the Bank will be enti-

tled to receive 67 percent of any additional net proceeds received by ML III as a contingent interest on the senior loan and AIG, or its assignee, will be entitled to receive 33 percent of any net proceeds received by ML III as contingent distributions on its equity interest.

On April 17, 2009, the Bank, as part of the U.S. government's commitment to the orderly restructuring of AIG over time, in the face of continuing market dislocations, further restructured the AIG loan by eliminating the 350-basis-point floor on the Libor used to calculate the interest rate on the loan. The interest rate on the modified loan is the three-month Libor plus 300 basis points.

On December 1, 2009, the Bank's commitment to lend to AIG was reduced to \$35 billion from \$60 billion when the outstanding balance of the Bank's loan to AIG was reduced by \$25 billion in exchange for a liquidation preference of nonvoting perpetual preferred interests in two limited liability companies. AIG created these limited liability companies to hold, directly or indirectly, all of the outstanding common stock of American Life Insurance Company (ALICO) and American International Assurance Company Ltd. (AIA), two life insurance holding company subsidiaries of AIG. The Bank was to be paid a 5 percent cumulative dividend on its nonvoting preferred interests through September 22, 2013, and a 9 percent cumulative dividend thereafter. Although the Bank had certain governance rights to protect its interests, AIG retained control of the LLCs and the underlying operating companies. The initial value of the Bank's preferred interests as of December 1, 2009 was \$16 billion for the AIA Aurora LLC (AIA LLC) and \$9 billion for the ALICO Holdings LLC (ALICO LLC), which represented a percentage of the fair market value of AIA and ALICO, respectively.

On September 30, 2010, AIG announced an agreement with the Treasury, the Bank, and the trustees of the AIG Trust on a comprehensive recapitalization plan designed to repay all its obligations to American taxpayers. The agreement included an accelerated repayment of the outstanding balance of the Bank revolving line of credit including all accrued interest and fees, termination of that facility, the repayment of the Bank's preferred interests in AIA LLC and ALICO LLC, and the conversion of the AIG preferred stock currently owned by the Treasury and the AIG Trust into common equity of AIG.

Pending the closing of the recapitalization plan, the cash proceeds from certain AIG asset dispositions were held by the Bank as agent. On October 29, 2010, AIG completed the initial public offering (IPO) of AIA, successfully obtaining a listing on the Hong Kong Stock Exchange and raising total gross proceeds of \$20.5 billion.

On November 1, 2010, AIG completed the sale of ALICO to MetLife, initially announced on March 8, 2010, for approximately \$15.5 billion, including \$6.8 billion in cash and the remainder in equity and equity-linked securities of MetLife.

On January 14, 2011, upon closing of the recapitalization plan, the cash proceeds from certain asset dispositions, specifically the initial public offering of AIA and the sale of ALICO, were used first to repay in full the revolving line of credit extended to AIG by the Bank, including accrued interest and fees, and then to redeem a portion of the Bank's preferred interests in ALICO LLC taken earlier by the Bank in satisfaction of a portion of the revolving line of credit. The remaining Bank preferred interests in ALICO LLC and AIA LLC, valued at approximately \$20 billion, were purchased by AIG through a draw on the Treasury's Series F preferred stock commitment and then transferred by AIG to the Treasury as partial consideration for the transfer to AIG of all outstanding Series F shares. In addition, the Bank's commitment to lend any funds under the revolving line of credit was terminated.

#### *Citigroup, Inc.*

The Board of Governors, the Treasury, and the Federal Deposit Insurance Corporation (parties) jointly announced on November 23, 2008, that they would provide financial support to Citigroup, Inc. (Citigroup). The agreement, which was executed on January 16, 2009, provided funding support for possible future principal losses relating to a designated pool of up to \$301 billion of Citigroup's assets. The funding support was for a period of ten years for residential assets and five years for nonresidential assets. No funding support was provided to Citigroup under this agreement, and on December 23, 2009, the parties terminated the agreement. As a result, the Bank had no contractual obligation at December 31, 2010 or 2009. As consideration for terminating the agreement, Citigroup paid the Bank a \$50 million termination fee and reimbursed the Bank for its out-of-pocket expenses. The termination fee was recognized during the year ended December 31, 2009, and is reported as a component of "Other income" in the Consolidated Statements of Income.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

Accounting principles for entities with the unique powers and responsibilities of a nation's central bank have not been formulated by accounting standard-setting bodies. The Board of Governors has developed specialized accounting principles and practices that it considers to be appropriate for the nature and function of a central bank. These accounting principles and practices are documented in the *Financial Accounting Manual for Federal Reserve Banks (FAM)*, which is issued by the Board of

Governors. The Reserve Banks are required to adopt and apply accounting policies and practices that are consistent with the *FAM* and the consolidated financial statements have been prepared in accordance with the *FAM*.

Limited differences exist between the accounting principles and practices in the *FAM* and accounting principles generally accepted in the United States (GAAP), due to the unique nature of the Bank's powers and responsibilities as part of the nation's central bank and given the System's unique responsibility to conduct monetary policy. The primary differences are the presentation of all SOMA securities holdings at amortized cost and the recording of such securities on a settlement-date basis. The cost basis of Treasury securities, GSE debt securities, and foreign government debt instruments is adjusted for amortization of premiums or accretion of discounts on a straight-line basis, rather than using the interest method required by GAAP. Amortized cost, rather than the fair value presentation, more appropriately reflects the Bank's securities holdings given the System's unique responsibility to conduct monetary policy. Accounting for these securities on a settlement-date basis, rather than the trade-date basis required by GAAP, more appropriately reflects the timing of the transaction's effect on the quantity of reserves in the banking system. Although the application of fair value measurements to the securities holdings may result in values substantially greater or less than their carrying values, these unrealized changes in value 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 before maturity. Decisions regarding securities and foreign currency transactions, including their purchase and sale, are motivated by monetary policy objectives rather than profit. Accordingly, fair values, earnings, and gains or losses resulting from the sale of such securities and currencies are incidental to open market operations and do not motivate decisions related to policy or open market activities.

In addition, the Bank does not present a Consolidated Statement of Cash Flows as required by GAAP because the liquidity and cash position of the Bank are not a primary concern given the Reserve Banks' unique powers and responsibilities. Other information regarding the Bank's activities is provided in, or may be derived from, the Consolidated Statements of Condition, Income and Comprehensive Income, and Changes in Capital. There are no other significant differences between the policies outlined in the *FAM* and GAAP.

Preparing the consolidated financial statements in conformity with the *FAM* requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. Consolidation

The consolidated financial statements include the accounts and results of operations of the Bank as well as several variable interest entities (VIEs), which include ML, ML II, ML III, CPFF, and TALF LLC. The consolidation of the VIEs was assessed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810 (ASC 810) *Consolidation*, which requires a variable interest entity to be consolidated by its controlling financial interest holder. Intercompany balances and transactions have been eliminated in consolidation.

The Bank consolidates a VIE if the Bank has a controlling financial interest, which is defined as the power to direct the significant economic activities of the entity and the obligation to absorb losses or the right to receive benefits of the entity that could potentially be significant to the VIE. To determine whether it is the controlling financial interest holder of a VIE, the Bank evaluates the VIE's design, capital structure, and relationships with the variable interest holders. The Bank reconsiders whether it has a controlling financial interest in a VIE, as required by ASC 810, at each reporting date.

The Dodd-Frank Act established the Bureau as an independent bureau within the Federal Reserve System, and section 1017 of the Dodd-Frank Act provides that the financial statements of the Bureau are not to be consolidated with those of the Board of Governors or the Federal Reserve System. Section 152 of the Dodd-Frank Act established the Office of Financial Research (OFR) within the Treasury. The Board of Governors funds the Bureau and OFR through assessments on the Reserve Banks as required by the Dodd-Frank Act. The Reserve Banks reviewed the law and evaluated the design of and their relationships to the Bureau and the OFR and determined that neither should be consolidated in the Reserve Banks' consolidated financial statements.

#### b. Gold and Special Drawing Rights Certificates

The Secretary of the Treasury is authorized to issue gold and special drawing rights (SDR) certificates to the Reserve Banks. Upon authorization, the Reserve Banks acquire gold certificates by crediting equivalent amounts in dollars to the account established for the Treasury. The gold certificates held by the Reserve Banks are

required to be backed by the gold owned by the Treasury. The Treasury may reacquire the gold certificates at any time and the Reserve Banks must deliver them to the Treasury. At such time, the Treasury's account is charged, and the Reserve Banks' gold certificate accounts are reduced. The value of gold for purposes of backing the gold certificates is set by law at \$42 2/9 per fine troy ounce. The Board of Governors allocates the gold certificates among the Reserve Banks once a year based on the average Federal Reserve notes outstanding at each Reserve Bank.

SDR certificates are issued by the International Monetary Fund (IMF) to its members in proportion to each member's quota in the IMF at the time of issuance. SDR certificates serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for U.S. participation in the SDR system, the Secretary of the Treasury is authorized to issue SDR certificates to the Reserve Banks. When SDR certificates are issued to the Reserve Banks, equivalent amounts in U.S. dollars are credited to the account established for the Treasury and the Reserve Banks' SDR certificate accounts are increased. The Reserve Banks are required to purchase SDR certificates, at the direction of the 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 the Reserve Banks based upon each Reserve Bank's Federal Reserve notes outstanding at the end of the preceding year. SDRs are recorded by the Bank at original cost. In 2009, the Treasury issued \$3 billion in SDR certificates to the Reserve Banks, of which \$944 million was allocated to the Bank. There were no SDR transactions in 2010.

#### c. Coin

The amount reported as coin in the Consolidated Statements of Condition represents the face value of all United States coin held by the Bank. The Bank buys coin at face value from the U.S. Mint in order to fill depository institution orders.

#### d. Loans

Loans to depository institutions are reported at their outstanding principal balances, and interest income is recognized on an accrual basis.

The Bank records the TALF loans at fair value in accordance with the fair value option provisions of FASB ASC Topic 825 (ASC 825) *Financial Instruments*. Unrealized gains (losses) on TALF loans that are recorded at fair value are reported as "Noninterest income (loss): Term Asset-Backed Securities Loan Facility, unrealized gains (losses)" in the Consolidated Statements of Income and Comprehensive Income. The interest income on TALF loans is recognized based on the contracted

rate and is reported as a component of "Noninterest income (loss): Other income" in the Consolidated Statements of Income and Comprehensive Income. Administrative fees paid by borrowers at the initiation of each TALF loan, which are recognized as incurred and not deferred, are reported as a component of "Interest income: Term Asset-Backed Securities Loan Facility" in the Consolidated Statements of Income and Comprehensive Income.

The loan to AIG is reported at the outstanding principal balance net of unamortized administrative and commitment fees, and interest income is recognized on an accrual basis. Loan administrative and commitment fees are deferred and amortized on a straight-line basis, rather than using the interest method required by GAAP, over the term of the loan or commitment period. This method results in an interest amount that approximates the amount determined using the interest method.

Loans, other than those recorded at fair value, are impaired when current information and events indicate that it is probable that the Bank will not receive the principal and interest that is due in accordance with the contractual terms of the loan agreement. Impaired loans are evaluated to determine whether an allowance for loan loss is required. The Bank has developed procedures for assessing the adequacy of any allowance for loan losses using all available information to identify incurred losses. This assessment includes monitoring information obtained from banking supervisors, borrowers, and other sources to assess the credit condition of the borrowers and, as appropriate, evaluating collateral values. Generally, the Bank would discontinue recognizing interest income on impaired loans until the borrower's repayment performance demonstrates principal and interest would be received in accordance with the terms of the loan agreement. If the Bank discontinues recording interest on an impaired loan, cash payments are first applied to principal until the loan balance is reduced to zero; subsequent payments are applied as recoveries of amounts previously deemed uncollectible, if any, and then as interest income.

Impaired loans include loans that have been modified in debt restructurings involving borrowers experiencing financial difficulties. The allowance for loan restructuring is determined by discounting the restructured cash flows using the original effective rate for the loan. Unless the borrower can demonstrate that it can meet the restructured terms, the Bank discontinues recognizing interest income. Performance prior to the restructuring, or significant events that coincide with the restructuring, are considered in assessing whether the borrower can meet the new terms.



e. [Securities Purchased under Agreements to Resell, Securities Sold under Agreements to Repurchase, and Securities Lending](#)

The Bank may engage in purchases of securities with primary dealers under agreements to resell (repurchase transactions). These repurchase transactions are settled through a tri-party arrangement. In a tri-party arrangement, two commercial custodial banks manage the collateral clearing, settlement, pricing, and pledging, and provide cash and securities custodial services for and on behalf of the Bank and counterparty. The collateral pledged must exceed the principal amount of the transaction by a margin determined by the Bank for each class and maturity of acceptable collateral. Collateral designated by the Bank as acceptable under repurchase transactions primarily includes Treasury securities (including TIPS and STRIP Treasury securities); direct obligations of several federal agency and GSE-related agencies, including Fannie Mae and Freddie Mac; and pass-through MBS of Fannie Mae, Freddie Mac, and Ginnie Mae. The repurchase transactions are accounted for as financing transactions with the associated interest income recognized over the life of the transaction. Repurchase transactions are reported at their contractual amount as “System Open Market Account: Securities purchased under agreements to resell,” and the related accrued interest receivable is reported as a component of “Accrued interest receivable” in the Consolidated Statements of Condition.

The Bank may engage in sales of securities under agreements to repurchase (reverse repurchase transactions) with primary dealers and, beginning August 2010, with selected money market funds, as an open market operation. These reverse repurchase transactions may be executed through a tri-party arrangement, similar to repurchase transactions. Reverse repurchase transactions may also be executed with foreign official and international account holders as part of a service offering. Reverse repurchase agreements are collateralized by a pledge of an amount of Treasury securities, GSE debt securities, and federal agency and GSE MBS that are held in the SOMA. Reverse repurchase transactions are accounted for as financing transactions, and the associated interest expense is recognized over the life of the transaction. These transactions are reported at their contractual amounts as “System Open Market Account: Securities sold under agreements to repurchase” and the related accrued interest payable is reported as a component of “Other liabilities” in the Consolidated Statements of Condition.

Treasury securities and GSE debt securities held in the SOMA may be lent to primary dealers to facilitate the effective functioning of the domestic securities markets. Overnight securities lending transactions are fully collateralized by Treasury securities that have fair values in excess of the securities lent. The Bank charges the primary dealer a fee for borrowing securities, and these fees are reported as a component of “Other income” in the Consolidated Statements of Income and Comprehensive Income.

Activity related to securities purchased under agreements to resell, securities sold under agreements to repurchase, and securities lending is allocated to each of the Reserve Banks on a percentage basis derived from an annual settlement of the inter-district settlement account that occurs in April each year.

f. [Treasury Securities; Government-Sponsored Enterprise Debt Securities; Federal Agency and Government-Sponsored Enterprise Mortgage-Backed Securities; Foreign Currency Denominated Assets; and Warehousing Agreements](#)

Interest income on Treasury securities, GSE debt securities, and foreign currency denominated assets comprising the SOMA is accrued on a straight-line basis. Interest income on federal agency and GSE MBS is accrued using the interest method and includes amortization of premiums, accretion of discounts, and gains or losses associated with principal paydowns. Premiums and discounts related to federal agency and GSE MBS are amortized over the term of the security to stated maturity, and the amortization of premiums and accretion of discounts are accelerated when principal payments are received. Paydown gains and losses represent the difference between the principal amount paid and the amortized cost basis of the related security. Gains and losses resulting from sales of securities are determined by specific issue based on average cost. Treasury securities, GSE debt securities, and federal agency and GSE MBS are reported net of premiums and discounts on the Consolidated Statements of Condition and interest income on those securities is reported net of the amortization of premiums and accretion of discounts on the Consolidated Statements of Income and Comprehensive Income.

In addition to outright purchases of federal agency and GSE MBS that are held in the SOMA, the Bank entered into dollar roll transactions (dollar rolls), which primarily involve an initial transaction to purchase or sell “to be announced” (TBA) MBS for delivery in the current month combined with a simultaneous agreement to sell or purchase TBA MBS on a specified future date. The Bank also executed a limited number of TBA MBS coupon swap transactions, which involve a simultaneous sale of a TBA MBS and purchase of another TBA MBS of a different coupon rate. The Bank’s participation in the dollar roll and coupon swap markets furthered the MBS purchase program goal of providing support to the mortgage and housing markets and fostered improved conditions in financial markets more generally. The Bank accounted for outstanding commitments under dollar roll and coupon swaps on a settlement-date basis. Based on the terms of the Bank dollar roll and coupon swap transactions, transfers of MBS upon settlement of the initial TBA MBS transactions are accounted for as purchases or sales in accordance with FASB ASC Topic 860 (ASC 860), *Transfers and Servicing*, and the related outstanding commitments are accounted for as sales or purchases upon settlement. Net gains (losses) resulting from dollar roll and coupon swap transactions are reported as “Noninterest income (loss): System Open Market Account: Federal agency and government-sponsored

enterprise mortgage-backed securities gains (losses), net” in the Consolidated Statements of Income and Comprehensive Income.

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 foreign currency denominated assets are reported as “Foreign currency gains, net” in the Consolidated Statements of Income and Comprehensive Income.

Activity related to Treasury securities, GSE debt securities, and federal agency and GSE MBS, including the premiums, discounts, and realized gains and losses, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of the interdistrict settlement account that occurs in April of each year. Activity related to foreign currency denominated assets, including the premiums, discounts, and realized and unrealized gains and losses, 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.

Warehousing is an arrangement under which the FOMC has approved the exchange, at the request of the Treasury, of U.S. dollars for foreign currencies held by the Treasury over a limited period of time. The purpose of the warehousing facility is to supplement the U.S. dollar resources of the Treasury for financing purchases of foreign currencies and related international operations. Warehousing agreements are designated as held-for-trading purposes and are valued daily at current market exchange rates. Activity related to these agreements 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.

The Bank is authorized to hold foreign currency working balances and execute foreign exchange contracts to facilitate international payments and currency transactions it makes on behalf of foreign central bank and U.S. official institution customers. These foreign currency working balances and contracts are not related to the Bank’s monetary policy operations. Foreign currency working balances are reported as a component of “Other assets” in the Consolidated Statements of Condition and the related foreign currency valuation gains and losses that result from the daily revaluation of the foreign currency working balances and contracts are reported as a component of “Noninterest income (loss): Other income” in the Consolidated Statements of Income and Comprehensive Income.

#### g. Central Bank Liquidity Swaps

Central bank liquidity swaps, which are transacted between the Bank and a foreign central bank, can be structured as either U.S. dollar liquidity or foreign currency liquidity swap arrangements.

Central bank liquidity swaps activity, including the related income and expense, 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. The foreign currency amounts associated with these central bank liquidity swap arrangements are revalued at current foreign currency market exchange rates.

##### *U.S. Dollar Liquidity Swaps*

At the initiation of each U.S. dollar liquidity swap transaction, the foreign central bank transfers a specified amount of its currency to a restricted account for the Bank in exchange for U.S. dollars at the prevailing market exchange rate. Concurrent with this transaction, the Bank and the foreign central bank agree to a second transaction that obligates the foreign central bank to return the U.S. dollars and the Bank to return the foreign currency on a specified future date at the same exchange rate as the initial transaction. The Bank’s allocated portion of the foreign currency amounts that the Bank acquires is reported as “Central bank liquidity swaps” on the Consolidated Statements of Condition. Because the swap transaction will be unwound at the same U.S. dollar amount and exchange rate that were used in the initial transaction, the recorded value of the foreign currency amounts is not affected by changes in the market exchange rate.

The foreign central bank compensates the Bank based on the foreign currency amounts it holds for the Bank. The Bank recognizes compensation during the term of the swap transaction and reports it as “Interest income: Central bank liquidity swaps” in the Consolidated Statements of Income and Comprehensive Income.

##### *Foreign Currency Liquidity Swaps*

The structure of foreign currency liquidity swap transactions involves the transfer by the Bank at the prevailing market exchange rate, of a specified amount of U.S. dollars to an account for the foreign central bank in exchange for its currency. The foreign currency amount received would be reported as a liability by the Bank.

#### h. Investments Held by Consolidated Variable Interest Entities

The investments held by consolidated VIEs include investments in federal agency and GSE MBS, nonagency RMBS, commercial and residential real estate mortgage loans, CDOs, commercial paper, other investment securities, other real estate owned, and derivatives and associated hedges. Investments are reported as “Consolidated variable interest entities: Investments held by consolidated variable interest entities” in the Consolidated Statements of Condition. These investments are accounted for and classified as follows:

- Commercial paper held by the CPFF was designated as held-to-maturity under FASB ASC Topic 320 (ASC 320) *Investments—Debt and Equity Securities* according to the terms of the CPFF program. The Bank had the positive intent and the ability to hold the securities to maturity, and, therefore, the commercial paper was recorded at amortized cost. The amortization of premiums and accretion of discounts was recorded on a straight-line basis, which was not materially different from the interest method. All other investments, consisting of short-term highly liquid assets, held by the CPFF were classified as trading securities under ASC 320 and were recorded at fair value.
- ML’s investments in debt securities are accounted for in accordance with ASC 320 and ML elected the fair value option for all eligible assets and liabilities in accordance with ASC 825. Other financial instruments, including swap contracts and other derivatives instruments in ML, are recorded at fair value in accordance with FASB ASC Topic 815 (ASC 815) *Derivatives and Hedging*. Other real estate owned may be acquired by ML as a result of default on the related loan. Other real estate owned are considered held-for-sale, and are recorded initially at fair value, less estimated selling costs, in accordance with FASB ASC Topic 360 (ASC 360) *Property, Plant, and Equipment*. Consistent with the requirements of ASC 360, the assets are not depreciated, and are adjusted for subsequent changes in fair value up to the original fair value basis.
- ML II and ML III qualify as nonregistered investment companies under the provisions of FASB ASC Topic 946 (ASC 946) *Financial Services—Investment Companies* and, therefore, all investments are recorded at fair value in accordance with ASC 946.
- TALF LLC follows the guidance in ASC 320 when accounting for any acquired ABS investments, and has elected the fair value option for all eligible assets in accordance with ASC 825.

#### i. Preferred Interests

The Bank presents its preferred interests in AIA LLC and ALICO LLC at cost consistent with ASC 320. The 5 percent cumulative dividends accrued by the Bank on the preferred interests are reported as “Dividends on preferred interests” on the Consolidated Statements of Income and Comprehensive Income. On a quarterly basis, the accrued dividends are capitalized and increase the recorded cost of the Bank’s preferred interests in AIA LLC and ALICO LLC. A preferred interest is impaired if its fair value falls below its recorded value and the decline is considered other-than-temporary. An other-than-temporary impairment occurs if (1) the Bank has the intent to sell the interest, (2) it is more likely than not that the Bank will be required to sell the interest before recovery of its recorded investment, or (3) the Bank does not expect to recover the entire amortized cost basis of the interest even if it does not intend to sell the security. Dividends are accrued unless the impairment analysis indicates that the dividends will not be collected.

#### j. Interdistrict Settlement Account

At the close of business each day, each Reserve Bank aggregates the payments due to or from other Reserve Banks. These payments result from transactions between the Reserve Banks and transactions that involve depository institution accounts held by other Reserve Banks, such as Fedwire funds and securities transfers and check and ACH transactions. The cumulative net amount due to or from the other Reserve Banks is reflected in the “Interdistrict settlement account” in the Consolidated Statements of Condition.

#### k. 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 the estimated useful lives of the assets, which range from two to fifty years. Major alterations, renovations, and improvements are capitalized at cost as additions to the asset accounts and are depreciated over the remaining useful life of the asset or, if appropriate, over the unique useful life of the alteration, renovation, or improvement. Maintenance, repairs, and minor replacements are charged to operating expense in the year incurred.

Costs incurred for software during the application development stage, whether developed internally or acquired for internal use, are capitalized based on the purchase cost and the cost of direct services and materials associated with designing, coding, installing, and testing the software. Capitalized software costs are amortized

on a straight-line basis over the estimated useful lives of the software applications, which generally range from two to five years. Maintenance costs related to software are charged to expense in the year incurred.

Capitalized assets, including software, buildings, leasehold improvements, furniture, and equipment, are impaired and an adjustment is recorded when events or changes in circumstances indicate that the carrying amount of assets or asset groups is not recoverable and significantly exceeds the assets' fair value.

#### l. Federal Reserve Notes

Federal Reserve notes are the circulating currency of the United States. These notes, which are identified as issued to a specific Reserve Bank, must be fully collateralized. All of the Bank's assets are eligible to be pledged as collateral. The collateral value is equal to the book value of the collateral tendered with the exception of securities, for which the collateral value is equal to the par value of the securities tendered. The par value of securities sold under agreements to repurchase is deducted from the eligible collateral value.

The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize outstanding 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 issued to 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, Federal Reserve notes are obligations of the United States government.

"Federal Reserve notes outstanding, net" in the Consolidated Statements of Condition represents the Bank's Federal Reserve notes outstanding, reduced by the Bank's currency holdings of \$64,698 million and \$71,925 million at December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, all Federal Reserve notes issued to the Reserve Banks were fully collateralized. At December 31, 2010, all gold certificates, all special drawing rights certificates, and \$925 billion of domestic securities held in the SOMA were pledged as collateral. At December 31, 2010, no investments denominated in foreign currencies were pledged as collateral.

#### m. Beneficial Interest in Consolidated Variable Interest Entities

ML, ML II, and ML III have outstanding senior and subordinated financial interests, inclusive of a fixed deferred purchase price in ML II and an equity contribution in ML III and TALF LLC has an outstanding financial interest. Upon issuance of the financial interests, ML, ML II, ML III, and TALF LLC each elected to measure these obligations at fair value in accordance with ASC 825. Principal, interest, and changes in fair value on the senior financial interest, which were extended by the Bank, are eliminated in consolidation. The financial interests are recorded at fair value as "Beneficial interest in consolidated variable interest entities" in the Consolidated Statements of Condition. Interest expense and changes in fair value of the financial interest are recorded in "Interest expense: Beneficial interest in consolidated variable interest entities" and "Noninterest income (loss): Beneficial interest in consolidated variable interest entities losses, net," respectively, in the Consolidated Statements of Income and Comprehensive Income.

#### n. Deposits

##### *Depository Institutions*

Depository institutions deposits represent the reserve and service-related balances in the accounts that depository institutions hold at the Bank. The interest rates paid on required reserve balances and excess balances are determined by the Board of Governors, based on an FOMC-established target range for the federal funds rate. Interest payable is reported as "Interest payable to depository institutions" on the Consolidated Statements of Condition.

The Term Deposit Facility (TDF) consists of deposits with specific maturities held by eligible institutions at the Reserve Banks. The Reserve Banks pay interest on these deposits at interest rates determined by auction. Interest payable is reported as "Interest payable to depository institutions" on the Consolidated Statements of Condition. There were no deposits held by the Bank under the TDF at December 31, 2010.

##### *Treasury*

The Treasury general account is the primary operational account of the Treasury and is held at the Bank.

The Treasury's temporary supplementary financing program consists of a series of Treasury bill auctions, in addition to Treasury's standard borrowing program. The proceeds of this debt are held in an account at the Bank that is separate from the Treasury's general account, and this separate account is reported as "Treasury, supplementary financing account" in the Consolidated Statements of Condition. The

purpose of placing funds in this account is to drain reserves from the banking system and partially offset the reserve impact of the Reserve Banks' lending and liquidity initiatives.

#### *Other*

Other deposits include foreign central bank and foreign government deposits held at the Bank. Other deposits also include GSE deposits held by the Bank.

#### *o. Funds from American International Group, Inc., Asset Dispositions, Held as Agent*

Pending the closing of the AIG recapitalization plan discussed in Note 3, the cash proceeds from certain AIG asset dispositions were held by the Bank as agent.

#### *p. Items in Process of Collection and Deferred Credit Items*

"Items in process of collection" primarily represents amounts attributable to checks that have been deposited for collection and that, as of the balance sheet date, have not yet been presented to the paying bank. "Deferred credit items" are the counterpart liability to items in process of collection. The amounts in this account arise from deferring credit for deposited items until the amounts are collected. The balances in both accounts can vary significantly.

#### *q. 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 changes, 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. A member bank is liable for Reserve Bank liabilities up to twice the par value of stock subscribed by it.

By law, each Reserve 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. To meet the Federal Reserve Act requirement that annual dividends be deducted from net earnings, dividends are presented as a distribution of comprehensive income in the Consolidated Statements of Income and Comprehensive Income.

#### *r. Surplus*

The Board of Governors requires the Reserve Banks to maintain a surplus equal to the amount of capital paid-in as of December 31 of each year. Accumulated other comprehensive income is reported as a component of "Surplus" in the Consolidated Statements of Condition and the Consolidated Statements of Changes in Capital. Additional information regarding the classifications of accumulated other comprehensive income is provided in Notes 13, 14, and 15.

#### *s. Interest on Federal Reserve Notes*

The Board of Governors requires the Reserve Banks to transfer excess earnings to the Treasury as interest on Federal Reserve notes after providing for the costs of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid-in. This amount is reported as "Payments to Treasury as interest on Federal Reserve notes" in the Consolidated Statements of Income and Comprehensive Income. The amount due to the Treasury is reported as "Accrued interest on Federal Reserve notes" in the Consolidated Statements of Condition.

If earnings during the year are not sufficient to provide for the costs of operations, payment of dividends, and equating surplus and capital paid-in, payments to the Treasury are suspended. A deferred asset is recorded that represents the amount of net earnings a Reserve Bank will need to realize before remittances to Treasury resume. This deferred asset is periodically reviewed for impairment.

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 Treasury in the following year.

#### *t. Income and Costs Related to Treasury Services*

When directed by the Secretary of the Treasury, the Bank is required by the Federal Reserve Act to serve as fiscal agent and depository of the United States government. By statute, the Treasury has appropriations to pay for these services. During the years ended December 31, 2010 and 2009, the Bank was reimbursed for substantially all services provided to the Treasury as its fiscal agent.

#### *u. Compensation Received for Service Costs Provided and Compensation Paid for Service Costs Incurred*

The Federal Reserve Bank of Atlanta (FRBA) has overall responsibility for managing the Reserve Banks' provision of check and ACH services to depository institutions and, as a result, recognizes total System revenue for these services on its Statements of Income and Comprehensive Income. The Bank manages the Reserve

Banks' provision of Fedwire funds and securities services and recognizes total System revenue for these services on its Consolidated Statements of Income and Comprehensive Income. Similarly, the Federal Reserve Bank of Chicago (FRBC) has overall responsibility for managing the Reserve Banks' provision of electronic access services to depository institutions and, as a result, recognizes total System revenue for these services on its Statements of Income and Comprehensive Income. The FRBA, the Bank, and the FRBC compensate the applicable Reserve Banks for the costs incurred to provide these services. Compensation received by the Bank for providing check, ACH, and electronic access services is reported as "Compensation received for service costs provided" in the Consolidated Statements of Income and Comprehensive Income. Compensation paid by the Bank for Fedwire funds transfer and securities services is reported as "Compensation paid for service costs incurred" in the Consolidated Statements of Income and Comprehensive Income.

#### v. Assessments

The Board of Governors assesses the Reserve Banks to fund its operations and the operations of the Bureau and, for a two-year period, the OFR. These assessments are allocated to each Reserve Bank based on each Reserve Bank's capital and surplus balances as of December 31 of the prior year for the Board of Governors' operations and as of the most recent quarter for the Bureau and OFR operations. The Board of Governors also assesses each Reserve Bank for the expenses incurred by the Treasury to produce 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 prior year.

During the period prior to the Bureau transfer date of July 21, 2011, there is no limit on the funding that can be provided to the Bureau and that is assessed to the Reserve Banks; the Board of Governors must provide the amount estimated by the Secretary of the Treasury needed to carry out the authorities granted to the Bureau under the Dodd-Frank Act and other federal law. After the transfer date, the Dodd-Frank Act requires the Board of Governors to fund the Bureau in an amount not to exceed a fixed percentage of the total operating expenses of the Federal Reserve System as reported in the Board of Governors' 2009 annual report. The fixed percentage of total operating expenses of the System is 10 percent for 2011, 11 percent for 2012, and 12 percent for 2013. After 2013, the amount will be adjusted in accordance with the provisions of the Dodd-Frank Act.

The Board of Governors assesses the Reserve Banks to fund the operations of the OFR for the two-year period following enactment of the Dodd-Frank Act; thereafter, the OFR will be funded by fees assessed on certain bank holding companies.

#### w. Fair Value

Certain assets and liabilities reported on the Bank's Consolidated Statements of Condition are measured at fair value in accordance with ASC 820, including TALF loans, investments and beneficial interests of the consolidated VIEs, and assets of the Retirement Plan for Employees of the Federal Reserve System. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that distinguishes between assumptions developed using market data obtained from independent sources (observable inputs) and the Bank's assumptions developed using the best information available in the circumstances (unobservable inputs). The three levels established by ASC 820 are described as follows:

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is based on model-based techniques that use significant inputs and assumptions not observable in the market. These unobservable inputs and assumptions reflect the Bank's estimates of inputs and assumptions that market participants would use in pricing the assets and liabilities. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

The inputs or methodology used for valuing assets and liabilities are not necessarily an indication of the risk associated with those assets and liabilities.

#### x. 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 \$8 million and \$5 million for the years ended December 31, 2010 and 2009, respectively, and are reported as a component of "Operating expenses: Occupancy" in the Consolidated Statements of Income and Comprehensive Income.

#### y. Restructuring Charges

The Reserve Banks recognize restructuring charges for exit or disposal costs incurred as part of the closure of business activities in a particular location, the relocation of business activities from one location to another, or a fundamental reorganization that affects the nature of operations. Restructuring charges may include costs associated with employee separations, contract terminations, and asset impairments. Expenses are recognized in the period in which the Bank commits to a formalized restructuring plan or executes the specific actions contemplated in the plan and all criteria for financial statement recognition have been met.

The Bank had no restructuring activities in 2010 and 2009.

#### z. Recently Issued Accounting Standards

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) 166, *Accounting for Transfers of Financial Assets—an amendment to FASB Statement No. 140* (codified in ASC 860). The new standard revises the criteria for recognizing transfers of financial assets as sales and clarifies that the transferor must consider all arrangements when determining if the transferor has surrendered control. The adoption of this accounting guidance was effective for the Bank for the year beginning on January 1, 2010, and did not have a material effect on the Bank's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (codified in ASC 810), which expands the scope of Interpretation 46R, *Consolidation of Variable Interest Entities* and changes the approach for determining whether an entity has a controlling interest in a VIE by making a qualitative assessment of its financial interests. Additional disclosures are required for a variable interest in a VIE. The adoption of this accounting guidance was effective for the Bank for the year beginning on January 1, 2010, and earlier adoption was prohibited. The adoption of this accounting guidance did not have a material effect on the Bank's consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures* (Topic 820). New requirements for disclosure of information about transfers among the hierarchy's classification and the level of disaggregation of classes of assets were effective for the Bank for the year beginning on January 1, 2010, and the required disclosures are included in Note 5, Note 9, and

Note 13. Other requirements, including the gross presentation of purchases, sales, issuances, and settlements in the reconciliation for Level 3 fair value measurements are effective for the Bank in 2011 and are not expected to have a material effect on the Bank's consolidated financial statements.

In March 2010, the FASB issued Accounting Standards Update 2010-11, *Derivatives and Hedging* (Topic 815), which clarifies embedded credit derivatives that are subject to the FASB's guidance on derivatives and hedging and defines the embedded credit derivatives that are required to be evaluated for bifurcation and separate accounting. The adoption of this accounting guidance was effective for the Bank on July 1, 2010, and did not have a material effect on the Bank's consolidated financial statements.

In July 2010, the FASB issued Accounting Standards Update 2010-20, *Receivables* (Topic 310), which requires additional disclosures about the allowance for credit losses and the credit quality of loan portfolios. The additional disclosures include a roll forward of the allowance for credit losses on a disaggregated basis and more information, by type of receivable, on credit quality indicators, including the amount of certain past due receivables and troubled debt restructurings and significant purchases and sales. The adoption of this accounting guidance is effective for the Bank on December 31, 2011, and is not expected to have a material effect on the Bank's consolidated financial statements.

## 5. LOANS

The remaining maturity distribution of loans outstanding at December 31, 2010, and total loans outstanding at December 31, 2009, were as follows (in millions):

	2010			2009
	Over		Total	Total
	Within 15 Days	1 Year to 5 Years		
Primary, secondary, and seasonal credit	\$ 36	\$ —	\$ 36	\$19,503
TAF	—	—	—	58,254
<b>Loans to depository institutions</b>	<b>\$ 36</b>	<b>\$ —</b>	<b>\$ 36</b>	<b>\$77,757</b>
TALF loans, fair value	\$ —	\$24,853	\$24,853	\$48,183
AIG loan, net	\$ —	\$20,603	\$20,603	\$21,250

### Loans to Depository Institutions

The Bank offers primary, secondary, and seasonal credit to eligible borrowers, and each program has its own interest rate. Interest is accrued using the applicable interest rate established at least every fourteen days by the Bank's board of directors, subject to review and determination by the Board of Governors. Primary and secondary credit are extended on a short-term basis, typically overnight, whereas seasonal credit may be extended for a period of up to nine months.

Primary, secondary, and seasonal credit lending is collateralized to the satisfaction of the Bank to reduce credit risk. Assets eligible to collateralize these loans include consumer, business, and real estate loans; Treasury securities; GSE debt securities; foreign sovereign debt; municipal, corporate, and state and local government obligations; asset-backed securities (ABS); corporate bonds; commercial paper; and bank-issued assets, such as certificates of deposit, bank notes, and deposit notes. Collateral is assigned a lending value that is deemed appropriate by the Bank, which is typically fair value reduced by a margin.

Depository institutions that are eligible to borrow under the Bank's primary credit program were eligible to participate in the TAF program. Under the TAF program, the Reserve Banks conducted auctions for a fixed amount of funds, with the interest rate determined by the auction process, subject to a minimum bid rate. TAF loans were extended on a short-term basis, with terms ranging from twenty-eight to eighty-four days. All advances under the TAF program were collateralized to the satisfaction of the Bank. All TAF loan principal and accrued interest were fully repaid.

Loans to depository institutions are monitored daily to ensure that borrowers continue to meet eligibility requirements for these programs. The financial condition of borrowers is monitored by the Bank and, if a borrower no longer qualifies for these programs, the Bank will generally request full repayment of the outstanding loan or, for primary or seasonal credit lending, may convert the loan to a secondary credit loan.

Collateral levels are reviewed daily against outstanding obligations and borrowers that no longer have sufficient collateral to support outstanding loans are required to provide additional collateral or to make partial or full repayment.

At December 31, 2010 and 2009, the Bank did not have any impaired loans and no allowance for loan losses was required. There were no impaired loans during the years ended December 31, 2010 and 2009.

### TALF

TALF loans are nonrecourse loans secured by eligible collateral. Each TALF loan has a three-year maturity, except loans secured by SBA Pool Certificates, loans secured by SBA Development Company Participation Certificates, or ABS backed by student loans or commercial mortgage loans, which have a five-year maturity if the borrower so elects.

The Bank has elected the fair value option for all TALF loans in accordance with ASC 825. Recording all TALF loans at fair value, rather than at the remaining principal amount outstanding, improves accounting consistency and provides the most appropriate presentation on the Bank's consolidated financial statements by matching the change in fair value of TALF loans, the related put agreement with TALF LLC, and the valuation of the beneficial interests in TALF LLC. Information regarding the TALF LLC's assets and liabilities is presented in Note 9.

In certain cases where there is limited activity around inputs to the valuation, loans are classified within Level 3 of the valuation hierarchy. Because external price information was not available, market-based models were used to determine the fair value of the TALF loans. The fair value of the TALF loans was determined by valuing the future cash flows from loan interest income and the estimated fair value losses associated with collateral that may be put to the Bank. The valuation model takes into account a range of outcomes on TALF loan repayments, market prices of the collateral, risk premiums estimated using market prices, and the volatilities of market risk factors. Other methodologies employed or assumptions made in determining fair value could result in an amount that differs significantly from the amount reported.



The following table presents the TALF loans at fair value as of December 31, by ASC 820 hierarchy (in millions):

	2010	2009
Level 3	\$24,853	\$48,183
<b>Total fair value</b>	<b>\$24,853</b>	<b>\$48,183</b>

The following table presents a reconciliation of TALF loans measured at fair value using significant unobservable inputs (Level 3) during the year ended December 31, 2010, and for the period February 4, 2009, to December 31, 2009 (in millions):

	TALF Loans
Beginning principal balance, February 4, 2009	\$ —
Net loans originated	61,626
Loan repayments and prepayments	(14,000)
Total realized and unrealized gains (losses)	557
<b>Fair value at December 31, 2009</b>	<b>\$ 48,183</b>
Net loans originated	9,484
Loan repayments and prepayments	(32,378)
Total realized and unrealized gains (losses)	(436)
<b>Fair value at December 31, 2010</b>	<b>\$ 24,853</b>

The fair value of TALF loans reported in the Consolidated Statements of Condition as of December 31, 2010 and 2009 includes \$121 million and \$557 million in unrealized gains, respectively. The Bank attributes substantially all changes in fair value of nonrecourse loans to changes in instrument-specific credit spreads.

Eligible collateral includes U.S. dollar-denominated ABS that are backed by auto loans, student loans, credit card loans, equipment loans, floorplan loans, insurance premium financial loans, loans guaranteed by the SBA, residential mortgage servicing advances, or commercial mortgage loans. To be considered eligible, collateral must have a credit rating in the highest investment-grade rating category from at least two eligible nationally recognized statistical rating organizations (NRSROs) and must not have a credit rating below the investment-grade rating category from an eligible NRSRO. In addition to the aforementioned eligibility requirements, collateral also must meet other criteria as stipulated in the TALF program's terms and

conditions. The following table presents the collateral concentration and maturity distribution for the remaining unpaid principal and accrued interest as of December 31, 2010 (in millions):

Collateral Type and Credit Rating <sup>1</sup>	Years to Maturity		
	1-3	4-5	Total
Student loan	\$ 2,427	\$4,556	\$ 6,983
Credit card	6,918	—	6,918
CMBS	2,504	1,725	4,229
Floorplan	2,489	—	2,489
Auto	1,673	—	1,673
SBAAs	424	228	652
Other <sup>2</sup>	1,788	—	1,788
<b>Total</b>	<b>\$18,223</b>	<b>\$6,509</b>	<b>\$24,732</b>

<sup>1</sup>All credit ratings are AAA.

<sup>2</sup>Includes equipment loans, insurance premium financial loans, and residential mortgage servicing advances.

The aggregate remaining principal amount outstanding on TALF loans as of December 31, 2010 and 2009, was \$24,703 million and \$47,574 million, respectively. At December 31, 2010 and 2009, no TALF loans were over ninety days past due or in nonaccrual status.

Earnings reported by the Bank related to the TALF include income and unrealized gains and losses on TALF loans as well as the Bank's allocated share of the TALF LLC's net income. Additional information regarding the income of the TALF LLC is presented in Note 9. The following table presents the components of TALF earnings recorded by the Bank for the years ended December 31 (in millions):

	2010	2009
Interest income	\$ 750	\$ 414
Administrative fee income	13	54
Unrealized gains (losses)	(436)	557
<b>Total income on TALF loans</b>	<b>\$ 327</b>	<b>\$1,025</b>
Allocated share of TALF LLC	71	(702)
<b>Earnings of TALF</b>	<b>\$ 398</b>	<b>\$ 323</b>

**AIG Loan, Net**

The following table presents the components of the AIG loan at December 31 (in millions):

Loan Components	2010	2009
Line of credit drawn	\$14,621	\$17,900
Capitalized interest	4,663	3,835
Capitalized commitment fees	1,700	1,700
<b>AIG loan, gross</b>	<b>\$20,984</b>	<b>\$23,435</b>
Unamortized deferred commitment fees	(335)	(697)
Allowance for loan restructuring, net	(46)	(1,488)
<b>AIG loan, net</b>	<b>\$20,603</b>	<b>\$21,250</b>

The fair value of the AIG revolving line of credit provided by the Bank, based on estimated and actual draws and repayments, was not materially different from the net amount reported in the Consolidated Statements of Condition as of December 31, 2010 and 2009.

The activity related to the allowance for AIG loan restructuring for the years ended December 31 was as follows (in millions):

	2010	2009
Allowance for loan restructuring January 1	\$(1,488)	\$ —
Provision for loan restructuring	—	(2,621)
Adjustments to the allowance	1,442	1,133
<b>Allowance for loan restructuring December 31</b>	<b>\$ (46)</b>	<b>\$(1,488)</b>

The allowance for loan restructuring represented the economic effect of the reduction of the interest rate on loans the Bank made to AIG prior to April 17, 2009, as part of the loan restructuring that occurred on that date. The restructuring charges were recovered over the remaining term of the related loan as adjustments to the allowance, which resulted from periodic evaluations and are reported as a component of "Interest income: American International Group, Inc., net" on the Consolidated Statements of Income and Comprehensive Income. The average balance of the loans to AIG under the revolving line of credit, net of the allowance for restructuring, during the years ended December 31, 2010 and 2009, was \$22,874 million and \$39,099 million, respectively.

As a result of the closing of the AIG recapitalization plan on January 14, 2011, all outstanding draws under the revolving line of credit and the related accrued interest, capitalized interest, and capitalized commitment fees were paid in full. The remaining amount of the unamortized deferred commitment fees and the allowance for loan restructuring as of the closing of the recapitalization were fully recognized at that date.

**6. TREASURY SECURITIES; GOVERNMENT-SPONSORED ENTERPRISE DEBT SECURITIES; FEDERAL AGENCY AND GOVERNMENT-SPONSORED ENTERPRISE MORTGAGE-BACKED SECURITIES; SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL; SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE; AND SECURITIES LENDING**

The Bank, on behalf of the Reserve Banks, holds securities bought outright in the SOMA. The Bank's allocated share of SOMA balances was approximately 40.805 percent and 39.088 percent at December 31, 2010 and 2009, respectively.

The Bank's allocated share of Treasury securities, GSE debt securities, and federal agency and GSE MBS, excluding accrued interest, held in the SOMA at December 31, was as follows (in millions):

	2010				
	Unamortized Unaccrued			Total	
	Par	Premiums	Discounts	Cost	Fair Value
Bills	\$ 7,517	\$ —	\$ —	\$ 7,517	\$ 7,517
Notes	315,541	5,736	(312)	320,965	328,361
Bonds	93,765	13,359	(233)	106,891	118,236
<b>Total Treasury securities</b>	<b>\$416,823</b>	<b>\$19,095</b>	<b>\$(545)</b>	<b>\$435,373</b>	<b>\$454,114</b>
GSE debt securities	\$ 60,171	\$ 2,258	\$ (8)	\$ 62,421	\$ 63,975
Federal agency and GSE MBS	\$404,846	\$ 5,756	\$(633)	\$409,969	\$418,664
	2009				
	Unamortized Unaccrued			Total	
	Par	Premiums	Discounts	Cost	Fair Value
Bills	\$ 7,201	\$ —	\$ —	\$ 7,201	\$ 7,201
Notes	222,143	2,558	(387)	224,314	227,896
Bonds	74,205	9,561	(246)	83,520	90,182
<b>Total Treasury securities</b>	<b>\$303,549</b>	<b>\$12,119</b>	<b>\$(633)</b>	<b>\$315,035</b>	<b>\$325,279</b>
GSE debt securities	\$ 62,493	\$ 2,935	\$ (10)	\$ 65,418	\$ 65,450
Federal agency and GSE MBS	\$355,060	\$ 4,734	\$(608)	\$359,186	\$357,374

The total of the Treasury securities, GSE debt securities, and federal agency and GSE MBS, net, excluding accrued interest, held in the SOMA at December 31 was as follows (in millions):

	2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Bills	\$ 18,422	\$ 18,422	\$ 18,423	\$ 18,423
Notes	786,575	804,703	573,877	583,040
Bonds	261,955	289,757	213,672	230,717
<b>Total Treasury securities</b>	<b>\$1,066,952</b>	<b>\$1,112,882</b>	<b>\$805,972</b>	<b>\$832,180</b>
GSE debt securities	\$ 152,972	\$ 156,780	\$167,362	\$ 167,444
Federal agency and GSE MBS	\$1,004,695	\$1,026,003	\$918,927	\$914,290

The fair value amounts in the above tables are presented solely for informational purposes. Although the fair value of security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. The fair value of federal agency and GSE MBS was determined using a model-based approach that considers observable inputs for similar securities; fair value for all other SOMA security holdings was determined by reference to quoted prices for identical securities.

The fair value of the fixed-rate Treasury securities, GSE debt securities, and federal agency and GSE MBS in the SOMA's holdings is subject to market risk, arising from movements in market variables, such as interest rates and securities prices. The fair value of federal agency and GSE MBS is also affected by the rate of prepayments of mortgage loans underlying the securities.

The following table provides additional information on the amortized cost and fair values of the federal agency and GSE MBS portfolio at December 31 (in millions):

Distribution of MBS Holdings by Coupon Rate	2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Allocated to the Bank:				
3.5%	\$ 139	\$ 144	\$ 142	\$ 143
4.0%	68,420	68,717	66,495	64,784
4.5%	203,076	207,617	169,778	168,720
5.0%	94,432	96,931	76,384	76,772
5.5%	37,998	39,121	40,408	40,879
6.0%	5,268	5,458	4,968	5,043
6.5%	636	676	1,011	1,033
<b>Total</b>	<b>\$ 409,969</b>	<b>\$418,664</b>	<b>\$359,186</b>	<b>\$357,374</b>
SOMA:				
3.5%	\$ 341	\$ 352	\$ 363	\$ 365
4.0%	167,675	168,403	170,119	165,740
4.5%	497,672	508,798	434,352	431,646
5.0%	231,420	237,545	195,418	196,411
5.5%	93,119	95,873	103,379	104,583
6.0%	12,910	13,376	12,710	12,901
6.5%	1,558	1,656	2,586	2,644
<b>Total</b>	<b>\$1,004,695</b>	<b>\$1,026,003</b>	<b>\$918,927</b>	<b>\$914,290</b>

Financial information related to securities purchased under agreements to resell and securities sold under agreements to repurchase for the years ended December 31 was as follows (in millions):

	Securities Purchased under Agreements to Resell		Securities Sold under Agreements to Repurchase	
	2010	2009	2010	2009
<b>Allocated to the Bank:</b>				
Contract amount outstanding, end of year	\$ —	\$ —	\$24,362	\$30,383
Average daily amount outstanding, during the year	—	1,287	23,575	25,779
Maximum balance outstanding, during the year	—	28,464	30,383	31,852
Securities pledged (par value), end of year	—	—	17,808	30,434
<b>SOMA:</b>				
Contract amount outstanding, end of year	\$ —	\$ —	\$59,703	\$77,732
Average daily amount outstanding, during the year	—	3,616	58,476	67,837
Maximum balance outstanding, during the year	—	80,000	77,732	89,525
Securities pledged (par value), end of year	—	—	43,642	77,860

The contract amounts for securities purchased under agreements to resell and securities sold under agreements to repurchase approximate fair value. The Bank executes transactions for the purchase of securities under agreements to resell primarily to temporarily add reserve balances to the banking system. Conversely, transactions to sell securities under agreements to repurchase are executed primarily to temporarily drain reserve balances from the banking system.

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and securities sold under agreements to repurchase that were allocated to the Bank at December 31, 2010, was as follows (in millions):

	Within	16 Days	91 Days	Over	Over	Over	Total
	15 Days	to 90 Days	to 1 Year	1 Year to 5 Years	5 Years to 10 Years	10 Years	
Treasury securities (par value)	\$ 4,000	\$10,126	\$22,138	\$179,378	\$ 136,271	\$ 64,910	\$416,823
GSE debt securities (par value)	461	5,646	11,630	28,991	12,485	958	60,171
Federal agency and GSE MBS (par value)	—	—	—	10	8	404,828	404,846
Securities sold under agreements to repurchase (contract amount)	24,362	—	—	—	—	—	24,362
<b>Total</b>	<b>\$28,823</b>	<b>\$15,772</b>	<b>\$33,768</b>	<b>\$208,379</b>	<b>\$148,764</b>	<b>\$470,696</b>	<b>\$906,202</b>

Federal agency and GSE MBS are reported at stated maturity in the table above. The estimated weighted average life of these securities at December 31, 2010, which differs from the stated maturity primarily because the weighted average life factors in prepayment assumptions, is approximately 4.2 years.

The par value of Treasury securities and GSE debt securities that were loaned from the SOMA at December 31 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2010	2009	2010	2009
Treasury securities	\$9,010	\$8,014	\$22,081	\$20,502
GSE debt securities	\$ 657	\$ 433	\$ 1,610	\$ 1,108

Other investments consist of cash and short-term investments related to the federal agency and GSE MBS portfolio. Other liabilities, which are related to purchases of federal agency and GSE MBS, arise from the failure of a seller to deliver

securities to the Bank on the settlement date. Although the Bank has ownership of and records its investments in the MBS as of the contractual settlement date, it is not obligated to make payment until the securities are delivered, and the amount reported as other liabilities represents the Bank's obligation to pay for the securities when delivered. The amount of other investments and other liabilities allocated to the Bank and held in the SOMA at December 31 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2010	2009	2010	2009
Other investments	\$ —	\$ 2	\$ —	\$ 5
Other liabilities	\$ —	\$235	\$ —	\$601

The Bank enters into commitments to buy Treasury and GSE debt securities and records the related securities on a settlement-date basis. There were no commitments to buy Treasury and GSE debt securities as of December 31, 2010.

The Bank enters into commitments to buy federal agency and GSE MBS and records the related MBS on a settlement-date basis. There were no commitments to buy or sell federal agency or GSE MBS as of December 31, 2010.

During the years ended December 31, 2010 and 2009, the Reserve Banks recorded net gains from dollar roll and coupon swap related transactions of \$782 million and \$879 million, respectively, of which \$313 million and \$355 million, respectively, were allocated to the Bank. These net gains are reported as "Noninterest income (loss): Federal agency and government-sponsored enterprise mortgage-backed securities gains, net" in the Consolidated Statements of Income and Comprehensive Income.

## 7. FOREIGN CURRENCY DENOMINATED ASSETS

The Bank holds foreign currency deposits with foreign central banks and the Bank for International Settlements and invests in foreign government debt instruments. These foreign government debt instruments are guaranteed as to principal and interest by the issuing foreign governments. In addition, the Bank enters into transactions to purchase euro-denominated government debt securities under agreements to resell for which the accepted collateral is the debt instruments issued by the governments of Belgium, France, Germany, Italy, the Netherlands, and Spain.

The Bank's allocated share of foreign currency denominated assets was approximately 29.023 percent and 26.605 percent at December 31, 2010 and 2009, respectively.

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

	2010	2009
Euro:		
Foreign currency deposits	\$2,048	\$1,968
Securities purchased under agreements to resell	716	689
Government debt instruments	1,336	1,313
Japanese yen:		
Foreign currency deposits	1,127	906
Government debt instruments	2,333	1,848
<b>Total allocated to the Bank</b>	<b>\$7,560</b>	<b>\$6,724</b>

At December 31, 2010 and 2009, the fair value of foreign currency denominated assets, including accrued interest, allocated to the Bank was \$7,608 million and \$6,779 million, respectively. The fair value of government debt instruments was determined by reference to quoted prices for identical securities. The cost basis of foreign currency deposits and securities purchased under agreements to resell, adjusted for accrued interest, approximates fair value. Similar to the Treasury securities, GSE debt securities, and federal agency and GSE MBS discussed in Note 6, unrealized gains or losses have no effect on the ability of a Reserve Bank, as the central bank, to meet its financial obligations and responsibilities. The fair value is presented solely for informational purposes.

Total Reserve Bank foreign currency denominated assets were \$26,049 million and \$25,272 million at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the fair value of the total Reserve Bank foreign currency denominated assets, including accrued interest, was \$26,213 million and \$25,481 million, respectively.

The remaining maturity distribution of foreign currency denominated assets that were allocated to the Bank at December 31, 2010, was as follows (in millions):

	Within 15 Days	16 Days to 90 Days	91 Days to 1 Year	Over 1 Year to 5 Years	Total Allocated to the Bank
Euro	\$ 1,574	\$ 871	\$ 587	\$ 1,068	\$ 4,100
Japanese yen	1,191	163	707	1,399	3,460
<b>Total allocated to the Bank</b>	<b>\$ 2,765</b>	<b>\$ 1,034</b>	<b>\$ 1,294</b>	<b>\$ 2,467</b>	<b>\$ 7,560</b>

At December 31, 2010 and 2009, the authorized warehousing facility was \$5 billion, with no balance outstanding.

There were no transactions related to the authorized reciprocal currency arrangements with the Bank of Canada and the Bank of Mexico during the years ended December 31, 2010 and 2009.

There were no foreign exchange contracts related to open market operations outstanding as of December 31, 2010.

The Bank enters into commitments to buy foreign government debt instruments and records the related securities on a settlement-date basis. As of December 31, 2010, there was \$209 million of outstanding commitments to purchase euro-denominated government debt instruments, of which \$61 million was allocated to the Bank. These securities settled on January 4, 2011, and replaced euro-denominated government debt instruments held in the SOMA that matured on that date.

In connection with its foreign currency activities, the Bank may enter into transactions that are subject to varying degrees of off-balance-sheet market risk and counterparty credit risk that result from their future settlement. The Bank controls these risks by obtaining credit approvals, establishing transaction limits, receiving collateral in some cases, and performing daily monitoring procedures.

Foreign currency working balances held and foreign exchange contracts executed by the Bank to facilitate international payments and currency transactions it makes on behalf of foreign central bank and U.S. official institution customers were not material as of December 31 2010 and 2009.

## 8. CENTRAL BANK LIQUIDITY SWAPS

### U.S. Dollar Liquidity Swaps

The Bank's allocated share of U.S. dollar liquidity swaps was approximately 29.023 percent and 26.605 percent at December 31, 2010 and 2009, respectively.

The total foreign currency held under U.S. dollar liquidity swaps in the SOMA at December 31, 2010 and 2009, was \$75 million and \$10,272 million, respectively, of which \$22 million and \$2,733 million, respectively, was allocated to the Bank. All of the U.S. dollar liquidity swaps outstanding at December 31, 2010, were transacted with the European Central Bank and had remaining maturity distributions of less than fifteen days.

### Foreign Currency Liquidity Swaps

There were no transactions related to the foreign currency liquidity swaps during the years ended December 31, 2010 and 2009.

## 9. INVESTMENTS HELD BY CONSOLIDATED VARIABLE INTEREST ENTITIES

### a. Summary Information for Consolidated Variable Interest Entities

The total assets of consolidated VIEs, including cash, cash equivalents, and accrued interest, at December 31 were as follows (in millions):

	2010	2009
ML	\$27,961	\$28,140
ML II	16,457	15,912
ML III	23,583	22,797
TALF LLC	665	298
CPFF	—	14,233
<b>Total</b>	<b>\$68,666</b>	<b>\$81,380</b>

The Bank's maximum exposure to loss at December 31, 2010 and 2009, was \$55,434 million and \$73,879 million, respectively. These estimates incorporate potential losses associated with assets recorded on the Bank's Consolidated Statements of Condition, net of the fair value of subordinated interests (beneficial interest in consolidated VIEs).

The classification of significant assets and liabilities of the consolidated VIEs at December 31 was as follows (in millions):

Assets:	2010	2009
CDOs	\$ 23,112	\$22,650
Nonagency RMBS	18,360	17,552
Federal agency and GSE MBS	16,842	18,149
Commercial mortgage loans	5,130	4,025
Swap contracts	851	1,127
Residential mortgage loans	603	583
Commercial paper	—	9,421
Other investments	587	5,467
<b>Subtotal</b>	<b>\$ 65,485</b>	<b>\$78,974</b>
Cash, cash equivalents, and accrued interest receivable	3,181	2,406
<b>Total investments held by consolidated VIEs</b>	<b>\$ 68,666</b>	<b>\$81,380</b>
Liabilities:		
Beneficial interest in consolidated VIEs	\$(10,051)	\$(5,095)
Other liabilities <sup>1</sup>	\$ (921)	\$(1,316)

<sup>1</sup> The amount reported as “Consolidated variable interest entities: Other liabilities” in the Consolidated Statements of Condition includes \$695 million and \$980 million related to cash collateral received on swap contracts at December 31, 2010 and 2009, respectively. The amount also includes accrued interest, unearned registration fees, and accrued other expenses.

Total realized and unrealized gains (losses) for the year ended December 31, 2010, were as follows (in millions):

	Total Portfolio Holdings Realized Gains (Losses)	Fair Value Changes Unrealized Gains (Losses)	Total Portfolio Holdings Realized/Unrealized Gains (Losses)
CDOs	\$ 52	\$3,201	\$3,253
Nonagency RMBS	108	3,082	3,190
Federal agency and GSE MBS	291	320	611
Commercial mortgage loans <sup>1</sup>	(879)	2,319	1,440
Residential mortgage loans <sup>1</sup>	(86)	197	111
Swap contracts	(150)	(255)	(405)
Other investments	53	103	156
Other assets	(203)	27	(176)
<b>Total</b>	<b>\$(814)</b>	<b>\$8,994</b>	<b>\$8,180</b>

<sup>1</sup> Substantially all unrealized gains (losses) on the commercial and residential mortgage loans are attributable to changes in instrument-specific credit risk.

Total realized and unrealized gains (losses) for the year ended December 31, 2009, were as follows (in millions):

	Total Portfolio Holdings Realized Gains (Losses)	Fair Value Changes Unrealized Gains (Losses)	Total Portfolio Holdings Realized/Unrealized Gains (Losses)
CDOs	\$ (3)	\$(1,211)	\$(1,214)
Nonagency RMBS	217	(991)	(774)
Federal agency and GSE MBS	322	521	843
Commercial mortgage loans <sup>1</sup>	(47)	(1,177)	(1,224)
Residential mortgage loans <sup>1</sup>	(48)	(219)	(267)
Swap contracts	(119)	212	93
Other investments	12	712	724
Other assets	(182)	64	(118)
<b>Total</b>	<b>\$152</b>	<b>\$(2,089)</b>	<b>\$(1,937)</b>

<sup>1</sup> Substantially all unrealized gains (losses) on the commercial and residential mortgage loans are attributable to changes in instrument-specific credit risk.

The net income attributable to ML, ML II, ML III, CPFF, and TALF LLC for the year ended December 31, 2010, was as follows (in millions):

	ML	ML II	ML III	CPFF	TALF LLC	Total
Interest income:						
Portfolio interest income	\$1,133	\$ 794	\$2,299	\$213	\$ 1	\$4,440
Less: Interest expense	66	34	173	—	4	277
<b>Net interest income</b>	<b>1,067</b>	<b>760</b>	<b>2,126</b>	<b>213</b>	<b>(3)</b>	<b>4,163</b>
Noninterest income:						
Portfolio holdings gains	2,571	2,467	3,141	1	—	8,180
Less: Unrealized gains (losses) on beneficial interest in consolidated VIEs	(1,135)	(1,353)	(2,266)	—	75 <sup>1</sup>	(4,679)
<b>Net noninterest income</b>	<b>1,436</b>	<b>1,114</b>	<b>875</b>	<b>1</b>	<b>75</b>	<b>3,501</b>
<b>Total net interest income and noninterest income</b>	<b>2,503</b>	<b>1,874</b>	<b>3,001</b>	<b>214</b>	<b>72</b>	<b>7,664</b>
Less: Professional fees	69	10	22	2	1	104
<b>Net income attributable to consolidated VIEs</b>	<b>\$2,434</b>	<b>\$1,864</b>	<b>\$2,979</b>	<b>\$212</b>	<b>\$71<sup>2</sup></b>	<b>\$7,560</b>

<sup>1</sup> The TALF LLC's unrealized loss on beneficial interest represents Treasury's financial interest in the net income of TALF LLC for the year ended December 31, 2010.

<sup>2</sup> Additional information regarding TALF-related income recorded by the Bank is presented in Note 5.

The net income (loss) attributable to ML, ML II, ML III, and CPFF for the year ended December 31, 2009, and for TALF LLC from the inception date of February 4, 2009, to December 31, 2009, was as follows (in millions):

	ML	ML II	ML III	CPFF	TALF LLC	Total
Interest income:						
Portfolio interest income	\$1,476	\$1,088	\$3,032	\$4,224	\$ —	\$9,820
Less: Interest expense	61	33	171	—	2	267
<b>Net interest income</b>	<b>1,415</b>	<b>1,055</b>	<b>2,861</b>	<b>4,224</b>	<b>(2)</b>	<b>9,553</b>
Noninterest income:						
Portfolio holdings gains (losses)	(102)	(604)	(1,239)	8	—	(1,937)
Less: Unrealized gains (losses) on beneficial interest in consolidated VIEs	61	34	(1,299)	—	(699) <sup>1</sup>	(1,903)
<b>Net noninterest income (loss)</b>	<b>(41)</b>	<b>(570)</b>	<b>(2,538)</b>	<b>8</b>	<b>(699)</b>	<b>(3,840)</b>
<b>Total net interest income and noninterest income</b>	<b>1,374</b>	<b>485</b>	<b>323</b>	<b>4,232</b>	<b>(701)</b>	<b>5,713</b>
Less: Professional fees	55	12	27	30	1	125
<b>Net income (loss) attributable to consolidated VIEs</b>	<b>\$1,319</b>	<b>\$ 473</b>	<b>\$ 296</b>	<b>\$4,202</b>	<b>\$(702)<sup>2</sup></b>	<b>\$5,588</b>

<sup>1</sup> The TALF LLC's unrealized loss on beneficial interest represents Treasury's financial interest in the net income of TALF LLC for the year ended December 31, 2009.

<sup>2</sup> Additional information regarding TALF-related income recorded by the Bank is presented in Note 5.



Following is a summary of the consolidated VIEs' subordinated financial interest for the years ended December 31, 2010 and 2009 (in millions):

	ML Subordinated Loan	ML II Deferred Purchase Price	ML III Equity Contribution	TALF Treasury Interest	Total
Fair value, January 1, 2009	\$ —	\$ —	\$2,824	\$ —	\$ 2,824
Interest accrued and capitalized	61	34	171	2	268
Treasury loan	—	—	—	100	100
Unrealized (gain)/loss	(61)	(34)	1,299	699	1,903
<b>Fair value, December 31, 2009</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$4,294</b>	<b>\$ 801</b>	<b>\$ 5,095</b>
Interest accrued and capitalized	66	34	173	4	277
Unrealized (gain)/loss	1,135	1,353	2,266	(75)	4,679
<b>Fair value, December 31, 2010</b>	<b>\$1,201</b>	<b>\$1,387</b>	<b>\$6,733</b>	<b>\$ 730</b>	<b>\$10,051</b>

#### b. Commercial Paper Funding Facility LLC

The CPFF Program charged a lending rate for unsecured commercial paper equal to a three-month overnight indexed swap (OIS) rate plus 100 basis points per annum, with an additional surcharge of 100 basis points per annum as an unsecured credit enhancement fee. The rate imposed for ABCP was the three-month OIS rate plus 300 basis points. The credit enhancement and registration fees were amortized on a straight-line basis over the term of the commercial paper.

#### c. Maiden Lane LLC

ML's investment portfolio consists primarily of federal agency and GSE MBS, nonagency RMBS, commercial and residential mortgage loans, and derivatives and associated hedges. Following is a description of the significant holdings at December 31, 2010, and the associated credit risk for each holding:

##### i. Debt Securities

Federal agency and GSE MBS represent fractional ownership interests in MBS guaranteed by federal agencies and GSEs. The rate of delinquencies and defaults on the underlying residential mortgage loans and the aggregate amount of the resulting losses will be affected by a number of factors, including general economic conditions,

particularly those in the area where the related mortgaged property is located; the level of the borrower's equity in the mortgaged property; and the individual financial circumstances of the borrower. Changes in economic conditions, including delinquencies and defaults on assets underlying these securities, can affect the securities' value, income, and liquidity.

ML's nonagency RMBS investment portfolio is subject to varying levels of credit, interest rate, general market, and concentration risk. Credit-related risk on nonagency RMBS arises from losses due to delinquencies and defaults by borrowers on the underlying mortgage loans and breaches by originators and servicers of their obligations under the underlying documentation pursuant to which the nonagency RMBS were issued. The rate of delinquencies and defaults on residential mortgage loans and the aggregate amount of the resulting losses will be affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located; the level of the borrower's equity in the mortgaged property; and the individual financial circumstances of the borrower.

The rate of interest payable on certain nonagency RMBS may be set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an "available funds cap." As a result of this cap, the return to ML on such nonagency RMBS is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher interest rate.

As of December 31, 2010, approximately 38.3 percent and 12.3 percent of the properties collateralizing the nonagency RMBS held by ML were located in California and Florida, respectively, based on the total unpaid principal balance of the underlying loans.

The fair value of any particular nonagency RMBS asset may be subject to substantial variation. The entire market or particular instruments traded on a market may decline in value, even if projected cash flow or other factors improve, because the prices of such instruments are subject to numerous other factors that have little or no correlation to the performance of a particular instrument. Adverse developments in the nonagency RMBS market could have a considerable effect on ML because of its investment concentration in nonagency RMBS.

At December 31, 2010, the ratings breakdown of the \$19,631 million of debt securities, which are recorded at fair value in the ML portfolio as a percentage of aggregate fair value of all securities in the portfolio, was as follows:

Security type: <sup>2</sup>	Ratings <sup>1,5</sup>						Total
	AA+ to		A+ to A-	BBB+ to BB+ and		Government/ Agency	
	AAA	AA-		BBB-	Lower <sup>4</sup>		
Federal agency and GSE							
MBS	0.0%	0.0%	0.0%	0.0%	0.0%	85.8%	85.8%
Nonagency							
RMBS	0.3%	0.4%	0.2%	0.2%	8.4%	0.0%	9.5%
Other <sup>3</sup>	0.6%	0.9%	0.2%	1.5%	1.4%	0.0%	4.7%
<b>Total</b>	<u>1.0%</u>	<u>1.3%</u>	<u>0.4%</u>	<u>1.7%</u>	<u>9.8%</u>	<u>85.8%</u>	<u>100.0%</u>

<sup>1</sup> Lowest of all ratings is used for the purposes of this table if rated by two or more nationally recognized statistical rating organizations.

<sup>2</sup> This table does not include ML swaps and other derivative contracts, commercial and residential mortgage loans, or TBA investments.

<sup>3</sup> Includes all asset sectors that, individually, represent less than 5 percent of aggregate portfolio fair value.

<sup>4</sup> BB+ and lower include debt securities that were not rated as of December 31, 2010.

<sup>5</sup> Rows and columns may not total due to rounding.

#### ii. Commercial and Residential Mortgage Loans

Commercial and residential mortgage loans are subject to a high degree of credit risk because of exposure to loss from loan defaults. Default rates are subject to a wide variety of factors, including, but not limited to, property performance, property management, supply and demand, construction trends, consumer behavior, regional economic conditions, interest rates, and other factors.

The performance profile for the commercial and residential mortgage loans at December 31, 2010, was as follows (in millions):

	Unpaid Principal Balance	Fair Value	Fair Value as a Percentage of Unpaid Principal Balance
Performing loans			
Commercial	\$ 6,454	\$4,966	76.9%
Residential	788	440	55.8%
<b>Subtotal</b>	<u>7,242</u>	<u>5,406</u>	<u>74.6%</u>
Nonperforming/nonaccrual loans <sup>1</sup>			
Commercial	315	164	52.1%
Residential	491	163	33.2%
<b>Subtotal</b>	<u>806</u>	<u>327</u>	<u>40.6%</u>
Total			
Commercial	6,769	5,130	75.8%
Residential	1,279	603	47.1%
<b>Total loans</b>	<u>\$8,048</u>	<u>\$5,733</u>	<u>71.2%</u>

<sup>1</sup> Nonperforming/nonaccrual loans include loans with payments past due greater than ninety days.

The following table summarizes the state in which residential mortgage loans are collateralized and the property types of the commercial mortgage loans held in the ML portfolio at December 31, 2010:

	Concentration of Unpaid Principal Balances	
	Residential	Commercial <sup>2</sup>
By State:		
California	36.7%	
Florida	8.9%	
Other <sup>1</sup>	54.4%	
<b>Total</b>	<u>100.0%</u>	
By Property:		
Hospitality		81.8%
Office		11.0%
Other <sup>1</sup>		7.2%
<b>Total</b>		<u>100.0%</u>

<sup>1</sup> No other individual state or property type comprises more than 5 percent of the total.

<sup>2</sup> One borrower represents approximately 55 percent of total unpaid principal balance of the commercial mortgage loan portfolio.

Commercial mortgage loans held by ML are composed of different levels of subordination with respect to the underlying properties, and relative to each other. Senior mortgage loans are secured property loans evidenced by a first mortgage that is senior to any subordinate or mezzanine financing. Subordinate mortgage interests, sometimes known as B Notes, are loans evidenced by a junior note or a junior participation in a mortgage loan. Mezzanine loans are loans made to the direct or indirect owner of the property-owning entity. Mezzanine loans are not secured by a mortgage on the property but rather by a pledge of the mezzanine borrower's direct or indirect ownership interest in the property-owning entity.

The following table summarizes commercial mortgage loans held by ML at December 31, 2010 (in millions):

Loan Type	Unpaid Principal Balances	Concentration of Unpaid Principal Balances
Senior mortgage loan	\$ 3,886	57.4%
Subordinate mortgage interests	63	0.9%
Mezzanine loans	2,820	41.7%
<b>Total</b>	<b>\$6,769</b>	<b>100.0%</b>

### iii. Derivative Instruments

Derivative contracts are instruments, such as futures or swap contracts, that derive their value from underlying assets, indices, reference rates, or a combination of these factors. The ML portfolio includes various derivative financial instruments, primarily consisting of a total return swap agreement (TRS) with JPMC. ML and JPMC entered into the TRS with reference obligations representing single-name CDS primarily on RMBS and CMBS, and interest rate swaps (IRS) with various market participants, including JPMC. ML, through its investment manager, currently manages the CDS contracts within the TRS as a runoff portfolio and may unwind, amend, or novate reference obligations on an ongoing basis.

ML enters into additional derivative contracts consisting of futures and IRS to economically hedge its exposure to interest rates. For 2010, there were twenty-nine trades executed as IRS. All derivatives are recorded at fair value in accordance with ASC 815. None of the derivatives held by ML are designated as hedging instruments for accounting purposes.

On an ongoing basis, ML pledges collateral for credit- or liquidity-related shortfalls based on 20 percent of the notional amount of sold CDS protection and

10 percent of the present value of future premiums on purchased CDS protection. Failure to post this collateral constitutes a TRS event of default. Separately, ML and JPMC engage in bilateral posting of collateral to cover the net mark-to-market (MTM) variations in the swap portfolio. ML nets the collateral received from JPMC from the bilateral MTM posting only to the extent that the reference obligations indicate JPMC as the original counterparty to Bear Stearns on March 14, 2008. The values of ML's cash equivalents and investments, purchased by the rehypothecation of cash collateral associated with the TRS, were \$0.8 billion and \$0, respectively, as of December 31, 2010, and \$0.8 billion and \$0.5 billion, respectively, as of December 31, 2009. In addition, ML has pledged \$1.0 billion and \$1.5 billion of federal agency and GSE MBS to JPMC as of December 31, 2010 and 2009, respectively.

The following risks are associated with the derivative instruments held by ML as part of the TRS agreement with JPMC as well as any derivatives outside of the TRS.

### Market Risk

CDS are agreements that provide protection for the buyer against the loss of principal and, in some cases, interest on a bond or loan in case of a default by the issuer. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency, or failure to meet payment obligations when due. The buyer of the CDS pays a premium in return for payment protection upon the occurrence, if any, of a credit event. Upon the occurrence of a triggering credit event, the maximum potential amount of future payments the seller could be required to make under a CDS is equal to the notional amount of the contract. Such future payments could be reduced or offset by amounts recovered under recourse or by collateral provisions outlined in the contract, including seizure and liquidation of collateral pledged by the buyer. ML's derivatives portfolio consists of purchased credit protection with underlying referenced names not correlated to offset its exposure to sold credit protection.

IRS obligate two parties to exchange one or more payments typically calculated with reference to fixed or periodically reset rates of interest applied to a specified notional principal amount. Notional principal is the amount to which interest rates are applied to determine the payment streams under IRS. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.

Futures contracts are agreements to buy and sell financial instruments for a set price on a future date. Initial margin deposits are made upon entering into futures contracts in the form of cash or securities. During the period that a futures contract is open, changes in the value of the contract are recorded as unrealized gains or losses by revaluing the contracts daily to reflect the market value of the contract at the end of each day's trading. Variation margin payments are paid or received, depending upon whether unrealized gains or losses result. When the contract is closed, ML will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and ML's cost basis in the contract. The use of futures transactions involves the risk of imperfect correlation in movements in the price of futures contracts, interest rates, and the underlying hedged assets. ML is also at risk of not being able to enter into a closing transaction for the futures contract because of an illiquid secondary market. ML had pledged cash collateral related to future contracts of \$18 million and \$40 million as of December 31, 2010 and 2009, respectively.

#### *Credit Risk*

Credit risk is the risk of financial loss resulting from failure by a counterparty to meet its contractual obligations to ML. This can be caused by factors directly related to the counterparty, such as business or management. Taking collateral is the most common way to mitigate credit risk. ML takes financial collateral in the form of cash and marketable securities to cover JPMC counterparty risk as part of the TRS agreement with JPMC as well as the over-the-counter derivatives activities outside of the TRS.

The following table summarizes the notional amounts of derivative contracts outstanding as of December 31, 2010 and 2009, and the change in notional amounts is representative of the volume of activity for the year ended December 31, 2010 (in millions):

	Notional Amounts <sup>1,2</sup>	
	2010	2009
Interest rate contracts:		
IRS	\$ 4,130	\$ 3,185
Futures and options <sup>3</sup>	18	70
Credit derivatives:		
CDS	5,856	7,323
<b>Total</b>	<b>\$10,004</b>	<b>\$10,578</b>

<sup>1</sup> Represents the sum of gross long and short notional derivative contracts.

<sup>2</sup> There were 1,400 and 1,764 CDS and IRS contracts outstanding as of December 2010, and 2009, respectively.

<sup>3</sup> Futures and options on futures relate to contract obligations and not gross notional amounts.

The following table summarizes the fair value of derivative instruments by contract type on a gross basis as of December 31, 2010 and 2009, which is reported as a component of "Consolidated variable interest entities: Investments held by consolidated variable interest entities" in the Consolidated Statement of Condition (in millions):

	2010		2009	
	Gross Derivative Assets	Gross Derivative Liabilities	Gross Derivative Assets	Gross Derivative Liabilities
Interest rate contracts:				
IRS	\$ 9	\$ (229)	\$ 5	\$ (195)
Futures and options	4	(2)	20	—
Credit derivatives:				
CDS	2,317	(1,347)	3,271	(1,816)
Counterparty netting	(1,375)	1,375	(1,868)	1,868
Cash collateral	(100)	—	(281)	—
<b>Total</b>	<b>\$ 855</b>	<b>\$ (203)</b>	<b>\$ 1,147</b>	<b>\$ (143)</b>

The table below summarizes certain information regarding protection sold through CDS as of December 31 (in millions):

	Maximum Potential Payout/Notional							
	2010				2009			
	Years to Maturity				Fair Value		Fair Value	
	Less Than				Asset/		Asset/	
	1	1-3	Over 5	Total	(Liability)	Total	(Liability)	
Credit ratings of the reference obligation								
Credit protection sold:								
Investment grade (AAA to BBB-)	\$—	\$—	\$ 120	\$ 120	\$ (23)	\$ 350	\$ (154)	
Noninvestment grade (BB+ or lower)	10	250	1,564	1,824	(1,284)	2,099	(1,640)	
<b>Total credit protection sold</b>	<b>\$10</b>	<b>\$250</b>	<b>\$1,684</b>	<b>\$1,944</b>	<b>\$(1,307)</b>	<b>\$2,449</b>	<b>\$(1,794)</b>	

The table below summarizes certain information regarding protection bought through CDS as of December 31 (in millions):

	Maximum Potential Payout/Notional							
	2010				2009			
	Years to Maturity				Fair Value		Fair Value	
	Less Than				Asset/		Asset/	
	1	1-3	3-5	Over 5	Total	(Liability)	Total	(Liability)
Credit ratings of the reference obligation								
Credit protection bought:								
Investment grade (AAA to BBB-)	\$—	\$—	\$—	\$ 263	\$ 263	\$ 76	\$ 702	\$ 404
Noninvestment grade (BB+ or lower)	38	501	5	3,104	3,648	2,190	4,172	2,808
<b>Total credit protection bought</b>	<b>\$38</b>	<b>\$501</b>	<b>\$ 5</b>	<b>\$3,367</b>	<b>\$3,911</b>	<b>\$2,266</b>	<b>\$4,874</b>	<b>\$3,212</b>

#### Other Assets

Other assets are primarily composed of other real estate owned of approximately \$19 million, and options of \$4 million.

#### d. Maiden Lane II LLC

ML II's investments in nonagency RMBS are subject to varying levels of credit, interest rate, general market, and concentration risk. Credit-related risk on non-agency RMBS arises from losses due to delinquencies and defaults by borrowers on the underlying residential mortgage loans and breaches by originators and servicers of their obligations under the underlying documentation pursuant to which the nonagency RMBS are issued. The rate of delinquencies and defaults on residential mortgage loans and the aggregate amount of the resulting losses will be affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located; the level of the borrower's equity in the mortgaged property; and the individual financial circumstances of the borrower.

The rate of interest payable on certain nonagency RMBS may be set or effectively capped at the weighted average net coupon of the underlying residential mortgage loans themselves, often referred to as an "available funds cap." As a result of this cap, the return to the holder of such nonagency RMBS is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest.

The fair value of any particular nonagency RMBS asset may be subject to substantial variation. The entire market or particular instruments traded on a market may decline in value, even if projected cash flow or other factors improve, because the prices of such instruments are subject to numerous other factors that have little or no correlation to the performance of a particular instrument. Adverse developments in the nonagency RMBS market could have a considerable effect on ML II because of its investment concentration in nonagency RMBS.

At December 31, 2010, the type/sector and rating composition of the ML II's \$16,188 million nonagency RMBS portfolio, recorded at fair value, as a percentage of aggregate fair value, were as follows:

Asset type:	Rating <sup>1,3</sup>					Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and Lower	
Alt-A ARM	0.3%	1.3%	0.9%	0.3%	26.5%	29.4%
Subprime	4.1%	2.6%	1.3%	1.2%	46.4%	55.6%
Option ARM	0.0%	0.0%	0.0%	0.0%	6.8%	6.8%
Other <sup>2</sup>	0.0%	0.5%	1.1%	0.1%	6.4%	8.2%
<b>Total</b>	<b>4.5%</b>	<b>4.4%</b>	<b>3.3%</b>	<b>1.6%</b>	<b>86.2%</b>	<b>100.0%</b>

<sup>1</sup> Lowest of all ratings is used for the purposes of this table if rated by two or more nationally recognized statistical rating organizations.

<sup>2</sup> Includes all asset types that, individually, represent less than 5 percent of aggregate portfolio fair value.

<sup>3</sup> Rows and columns may not total due to rounding.

At December 31, 2010, approximately 30 percent and 13 percent of the properties collateralizing the nonagency RMBS held by ML II were located in California and Florida, respectively, based on the geographic location data available for the underlying loans by aggregate unpaid principal balance.

#### e. Maiden Lane III LLC

The primary holdings within ML III are ABS CDOs. An ABS CDO is a security issued by a bankruptcy-remote entity that is backed by a diversified pool of debt securities, which in the case of ML III are primarily RMBS and CMBS. The cash flows of ABS CDOs can be split into multiple segments, called "tranches," which vary in risk profile and yield. The junior tranches bear the initial risk of loss, followed by the more senior tranches. The ABS CDOs in the ML III portfolio represent senior tranches. Because they are shielded from defaults by the subordinated tranches, senior tranches typically have higher credit ratings and lower yields than the underlying securities, and will often receive investment-grade ratings from one or more of the nationally recognized rating agencies. Despite the protection afforded by the subordinated tranches, senior tranches can experience substantial losses from actual defaults on the underlying nonagency RMBS or CMBS.

Certain ABS CDO issuers can issue short-term eligible investments under Rule 2a-7 of the Investment Company Act of 1940 if the ABS CDO contains arrangements to remarket the securities at defined periods. The investments must contain put options (2a-7 Puts) that allow the purchasers to sell the ABS CDO at par to a third-party (Put Provider), if a scheduled remarketing is unsuccessful due to reasons other than a credit or bankruptcy event. The total notional value of ABS CDOs held by ML III with embedded 2a-7 Puts, for which AIGFP was, directly or indirectly, the Put Provider, was \$1.6 billion at December 31, 2009. There were no remaining ABS CDO investments held by the LLC with embedded 2a-7 puts as of December 31, 2010.

ML III's investment in CMBS and RMBS contains varying levels of credit, interest rate, liquidity, and concentration risk. Credit-related risk arises from losses due to delinquencies and defaults by borrowers on the underlying mortgage loans and breaches by originators and servicers of their obligations under the underlying documentation pursuant to which the securities are issued. The rate of delinquencies and defaults on residential and commercial mortgage loans and the aggregate amount of the resulting losses will be affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located; the level of the borrower's equity in the mortgaged property; and the individual financial circumstances of the borrower. Adverse developments in the RMBS and CMBS markets could have a considerable effect on ML III because of its investment concentration in CDOs backed by CMBS and RMBS.

At December 31, 2010, the investment type/vintage and rating composition of ML III's \$22,974 million portfolio, recorded at fair value, as a percentage of aggregate fair value of all securities in the portfolio, was as follows:

	Rating <sup>1,2,3</sup>						Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and Lower	NR	
<b>ABS CDOs:</b>							
<b>High-grade</b>							
ABS CDOs	0.0%	0.0%	0.0%	0.0%	64.2%	1.0%	65.3%
Pre-2005	0.0%	0.0%	0.0%	0.0%	22.1%	0.0%	22.1%
2005	0.0%	0.0%	0.0%	0.0%	29.1%	1.0%	30.1%
2006	0.0%	0.0%	0.0%	0.0%	6.3%	0.0%	6.3%
2007	0.0%	0.0%	0.0%	0.0%	6.7%	0.0%	6.7%
<b>Mezzanine</b>							
ABS CDOs	0.0%	0.0%	0.0%	0.1%	8.2%	0.1%	8.5%
Pre-2005	0.0%	0.0%	0.0%	0.1%	4.7%	0.1%	4.9%
2005	0.0%	0.0%	0.0%	0.0%	2.9%	0.0%	2.9%
2006	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2007	0.0%	0.0%	0.0%	0.0%	0.6%	0.0%	0.6%
<b>Commercial real-estate</b>							
CDOs	0.0%	0.0%	0.0%	0.0%	25.1%	0.0%	25.1%
Pre-2005	0.0%	0.0%	0.0%	0.0%	3.2%	0.0%	3.2%
2005	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2006	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2007	0.0%	0.0%	0.0%	0.0%	21.9%	0.0%	21.9%
<b>RMBS, CMBS, and other:</b>							
	0.1%	0.2%	0.1%	0.0%	0.9%	0.0%	1.3%
Pre-2005	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.2%
2005	0.1%	0.2%	0.1%	0.0%	0.7%	0.0%	1.1%
2006	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%
2007	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total investments</b>	<b>0.1%</b>	<b>0.2%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>98.4%</b>	<b>1.2%</b>	<b>100.0%</b>

<sup>1</sup>Lowest of all ratings was used for the purpose of this table if rated by two or more nationally recognized statistical rating organizations.

<sup>2</sup>The year of issuance with the highest concentration of underlying assets as measured by outstanding principal balance determines the vintage of the CDO.

<sup>3</sup>Rows and columns may not total due to rounding.

#### f. TALF LLC

Cash receipts resulting from the put option fees paid to TALF LLC and proceeds from the Treasury's loan are invested in the following types of U.S. dollar-denominated short-term investments and cash equivalents eligible for purchase by the LLC: (1) U.S. Treasury securities, (2) federal agency securities that are senior, negotiable debt obligations of the Fannie Mae, Freddie Mac, Federal Home Loan Banks (FHLB) and Federal Farm Credit Banks (FFCB), which have a fixed rate of interest, (3) repurchase agreements that are collateralized by Treasury and federal agency securities and fixed-rate agency mortgage-backed securities, and (4) money market mutual funds registered with the Securities and Exchange Commission and regulated under Rule 2a-7 of the Investment Company Act that invest exclusively in U.S. Treasury and federal agency securities. Cash may also be invested in a demand interest-bearing account held at the Bank of New York Mellon.

#### g. Fair Value Measurement

The Bank has adopted ASC 820 and ASC 825 and has elected the fair value option for all securities and commercial and residential mortgages held by ML and TALF LLC. ML II and ML III qualify as nonregistered investment companies under the provisions of ASC 946 and, therefore, all investments are recorded at fair value in accordance with ASC 820. In addition, the Bank has elected to record the beneficial interests in ML, ML II, ML III, and TALF LLC at fair value.

The accounting and classification of these investments appropriately reflect the VIEs' and the Bank's intent with respect to the purpose of the investments and most closely reflect the amount of the assets available to liquidate the entities' obligations.

#### i. Determination of Fair Value

The Bank values its investments on the basis of the last available bid prices or current market quotations provided by dealers or pricing services selected by the Bank's designated investment managers. To determine the value of a particular investment, pricing services may use information on transactions in such investments; quotations from dealers; pricing metrics; market transactions in comparable investments; relationships observed in the market between investments; and calculated yield measures based on valuation methodologies commonly employed in the market for such investments.

Market quotations may not represent fair value in circumstances in which the investment manager believes that facts and circumstances applicable to an issuer, a seller, a purchaser, or the market for a particular security result in the current market quotations reflecting an inaccurate fair value of the security. To determine fair

value, the investment manager applies proprietary valuation models that use collateral performance scenarios and pricing metrics derived from the reported performance of the universe of bonds with similar characteristics as well as the observable market.

Because of the uncertainty inherent in determining the fair value of investments that do not have a readily available fair value, the fair value of these investments may differ significantly from the values that would have been reported if a readily available fair value had existed for these investments and may differ materially from the values that may ultimately be realized.

The fair value of the liability for the beneficial interests of consolidated VIEs is estimated based upon the fair value of the underlying assets held by the VIEs. The holders of these beneficial interests do not have recourse to the general credit of the Bank.

#### *ii. Valuation Methodologies for Level 3 Assets and Liabilities*

In certain cases where there is limited activity around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. For example, in valuing CDOs, certain collateralized mortgage obligations, and commercial and residential mortgage loans, the determination of fair value is based on collateral performance scenarios. These valuations also incorporate pricing metrics derived from the reported performance of the universe of bonds and from observations and estimates of market data. Because external price information is not available, market-based models are used to value these securities. Key inputs to the model may include market spreads or yield estimates for comparable instruments, data for each credit rating, valuation estimates for underlying property collateral, projected cash flows, and other relevant contractual features. Because there is lack of observable pricing, securities and investment loans that are carried at fair value are classified within Level 3.

The following tables present the financial instruments recorded in VIEs at fair value as of December 31 by ASC 820 hierarchy (in millions):

	2010				Total Fair Value
	Level 1	Level 2	Level 3	Netting <sup>1</sup>	
<b>Assets:</b>					
CDOs	\$ —	\$ 301	\$ 22,811	\$ —	\$ 23,112
Nonagency RMBS	—	11,551	6,809	—	18,360
Federal agency and GSE MBS	—	16,812	30	—	16,842
Commercial mortgage loans	—	3,199	1,931	—	5,130
Cash equivalents	3,003	—	—	—	3,003
Swap contracts	—	9	2,317	(1,475)	851
Residential mortgage loans	—	—	603	—	603
Other investments	85	400	79	—	564
Other assets	—	4	—	—	4
<b>Total assets</b>	<b>\$3,088</b>	<b>\$32,276</b>	<b>\$ 34,580</b>	<b>\$ (1,475)</b>	<b>\$ 68,469</b>
<b>Liabilities:</b>					
Beneficial interest in consolidated VIEs	\$ —	\$ —	\$ (10,051)	\$ —	\$ (10,051)
Swap contracts	—	(229)	(1,347)	1,375	(201)
Other liabilities	(2)	—	—	—	(2)
<b>Total liabilities</b>	<b>\$ (2)</b>	<b>\$ (229)</b>	<b>\$ (11,398)</b>	<b>\$ 1,375</b>	<b>\$ (10,254)</b>

<sup>1</sup> Derivative receivables and payables and the related cash collateral received and paid are shown netted when a master netting agreement exists.



	2009				Total Fair Value
	Level 1	Level 2	Level 3	Netting <sup>1</sup>	
<b>Assets:</b>					
CDOs	\$ —	\$ 241	\$ 22,409	\$ —	\$ 22,650
Federal agency and GSE MBS	—	18,125	24	—	18,149
Nonagency RMBS	—	9,461	8,091	—	17,552
Commercial mortgage loans	—	—	4,025	—	4,025
Cash equivalents	1,933	142	—	—	2,075
Swap contracts	—	5	3,272	(2,150)	1,127
Residential mortgage loans	—	—	583	—	583
Other investments	31	5,413	23	—	5,467
Other assets	20	—	—	—	20
<b>Total assets</b>	<b>\$1,984</b>	<b>\$33,387</b>	<b>\$38,427</b>	<b>\$(2,150)</b>	<b>\$71,648</b>
<b>Liabilities:</b>					
Beneficial interest in consolidated VIEs	\$ —	\$ —	\$(5,095)	\$ —	\$(5,095)
Swap contracts	—	(195)	(1,816)	1,868	(143)
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$(195)</b>	<b>\$(6,911)</b>	<b>\$ 1,868</b>	<b>\$(5,238)</b>

<sup>1</sup> Derivative receivables and payables and the related cash collateral received and paid are shown netted when a master netting agreement exists.

The tables below present a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2010 and 2009 (in millions). Unrealized gains and losses related to those assets still held at December 31, 2010 and 2009, are reported as a component of “Consolidated variable interest entities: Investments held by consolidated variable interest entities, net” in the Consolidated Statements of Condition.

	2010				Fair Value December 31	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at December 31, 2010
	Fair Value January 1	Net Purchases, Sales, and Settlements	Total Realized/ Unrealized Gains (Losses)	Net Transfers In or Out <sup>1,2,3,4</sup>		
<b>Assets:</b>						
CDOs <sup>7</sup>	\$ 22,200	\$(2,474)	\$ 3,096	\$ (11)	\$ 22,811	\$ 3,043
Nonagency RMBS <sup>7</sup>	8,300	(1,046)	1,144	(1,589)	6,809	1,044
Commercial mortgage loans	4,025	(335)	681	(2,440)	1,931	542
Residential mortgage loans	583	(91)	111	—	603	197
Federal agency and GSE MBS	24	(34)	2	38	30	2
Other investments	23	(39)	65	30	79	11
<b>Total assets</b>	<b>\$35,155</b>	<b>\$(4,019)</b>	<b>\$ 5,099</b>	<b>\$(3,972)</b>	<b>\$ 32,263</b>	<b>\$ 4,839</b>
Net swap contracts <sup>5</sup>	\$ 1,456	\$(325)	\$(161)	\$ —	\$ 970	\$(137)
<b>Liabilities:</b>						
Beneficial interest in consolidated VIEs	\$(5,095)	\$(277) <sup>6</sup>	\$(4,679)	\$ —	\$(10,051)	\$(4,679)

<sup>1</sup> The amount of transfers is based on the fair values of the transferred assets at the beginning of the reporting period.

<sup>2</sup> There were no significant transfers between Level 1 and 2 during the year ended December 31, 2010.

<sup>3</sup> Commercial mortgage loans, with a December 31, 2009, fair value of \$2,440 million, were transferred from Level 3 to Level 2 because they were valued at December 31, 2010, based on quote prices for identical or similar instruments in nonactive markets (Level 2). These investments were valued in the prior year based on nonobservable inputs (Level 3).

<sup>4</sup> Nonagency RMBS, with a December 31, 2009, fair value of \$3,830 million, were transferred from Level 3 to Level 2 because they were valued at December 31, 2010, based on quoted prices in nonactive markets (Level 2). These investments were valued in the prior year on nonobservable model-based inputs (Level 3). There were also certain nonagency RMBS for which valuation inputs became less observable during the year ended December 31, 2010, that resulted in \$2,647 million in transfers from Level 2 to Level 3. There were no other significant transfers between Levels during the year.

<sup>5</sup> Level 3 derivative assets and liabilities are presented net for purposes of this table.

<sup>6</sup> Includes \$277 million in capitalized interest.

<sup>7</sup> Investments with a fair value of \$209 million as of December 31, 2009, were reclassified from CDOs to nonagency RMBS.

	2009				Fair Value December 31	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at December 31, 2009
	Fair Value January 1	Net Purchases, Sales, and Settlements	Total Realized/ Unrealized Gains (Losses)	Net Transfers In or Out		
<b>Assets:</b>						
CDOs	\$26,802	\$(3,123)	\$(1,267)	\$ (3)	\$22,409	\$(1,265)
Nonagency RMBS	12,510	(1,481)	(499)	(2,439)	8,091	(533)
Commercial mortgage loans	5,553	(305)	(1,223)	—	4,025	(1,177)
Residential mortgage loans	937	(86)	(268)	—	583	(219)
Federal agency and GSE MBS	895	(248)	—	(623)	24	—
Other investments	348	(263)	30	(92)	23	29
<b>Total assets</b>	<b>\$47,045</b>	<b>\$(5,506)</b>	<b>\$(3,227)</b>	<b>\$(3,157)</b>	<b>\$35,155</b>	<b>\$(3,165)</b>
Net swap contracts <sup>2</sup>	\$ 2,454	\$ (906)	\$ 94	\$ (186)	\$ 1,456	\$ 212
<b>Liabilities:</b>						
Beneficial interest in consolidated VIEs	\$(2,824)	\$(368) <sup>1</sup>	\$(1,903)	\$ —	\$(5,095)	\$(1,902)

<sup>1</sup> Includes \$268 million in capitalized interest.

<sup>2</sup> Level 3 derivative assets and liabilities are presented net for purposes of this table.

#### h. Professional Fees

The consolidated VIEs have recorded costs for professional services provided, among others, by several nationally recognized institutions that serve as investment managers, administrators, and custodians for the VIEs' assets. The fees charged by the investment managers, custodians, administrators, auditors, attorneys, and other service providers are recorded in "Professional fees related to consolidated variable interest entities" in the Consolidated Statements of Income and Comprehensive Income.

#### 10. NONCONSOLIDATED VARIABLE INTEREST ENTITIES

In December 2009, the Bank received preferred interests in two VIEs, AIA LLC and ALICO LLC. The Bank does not consolidate these VIEs because it does not have a controlling financial interest. The Bank's maximum exposure to any potential losses of the VIEs, should any occur, is limited to the recorded value of the Bank's investment in the preferred interests and dividends receivable from the VIEs. The following table shows financial information as of December 31, 2010 (in millions):

	2010		Total Nonconsolidated VIEs
	AIA LLC	ALICO LLC	
Total assets	\$31,223	\$17,417	\$48,640
Total liabilities	\$ —	\$ (898)	\$ (898)
Maximum exposure to loss	\$16,886	\$ 9,499	\$26,385

The recorded value of the Bank's preferred interests, including capitalized dividends, was \$16,886 million and \$16,068 million for AIA LLC at December 31, 2010 and 2009, respectively and \$9,499 million and \$9,038 million for ALICO LLC at December 31, 2010 and 2009, respectively. The Bank's preferred interests and capitalized dividends are reported as "Preferred interests" and dividends receivable are reported as a component of "Other Assets" in the Bank's Consolidated Statements of Condition.

The fair value of the Bank's preferred interests in AIA LLC and ALICO LLC was not materially different from the amounts reported as "Preferred interests" in the Consolidated Statements of Condition as of December 31, 2010 and 2009.

As a result of the closing of the AIG recapitalization plan on January 14, 2011, the Bank was paid in full for its preferred interests in AIA LLC and ALICO LLC, including accrued dividends.

**11. BANK PREMISES, EQUIPMENT, AND SOFTWARE**

Bank premises and equipment at December 31 were as follows (in millions):

	<u>2010</u>	<u>2009</u>
Bank premises and equipment:		
Land and land improvements	\$ 21	\$ 20
Buildings	329	322
Building machinery and equipment	79	71
Construction in progress	5	13
Furniture and equipment	135	127
<b>Subtotal</b>	<u>569</u>	<u>553</u>
Accumulated depreciation	(253)	(231)
<b>Bank premises and equipment, net</b>	<u>\$ 316</u>	<u>\$ 322</u>
Depreciation expense, for the years ended December 31	<u>\$ 31</u>	<u>\$ 26</u>

The Bank had capitalized software assets, net of amortization, of \$54 million and \$57 million at December 31, 2010 and 2009, respectively. Amortization expense was \$20 million and \$15 million for the years ended December 31, 2010 and 2009, respectively. Capitalized software assets are reported as a component of "Other assets" in the Consolidated Statements of Condition and the related amortization is reported as a component of "Operating expenses: Other" in the Consolidated Statements of Income and Comprehensive Income.

**12. COMMITMENTS AND CONTINGENCIES**

Conducting its operations, the Bank enters into contractual commitments, normally with fixed expiration dates or termination provisions, at specific rates and for specific purposes.

At December 31, 2010, the Bank was obligated under noncancelable leases for premises and equipment with remaining terms ranging from one to approximately thirteen 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 \$22 million and \$17 million for the years ended December 31, 2010 and 2009, respectively. Future minimum rental payments under noncancelable operating leases, net of sublease rentals, with remaining terms of one year or more, at December 31, 2010, are as follows (in millions):

	<u>Operating Leases</u>
2011	\$ 10
2012	10
2013	10
2014	10
2015	10
Thereafter	84
<b>Future minimum rental payments</b>	<u>\$134</u>

Under the Insurance Agreement of the Federal Reserve Banks, each of the Reserve Banks has agreed to bear, on a per-incident basis, a share of certain 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 of a Reserve Bank's capital paid-in 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 the agreement at December 31, 2010 or 2009.

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.

### Other Commitments

In support of financial market stability activities, the Bank entered into commitments to provide financial assistance to financial institutions. The contractual amounts shown below are the Bank's maximum exposures to loss in the event that the commitments are fully funded and there is a default by the borrower or total loss in value of pledged collateral. Total commitments at December 31, 2010 and 2009, were as follows (in millions):

	2010		2009	
	Contractual Amount	Unfunded Amount	Contractual Amount	Unfunded Amount
Secured revolving line of credit (AIG)	\$24,512	\$9,891	\$35,000	\$17,100
Commercial loan commitments (ML)	72	72	157	157
Additional loan commitments (ML) <sup>1</sup>	9	9	—	—
<b>Total</b>	<b>\$24,593</b>	<b>\$9,972</b>	<b>\$35,157</b>	<b>\$17,257</b>

<sup>1</sup> In 2010, there is additional restricted cash totaling \$9 million that may be required to be advanced by ML for property level expenses or improvements.

The contractual amount of the commitment related to the AIG secured revolving line of credit represents the December 31, 2010, maximum commitment to lend to AIG and the unfunded amount represents the maximum commitment reduced by draws outstanding. The amount of the Bank's commitment to lend to AIG was reduced during the year ended December 31, 2009, as a result of the debt restructurings described in Note 3, Note 4, and Note 5. The Bank's commitment was further reduced during the year ended December 31, 2010, as a result of asset sales. Collateral to secure the Bank's loan to AIG includes equity interests of various AIG subsidiaries. The Bank did not incur any losses related to the unfunded commitment as of December 31, 2010.

As a result of the closing of the AIG recapitalization plan on January 14, 2011, the revolving line of credit was paid in full, including interest and fees, and the Bank's commitment to lend any further funds was terminated.

The undrawn portion of the Bank's commercial loan commitments relates to commercial mortgage loan commitments acquired by ML.

### 13. 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 employees of the Reserve Banks, Board of Governors, and Office of Employee Benefits of the Federal Reserve System (OEB) participate in the Retirement Plan for Employees of the Federal Reserve System (System Plan). In addition, employees at certain compensation levels participate in the Benefit Equalization Retirement Plan (BEP) and certain Reserve Bank officers participate in the Supplemental Retirement Plan for Select Officers of the Federal Reserve Bank (SERP). Under the Dodd-Frank Act, employees of the Bureau can elect to participate in the System Plan. As of December 31, 2010, there were no Bureau participants in the System Plan.

The System Plan provides retirement benefits to employees of the Federal Reserve Banks, Board of Governors, and OEB and in the future will provide retirement benefits to certain employees of the Bureau. The Bank, on behalf of the System, recognizes the net asset or net liability and costs associated with the System Plan in its consolidated financial statements. During the year ended December 31, 2010, costs associated with the System Plan were not reimbursed by other participating employers.

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

	2010	2009
Estimated actuarial present value of projected benefit obligation at January 1	\$7,364	\$7,031
Service cost-benefits earned during the period	223	204
Interest cost on projected benefit obligation	450	427
Actuarial loss (gain)	508	(28)
Contributions by plan participants	9	3
Special termination benefits	11	9
Benefits paid	(307)	(291)
Plan amendments	—	9
<b>Estimated actuarial present value of projected benefit obligation at December 31</b>	<b>\$8,258</b>	<b>\$7,364</b>

Following is a reconciliation showing the beginning and ending balance of the System Plan assets, the funded status, and the accrued pension benefit costs (in millions):

	2010	2009
Estimated plan assets at January 1 (of which \$6,252 and \$5,037 are measured at fair value as of January 1, 2010 and 2009, respectively)	\$ 6,281	\$ 5,053
Actual return on plan assets	710	1,016
Contributions by the employer	580	500
Contributions by plan participants	9	3
Benefits paid	(307)	(291)
<b>Estimated plan assets at December 31 (of which \$6,998 and \$6,252 are measured at fair value as of December 31, 2010 and 2009, respectively)</b>	<b>\$ 7,273</b>	<b>\$ 6,281</b>
<b>Funded status and accrued pension benefit costs</b>	<b>\$ (985)</b>	<b>\$ (1,083)</b>
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service cost	\$ (771)	\$ (883)
Net actuarial loss	(2,589)	(2,488)
<b>Total accumulated other comprehensive loss</b>	<b>\$ (3,360)</b>	<b>\$ (3,371)</b>

Accrued pension benefit costs are reported as a component of "Accrued benefit costs" in the Consolidated Statements of Condition.

The accumulated benefit obligation for the System Plan, which differs from the estimated actuarial present value of projected benefit obligation because it is based on current rather than future compensation levels, was \$7,136 million and \$6,430 million at December 31, 2010 and 2009, respectively.

The weighted-average assumptions used in developing the accumulated pension benefit obligation for the System Plan as of December 31 were as follows:

	2010	2009
Discount rate	5.50%	6.00%
Rate of compensation increase	5.00%	5.00%

Net periodic benefit expenses for the years ended December 31, 2010 and 2009, were actuarially determined using a January 1 measurement date.

The weighted-average assumptions used in developing net periodic benefit expenses for the System Plan for the years were as follows:

	2010	2009
Discount rate	6.00%	6.00%
Expected asset return	7.75%	7.75%
Rate of compensation increase	5.00%	5.00%

Discount rates reflect yields available on high-quality corporate bonds that would generate the cash flows necessary to pay the System Plan's benefits when due. The expected long-term rate of return on assets is an estimate that is based on a combination of factors, including the System Plan's asset allocation strategy and historical returns; surveys of expected rates of return for other entities' plans; a projected return for equities and fixed-income investments based on real interest rates, inflation expectations, and equity risk premiums; and surveys of expected returns in equity and fixed-income markets.

The components of net periodic pension benefit expense for the System Plan for the years ended December 31 are shown below (in millions):

	2010	2009
Service cost-benefits earned during the period	\$ 223	\$ 204
Interest cost on accumulated benefit obligation	450	427
Amortization of prior service cost	112	116
Amortization of net loss	188	285
Expected return on plan assets	(491)	(389)
<b>Net periodic pension benefit expense</b>	<b>482</b>	<b>643</b>
Special termination benefits	11	9
<b>Total periodic pension benefit expense</b>	<b>\$ 493</b>	<b>\$ 652</b>

Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic pension benefit expense in 2011 are shown below:

Prior service cost	\$ 110
Net actuarial loss	182
<b>Total</b>	<b>\$ 292</b>

Following is a summary of expected benefit payments, excluding enhanced retirement benefits (in millions):

	Expected Benefit Payments
2011	\$ 326
2012	347
2013	370
2014	394
2015	417
2016-2020	<u>2,454</u>
<b>Total</b>	<b><u>\$4,308</u></b>

The System's Committee on Investment Performance (CIP) is responsible for establishing investment policies, selecting investment managers, and monitoring the investment managers' compliance with its policies. The CIP is supported by staff in OEB in carrying out these responsibilities. At December 31, 2010, the System Plan's assets were held in seven investment vehicles: a liability-linked account, two actively managed long-duration fixed-income portfolios, an indexed U.S. investment-grade bond fund, an indexed U.S. equity fund, an indexed non-U.S. developed-markets fund, and a money market fund.

The diversification of the Plan's investments is designed to limit concentration of risk and the risk of loss related to an individual asset class. The liability-linked account, funded in 2008, seeks to defease a portion of the System Plan's liability related to retired lives using a Treasury securities portfolio. The policy governing this account calls for cash-matching the first two years of a portion of retiree benefits payments and immunizing the remaining obligation. The two long-duration fixed-income portfolios are separate accounts benchmarked to the Barclays Long Government/Credit Index, which was selected as a proxy for the liabilities of the Plan. While these portfolios are both actively managed, the guidelines are designed to limit portfolio deviations from the benchmark. The indexed U.S. investment-grade bond fund tracks the Barclays U.S. Aggregate Index, which is a broader fixed-income index than the Barclays Long Government/Credit Index, but has a shorter duration and average maturity. The indexed U.S. equity fund is intended to track the overall U.S. equity market across market capitalizations. The indexed non-U.S. developed markets equity fund is intended to track the Morgan Stanley Capital International (MSCI) Emerging Markets Index, Europe, Australia, Far East plus Canada Index, which includes stocks from twenty-three markets deemed by MSCI to be "developed markets." Finally, the money market fund, which invests in high-

quality money market securities, is the repository for cash balances and adheres to a constant dollar methodology.

Permitted and prohibited investments, including the use of derivatives, are defined in either the trust agreement (for commingled index vehicles) or the investment guidelines (for the three separate accounts). The CIP reviews the trust agreement and approves all investment guidelines as part of the selection of each investment to ensure that the trust agreement is consistent with the CIP's investment objectives for the System Plan's assets.

The System Plan's policy weight and actual asset allocations at December 31, by asset category, were as follows:

	Policy Weight	2010	2009
U.S. equities	42.8%	45.4%	53.0%
International equities	12.2%	12.6%	12.9%
Fixed income	45.0%	41.7%	33.8%
Cash	0.0%	0.3%	0.3%
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

Employer contributions to the System Plan may be determined using different assumptions than those required for financial reporting. The System Plan's actuarial funding method is expected to produce a recommended annual funding range between \$350 and \$400 million. In 2011, the System will make monthly contributions of \$35 million and will reevaluate the monthly contributions upon completion of the 2011 actuarial valuation. The Bank's projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2010 and 2009, and for the years then ended, were not material.

The System Plan's investments are reported at fair value as required by ASC 820. ASC 820 establishes a three-level fair value hierarchy that distinguishes between market participant assumptions developed using market data obtained from independent sources (observable inputs) and the Bank's assumptions about market participant assumptions developed using the best information available in the circumstances (unobservable inputs).

#### Determination of Fair Value

The System Plan's investments are valued on the basis of the last available bid prices or current market quotations provided by dealers or pricing services selected by the Plan's Trustee. To determine the value of a particular investment, pricing services may

use information on transactions in such investments; quotations from dealers; pricing metrics; market transactions in comparable investments; relationships observed in the market between investments; and calculated yield measures based on valuation methodologies commonly employed in the market for such investments.

Because of the uncertainty inherent in determining the fair value of investments that do not have a readily available fair value, the fair value of these investments may differ significantly from the values that would have been reported if a readily available fair value had existed for these investments and may differ materially from the values that may ultimately be realized.

The following tables present the financial instruments recorded at fair value as of December 31 by ASC 820 hierarchy (in millions):

Description	2010			Total
	Level 1	Level 2	Level 3	
Short-term investments	\$ —	\$ 30	\$ —	\$ 30
Treasury and federal agency securities	1,065	39	—	1,104
Other fixed-income securities	—	644	—	644
Commingled funds	—	5,220	—	5,220
<b>Total</b>	<b>\$1,065</b>	<b>\$5,933</b>	<b>\$ —</b>	<b>\$6,998</b>

There were no transfers between Level 1 and Level 2 during the year.

Description	2009			Total
	Level 1	Level 2	Level 3	
Short-term investments	\$ —	\$ 24	\$ —	\$ 24
Treasury and federal agency securities	677	38	—	715
GSE debt securities	—	156	—	156
Other fixed-income securities	—	128	—	128
Common stocks	883	—	—	883
Commingled funds	—	4,346	—	4,346
<b>Total</b>	<b>\$1,560</b>	<b>\$4,692</b>	<b>\$ —</b>	<b>\$6,252</b>

There were no transfers between Level 1 and Level 2 during the year.

The System Plan enters into futures contracts, traded on regulated exchanges, to manage certain risks and to maintain appropriate market exposure in meeting the investment objectives of the System Plan. The System Plan bears the market risk that arises from any unfavorable changes in the value of the securities or indexes underlying these futures contracts. The use of futures contracts involves, to varying degrees, elements of market risk in excess of the amount recorded in the Consolidated Statements of Condition. The guidelines established by the CIP further reduce risk by limiting the net futures positions, for most fund managers, to 15 percent of the market value of the advisor's portfolio. No limit has been established on the futures positions of the liability-driven investments because the fund manager only executes Treasury futures.

At December 31, 2010 and 2009, a portion of short-term investments was available for futures trading. There was \$1 million of Treasury securities pledged as collateral for each of the years ended December 31, 2010 and 2009.

#### Thrift Plan

Employees of the Bank participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The Bank matches employee contributions based on a specified formula. Effective April 1, 2009, the Bank matches 100 percent of the first 6 percent of employee contributions from the date of hire and provides an automatic employer contribution of 1 percent of eligible pay. For the first three months of the year ended December 31, 2009, the Bank matched 80 percent of the first 6 percent of employee contributions for employees with less than five years of service and 100 percent of the first 6 percent of employee contributions for employees with five or more years of service. The Bank's Thrift Plan contributions totaled \$23 million and \$19 million for the years ended December 31, 2010 and 2009, respectively, and are reported as a component of "Salaries and benefits" in the Consolidated Statements of Income and Comprehensive Income.

#### 14. POSTRETIREMENT BENEFITS OTHER THAN RETIREMENT PLANS AND POSTEMPLOYMENT BENEFITS

##### Postretirement Benefits Other Than Retirement Plans

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 the beginning and ending balances of the benefit obligation (in millions):

	2010	2009
Accumulated postretirement benefit obligation at January 1	\$271.5	\$247.1
Service cost benefits earned during the period	7.9	6.2
Interest cost on accumulated benefit obligation	15.1	14.9
Net actuarial loss (gain)	(14.8)	17.1
Contributions by plan participants	2.0	1.9
Benefits paid	(18.5)	(16.7)
Medicare Part D subsidies	1.1	1.0
<b>Accumulated postretirement benefit obligation at December 31</b>	<b><u>\$264.3</u></b>	<b><u>\$271.5</u></b>

At December 31, 2010 and 2009, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 5.25 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 the plan assets, the unfunded postretirement benefit obligation, and the accrued postretirement benefit costs (in millions):

	2010	2009
Fair value of plan assets at January 1	\$ —	\$ —
Contributions by the employer	15.4	13.8
Contributions by plan participants	2.0	1.9
Benefits paid	(18.5)	(16.7)
Medicare Part D subsidies	1.1	1.0
<b>Fair value of plan assets at December 31</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>
<b>Unfunded obligation and accrued postretirement benefit cost</b>	<b><u>\$264.3</u></b>	<b><u>\$271.5</u></b>
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service cost	\$ 0.8	\$ 5.2
Net actuarial loss	(53.2)	(75.6)
<b>Total accumulated other comprehensive loss</b>	<b><u>\$(52.4)</u></b>	<b><u>\$(70.4)</u></b>

Accrued postretirement benefit costs are reported as a component of "Accrued benefit costs" in the Consolidated Statements of Condition.

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

	2010	2009
Health care cost trend rate assumed for next year	8.00%	7.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2017	2015



Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for the year ended December 31, 2010 (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	\$ 3.6	\$ (2.9)
Effect on accumulated postretirement benefit obligation	\$31.3	\$(26.3)

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

	2010	2009
Service cost-benefits earned during the period	\$ 7.9	\$ 6.2
Interest cost on accumulated benefit obligation	15.1	14.9
Amortization of prior service cost	(4.4)	(5.5)
Amortization of net actuarial loss	6.1	6.4
<b>Net periodic postretirement benefit expense</b>	<b><u>\$24.7</u></b>	<b><u>\$22.0</u></b>

Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic postretirement benefit expense (credit) in 2011 are shown below:

Prior service cost	\$(0.3)
Net actuarial loss	3.8
<b>Total</b>	<b><u>\$ 3.5</u></b>

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2010 and 2009, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 5.75 percent and 6.00 percent, respectively.

Net periodic postretirement benefit expense is reported as a component of "Salaries and benefits" in the Consolidated Statements of Income and Comprehensive Income.

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 under 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 are reflected in actuarial loss in the accumulated postretirement benefit obligation and net periodic postretirement benefit expense.

Federal Medicare Part D subsidy receipts were \$0.9 million and \$0.8 million in the years ended December 31, 2010 and 2009, respectively. Expected receipts in 2011, related to benefits paid in the years ended December 31, 2010 and 2009, are \$0.5 million.

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

	Without Subsidy	With Subsidy
2011	\$ 16.4	\$ 15.4
2012	17.0	15.8
2013	17.8	16.5
2014	18.3	16.8
2015	18.9	17.3
2016-2020	102.5	92.6
<b>Total</b>	<b><u>\$190.9</u></b>	<b><u>\$174.4</u></b>

#### Postemployment Benefits

The Bank offers benefits to former or inactive employees. Postemployment benefit costs are actuarially determined using a December 31 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 at December 31, 2010 and 2009, were \$35 million and \$38 million, respectively. This cost is included as a component of "Accrued benefit costs" in the Consolidated Statements of Condition. Net periodic postemployment benefit expense included in 2010 and 2009 operating expenses was \$1 million and \$13 million, respectively, and was recorded as a component of "Salaries and benefits" in the Consolidated Statements of Income and Comprehensive Income.

### 15. ACCUMULATED OTHER COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME

Following is a reconciliation of beginning and ending balances of accumulated other comprehensive income (loss) (in millions):

	Amount Related to Defined Benefit Retirement Plan	Amount Related to Postretirement Benefits Other Than Retirement Plans	Total Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2009	\$(4,418)	\$(53)	\$(4,471)
Change in funded status of benefit plans:			
Prior service costs arising during the year	(10)	—	(10)
Net actuarial gain (loss) arising during the year	656	(16)	640
Amortization of prior service cost	116	(6)	110
Amortization of net actuarial (gain) loss	285	6	291
Change in funded status of benefit plans-other comprehensive income (loss)	1,047	(16)	1,031
<b>Balance at December 31, 2009</b>	<b><u>\$(3,371)</u></b>	<b><u>\$(69)</u></b>	<b><u>\$(3,440)</u></b>
Change in funded status of benefit plans:			
Net actuarial gain (loss) arising during the year	(289)	15	(274)
Amortization of prior service cost	112	(4)	108
Amortization of net actuarial (gain) loss	188	6	194
Change in funded status of benefit plans-other comprehensive income (loss)	11	17	28
<b>Balance at December 31, 2010</b>	<b><u>\$(3,360)</u></b>	<b><u>\$(52)</u></b>	<b><u>\$(3,412)</u></b>

Additional detail regarding the classification of accumulated other comprehensive loss is included in Notes 13 and 14.

### 16. BUSINESS RESTRUCTURING CHARGES

The Bank had no business restructuring charges in 2010 or 2009.

### 17. SUBSEQUENT EVENTS

The closing of the AIG recapitalization plan, which occurred on January 14, 2011, is discussed in Note 3. There were no other subsequent events that require adjustments to or disclosures in the consolidated financial statements as of December 31, 2010. Subsequent events were evaluated through March 22, 2011, which is the date that the Bank issued the consolidated financial statements.

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Directors of the  
Federal Reserve Bank  
of New York

## CHANGES IN DIRECTORS *2011*

Member banks in this District have reelected RICHARD L. CARRIÓN a class A director for a three-year term beginning January 2011. Mr. Carrión, Chairman, President, and Chief Executive Officer, Popular, Inc., San Juan, P.R., has been serving as a class A director since January 2008.

Member banks in this District have also reelected JAMES S. TISCH a class B director for a three-year term beginning January 2011. Mr. Tisch, who is President and Chief Executive Officer of Loews Corporation, New York, N.Y., has been serving as a class B director since September 2009.

The Board of Governors has reappointed KATHRYN S. WYLDE, President and Chief Executive Officer, Partnership for New York City, New York, N.Y., a class C director for a three-year term beginning January 2011 and designated her Deputy Chair for the year 2011. Ms. Wylde has been serving as a class C director since July 2009.

The Board of Governors has also designated LEE C. BOLLINGER, President, Columbia University, New York, N.Y., as Chair of the Board and Federal Reserve Agent for the year 2011. Mr. Bollinger has been serving as a class C director since January 2007 and Deputy Chair since August 2009.

## DIRECTORS OF THE FEDERAL RESERVE BANK OF NEW YORK

DIRECTORS	TERM EXPIRES DEC. 31	CLASS
RICHARD L. CARRIÓN <i>Chairman, President, and Chief Executive Officer</i> Popular, Inc., San Juan, P.R.	2010	A
CHARLES V. WAIT <i>President, Chief Executive Officer, and Chairman</i> The Adirondack Trust Company, Saratoga Springs, N.Y.	2011	A
JAMIE DIMON <i>Chairman and Chief Executive Officer</i> JPMorgan Chase & Co., New York, N.Y.	2012	A
JAMES S. TISCH <i>President and Chief Executive Officer</i> Loews Corporation, New York, N.Y.	2010	B
JEFFREY R. IMMELT <sup>†</sup> <i>Chairman and Chief Executive Officer</i> General Electric Company, Fairfield, Conn.	2011	B
JEFFREY B. KINDLER <sup>††</sup> <i>Former Chairman and Chief Executive Officer</i> Pfizer Inc., New York, N.Y.	2012	B
KATHRYN S. WYLDE <i>President and Chief Executive Officer</i> Partnership for New York City, New York, N.Y.	2010	C
DENIS M. HUGHES <sup>††</sup> , Chair and Federal Reserve Agent <i>President</i> New York State AFL-CIO, New York, N.Y.	2011	C
LEE C. BOLLINGER, Deputy Chair <i>President</i> Columbia University, New York, N.Y.	2012	C

<sup>†</sup>Resigned effective March 9, 2011.

<sup>††</sup>Resigned effective December 31, 2010.

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<sup>†††</sup>Will retire August 1, 2011.

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LILY THAM  
*Examining Officer*

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GROUP

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*Executive Vice President*

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## Internal Communication

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*Vice President*

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DEBORAH A. KILROE<sup>†</sup>  
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JACK GUTT  
*Media Relations Officer*

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JANE P. KATZ  
*Regional Affairs Officer*

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Resource Management

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*Executive Vice President*

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*Vice President*

SCOTT R. GURBA  
*Vice President*

JOSEPH MEMMOLO  
*Assistant Vice President*

ROBERT M. POFSKY  
*Assistant Vice President*

CHRISTIAN A. FACQ  
*Financial Management Officer*

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*Assistant Vice President*

RICHARD L. PRISCO  
*Assistant Vice President*

JANE W. THOMAS  
*Assistant Vice President*

SUSAN G. CICIO  
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JOSEPH D. J. DEMARTINI  
*EROC Administrative Services Officer*

MARC S. LEMBERG  
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Risk Assessment Office

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DEBRA L. GRUBER  
*Assistant Vice President*

MARIA C. MASSEI-ROSATO  
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DEANNA SONG  
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*Executive Vice President*

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*Senior Vice President*

LAWRENCE J. RADECKI  
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ARI R. COHEN  
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*Risk Officer*

RICHARD ROBERTS  
*Risk Officer*

## Risk Analytics

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VICTOR HONG  
*Risk Officer*

## Structured Products

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*Risk Officer*

ERIC L. PARSONS  
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*Risk Officer*

Subcommittee on Credit Risk  
Management Administration  
Office (SCRM)

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*Assistant Vice President*

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JHANKHNA N. VARMA  
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IDANNA APPIO  
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JENNIFER S. CRYSTAL  
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### International Affairs

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HOWARD J. HOWE  
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*President*

CHRISTINE M. CUMMING  
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*Chief of Staff and Senior Vice President*

JOSEPH S. TRACY  
*Senior Advisor to the President*

MARGARET M. McCONNELL  
*Deputy Chief of Staff for Policy  
and Senior Vice President*

JANET S. RESELE-TIDEN  
*Deputy Chief of Staff for Operations,  
Vice President, and Assistant  
Corporate Secretary*

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*Deputy Chief of Staff  
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DENISE B. SCHMEDES  
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*Senior Vice President  
and Wholesale Product Manager*

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KENNETH S. ISAACSON  
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*Executive Vice President*

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*Electronic Payments Officer*

BELINDA S. WILLIAMS  
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JOHN M. HILL  
*GWA Officer*

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BRIAN JACK  
*International Treasury Services Officer*

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STEVEN E. WALKER  
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and Senior Vice President*

IVAN J. HURWITZ  
*Counsel and Vice President*

ROSALIE YEE  
*Assistant Vice President*

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*Chief Compliance Officer  
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DAVID K. CLUNE  
*Compliance and Ethics Officer*

DAVID G. SEWELL  
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TINA M. STINSON-DACRUZ  
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## LEGAL GROUP (CONTINUED)

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Corporate Secretary, Deputy General  
Counsel, and Senior Vice President

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Counsel and Assistant Vice President

SHAWN E. PHILLIPS  
Counsel

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Corporate Secretary, Deputy General  
Counsel, and Senior Vice President

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Assistant Corporate Secretary  
and Vice President

JANET RESELE-TIDEN  
Deputy Chief of Staff for Operations,  
Vice President, and Assistant  
Corporate Secretary

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Assistant General Counsel  
and Senior Vice President

HAERAN KIM  
Assistant General Counsel  
and Senior Vice President

SHARI D. LEVENTHAL  
Assistant General Counsel  
and Senior Vice President

MICHAEL S. NELSON  
Assistant General Counsel  
and Senior Vice President

THOMAS H. ROCHE  
Deputy General Counsel  
and Senior Vice President

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Counsel and Vice President

YOONHI GREENE  
Counsel and Vice President

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Counsel and Assistant Vice President

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Protection Officer

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Deputy Policy Advisor  
and Assistant Vice President

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and Assistant Vice President

MATTHEW S. LIEBER  
Markets Officer

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Account Services

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Vice President

VIKEN CHAKRIAN  
Assistant Vice President

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PETER ROETHEL  
Markets Officer

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Markets Officer

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Senior Vice President

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Vice President and Chief Data Officer

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SUZANNE BENVENUTO  
Assistant Vice President

DENLEY Y. S. CHEW  
Assistant Vice President

HOWARD B. FIELDS  
Assistant Vice President

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SUSAN R. CHASE <i>Markets Officer</i>	JEFFREY W. HUTHER <i>Assistant Vice President</i>
<b>Market Operations Monitoring and Analysis</b>	FRANK M. KEANE <i>Assistant Vice President</i>
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CHRISTOPHER R. BURKE <i>Vice President</i>	ANNMARIE S. ROWE-STRAKER <i>Assistant Vice President</i>
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ALLAN M. MALZ <i>Vice President</i>	WARREN HRUNG <i>Markets Officer</i>
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JOSHUA L. FROST <i>Assistant Vice President</i>	JEFFREY M. MOORE <i>Markets Officer</i>
	JOHN C. PARTLAN <i>Markets Officer</i>

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STATISTICS GROUP

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*Director of Research  
and Executive Vice President*

SIMON M. POTTER  
*Director of Research  
and Executive Vice President*

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*Vice President*

MICHAEL J. FLEMING  
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ASANI SARKAR  
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BRIAN L. PETERS<sup>†</sup>  
*Senior Vice President*

**Publications**

VALERIE D. LAPORTE  
*Research Officer*

<sup>†</sup>Resigned effective January 7, 2011.

<sup>††</sup>Resigned effective March 18, 2011.

<sup>†</sup>Resigned effective January 14, 2011.



## RESEARCH AND STATISTICS GROUP (CONTINUED)

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WILLIAM G. SELICK  
*Research Officer*

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*Senior Vice President*

ANTHONY O. CIRILLO  
*Assistant Vice President*

IRA S. ADLER  
*Statistics Officer*

RICHARD E. MOLLOY  
*Statistics Officer*

P. BETH SCHWARTZBERG  
*Statistics Officer*

PATRICIA SELVAGGI  
*Statistics Officer*

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ROSEANN STICHNOTH  
*Executive Vice President*

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NELL M. COTE  
*Special Investments  
Management Officer*

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ALON NECHES  
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TAMRA J. WHEELER  
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MARILYN ARBUTHNOTT  
*Special Investments  
Management Officer*

HAMPTON FINER  
*Special Investments  
Management Officer*

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ZACHARY TAYLOR  
*Assistant Vice President*

ALEXANDRA MERLE-HUET  
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LINDA YEE  
*Investment Support Officer*

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MICHAEL J. ABBATE<sup>†</sup>  
*Markets Officer*

### Term Asset-Backed Securities Loan Facility

NATASHA M. ZABKA  
*Assistant Vice President*

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*Vice President*

HARRY M. ZIMBALIST  
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YUET-MING CHAN  
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ROBERT GOODMAN  
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COLIN W. WYND  
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TAMARA GOLDBURT  
*Technology Services Officer*

JOHN T. LINES  
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IRVING MYONES  
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NAHLA S. ALY  
*Assistant Vice President*

JOHN D. MILUSICH  
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*Vice President and Information  
Security Officer*

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*Vice President*

IRA KAHNER  
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JASON R. ZIRPOLI<sup>†</sup>  
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DANNY BRANDO  
*Technology Services Officer*

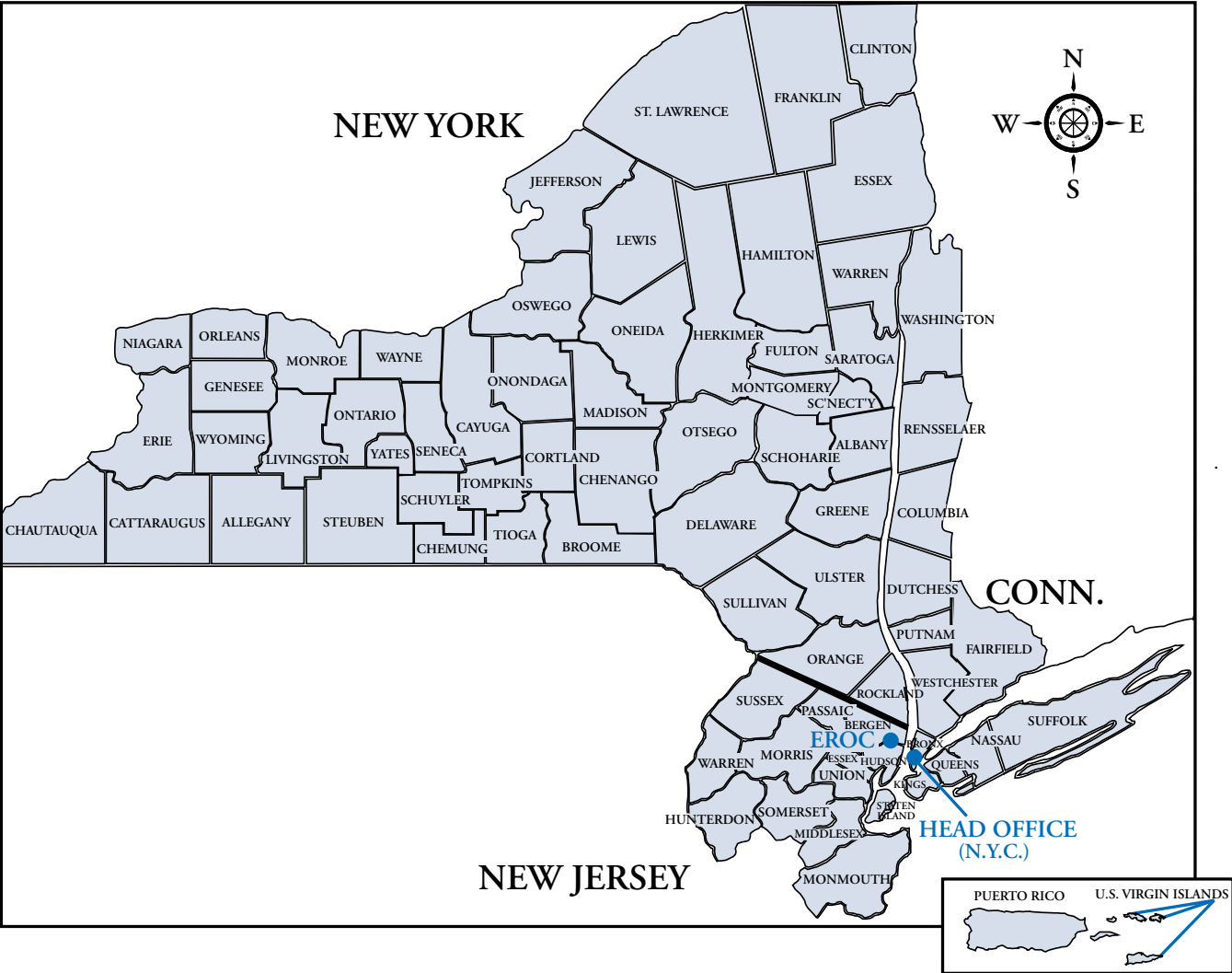
ANGELA JORDAN  
*Technology Services Officer*

SHLOMO ORBACH  
*Technology Services Officer*

PAUL R. SANS  
*Technology Services Officer*

# Map of the Second Federal Reserve District

# THE SECOND FEDERAL RESERVE DISTRICT



PRESORTED STANDARD  
U.S. POSTAGE  
**PAID**  
NEW YORK, NY  
PERMIT NO. 5803

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001