Financial Statements

Report of Independent Accountants
PricewaterhouseCoopers L.L.P.

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

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

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

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

New York, New York
March 2, 2001

STATEMENTS OF CONDITION

as of December 31, 2000, and December 31, 1999
(in millions)

ASSETS	2000	1999
Gold certificates	$ 4,428	$ 4,435
Special drawing rights certificates	874	2,431
Coin	74	9
Items in process of collection	893	941
Securities purchased under agreements to resell (tri-party)	43,375	140,640
U.S. government and federal agency securities, net	200,142	192,712
Investments denominated in foreign currencies	3,230	3,277
Accrued interest receivable	2,404	2,383
Bank premises and equipment, net	254	254
Federal Reserve System prepaid pension benefit cost	2,251	1,858
Other assets	76	102
Total assets	**$258,001**	**$349,042**

LIABILITIES AND CAPITAL		
Liabilities:		
Federal Reserve notes outstanding, net	$ 240,061	$236,509
Deposits:		
Depository institutions	4,570	10,035
U.S. Treasury, general account	5,149	28,402
Other deposits	328	188
Deferred credit items	943	973
Interest on Federal Reserve notes due U.S. Treasury	509	424
Interdistrict settlement account	3,254	69,615
Accrued benefit cost	168	159
Other liabilities	83	87
Total liabilities	**255,065**	**346,392**
Capital:		
Capital paid-in	1,468	1,325
Surplus	1,468	1,325
Total capital	**2,936**	**2,650**
Total liabilities and capital	**$258,001**	**$349,042**

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

STATEMENTS OF INCOME

for the years ended December 31, 2000, and December 31, 1999
(in millions)

	2000	1999
Interest income:		
Interest on U.S. government and federal agency securities	$12,230	$11,018
Interest on securities purchased under agreements to resell (tri-party)	1,316	519
Interest on investments denominated in foreign currencies	56	46
Interest on loans to depository institutions	2	1
Total interest income	**13,604**	**11,584**
Other operating income (loss):		
Income from services	91	92
Reimbursable services to government agencies	55	56
Foreign currency losses, net	(291)	(102)
U.S. government securities losses, net	(32)	(9)
Other income	29	35
Total other operating income (loss)	**(148)**	**72**
Operating expenses:		
Salaries and other benefits	300	301
Occupancy expense	45	44
Equipment expense	34	34
Cost of unreimbursed Treasury services	1	1
Assessments by Board of Governors	211	235
Other expenses	135	125
Total operating expenses	**726**	**740**
Net income before net periodic pension expense	12,730	10,916
Net periodic pension credit	(393)	(367)
Net income prior to distribution	**$13,123**	**$11,283**
Distribution of net income:		
Dividends paid to member banks	89	78
Transferred to surplus	916	117
Payments to U.S. Treasury as interest on Federal Reserve notes	12,118	11,088
Total distribution	**$13,123**	**$11,283**

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

STATEMENTS OF CHANGES IN CAPITAL

for the years ended December 31, 2000, and December 31, 1999
(in millions)

	Capital Paid-in	Surplus	Total Capital
Balance at January 1, 1999 (24.2 million shares)	**$1,208**	**$1,208**	**$2,164**
Net income transferred to surplus	—	117	117
Net change in capital stock issued (2.3 million shares)	$ 117	—	$ 117
Balance at December 31, 1999 (26.5 million shares)	**$1,325**	**$1,325**	**$2,650**
Net income transferred to surplus	—	916	916
Surplus transfer to the U.S. Treasury	—	(773)	(773)
Net change in capital stock issued (2.9 million shares)	$ 143	—	$ 143
Balance at December 31, 2000 (29.4 million shares)	**$1,468**	**$1,468**	**$2,936**

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

FEDERAL RESERVE BANK OF NEW YORK
Notes to Financial Statements

1. ORGANIZATION

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

Structure

The Bank and its branch in Buffalo serve the Second Federal Reserve District, which includes the state of New York, the twelve northern counties of New Jersey, and Fairfield County, Connecticut, as well as the Commonwealth of Puerto Rico and the U.S. Virgin Islands. In accordance with the Federal Reserve Act, supervision and control of the Bank are exercised by a Board of Directors. Banks that are members of the System include all national banks and any state-chartered bank that applies and is approved for membership in the System.

Board of Directors

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

2. OPERATIONS AND SERVICES

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

The FOMC establishes policy regarding open market operations, oversees these operations, and issues authorizations and directives to the Bank for its execution of transactions. Authorized transaction types include direct purchase and sale of securities, matched sale-purchase transactions, the purchase of securities under agreements to resell, and the lending of U.S. government securities. In August 1999, the FOMC provided temporary authorization for the Bank to expand the collateral that can be accepted for repurchase agreements. To facilitate the acceptance of expanded collateral, the Bank began entering into tri-party repurchase agreements ("tri-party agreements") beginning in October 1999. Since then, this authorization has been extended on an annual basis. Additionally, in August 1999, the authorization was expanded to allow the auctioning of options on repurchase agreements that could be exercised in the period surrounding the 1999 year-end. The Bank is also authorized by the FOMC to hold balances of, and to execute spot and forward foreign exchange and securities contracts in, nine foreign currencies, maintain reciprocal currency arrangements ("FX swaps") with various central banks, and "warehouse" foreign currencies for the U.S. Treasury and Exchange Stabilization Fund ("ESF") through the Reserve Banks.

3. SIGNIFICANT ACCOUNTING POLICIES

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

issued by the Board of Governors. All Reserve Banks are required to adopt and apply accounting policies and practices that are consistent with the Financial Accounting Manual.

The financial statements have been prepared in accordance with the Financial Accounting Manual. Differences exist between the accounting principles and practices of the System and generally accepted accounting principles in the United States ("GAAP"). The primary differences are the presentation of all security holdings at amortized cost, rather than at the fair value presentation requirements of GAAP, and the accounting for matched sale-purchase transactions as separate sales and purchases, rather than secured borrowings with pledged collateral, as is generally required by GAAP. In addition, the Bank has elected not to present a Statement of Cash Flows. The Statement of Cash Flows has not been included, as the liquidity and cash position of the Bank are not of primary concern to the users of these financial statements. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Income, and Changes in Capital. Therefore, a Statement of Cash Flows would not provide any additional useful information. There are no other significant differences between the policies outlined in the Financial Accounting Manual and GAAP.

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

a. Gold Certificates

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

b. Special Drawing Rights Certificates

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

c. Loans to Depository Institutions

The Depository Institutions Deregulation and Monetary Control Act of 1980 provides that all depository institutions that maintain reservable transaction accounts or nonpersonal time deposits, as defined in Regulation D issued by the Board of Governors, have borrowing privileges at the discretion of the Reserve Banks. Borrowers execute certain lending agreements and deposit sufficient collateral before credit is extended. Loans are evaluated for collectibility; if any loans were deemed to be uncollectible, an appropriate reserve would be established. Interest is recorded on the accrual basis and is charged at the applicable discount rate established at least every fourteen days by the boards of directors of the Reserve Banks, subject to review by the Board of Governors. However, Reserve Banks retain the option to impose a surcharge above the basic rate in certain circumstances. The Bank had no loans to depository institutions at December 31, 2000, and December 31, 1999.

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

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

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

In addition to the aforementioned purchases of securities under agreements to resell and matched sale-purchase transactions, the Bank engages in tri-party agreements. Tri-party agreements are conducted with two custodial banks that manage the clearing and settlement of collateral. Acceptable collateral under tri-party repurchase agreements primarily includes U.S. government and agency securities; pass-through mortgage securities of GNMA, FHLMC, and FNMA; STRIP securities of the U.S. government; and "stripped" securities of other government agencies. The tri-party repurchase and reverse repurchase transactions are accounted for as financing transactions, with the associated interest income and interest expense recorded over the period of the agreement.

Another tool employed by the Bank to address potential reserve shortages was the ability to sell options on overnight repurchase agreements. In 1999, the Bank had temporary authority to sell European options to primary dealers that gave the dealers the right to enter into repurchase agreements with the Bank on the specified exercise date. The options were auctioned in three-week-long "strips," with each strip consisting of the right to exercise overnight repurchase agreements for up to five consecutive business days. In general, the options could only be exercised at a strike price of 150 or 250 basis points above the most recently announced FOMC federal funds target rate. All outstanding options at December 31, 1999, had matured by January 12, 2000, of which none had been exercised.

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

be accounted for in the SOMA. Prior to April 26, 1999, all Reserve Banks were authorized to engage in such lending activity.

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

The Bank, on behalf of the Reserve Banks, maintains renewable, short-term FX swap arrangements with two authorized foreign central banks. The parties agree to exchange their currencies up to a prearranged maximum amount and for an agreed-upon period of time (up to twelve months), at an agreed-upon interest rate. These arrangements give the FOMC temporary access to foreign currencies that it may need for intervention operations to support the dollar and give the partner foreign central bank temporary access to dollars it may need to support its own currency. Drawings under the FX swap arrangements can be initiated by either the Bank or the partner foreign central bank, and must be agreed to by the drawee. The FX swaps are structured so that the party initiating the transaction (the drawer) bears the exchange rate risk upon maturity. The Bank will generally invest the foreign currency received under an FX swap in interest-bearing instruments.

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

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

While the application of current market prices to the securities currently held in the SOMA portfolio and investments denominated in foreign currencies may result in values substantially above or below their carrying values, these unrealized changes

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

U.S. government and federal agency securities and investments denominated in foreign currencies comprising the SOMA are recorded at cost, on a settlement-date basis, and adjusted for amortization of premiums or accretion of discounts on a straight-line basis. Interest income is accrued on a straight-line basis and is reported as "Interest on U.S. government and federal agency securities" or "Interest on investments denominated in foreign currencies," as appropriate. Income earned on securities lending transactions is reported as a component of "Other income." Gains and losses resulting from sales of securities are determined by specific issues based on average cost. Gains and losses on the sales of U.S. government and federal agency securities are reported as "U.S. government securities gains (losses), net." Foreign-currency-denominated assets are revalued monthly at current market exchange rates in order to report these assets in U.S. dollars. Realized and unrealized gains and losses on investments denominated in foreign currencies are reported as "Foreign currency gains (losses), net." Foreign currencies held through FX swaps, when initiated by the counterparty, and warehousing arrangements are revalued monthly, with the unrealized gain or loss reported by the Bank as a component of "Other assets" or "Other liabilities," as appropriate.

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

e. Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over estimated useful lives of assets ranging from two to fifty years. New assets, major alterations, renovations, and improvements are capitalized at cost as additions to the asset accounts. Maintenance, repairs, and minor replacements are charged to operations in the year incurred. Internally developed software is capitalized based on the cost of direct materials and services and those indirect costs associated with developing, implementing, or testing software.

f. Interdistrict Settlement Account

At the close of business each day, all Reserve Banks and branches assemble the payments due to or from other Reserve Banks and branches as a result of transactions involving accounts residing in other Districts that occurred during the day's operations. Such transactions may include funds settlement, check clearing and automated clearinghouse operations, and allocations of shared expenses. The cumulative net amount due to or from other Reserve Banks is reported as the "Interdistrict settlement account."

g. Federal Reserve Notes

Federal Reserve notes are the circulating currency of the United States. These notes are issued through the various Federal Reserve Agents to the Reserve Banks upon deposit with such agents of certain classes of collateral security, typically U.S. government securities. These notes are identified as issued to a specific Reserve Bank. The Federal Reserve Act provides that the collateral security tendered by the Reserve Bank to the Federal Reserve Agent must be equal to the sum of the notes applied for by such Reserve Bank. In accordance with the Federal Reserve Act, gold certificates, special drawing rights certificates, U.S. government and federal agency securities, tri-party agreements, loans to depository institutions, and investments denominated in foreign currencies are pledged as collateral for net Federal Reserve notes outstanding. The collateral value is equal to the book value of the collateral tendered, with the exception of securities, whose collateral value is equal to the par value of the securities tendered. Tri-party agreements, however, are valued at the contract amount. The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize the Federal Reserve notes. The Reserve Banks have entered into an agreement that provides for certain assets of the Reserve Banks to be jointly pledged as collateral for the Federal Reserve notes of all Reserve Banks in order to satisfy their obligation of providing sufficient collateral for outstanding Federal Reserve notes. In the event that this collateral is insufficient, the Federal Reserve Act provides that Federal Reserve notes become a

first and paramount lien on all the assets of the Reserve Banks. Finally, as obligations of the United States, Federal Reserve notes are backed by the full faith and credit of the United States government.

The "Federal Reserve notes outstanding, net" account represents Federal Reserve notes, reduced by currency held in the vaults of the Bank, of $60,305 million and $89,983 million at December 31, 2000, and December 31, 1999, respectively.

h. Capital Paid-in

The Federal Reserve Act requires that each member bank subscribe to the capital stock of the Reserve Bank in an amount equal to 6 percent of the capital and surplus of the member bank. As a member bank's capital and surplus changes, its holdings of the Reserve Bank's stock must be adjusted. Member banks are those state-chartered banks that apply and are approved for membership in the System and all national banks. Currently, only one-half of the subscription is paid-in and the remainder is subject to call. These shares are nonvoting, with a par value of $100. They may not be transferred or hypothecated. By law, each member bank is entitled to receive an annual dividend of 6 percent on the paid-in capital stock. This cumulative dividend is paid semiannually. A member bank is liable for Reserve Bank liabilities up to twice the par value of stock subscribed by it.

i. Surplus

The Board of Governors requires Reserve Banks to maintain a surplus equal to the amount of capital paid-in as of December 31. This amount is intended to provide additional capital and reduce the possibility that the Reserve Banks would be required to call on member banks for additional capital. Reserve Banks are required by the Board of Governors to transfer to the U.S. Treasury excess earnings, after providing for the costs of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid-in.

The Consolidated Appropriations Act of 2000 (Public Law 106-113, Section 302) directed the Reserve Banks to transfer to the U.S. Treasury additional surplus funds of $3,752 million during the federal government's 2000 fiscal year. The Federal Reserve Bank of New York transferred $773 million to the U.S. Treasury during the year ended December 31, 2000. Reserve Banks were not permitted to replenish the surplus for these amounts during fiscal year 2000, which ended September 30, 2000; however, the surplus was replenished by December 31, 2000.

In the event of losses or a substantial increase in capital, payments to the U.S. Treasury are suspended until such losses or increases in capital are recovered through subsequent earnings. Weekly payments to the U.S. Treasury may vary significantly.

j. Income and Cost Related to Treasury Services

The Bank is required by the Federal Reserve Act to serve as fiscal agent and depository of the United States. By statute, the Department of the Treasury is permitted, but not required, to pay for these services. The costs of providing fiscal agency and depository services to the Treasury Department that have been billed but will not be paid are reported as the "Cost of unreimbursed Treasury services."

k. Taxes

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property, which are reported as a component of "Occupancy expense."

4. U.S. GOVERNMENT AND FEDERAL AGENCY SECURITIES

Securities bought outright are held in the SOMA at the Bank. An undivided interest in SOMA activity, with the exception of securities held under agreements to resell, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of interdistrict clearings. The settlement, performed in April of each year, equalizes Reserve Bank gold certificate holdings to Federal Reserve notes outstanding. The Bank's allocated share of SOMA balances was 38.600 percent and 39.825 percent at December 31, 2000, and December 31, 1999, respectively.

The Bank's allocated share of securities held in the SOMA at December 31, 2000, and December 31, 1999, that were bought outright were as follows:

	Amount (in Millions)	
	2000	1999
Par value:		
Federal agency	$ 50	$ 72
U.S. government:		
Bills	68,994	70,297
Notes	92,709	87,004
Bonds	35,815	33,046
Total par value	197,568	190,419
Unamortized premiums	3,758	3,623
Unaccreted discounts	(1,184)	(1,330)
Total allocated to Bank	**$200,142**	**$192,712**

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

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

Maturities of Securities Held	U.S. Government Securities (Par)	Federal Agency Obligations (Par)	Total	Repurchase Agreement Tri-Party (Contract Amount)
Within 15 days	$ 6,969	$—	$ 6,969	$31,405
16 days to 90 days	42,059	—	42,059	11,970
91 days to 1 year	48,458	—	48,458	—
Over 1 year to 5 years	51,258	50	51,308	—
Over 5 years to 10 years	21,408	—	21,408	—
Over 10 years	27,366	—	27,366	—
Total	**$197,518**	**$50**	**$197,568**	**$43,375**

In August 1999, the FOMC extended the maximum permissible maturity for securities purchased under agreements to resell from sixty days to ninety days.

At December 31, 2000, and December 31, 1999, matched sale-purchase transactions involving U.S. government securities with par values of $21,112 million and $39,182 million, respectively, were outstanding, of which $8,149 million and $15,604 million were allocated to the Bank. Matched sale-purchase transactions are generally overnight arrangements.

At December 31, 2000, and December 31, 1999, U.S. government securities with par values of $2,086 million and $2,061 million, respectively, were loaned by the Bank.

5. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES

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

Each Reserve Bank is allocated a share of foreign-currency-denominated assets, the related interest income, and realized and unrealized foreign currency gains and losses, with the exception of unrealized gains and losses on FX swaps and warehousing transactions. This allocation is based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31. The Bank's allocated share of investments denominated in foreign currencies was 20.610 percent and 20.302 percent at December 31, 2000, and December 31, 1999, respectively.

The Bank's allocated share of investments denominated in foreign currencies, valued at current exchange rates at December 31, 2000, and December 31, 1999, were as follows:

	Amount (in Millions)	
	2000	1999
European Union euros:		
Foreign currency deposits	$ 955	$ 880
Government debt instruments including agreements to resell	566	515
Japanese yen:		
Foreign currency deposits	567	66
Government debt instruments including agreements to resell	1,132	1,806
Accrued interest	10	10
Total	**$ 3,230**	**$3,277**

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

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

Maturities of Investments Denominated in Foreign Currencies	Amount (in Millions)
Within 1 year	$ 3,031
Over 1 year to 5 years	86
Over 5 years to 10 years	90
Over 10 years	23
Total	**$ 3,230**

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

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

6. BANK PREMISES AND EQUIPMENT

A summary of bank premises and equipment at December 31, 2000, and December 31, 1999, is as follows:

	Amount (in Millions)	
	2000	1999
Bank premises and equipment:		
Land	$ 21	$ 21
Buildings	170	160
Building machinery and equipment	51	50
Construction in progress	5	7
Furniture and equipment	222	213
Subtotal	469	451
Accumulated depreciation	(215)	(197)
Bank premises and equipment, net	**$ 254**	**$ 254**

Note: Depreciation expense was $33 million and $32 million for the years ended December 31, 2000, and December 31, 1999, respectively.

7. COMMITMENTS AND CONTINGENCIES

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

Rental expense under operating leases for certain operating facilities and data processing and office equipment (including taxes, insurance, and maintenance when included in rent), net of sublease rentals, was $13 million and $16 million for the years ended December 31, 2000, and December 31, 1999, respectively. All of the Bank's leases have options to renew.

Future minimum rental payments under noncancelable operating leases, net of sublease rentals with terms of one year or more, at December 31, 2000, were:

	Amount (in Millions)
2001	$ 4.4
2002	4.4
2003	4.7
2004	5.2
2005	5.2
Thereafter	115.4
	$139.3

At December 31, 2000, there were no other commitments and long-term obligations in excess of one year.

Under the Insurance Agreement of the Federal Reserve Banks dated March 2, 1999, each of the Reserve Banks has agreed to bear, on a per incident basis, a pro rata share of losses in excess of 1 percent of the capital paid-in of the claiming Reserve Bank, up to 50 percent of the total capital paid-in of all Reserve Banks. Losses are borne in the ratio that a Reserve Bank's capital paid-in bears to the total capital paid-in of all Reserve Banks at the beginning of the calendar year in which the loss is shared. No claims were outstanding under such agreement at December 31, 2000, or December 31, 1999.

The Bank is involved in certain legal actions and claims arising in the ordinary course of business. Although it is difficult to predict the ultimate outcome of these actions, in management's opinion, based on discussions with counsel, the aforementioned litigation and claims will be resolved without material adverse effect on the financial position or results of operations of the Bank.

8. RETIREMENT AND THRIFT PLANS

Retirement Plans

The Bank currently offers two defined benefit retirement plans to its employees, based on length of service and level of compensation. Substantially all of the Reserve Banks' employees participate in the Retirement Plan for Employees of the Federal Reserve System ("System Plan") and the Benefit Equalization Retirement Plan ("BEP").

The System Plan is a multi-employer plan with contributions fully funded by participating employers. No separate accounting is maintained of assets contributed by the participating employers. The Federal Reserve Bank of New York acts as the sponsor of this Plan. The prepaid pension cost includes amounts related to employees participating in the plans from the twelve Reserve Banks, the Board of Governors, and the Plan Administrative Office.

Following is a reconciliation of the beginning and ending balances of the System Plan benefit obligation:

	Amount (in Millions)	
	2000	1999
Estimated actuarial present value of projected benefit obligation at January 1	$2,576	$2,774
Service cost—benefits earned during the period	80	89
Interest cost on projected benefit obligation	191	169
Actuarial loss (gain)	90	(330)
Contributions by plan participants	3	3
Benefits paid	(132)	(129)
Plan amendments	2	—
Estimated actuarial present value of projected benefit obligation at December 31	**$2,810**	**$2,576**

Following is a reconciliation showing the beginning and ending balances of the System Plan assets, the funded status, and the prepaid pension benefit cost:

	Amount (in Millions)	
	2000	1999
Estimated fair value of plan assets at January 1	$6,156	$5,798
Actual return on plan assets	149	484
Contributions by plan participants	3	3
Benefits paid	(132)	(129)
Estimated fair value of plan assets at December 31	**$6,176**	**$6,156**
Funded status	3,366	3,580
Unrecognized initial net transition obligation	(45)	(91)
Unrecognized prior service cost	122	136
Unrecognized net actuarial (gain)	(1,192)	(1,767)
Prepaid pension benefit cost	**$2,251**	**$1,858**

Note: Prepaid pension benefit cost is reported as "Federal Reserve System prepaid pension benefit cost."

The weighted-average assumptions used in developing the pension benefit obligation for the System Plan are as follows:

	2000	1999
Discount rate	7.50%	7.50%
Expected long-term rate of return on plan assets	9.00%	9.00%
Rate of compensation increase	5.00%	5.00%

The components of the net periodic pension benefit credit for the System Plan as of December 31, 2000, and December 31, 1999, are shown below:

	Amount (in Millions)	
	2000	1999
Service cost—benefits earned during the period	$ 80	$ 89
Interest cost on projected benefit obligation	191	169
Amortization of initial net transition obligation	(46)	(45)
Amortization of prior service cost	16	16
Recognized net (gain)	(85)	(76)
Expected return on plan assets	(549)	(520)
Net periodic pension benefit (credit)	**$ (393)**	**$ (367)**

Note: Net periodic pension benefit (credit) is reported as "Net periodic pension credit."

The Reserve Banks' projected benefit obligation and net pension costs for the BEP at December 31, 2000, and December 31, 1999, and for the years then ended, are not material.

Thrift Plan

Employees of the Reserve Banks may also participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System ("Thrift Plan"). The Bank's Thrift Plan contributions totaled $9 million for each of the years ended December 31, 2000, and December 31, 1999, respectively, and are reported as a component of "Salaries and other benefits."

9. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND POSTEMPLOYMENT BENEFITS

Postretirement Benefits Other Than Pensions

In addition to the Bank's retirement plans, employees who have met certain age and length of service requirements are eligible for both medical benefits and life insurance coverage during retirement.

The Bank funds benefits payable under the medical and life insurance plans as due and, accordingly, has no plan assets. Net postretirement benefit cost is actuarially determined using a January 1 measurement date.

Following is a reconciliation of the beginning and ending balances of the benefit obligation:

	Amount (in Millions)	
	2000	1999
Accumulated postretirement benefit obligation at January 1	$128.5	$129.2
Service cost—benefits earned during the period	3.4	3.8
Interest cost of accumulated benefit obligation	10.0	8.0
Actuarial loss (gain)	12.6	(7.2)
Contributions by plan participants	0.6	0.5
Benefits paid	(6.0)	(5.8)
Accumulated postretirement benefit obligation at December 31	**$149.1**	**$128.5**

Following is a reconciliation of the beginning and ending balances of the plan assets, unfunded postretirement benefit obligation, and the accrued postretirement benefit cost:

	Amount (in Millions)	
	2000	1999
Fair value of plan assets at January 1	$ —	$ —
Contributions by the employer	5.4	5.3
Contributions by plan participants	0.6	0.5
Benefits paid	(6.0)	(5.8)
Fair value of plan assets at December 31	**$ —**	**$ —**
Unfunded postretirement benefit obligation	149.1	128.5
Unrecognized prior service cost	0.7	0.8
Unrecognized net actuarial (gain) loss	(3.5)	9.1
Accrued postretirement benefit cost	**$146.3**	**$138.4**

Note: Accrued postretirement benefit cost is reported as a component of "Accrued benefit cost."

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

For measurement purposes, an 8.75 percent annual rate of increase in the cost of covered health care benefits was assumed for 2001. Ultimately, the health care cost trend rate is expected to decrease gradually to 5.50 percent by 2008, and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for the year ended December 31, 2000:

	Amount (in Millions)	
	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on aggregate of service and interest cost components of net periodic postretirement benefit cost	$ 2.9	$ (2.2)
Effect on accumulated postretirement benefit obligation	$23.8	$(19.9)

The following is a summary of the components of net periodic postretirement benefit cost for the years ended December 31, 2000, and December 31, 1999:

	Amount (in Millions)	
	2000	1999
Service cost—benefits earned during the period	$ 3.4	$ 3.8
Interest cost of accumulated benefit obligation	10.0	8.0
Amortization of prior service cost	(0.1)	(0.1)
Recognized net actuarial gain	—	—
Net periodic postretirement benefit cost	**$13.3**	**$11.7**

Note: Net periodic postretirement benefit cost is reported as a component of "Salaries and other benefits."

Postemployment Benefits

The Reserve Banks offer benefits to former or inactive employees. Postemployment benefit costs are actuarially determined and include the cost of medical and dental insurance, survivor income, and disability benefits. Costs were projected using the same discount rate and health care trend rates as were used for projecting post-retirement costs. The accrued postemployment benefit costs recognized by the Bank at December 31, 2000, and December 31, 1999, were $21 million and $20 million, respectively. This cost is included as a component of "Accrued benefit costs." Net periodic postemployment benefit costs included in 2000 and 1999 operating expenses were $6 million and $5 million, respectively.