Consolidated Financial Statements†

†Separate financial statements for the Commercial Paper Funding Facility LLC, Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC are available at <http://www.newyorkfed.org/aboutthefed/annualreports.html>.

Report of Independent Auditors

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

We have audited the accompanying consolidated statements of condition of the Federal Reserve Bank of New York and its subsidiaries (collectively "FRBNY") as of December 31, 2008 and 2007, and the related consolidated statements of income and comprehensive income and 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 FRBNY as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. FRBNY's management is responsible for these 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 the 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 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 financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the 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.

FRBNY's internal control over financial reporting is a process designed by, or under the supervision of, FRBNY's principal executive and principal financial officers, or persons performing similar functions, and effected by FRBNY's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the accounting principles established by the Board of Governors of the Federal Reserve System. 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 dispositions of the assets of FRBNY;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of 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 FRBNY are being made only in accordance with authorizations of management and directors of FRBNY; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of FRBNY's assets that could have a material effect on the 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, FRBNY has prepared these 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, the financial statements referred to above present fairly, in all material respects, the financial position of FRBNY as of December 31, 2008 and 2007, and the results of its operations for the years then ended, on the basis of accounting described in Note 4. Also, in our opinion, FRBNY maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

April 2, 2009
New York, New York

CONSOLIDATED STATEMENTS OF CONDITION

as of December 31, 2008, and December 31, 2007
(in millions)

ASSETS	2008	2007
Gold certificates	$ 3,935	$ 4,053
Special drawing rights certificates	874	874
Coin	76	55
Items in process of collection	—	42
Loans to depository institutions	300,665	39,845
Other loans	76,318	—
System Open Market Account:		
Securities purchased under agreements to resell	28,464	16,838
U.S. government, federal agency, and government-sponsored-enterprise securities, net	178,676	269,990
Investments denominated in foreign currencies	6,210	5,573
Central bank liquidity swaps	138,622	5,570
Consolidated variable interest entities:		
Investments held by consolidated variable interest entities (of which $74,570 is measured at fair value at December 31, 2008)	411,996	—
Interdistrict settlement account	110,091	—
Bank premises, equipment, and software, net	254	256
Prepaid interest on Federal Reserve notes due from U.S. Treasury	2,860	—
Federal Reserve System prepaid pension benefit costs	—	1,279
Accrued interest receivable	2,511	2,355
Other assets	168	139
Total assets	**$1,261,720**	**$346,869**

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

CONSOLIDATED STATEMENTS OF CONDITION

as of December 31, 2008, and December 31, 2007

(in millions)

LIABILITIES AND CAPITAL	2008	2007
Federal Reserve notes outstanding, net	$ 311,129	$ 282,644
System Open Market Account:		
Securities sold under agreements to repurchase	31,435	15,927
Consolidated variable interest entities:		
Beneficial interest in consolidated variable interest entities	2,824	—
Other liabilities	5,813	—
Deposits:		
Depository institutions	509,858	9,158
U.S. Treasury, general account	106,123	16,120
U.S. Treasury, supplementary financing account	259,325	—
Other deposits	21,527	239
Deferred credit items	—	51
Interest on Federal Reserve notes due to U.S. Treasury	—	524
Interest due to depository institutions	88	—
Interdistrict settlement account	—	12,606
Accrued benefit costs	2,278	269
Other liabilities	106	93
Total liabilities	**1,250,506**	**337,631**
Capital paid-in	5,607	4,619
Surplus (including accumulated other comprehensive loss of $4,471 million and $1,338 million at December 31, 2008 and 2007, respectively)	5,607	4,619
Total capital	**11,214**	**9,238**
Total liabilities and capital	**$1,261,720**	**$346,869**

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

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

for the years ended December 31, 2008, and December 31, 2007

(in millions)

	2008	2007
Interest income:		
Loans to depository institutions	$ 2,442	$ 55
Other loans	2,877	—
System Open Market Account:		
Securities purchased under agreements to resell	676	686
U.S. government, federal agency, and government-sponsored-enterprise securities	9,179	14,106
Investments denominated in foreign currencies	155	134
Central bank liquidity swaps	903	7
Consolidated variable interest entities:		
Investments held by consolidated variable interest entities	4,087	—
Total interest income	**20,319**	**14,988**
Interest expense:		
System Open Market Account:		
Securities sold under agreements to repurchase	264	616
Depository institutions deposits	457	—
Other interest expense related to consolidated variable interest entities	463	—
Total interest expense	**1,184**	**616**
Net interest income	**$19,135**	**14,372**
Non-interest income (loss):		
System Open Market Account:		
U.S. government, federal agency, and government-sponsored-enterprise securities gains, net	1,357	—
Foreign currency gains, net	313	447
Investments held by consolidated variable interest entities (losses), net	(5,237)	—
Income from services	61	65
Compensation received for services provided	11	29
Reimbursable services to government agencies	114	109
Other income	346	78
Total non-interest income (loss)	**(3,035)**	**728**

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

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

for the years ended December 31, 2008, and December 31, 2007

(in millions)

	2008	2007
Operating expenses:		
Salaries and other benefits	426	391
Occupancy expense	52	51
Equipment expense	23	22
Compensation paid for services costs incurred	30	29
Assessments by the Board of Governors	198	198
Net periodic pension expense	148	103
Professional fees related to consolidated variable interest entities	80	—
Other expenses	150	182
Total operating expenses	**1,107**	**976**
Net income prior to distribution	14,993	14,124
Change in funded status of benefit plans	(3,133)	229
Comprehensive income prior to distribution	**$11,860**	**$14,353**
Distribution of comprehensive income:		
Dividends paid to member banks	$ 301	$ 253
Transferred to surplus and change in accumulated other comprehensive loss	988	892
Payments to U.S. Treasury as interest on Federal Reserve notes	10,571	13,208
Total distribution	**$11,860**	**$14,353**

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

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

for the years ended December 31, 2008, and December 31, 2007

(in millions, except share data)

		Surplus			
	Capital Paid-In	Net Income Retained	Accumulated Other Comprehensive Loss	Total Surplus	Total Capital
Balance at January 1, 2007 (74.5 million shares)	**$3,727**	**$ 5,294**	**$(1,567)**	**$3,727**	**$ 7,454**
Net change in capital stock issued (17.8 million shares)	892	—	—	—	892
Transferred to surplus and change in accumulated other comprehensive loss	—	663	229	892	892
Balance at December 31, 2007 (92.3 million shares)	$4,619	$ 5,957	$(1,338)	$4,619	$ 9,238
Net change in capital stock issued (19.8 million shares)	988	—	—	—	988
Transferred to surplus and change in accumulated other comprehensive loss	—	4,121	(3,133)	988	988
Balance at December 31, 2008 (112.1 million shares)	$5,607	$10,078	$(4,471)	$5,607	$11,214

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

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FEDERAL RESERVE BANK OF NEW YORK
Notes to 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 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 in the System. Member banks are divided into three classes according to size. Member banks in each class elect one director representing member banks and one representing the public. In any election of directors, each member bank receives one vote, regardless of the number of shares of Reserve Bank stock it holds.

The System also consists, in part, of the Board of Governors 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. Functions include participation in formulating and conducting monetary policy; participation in the payments system, including large-dollar transfers of funds, automated clearinghouse ("ACH") operations, and check collection; distribution of coin and currency; performance of fiscal agency functions for the U.S. Treasury, certain federal agencies, and other entities; serving as the federal government's bank; provision of short-term loans to depository institutions; provision of loans to individuals, partnerships, and corporations in unusual and exigent circumstances; service to consumers and communities by providing educational materials and information regarding consumer laws; and supervision of 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 FOMC, in the conduct of monetary policy, establishes policy regarding domestic open market operations, oversees these operations, and annually issues authorizations and directives to the Bank to execute transactions. The Bank is authorized and directed by the FOMC to conduct operations in domestic markets, including the direct purchase and sale of securities of the U.S. government, federal agencies, and government-sponsored enterprises ("GSEs"), the purchase of these securities under agreements to resell, the sale of these securities under agreements to repurchase, and the lending of these securities. The Bank executes these transactions at the direction of the FOMC and holds the resulting securities and agreements 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 in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC in carrying out the System's central bank responsibilities. The Bank is authorized by the FOMC 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, ensuring adequate liquidity is maintained. The Bank is also authorized and directed by the FOMC to maintain liquidity currency arrangements with fourteen central banks and to "warehouse" foreign currencies for the U.S. Treasury and Exchange Stabilization Fund ("ESF") through the Reserve Banks.

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 providing the service and the other 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 reimburse other Reserve Banks for services provided to them.

Major services provided by the Bank on behalf of the 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, centralized business administration functions for wholesale payments services, and three national information technology operations dealing with incident response, remote access, and enterprise search.

3. RECENT FINANCIAL STABILITY ACTIVITIES

The System has implemented a number of programs designed to support the liquidity of financial institutions and to foster improved conditions in financial markets. These new programs, which are set forth below, have resulted in significant changes to the Bank's consolidated financial statements.

Expanded Open Market Operations and Support for Mortgage-Related Securities

The Single-Tranche Open Market Operations Program, announced on March 7, 2008, allows primary dealers to initiate a series of term repurchase transactions that are expected to accumulate to $100 billion in total. Under the provisions of the program, these transactions are conducted as twenty-eight-day term repurchase agreements for which primary dealers pledge U.S. Treasury and agency securities and agency mortgage-backed securities ("MBS") as collateral. The Bank can elect to increase the size of the term repurchase program if conditions warrant. The repurchase transactions are reported as "System Open Market Account: Securities purchased under agreements to resell" in the Consolidated Statements of Condition.

The GSE and Agency Securities and MBS Purchase Program was announced on November 25, 2008. The primary goal of the program is to provide support to the mortgage and housing markets and to foster improved conditions in financial markets. Under this program, the FRBNY will purchase the direct obligations of housing-related GSEs and MBS backed by the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and the Government National Mortgage Association ("Ginnie Mae"). Purchases of the direct obligations of housing-related GSEs began in November 2008 and purchases of GSE and agency MBS began in January 2009. There were no purchases of GSE and agency MBS during the period ended December 31, 2008. The program was initially authorized to purchase up to $100 billion in GSE direct obligations and up to $500 billion in MBS. In March 2009, the FOMC authorized the Bank to purchase up to an additional $750 billion of GSE mortgage-backed securities, $100 billion of GSE direct obligations, and $300 billion in longer term Treasury securities.

The Bank holds the resulting securities and agreements in the SOMA portfolio and the activities of both programs are allocated to the other Reserve Banks.

Central Bank Liquidity Swaps

The FOMC authorized the Bank to establish temporary liquidity currency swap arrangements (central bank liquidity swaps) with the European Central Bank and the Swiss National Bank on December 12, 2007, to help provide liquidity in U.S. dollars to overseas markets. Subsequently, the FOMC authorized liquidity currency swap arrangements with additional foreign central banks. Such arrangements are now authorized with the following central banks: the Reserve Bank of Australia, Banco Central do Brasil, the Bank of Canada, Danmarks Nationalbank, the Bank of England, the European Central Bank, the Bank of Japan, the Bank of Korea, Banco de México, the Reserve Bank of New Zealand, Norges Bank, the Monetary Authority of Singapore, Sveriges Riksbank, and the Swiss National Bank. The activity related to the program is allocated to the other Reserve Banks. The maximum amount of borrowing permissible under the swap arrangement varies by central bank. The central bank liquidity swap arrangements are authorized through October 30, 2009.

Lending to Depository Institutions

The Term Auction Facility ("TAF") program was announced on December 12, 2007. The goal of TAF is to help promote the efficient dissemination of liquidity, which is achieved by the Reserve Banks injecting term funds through a broader range of counterparties and against a broader range of collateral than open market operations. Under the TAF program, Reserve Banks auction term funds to depository institutions against a wide variety of collateral. All depository institutions that are eligible to borrow under the primary credit program are eligible to participate in TAF auctions. All advances must be fully collateralized. The loans are reported as "Loans to depository institutions" in the Consolidated Statements of Condition.

Lending to Primary Dealers

The Term Securities Lending Facility ("TSLF"), announced on March 11, 2008, promotes liquidity in the financing markets for U.S. Treasuries and other collateral. Under the TSLF, the Bank will lend up to an aggregate amount of $200 billion of U.S. Treasury securities to primary dealers for a term of twenty-eight days. Securities loaned are collateralized by a pledge of other securities, including federal agency debt, federal agency residential-mortgage-backed securities, and non-agency AAA/Aaa-rated private-label residential-mortgage-backed securities ("RMBS"), and are awarded to primary dealers through a competitive single-price auction. In February 2009, the System announced the extension through October 30, 2009, of TSLF. The fees related to these securities lending transactions are reported as a component of "Non-interest income (loss): Other income" in the Consolidated Statements of Income and Comprehensive Income.

The Primary Dealer Credit Facility ("PDCF") was announced on March 16, 2008. The goal of the PDCF is to improve the ability of primary dealers to provide financing to participants in the securitization markets. Primary dealers may obtain secured overnight financing under the PDCF, in the form of repurchase transactions. Eligible collateral is that which is eligible for pledge in tri-party funding arrangements. The program became operational on September 12, 2008, and the interest rate charged on the secured financing is the Bank's primary credit rate. Participants pay a frequency-based fee if they access the program on more than forty-five business days during the term of the program. Secured financing made under the PDCF is made with recourse to the primary dealer. Financing provided under the PDCF is included in "Other loans" in the Consolidated Statements of Condition. In February 2009, the System announced the extension through October 30, 2009, of the PDCF.

The Term Securities Lending Facility Options Program ("TOP"), announced on July 30, 2008, offers primary dealers the option to draw upon short-term, fixed-rate TSLF loans in exchange for eligible collateral. The options are awarded through a competitive auction. The program is intended to enhance the effectiveness of the TSLF by ensuring additional securities liquidity during periods of heightened collateral market pressures, such as around quarter-end dates. TOP auction dates are determined by the Bank, and the program authorization ends concurrently with the TSLF.

The Transitional Credit Extensions, announced on September 21, 2008, provide liquidity support to broker-dealers that were in the process of transitioning to the bank holding company structure. The credit extensions under this program are aimed at providing the firms with increased liquidity and are collateralized similarly to loans made under either the Bank's primary credit programs or through the existing PDCF. Financing provided under the Transitional Credit Extensions is included in "Other loans" in the Consolidated Statements of Condition.

Other Lending Facilities

The Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AMLF"), announced on September 19, 2008, is a lending facility that provides funding under certain conditions to U.S. depository institutions and bank holding companies to finance the purchase of high-quality asset-backed commercial paper ("ABCP") from money market mutual funds. The program is intended to assist money market mutual funds that hold such paper to meet the demands for investor redemptions and to foster liquidity in the ABCP market and in money markets more generally. The Federal Reserve Bank of Boston ("FRBB") administers the AMLF and is authorized to extend these loans to eligible borrowers on behalf of the other Reserve Banks. All loans extended under the AMLF are recorded as assets by the FRBB and, if the borrowing institution settles to a depository account in the Second Reserve District, the funds are credited to the institution's depository account and settled between the Banks through the interdistrict settlement account. The credit risk related to the AMLF is assumed by the FRBB. The FRBB is authorized to finance the purchase of commercial paper through October 30, 2009.

The Commercial Paper Funding Facility (the "CPFF Program"), announced on October 7, 2008, provides liquidity to 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 will be able to roll over their maturing commercial paper. The CPFF Program became operational on October 27, 2008, and was originally authorized to purchase commercial paper through April 30, 2009, but authorization was subsequently extended through October 30, 2009. The Commercial Paper Funding Facility LLC ("CPFF"), is a limited liability company that was formed on October 14, 2008, in connection with the implementation of the CPFF Program, to purchase eligible three-month unsecured and asset-backed commercial paper directly from eligible issuers using the proceeds of loans made to the CPFF. The CPFF is a single member limited liability company with the Bank as the sole and managing member. The Bank will continue to provide funding to the CPFF after such date, if necessary, until the CPFF's underlying assets mature.

All loans made by the Bank to the CPFF are on a full recourse basis and all the assets in the CPFF serve as collateral. The rate of interest on the loan is the target federal funds rate and is fixed through the life of the loan. If the target federal funds rate is a range, then the rate of interest is set at the maximum rate within such range. Principal and accrued interest are payable, in full, at the maturity date of the commercial paper. The Bank's loan to the CPFF is eliminated during consolidation.

To be eligible for purchases by the CPFF, commercial paper must, among other things, be (i) issued by a U.S. issuer (which includes U.S. issuers with a foreign parent company and U.S. branches of foreign banks) and (ii) be rated at least A-1/P-1/F1 by a nationally recognized statistical rating organization ("NRSRO") or if rated by multiple NRSROs, rated at least A-1/P-1/F1 by two or more. The commercial paper must also be U.S.-dollar-denominated and have a three-month maturity. Commercial paper purchased by the CPFF is discounted when purchased and carried at amortized cost. The maximum amount of a single issuer's commercial paper that the CPFF may own at any time (the "maximum face value") will be the greatest amount of U.S.-dollar-denominated commercial paper the issuer had outstanding on any day between January 1 and August 31, 2008. The CPFF will not purchase additional commercial paper from an issuer whose total commercial paper outstanding to all investors (including the CPFF) equals or exceeds the issuer's maximum face value limit.

All issuers must pay a non-refundable facility fee upon registration with the CPFF equal to 10 basis points of the issuer's maximum face value. CPFF Program participants that issue unsecured commercial paper to the CPFF are required to pay a surcharge of 100 basis points per annum of the face value. The CPFF is authorized to reinvest cash in short-term and highly liquid assets, which include U.S. Treasury and agency securities (excluding mortgage-backed securities), money market funds, repurchase agreements collateralized by U.S. Treasuries and agencies as well as U.S.-dollar-denominated overnight deposits. In January 2009, the Bank announced that ABCP issuers that were inactive prior to the creation of the CPFF Program are ineligible for participation in the program. An issuer is considered inactive if it did not issue ABCP to institutions other than the sponsoring institution for any consecutive period of three months or longer between January 1 and August 31, 2008.

The Money Market Investor Funding Facility ("MMIFF"), announced on October 21, 2008, supports a private-sector initiative designed to provide liquidity to U.S. money market investors. Under the MMIFF, the Bank provides senior secured funding to a series of limited liability companies ("LLC") that were established by the private sector to finance the purchase of eligible assets from eligible investors. Eligible assets include U.S.-dollar-denominated certificates of deposit and commercial paper issued by highly rated financial institutions with remaining maturities of ninety days or less. During 2008, only U.S. money market mutual funds were eligible investors. The MMIFF will purchase these assets by issuing subordinated ABCP equal to 10 percent of the asset's purchase price and by borrowing, on a secured basis, 90 percent of the price. The MMIFF may purchase up to $600 billion in money market instruments, with up to $540 billion of the funding provided by the Bank. MMIFF purchases will be recorded at amortized cost. Although there were no material transactions for the period ended December 31, 2008, the MMIFF LLCs are consolidated on the Bank's financial statements. In January 2009, the System announced that the set of institutions eligible to participate in MMIFF would be expanded from U.S. money market mutual funds to also include a number of other money market investors. The newly eligible participants include U.S.-based securities-lending cash-collateral reinvestment funds, portfolios, and accounts (securities lenders); and U.S.-based investment funds that operate in a manner similar to money market mutual funds, such as certain local government investment pools, common trust funds, and collective investment funds. Additionally, the System authorized the adjustment of several of the economic parameters of the MMIFF, including the minimum yield on assets eligible to be sold to the MMIFF. In February 2009, the System announced the extension of MMIFF through October 30, 2009.

The Board of Governors announced the creation of the Term Asset-Backed Securities Loan Facility ("TALF") on November 25, 2008. The goal of the TALF is to help market participants meet the credit needs of households and small businesses by supporting the issuance of asset-backed securities (ABS) collateralized by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration ("SBA"). Under the TALF, the Bank will lend up to $200 billion on a non-recourse basis to holders of certain AAA-rated ABS backed by newly and recently originated consumer and small business loans. ABS accepted as collateral for the loans extended by the Bank are assigned a lending value (fair value reduced by a margin) deemed appropriate by the Bank. The Treasury, under the Troubled Asset Relief Program (TARP) of the Emergency Economic Stabilization Act of 2008, will provide $20 billion of credit protection to the Bank in connection with the TALF. All U.S. persons that own eligible collateral may participate in the TALF. The TALF will cease making new loans on December 31, 2009, unless the Board of Governors agrees to extend it. There were no transactions during the period ended December 31, 2008. On February 10, 2009, the Board of Governors announced that it is prepared to expand the size of the TALF to as much as $1 trillion and potentially broaden the eligible collateral to encompass other types of newly issued AAA-rated ABS, such as ABS backed by commercial mortgages or private-label ABS backed by residential mortgages. If the size of the TALF is expanded, the U.S. Treasury will increase its credit protection to the Bank. On March 23, 2009, the U.S. Treasury, in conjunction with the Federal Deposit Insurance Corporation ("FDIC") and Federal Reserve, announced the Public-Private Investment Program for Legacy Assets. One part of the program, the Legacy Securities Program, would involve an expansion of the TALF program to include the provision of non-recourse loans to fund purchases of eligible legacy securitization assets, including certain non-agency RMBS that were originally rated AAA and certain collateralized mortgage-backed securities ("CMBS") and other ABS that are rated AAA.

Support for Specific Institutions

In connection with and to facilitate the merger of The Bear Stearns Companies, Inc. ("Bear Stearns") and JPMorgan Chase & Co. ("JPMC"), the Bank formed Maiden Lane LLC ("ML"). Credit was extended to ML on June 26, 2008. ML is a 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 repayment of 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 mortgage-related securities, mortgage loans and the associated hedges, which included credit and interest rate derivatives, as well as mortgage commitments ("To Be Announced," or "TBAs"). The Bank extended approximately a $28.8 billion senior loan and JPMC extended a $1.15 billion subordinated loan to finance the acquisition of assets. The loans are collateralized by all the assets of ML. The Bank is the sole and managing member of ML. The Bank is the controlling party of the assets of ML and will remain as such as long as the Bank retains an economic interest. The interest rate on the senior loan is the primary credit rate in effect from time to time. JPMC will bear the first $1.2 billion of any losses associated with the portfolio through its subordinated loan and any realized gains will accrue to the Bank. The interest on the JPMC subordinated loan is the primary credit rate plus 450 basis points. The Bank consolidates ML.

The Board of Governors announced on September 16, 2008, that the Bank was authorized to lend to American International Group, Inc. ("AIG"). Initially, the Bank provided AIG with a 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 a rate of three-month London Interbank Offered Rate ("LIBOR") plus 850 basis points. In addition, AIG was assessed 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 federal 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 was formed January 16, 2009, and the preferred shares were issued to the Trust on March 4, 2009. The Trust has three independent trustees who control the trust's voting and consent rights. The Bank cannot exercise voting or consent rights.

On October 8, 2008, the Bank began providing cash collateral to certain AIG insurance subsidiaries in connection with AIG's domestic securities lending program.

On November 10, 2008, the Bank and the U.S. Treasury announced a restructuring of the government's financial support to AIG. As part of the restructuring, the U.S. Treasury purchased $40 billion of newly issued AIG preferred shares under the TARP. TARP funds were used to pay down the majority of AIG's debt to the Bank and the terms of the original agreement were modified. The restructuring also reduced the line of credit to $60 billion, reduced the interest rate to the three-month LIBOR (subject to a floor of 350 basis points), reduced the fee on undrawn funds to 75 basis points, and extended the length of the agreement to five years. The other material terms of the funding were unchanged. These revised terms were more consistent with terms granted to other entities with similar credit risk.

Concurrent with the November 10, 2008, announcement of the restructuring of its financial support to AIG, the Bank announced the planned formation of two new special purpose vehicles ("SPVs"). On December 12, 2008, the Bank extended credit to Maiden Lane II LLC ("ML II"), a limited liability company formed to purchase RMBS from the reinvestment pool of the securities lending portfolio of several regulated U.S. insurance subsidiaries of AIG. ML II borrowed $19.5 billion from the Bank and (after certain adjustments including payments on the RMBS totaling $0.3 billion between October 31, 2008, and December 12, 2008) used the proceeds to purchase from AIG's domestic insurance subsidiaries, RMBS, which had an approximate fair value of $20.8 billion as of October 31, 2008. The Bank's loan and the fixed deferred purchase price of the AIG subsidiaries are collateralized by all of the assets of ML II. The Bank is the sole and managing member of ML II. The Bank is the controlling party of the assets of ML II and will remain as such as long as the Bank retains an economic interest. Net proceeds received by ML II will be applied to pay the Bank's senior loan plus interest at a rate of one-month LIBOR plus 100 basis points. As part of the agreement, the AIG subsidiaries also became entitled to receive from ML II a fixed deferred purchase price of up to $1.0 billion, plus interest on any such fixed deferred purchase price outstanding at a rate of one-month LIBOR plus 300 basis points, payable from net proceeds received by ML II and only to the extent that the Bank's senior loan has been paid in full. After ML II has paid the Bank's senior loan and the fixed deferred purchase price in full, including accrued and unpaid interest, the Bank will be entitled to receive five-sixths of any additional net proceeds received by ML II as contingent interest on the senior loan and the AIG subsidiaries will be entitled to receive one-sixth of any net proceeds received by ML II as variable deferred purchase price. As a result of the formation and commencement of operations of ML II, the Bank's lending in connection with AIG's securities lending program initiated on October 8, 2008, was terminated. The Bank consolidates ML II.

On November 25, 2008, the Bank extended credit to Maiden Lane III LLC ("ML III"), a limited liability company formed to purchase asset-backed securities collateralized debt obligations ("ABS 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 derivative contracts with AIGFP. In connection with the credit agreement, on November 25, 2008, ML III borrowed approximately $15.1 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 $21.1 billion as of October 31, 2008. The counterparties received $20.1 billion net of principal, interest received, and finance charges paid.

Subsequently, on December 18, 2008, ML III borrowed an additional $9.2 billion from the Bank to fund the acquisition of additional ABS CDOs with a fair value of $8.5 billion as of October 31, 2008. The net payment to counterparties for this subsequent transaction was $6.7 billion. ML III also made a payment to AIGFP of $2.5 billion representing the over collateralization previously posted by AIGFP and retained by counterparties in respect of the terminated credit default swaps ("CDS") as compared to ML III's fair value acquisition prices calculated as of October 31, 2008. The Bank is the managing member of ML III. The Bank is the controlling party of the assets of ML III and will remain as such as long as the Bank retains an economic interest. Net proceeds received by ML III will be applied to pay the Bank's senior loan plus interest at a rate of one-month LIBOR plus 100 basis points. The Bank's senior loan is collateralized by all of the assets of ML III. After payment of principal and interest on the Bank's senior loan in full, including accrued and unpaid interest, AIG is entitled to receive from ML III repayment of its equity contribution of $5 billion, plus interest at a rate of one-month LIBOR plus 300 basis points, payable from net proceeds received by ML III. After ML III has paid the Bank's senior loan and AIG's equity contribution in full, the Bank will be entitled to receive two-thirds of any additional net proceeds received by ML III as contingent interest on the senior loan and AIG will be entitled to receive one-third of any net proceeds received by ML III as contingent distributions on its equity interest. The Bank consolidates ML III.

On March 2, 2009, the Bank and U.S. Treasury announced their intent to restructure the financial assistance provided to AIG. The restructuring is expected to further the U.S. government's commitment to the orderly restructuring of AIG over time in the face of continuing market dislocations and economic deterioration and to provide evidence of its commitment to continue to work with AIG to ensure that the company can meet its obligations as they come due. Under the proposed new agreement, the line of credit would be reduced in exchange for preferred interest in two SPVs created to hold 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. Although the Bank would have certain governance rights to protect its interests, AIG would retain control of ALICO and AIA. The initial valuation of the Bank's preferred interests, which may be up to $26 billion, will be a percentage of the fair market value of ALICO and AIA based on measurements of value acceptable to the Bank. The Bank is evaluating the accounting implications of these changes on its 2009 consolidated financial statements.

In addition, the Bank has been authorized to make loans of up to $8.5 billion to SPVs that may be established by the domestic life insurance subsidiaries of AIG. The SPVs would repay the loans from the net cash flows they receive from designated blocks of existing life insurance policies held by the parent insurance companies. The proceeds of the Bank's loans would pay down an equivalent amount of outstanding debt under the line of credit. The amounts lent, the size of the haircuts taken by the Bank, and other terms of the loans would be determined based on valuations acceptable to the Bank. Also, the interest rate on the line of credit would be modified, removing the existing floor on the LIBOR rate and the total amount available under the line of credit would be reduced from $60 billion to no less than $25 billion. The line would continue to be collateralized by a lien on a substantial portion of AIG's assets, including the equity interest in businesses AIG plans to retain. The other material terms of the line would remain unchanged. As of April 2, 2009, the agreements necessary to effect this restructuring had not been executed.

The Board of Governors, the U.S. Treasury, and the FDIC jointly announced on November 23, 2008, that the U.S. government would provide financial support to Citigroup, Inc. ("Citigroup"). The agreement provides funding support for possible principal future losses on up to $301 billion of Citigroup's assets. It extends for ten years for residential assets and five years for non-residential assets. Under the agreement, a loss on a portfolio asset includes a charge-off or realized loss upon collection, through a permitted disposition or exchange, or upon a foreclosure or short-sale loss, but not through a change in Citigroup's mark-to-market accounting for the asset or the creation or increase of a related loss reserve. The Bank's commitment to lend under the agreement is triggered at the time that qualifying losses of $56.2 billion have been recognized in the covered assets pool. At that point, if Citigroup makes a proper election, the Bank would make a single non-recourse loan to Citigroup in an amount equal to the aggregate adjusted baseline value of the remaining covered assets, as defined in the relevant agreements. The loan would be collateralized by the remaining covered asset pool. The interest rate on the loan would be equal to the rate on the three-month overnight index swap rate ("OIS rate") plus 300 basis points. Citigroup would be required to make mandatory principal prepayments of the loan in an amount equal to 10 percent of any further covered losses on the remaining covered assets and that obligation plus the interest on the loan is with recourse to Citigroup. The loan matures in 2018 (or 2019 if extended by the Bank).

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 ("Financial Accounting Manual," or "FAM"), which is issued by the Board of Governors. All of 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.

Differences exist between the accounting principles and practices in the FAM and generally accepted accounting principles in the United States ("GAAP"), primarily due to the unique nature of the Bank's powers and responsibilities as part of the nation's central bank. The primary difference is the presentation of all SOMA securities holdings at amortized cost, rather than using the fair value presentation as required by GAAP. U.S. government, and federal agency, and GSE securities and investments denominated in foreign currencies comprising the SOMA are recorded at cost, on a settlement-date basis, and are adjusted for amortization of premiums or accretion of discounts on a straight-line basis. Amortized cost more appropriately reflects the Bank's securities holdings, given the System's unique responsibility to conduct monetary policy. Although application of fair value measurements to the securities holdings may result in values substantially above or below their carrying values, these unrealized changes in value would have no direct effect on the quantity of reserves available to the banking system or on the prospects for future Bank earnings or capital. Both the domestic and foreign components of the SOMA portfolio may involve transactions that result in gains or losses when holdings are sold prior to maturity. Decisions regarding securities and foreign currency transactions, including their purchase and sale, are motivated by monetary policy objectives rather than profit. Accordingly, fair values, earnings, and any gains or losses resulting from the sale of such securities and currencies are incidental to the open market operations and do not motivate decisions related to policy or open market activities.

In addition, the Bank has elected not to present a Statement of Cash Flows because the liquidity and cash positions of the Bank are not a primary concern given their 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 consolidated financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts relating to the prior year have been reclassified to conform to the current-year presentation. Unique accounts and significant accounting policies are explained below.

a. 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, and CPFF. The consolidation of the VIEs was assessed in accordance with FASB Interpretation No. 46 (revised), "Consolidation of Variable Interest Entities" ("FIN 46R"), which requires a variable interest entity to be consolidated by its primary beneficiary.

The Bank consolidates a VIE if the Bank is the primary beneficiary because it will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. To determine whether it is the primary beneficiary of a VIE, the Bank evaluates the VIEs design, capital structure, and the relationships among the variable interest holders. The Bank reconsiders whether it is the primary beneficiary of a VIE when certain events occur as required by FIN 46R. Intercompany balances and transactions have been eliminated in consolidation.

b. Gold and Special Drawing Rights Certificates

The Secretary of the U.S. Treasury is authorized to issue gold and special drawing rights ("SDR") certificates to the Reserve Banks.

Payment for the gold certificates by the Reserve Banks is made by crediting equivalent amounts in dollars into the account established for the U.S. Treasury. The 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 reduced. 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 the Reserve Banks once a year based on the average Federal Reserve notes outstanding in each Reserve Bank.

SDR certificates are issued by the International Monetary Fund (the "Fund") to its members in proportion to each member's quota in the Fund 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 U.S. Treasury is authorized to issue SDR certificates somewhat like gold certificates to the Reserve Banks. When SDR certificates are issued to the Reserve Banks, equivalent amounts in dollars are credited to the account established for the U.S. Treasury, and the Reserve Banks' SDR certificate accounts are increased. The Reserve Banks are required to purchase SDR certificates, at the direction of the U.S. Treasury, for the purpose of financing SDR acquisitions or for financing exchange stabilization operations. At the time SDR transactions occur, the Board of Governors allocates SDR certificate transactions among the Reserve Banks based upon each Reserve Bank's Federal Reserve notes outstanding at the end of the preceding year. There were no SDR transactions in 2008 or 2007.

c. Loans to Depository Institutions and Other Loans

Loans are reported at their outstanding principal balances net of unamortized commitment fees. Interest income is recognized on an accrual basis. Loan commitment fees are generally deferred and amortized on a straight-line basis over the commitment period, which is not materially different from the interest method.

Outstanding loans are evaluated to determine whether an allowance for loan losses is required. The Bank has developed procedures for assessing the adequacy of the allowance for loan losses that reflect the assessment of credit risk considering all available information. This assessment includes monitoring information obtained from banking supervisors, borrowers, and other sources to assess the credit condition of the borrowers.

Loans are considered to be impaired when it is probable that the Bank will not receive principal and interest due in accordance with the contractual terms of the loan agreement. The amount of the impairment is the difference between the recorded amount of the loan and the amount expected to be collected, after consideration of the fair value of the collateral. Recognition of interest income is discontinued for any loans that are considered to be impaired. Cash payments made by borrowers on impaired loans are applied to principal until the balance is reduced to zero; subsequent payments are recorded as recoveries of amounts previously charged off and then to interest income.

d. Securities Purchased under Agreements to Resell, Securities Sold under Agreements to Repurchase, and Securities Lending

The Bank may engage in tri-party purchases of securities under agreements to resell ("tri-party agreements"). Tri-party agreements are conducted with two commercial custodial banks that manage the clearing and settlement of collateral. Collateral is held in excess of the contract amount. Acceptable collateral under tri-party agreements primarily includes U.S. government securities; pass-through mortgage securities of Fannie Mae, Freddie Mac, and Ginnie Mae; STRIP securities of the U.S. government; and "stripped" securities of other government agencies. The tri-party agreements are accounted for as financing transactions and the associated interest income is accrued over the life of the agreement.

Securities sold under agreements to repurchase are accounted for as financing transactions, and the associated interest expense is recognized over the life of the transaction. These transactions are reported at their contractual amounts in the Consolidated Statements of Condition and the related accrued interest payable is reported as a component of "Other liabilities."

U.S. government securities held in SOMA are lent to primary dealers to facilitate the effective functioning of the domestic securities market. Overnight securities lending transactions are fully collateralized by other U.S. government securities. TSLF transactions are fully collateralized with investment-grade debt securities, collateral eligible for tri-party repurchase agreements arranged by the Open Market Trading Desk, or both. The collateral taken in both overnight and TSLF transactions is in excess of the fair value of the securities loaned. The Bank charges the primary dealer a fee for borrowing securities, and these fees are reported as a component of "Other income."

Activity related to securities purchased under agreements to resell, securities sold under agreements to repurchase, and securities lending are allocated to each of the Reserve Banks on a percentage basis derived from an annual settlement of the interdistrict settlement account.

e. U.S. Government, Federal Agency, and Government-Sponsored-Enterprise Securities; Investments Denominated in Foreign Currencies; and Warehousing Agreements

Interest income on U.S. government, federal agency and GSE securities and investments denominated in foreign currencies comprising the SOMA is accrued on a straight-line basis. Gains and losses resulting from sales of securities are determined by specific issue based on average cost. Foreign-currency-denominated assets are revalued daily at current foreign currency market exchange rates in order to report these assets in U.S. dollars. Realized and unrealized gains and losses on investments denominated in foreign currencies are reported as "Foreign currency gains, net" in the Consolidated Statements of Income and Comprehensive Income.

Activity related to U.S. government, federal agency and GSE securities, 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. The settlement also equalizes Reserve Bank gold certificate holdings to Federal Reserve notes outstanding in each District. Activity related to investments denominated in foreign currencies, 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 agrees to exchange, at the request of the U.S. Treasury, U.S. dollars for foreign currencies held by the U.S. Treasury or ESF over a limited period of time. The purpose of the warehousing facility is to supplement the U.S. dollar resources of the U.S. Treasury and ESF for financing purchases of foreign currencies and related international operations.

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.

f. Central Bank Liquidity Swaps

At the initiation of each central bank liquidity swap transaction, the foreign central bank transfers a specified amount of its currency to 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. The foreign currency amounts that the Bank acquires are reported as "Central bank liquidity swaps" on the Consolidated Statements of Condition. Because the swap transaction will be unwound at the same exchange rate 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 pays interest to the Bank based on the foreign currency amounts held by the Bank. The Bank recognizes interest income during the term of the swap agreement and reports the interest income as a component of "Interest income: Central bank liquidity swaps" in the Consolidated Statements of Income and Comprehensive Income.

Activity related to these swap transactions, including the related interest income, 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. Similar to other investments denominated in foreign currencies, the foreign currency holdings associated with these central bank liquidity swaps are revalued at current market exchange rates. Because the swap arrangement will be unwound at the same exchange rate that was used in the initial transaction, the obligation to return the foreign currency is also revalued at current foreign currency market exchange rates and is recorded in a currency exchange valuation account by the Bank. This reevaluation method eliminates the effects from the changes in market exchange rates. As of December 31, 2008, the Bank began allocating this currency exchange valuation account to the other Reserve Banks and, as a result, the reported amount of central bank liquidity swaps reflects the Bank's allocated portion at the contract exchange rate. The balance in the currency exchange valuation account at December 31, 2007, was $353 million and was reclassified from "Other Liabilities" to "Central bank liquidity swaps" in the Consolidated Statements of Condition.

g. Investments Held by Consolidated Variable Interest Entities

Investments held by the consolidated VIEs include commercial paper, agency and non-agency collateralized mortgage obligations ("CMOs"), commercial and residential real mortgage loans, RMBS, CDOs, other investment securities, and derivatives and associated hedging activities. These investments are accounted for and classified as follows:

- Commercial paper held by the CPFF is designated as held-to-maturity under Statement of Financial Accounting Standard No. 115, "Accounting for Certain Instruments in Debt and Equity Securities" ("SFAS 115"), according to the terms of the program. The Bank has the positive intent and the ability to hold the securities to maturity, and therefore the commercial paper is recorded at amortized cost. The amortized cost is adjusted for amortization of premiums and accretion of discounts on a straight-line basis that the Bank believes is not materially different from the interest method. Interest income on the commercial paper is reported as "Interest income: Investments held by consolidated variable interest entities" in the Consolidated Statements of Income and Comprehensive Income. All other investments held by the CPFF are classified as trading securities under SFAS 115 and are recorded at fair value. Gains and losses on these trading securities are recorded as "Non-interest income (loss): Investments held by consolidated variable interest entities (losses), net" in the Consolidated Statements of Income and Comprehensive Income.

  The Bank conducts quarterly reviews to identify and evaluate investments held at amortized cost that have indications of possible impairment. An investment is impaired if its fair value falls below its recorded value and the decline is considered other-than-temporary. Impairment of investments is evaluated using numerous factors, the relative significance of which varies on a case-by-case basis. Factors considered include collectability, collateral, the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer of a security; and the Bank's intent and ability to retain the security in order to allow for an anticipated recovery in fair value. If, after analyzing each of the above factors, the Bank determines that the impairment is other-than-temporary, the cost basis of the individual security is written down to fair value and the amount of the write-down is reported in "Non-interest income: Investments held by consolidated variable interest entities (losses), net" in the Consolidated Statements of Income and Comprehensive Income.

- ML follows the guidance in SFAS 115 when accounting for investments in debt securities. ML classifies its debt securities as available-for-sale and has elected the fair value option for all eligible assets in accordance with Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Liabilities" ("SFAS 159"), and Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). Other financial instruments, including derivatives contracts in ML, are recorded at fair value in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS 133"). ML II and ML III qualify as non-registered investment companies under the provisions of the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Investment Companies* and, therefore, all investments are recorded at fair value in accordance with SFAS 157.

- Interest income, accretion of discounts, amortization of premiums on investments and paydown gains and losses on RMBS, CDOs and CMOs held by consolidated variable interest entities are reported in "Interest income: Investments held by consolidated variable interest entities" in the Consolidated Statements of Income and Comprehensive Income. Realized and unrealized gains (losses) on investments in consolidated variable interest entities that are recorded at fair value are reported as "Non-interest income (loss): Investments held by consolidated variable interest entities (losses), net" in the Consolidated Statements of Income and Comprehensive Income.

h. 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. In addition, AMLF loans are passed through this account. 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.

i. 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 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 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 evaluated for impairment, 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.

j. Federal Reserve Notes

Federal Reserve notes are the circulating currency of the United States. These notes are issued through the various Federal Reserve agents (the chairman of the board of directors of each Reserve Bank and their designees) to the Reserve Banks upon deposit with such agents of specified 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 at least equal to the sum of the notes applied for by such Reserve Bank.

Assets eligible to be pledged as collateral security include all of the Bank's assets. 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 pledged for securities sold under agreements to repurchase is deducted.

The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize the 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. At December 31, 2008 and 2007, all Federal Reserve notes issued to the Reserve Banks were fully collateralized.

"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 $46,609 million and $74,297 million at December 31, 2008 and 2007, respectively.

k. Beneficial Interest in Consolidated Variable Interest Entities

ML, ML II, and ML III have issued senior and subordinated debt, inclusive of a fixed deferred purchase price in ML II and an equity contribution in ML III. Upon issuance of the senior and subordinated debt, ML, ML II, and ML III each elected to measure these obligations at fair value in accordance with SFAS 159. Principal, interest, and changes in fair value on the senior debt, which were extended by the Bank, are eliminated in consolidation. The subordinated debt is 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 subordinated debt are recorded in "Interest expense: Other interest expense related to consolidated variable interest entities" and "Non-interest income (loss): Investments held by consolidated variable interest entities (losses), net," respectively, in the Consolidated Statements of Income and Comprehensive Income.

l. U.S. Treasury Supplemental Financing Account and Other Deposits

The U.S. Treasury initiated a temporary supplementary program that 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. The effect of placing funds in this account is to drain reserves from the banking system and partially offset the reserve impact of the System's lending and liquidity initiatives. The new account is defined as the "U.S. Treasury, supplementary financing account" in the Consolidated Statements of Condition.

Other deposits represent amounts held in accounts at the Bank by GSEs and foreign central banks and governments.

m. Items in Process of Collection and Deferred Credit Items

Items in process of collection in the Consolidated Statements of Condition primarily represent 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, and 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.

n. Capital Paid-in

The Federal Reserve Act requires that each member bank subscribe to the capital stock of the Reserve Bank in an amount equal to 6 percent of the capital and surplus of the member bank. These shares are nonvoting with a par value of $100 and may not be transferred or hypothecated. As a member bank's capital and surplus change, its holdings of Reserve Bank stock must be adjusted. Currently, only one-half of the subscription is paid-in and the remainder is subject to call. 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 reflect 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.

o. 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. This amount is intended to provide additional capital and reduce the possibility that the Reserve Banks will be required to call on member banks for additional capital.

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. The balance of accumulated other comprehensive income is comprised of expenses, gains, and losses related to the System retirement plan and other postretirement benefit plans that, under accounting standards, are included in other comprehensive income, but excluded from net income. Additional information regarding the classifications of accumulated other comprehensive income is provided in Notes 12, 13, and 14.

p. Interest on Federal Reserve Notes

The Board of Governors requires the Reserve Banks to transfer excess earnings to the U.S. 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 U.S. Treasury as interest on Federal Reserve notes” in the Consolidated Statements of Income and Comprehensive Income and is reported as a liability, or as an asset if overpaid during the year, in the Consolidated Statements of Condition. Weekly payments to the U.S. Treasury may vary significantly.

q. Interest on Depository Institutions Deposits

Beginning October 9, 2008, the Reserve Banks pay interest to depository institutions on qualifying balances held at the Banks. Authorization for payment of interest on these balances was granted by Title II of the Financial Services Regulatory Relief Act of 2006, which had an effective date of 2011. Section 128 of the Emergency Economic Stabilization Act of 2008, enacted on October 3, 2008, made that authority immediately effective. The interest rates paid on required reserve balances and excess balances are based on an FOMC established target range for the effective federal funds rate.

r. Income and Costs Related to U.S. Treasury Services

The Bank is required by the Federal Reserve Act to serve as fiscal agent and depository of the United States Government. By statute, the Department of the Treasury has appropriations to pay for these services. During the years ended December 31, 2008 and 2007, the Bank was reimbursed for substantially all services provided to the Department of the Treasury as its fiscal agent.

s. Compensation Received for Services Provided and Compensation Paid for Services 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 Consolidated Statements of Income and Comprehensive Income. The Bank manages the Reserve Banks’ provision of Fedwire funds and securities transfer 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 Consolidated

Statements of Income and Comprehensive Income. The FRBA, the Bank, and FRBC compensate the other Reserve Banks for the costs incurred to provide these services. Compensation received by the Bank for providing check and ACH services is reported as "Compensation received for services provided" in the Consolidated Statements of Income and Comprehensive Income. Compensation paid by the Bank for Fedwire funds transfer and securities transfer services is reported as "Compensation paid for services costs incurred" in the Consolidated Statements of Income and Comprehensive Income.

t. Assessments by the Board of Governors

The Board of Governors assesses the Reserve Banks to fund its operations based on each Reserve Bank's capital and surplus balances as of December 31 of the prior year. The Board of Governors also assesses each Reserve Bank for the expenses incurred for the U.S. Treasury to prepare 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.

u. Taxes

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property and, in some states, sales taxes on construction-related materials. The Bank's real property taxes were $5 million for each of the years ended December 31, 2008 and 2007, respectively, and are reported as a component of "Occupancy expense."

v. 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, 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.

Note 15 describes the Bank's restructuring initiatives and provides information about the costs and liabilities associated with employee separations and contract terminations. The costs associated with the impairment of certain of the Bank's assets are discussed in Note 10. Costs and liabilities associated with enhanced pension benefits in connection with the restructuring activities for all of the Reserve Banks are recorded on the books of the Bank. Costs and liabilities associated with enhanced postretirement benefits are discussed in Note 13.

w. Recently Issued Accounting Standards

In December 2008, FASB issued FASB Staff Position (FSP) FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities." FSP FAS 140-4 and FIN 46(R)-8 amend FASB Statement No. 140 to require public entities to provide additional disclosures about transfers of financial assets. They also amend FASB Interpretation No. 46(R) to require public entities, including sponsors that have a variable interest in a VIE, to provide additional disclosures about their involvement with VIEs. The adoption of the additional disclosure requirements of FSP FAS 140-4 and FIN 46(R)-8 did not materially impact the Bank's consolidated financial statements.

In December 2008, FASB issued FSP 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." FSP 132(R)-1 provides rules for the disclosure of information about assets held in a defined benefit plan in the financial statements of the employer sponsoring that plan. This FSP applies SFAS 157 to defined benefit plans and provides rules for additional disclosures about asset categories and concentrations of risk. It is effective for financial statements with fiscal years ending after December 15, 2009. The provisions of FSP 132(R)-1 will be applied prospectively effective January 1, 2009, and are not expected to have a material effect on the Bank's consolidated financial statements.

In October 2008, FASB issued FSP 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active," with an effective date of October 10, 2008. FSP 157-3 clarifies how SFAS No. 157 should be applied when valuing securities in markets that are not active. For additional information on the effects of the adoption of this accounting pronouncement, see Note 9.

In September 2008, FASB issued FSP 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161." This FSP requires expanded disclosures about credit derivatives and guarantees. The expanded disclosure requirements of the FSP, which are effective for the Bank's consolidated financial statements for the year ending December 31, 2008, are incorporated in the accompanying notes.

In March 2008, FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"), which requires expanded qualitative, quantitative, and credit-risk disclosures about derivatives and hedging activities and their effects on a company's financial position, financial performance, and cash flows. SFAS 161 is effective for the Bank's consolidated financial statements for the year beginning on January 1, 2009, and is not expected to have a material effect on the Bank's consolidated financial statements.

In February 2008, FASB issued FSP FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions." FSP FAS 140-3 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction under SFAS 140, unless certain criteria are met. FSP FAS 140-3 is effective for the Bank's consolidated financial statements for the year beginning on January 1, 2009, and earlier adoption is not permitted. The provisions of this standard are not expected to have a material effect on the Bank's consolidated financial statements.

In February 2007, FASB issued SFAS No. 159, which provides companies with an irrevocable option to elect fair value as the measurement for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments that are not subject to fair value under other accounting standards. There was a one-time election available to apply this standard to existing financial instruments as of January 1, 2008; otherwise, the fair value option will be available for financial instruments on their initial transaction date. The Bank adopted SFAS 159 on January 1, 2008, and the effect of the Bank's election for certain assets and liabilities is reflected in Note 9.

In September 2006, FASB issued SFAS No. 157, which establishes a single authoritative definition of fair value, and a framework for measuring fair value, and expands the required disclosures for assets and liabilities measured at fair value. SFAS 157 was effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The Bank adopted SFAS 157 on January 1, 2008, and the effect of the Bank's adoption of this standard is reflected in Note 9.

5. LOANS

The loan amounts outstanding to depository institutions and others at December 31 were as follows (in millions):

	2008	2007
Primary, secondary, and seasonal credit	$ 80,230	$ 5,888
TAF	220,435	33,957
Total loans to depository institutions	300,665	39,845
PDCF	37,404	—
Other (AIG)	38,914	—
Total other loans	$ 76,318	$ —

Loans to Depository Institutions

The Bank offers primary, secondary, and seasonal credit to eligible borrowers. Each program has its own interest rate. Interest is accrued using the applicable interest rate established at least every fourteen days by the board of directors of the Bank, subject to review and determination by the Board of Governors. Primary and secondary credits are extended on a short-term basis, typically overnight, whereas seasonal credit may be extended for a period 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, U.S. Treasury securities, federal agency securities, GSE obligations, foreign sovereign debt obligations, municipal or corporate obligations, state and local government obligations, asset-backed securities, corporate bonds, commercial paper, and bank-issued assets, such as certificates of deposit, bank notes, and deposit notes. Collateral is assigned a lending value deemed appropriate by the Bank, which is typically fair value or face value reduced by a margin.

Depository institutions that are eligible to borrow under a Reserve Bank's primary credit program are also eligible to participate in the temporary TAF program. Under the TAF program, the Reserve Banks conduct auctions for a fixed amount of funds, with the interest rate determined by the auction process, subject to a minimum bid rate. TAF loans are extended on a short-term basis, with terms of either twenty-eight or eighty-four days. All advances under the TAF must be fully collateralized. Assets eligible to collateralize TAF loans include the complete list noted above for loans to depository institutions. Similar to the process used for primary, secondary and seasonal credit, a lending value is assigned to each asset accepted as collateral for TAF loans.

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

Other Loans

The PDCF provides secured overnight financing to primary dealers in exchange for a specified range of collateral, including U.S. Treasuries, federal agency securities, agency MBS, investment-grade corporate securities, municipal securities, mortgage-backed securities, and other asset-backed securities for which a price is available. Interest on PDCF secured financing is accrued using the primary credit rate offered to depository institutions. The secured financing is reported as "Other loans" in the Consolidated Statements of Condition. The frequency-based fees are reported as "Other income" in the Consolidated Statements of Income and Comprehensive Income.

The $38.9 billion extended to AIG under the revolving line of credit is net of unamortized deferred commitment fees and includes unpaid commitment fees and accrued interest. Unamortized deferred commitment fees were $1.5 billion and unpaid commitment fees and accrued interest were $1.7 billion and $1.9 billion, respectively, at December 31, 2008. The AIG loan is reported as "Other loans" in the Consolidated Statements of Condition.

The remaining maturity distribution of loans outstanding at December 31, 2008, was as follows (in millions):

	Primary, Secondary, and Seasonal Credit	TAF	Other Loans
Within 15 days	$ 75,300	$131,690	$37,404
16 days to 90 days	4,930	88,745	—
Over 1 year to 5 years	—	—	38,914
Total loans	**$ 80,230**	**$220,435**	**$76,318**

At December 31, 2008 and 2007, no loans were considered to be impaired and the Bank determined that no allowance for loan losses was required.

6. U.S. GOVERNMENT, FEDERAL AGENCY, AND GOVERNMENT-SPONSORED-ENTERPRISE 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 35.579 percent and 36.210 percent at December 31, 2008 and 2007, respectively.

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

	2008	2007
U.S. government securities:		
Bills	$ 6,555	$ 82,500
Notes	119,112	145,482
Bonds	43,663	40,191
Federal agency and GSE securities	7,012	—
Total par value	**176,342**	**268,173**
Unamortized premiums	2,864	2,892
Unaccreted discounts	(530)	(1,075)
Total allocated to the Bank	**$178,676**	**$269,990**

At December 31, 2008 and 2007, the fair value of the U.S. government, federal agency, and GSE securities allocated to the Bank, excluding accrued interest, was $201,531 million and $281,401 million, respectively, as determined by reference to quoted prices for identical securities.

The total of the U.S. government, federal agency and GSE securities, net, held in the SOMA was $502,189 million and $745,629 million at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, the fair value of the U.S. government, federal agency, and GSE securities held in the SOMA, excluding accrued interest, was $566,427 million and $777,141 million, respectively, as determined by reference to quoted prices for identical securities.

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 a central bank, to meet their financial obligations and responsibilities and do not represent a risk to the Reserve Banks, their shareholders, or the public. The fair value is presented solely for informational purposes.

Financial information related to securities purchased under agreements to resell and securities sold under agreements to repurchase for the years ended December 31, 2008 and 2007, was as follows (in millions):

	Securities Purchased under Agreements to Resell		Securities Sold under Agreements to Repurchase	
	2008	2007	2008	2007
Allocated to the Bank:				
Contract amount outstanding, end of year	$ 28,464	$ 16,838	$31,435	$15,927
Weighted-average amount outstanding, during the year	34,525	12,700	23,290	12,618
Maximum month-end balance outstanding, during the year	42,339	18,648	35,067	15,927
Securities pledged, end of year	—	—	28,071	15,950
System total:				
Contract amount outstanding, end of year	$ 80,000	$ 46,500	$88,352	$43,985
Weighted-average amount outstanding, during the year	97,037	35,073	65,461	34,846
Maximum month-end balance outstanding, during the year	119,000	51,500	98,559	43,985
Securities pledged, end of year	—	—	78,896	44,048

The contract amounts for securities purchased under agreements to resell and securities sold under agreements to repurchase approximate fair value.

The remaining maturity distribution of U.S. government, federal agency, and GSE securities bought outright, securities purchased under agreements to resell, and securities sold under agreements to repurchase that were allocated to the Bank at December 31, 2008, was as follows (in millions):

	U.S. Government Securities (Par Value)	Federal Agency and GSE Securities (Par Value)	Total: U.S. Government, Federal Agency, and GSE Securities (Par Value)	Securities Purchased under Agreements to Resell (Contract Amount)	Securities Sold under Agreements to Repurchase (Contract Amount)
Within 15 days	$ 6,809	$ 160	$ 6,969	$14,232	$31,435
16 days to 90 days	7,459	1,167	8,626	14,232	
91 days to 1 year	22,532	347	22,879	—	—
Over 1 year to 5 years	61,670	4,043	65,713	—	—
Over 5 years to 10 years	34,628	1,295	35,923	—	—
Over 10 years	36,232	—	36,232	—	—
Total allocated to the Bank	**$169,330**	**$7,012**	**$176,342**	**$28,464**	**$31,435**

At December 31, 2008 and 2007, U.S. government securities with par values of $180,765 million and $16,649 million, respectively, were loaned from the SOMA, of which $64,315 million and $6,029 million, respectively, were allocated to the Bank.

7. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES

The Bank, on behalf of the Reserve Banks, holds foreign currency deposits with foreign central banks and with the Bank for International Settlements and invests in foreign government debt instruments. These investments are guaranteed as to principal and interest by the issuing foreign governments.

The Bank's allocated share of investments denominated in foreign currencies was approximately 25.034 percent and 24.320 percent at December 31, 2008 and 2007, respectively.

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

	2008	2007
European Union euro:		
Foreign currency deposits	$ 1,393	$1,746
Securities purchased under agreements to resell	1,020	620
Government debt instruments	1,154	1,135
Japanese yen:		
Foreign currency deposits	872	684
Government debt instruments	1,771	1,388
Total allocated to the Bank	**$ 6,210**	**$5,573**

At December 31, 2008 and 2007, the fair value of investments denominated in foreign currencies, including accrued interest, allocated to the Bank was $6,264 million and $5,568 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 U.S. government, federal agency, and GSE securities discussed in Note 6, unrealized gains or losses have no effect on the ability of a Reserve Bank, as central bank, to meet its financial obligations and responsibilities.

Total System investments denominated in foreign currencies were $24,804 million and $22,914 million at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, the fair value of the total System investments denominated in foreign currencies, including accrued interest, was $25,021 million and $22,892 million, respectively.

The remaining maturity distributions of investments denominated in foreign currencies that were allocated to the Bank at December 31, 2008, were as follows (in millions):

	European Euro	Japanese Yen	Total
Within 15 days	$1,901	$ 872	$2,773
16 days to 90 days	293	158	451
91 days to 1 year	438	497	935
Over 1 year to 5 years	935	1,116	2,051
Total allocated to the Bank	**$3,567**	**$2,643**	**$6,210**

At December 31, 2008 and 2007, the authorized warehousing facility was $5 billion, with no balance outstanding.

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

8. CENTRAL BANK LIQUIDITY SWAPS

Central bank liquidity swap arrangements are contractual agreements between two parties, the Bank and an authorized foreign central bank, whereby the parties agree to exchange their currencies up to a prearranged maximum amount and for an agreed-upon period of time. At the end of that period of time, the currencies are returned at the original contractual exchange rate and the foreign central bank pays interest to the Federal Reserve at an agreed-upon rate. These arrangements give the authorized foreign central bank temporary access to U.S. dollars. Drawings under the swap arrangements are initiated by the foreign central bank and must be agreed to by the Federal Reserve.

The Bank's allocated share of central bank liquidity swaps was approximately 25.034 percent and 24.320 percent at December 31, 2008 and 2007, respectively.

At December 31, 2008 and 2007, the total System amounts of foreign currency held under central bank liquidity swaps were $553,728 million and $24,353 million, respectively, of which $138,622 million and $5,570 million, respectively, were allocated to the Bank.

The remaining maturity distribution of central bank liquidity swaps allocated to the Bank at December 31 was as follows (in millions):

	2008			2007
	Within 15 Days	16 to 90 Days	Total	Total
Australian dollar	$ 2,503	$ 3,212	$ 5,715	$ —
Danish krone	—	3,755	3,755	—
Euro	37,794	35,144	72,938	4,648
Japanese yen	11,990	18,731	30,721	—
Korean won	—	2,592	2,592	—
Norwegian krone	551	1,508	2,059	—
Swedish krona	2,503	3,755	6,258	—
Swiss franc	4,812	1,491	6,303	922
U.K. pound	30	8,251	8,281	—
Total	**$60,183**	**$78,439**	**$138,622**	**$5,570**

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, 2008, were as follows (in millions):

	Total Assets
CPFF	$ 334,910
ML	30,635
ML II	19,195
ML III	27,256
Total	**$ 411,996**

The Bank's maximum exposure to loss was $405.4 billion and incorporates potential losses associated with assets recorded on the Bank's balance sheet, net of the fair value of subordinated interests.

The net income (loss) attributable to consolidated VIEs for the period ended December 31, 2008, was as follows (in millions):

	ML	ML II	ML III	CPFF	Total
Interest income:					
Portfolio interest income	$ 1,561	$ 302	$ 517	$1,707	$ 4,087
Less: Interest expense	332	103	28	—	463
Net interest income	1,229	199	489	1,707	3,624
Non-interest income:					
Portfolio holdings gains (losses)	(5,497)	(1,499)	(2,633)	3	(9,626)
Less: Unrealized gains on beneficial interest in consolidated VIEs	1,188	1,003	2,198	—	4,389
Non-interest income (loss)	(4,309)	(496)	(435)	3	(5,237)
Total interest income and non-interest income	(3,080)	(297)	54	1,710	(1,613)
Less: Professional fees	54	5	9	12	80
Net income (loss) attributable to consolidated VIEs	**$(3,134)**	**$ (302)**	**$ 45**	**$1,698**	**$(1,693)**

The classification of significant assets and liabilities of the consolidated VIEs at December 31, 2008, was as follows (in millions):

	Assets Recorded at		
	Amortized Cost	Fair Value	Total
Assets:			
Commercial paper	$333,631	$ —	$333,631
CDOs	—	26,957	26,957
RMBS	—	18,839	18,839
Agency CMOs	—	13,565	13,565
Non-agency CMOs	—	1,836	1,836
Commercial and residential mortgage loans	—	6,490	6,490
Swap contracts	—	2,454	2,454
TBA commitments	—	2,089	2,089
Other investments	—	2,340	2,340
Subtotal	**$333,631**	**$74,570**	**$408,201**
Cash, cash equivalents, and accrued interest receivable			$ 3,795
Total investments held by consolidated variable interest entities			**$411,996**
Liabilities:			
Beneficial interest in consolidated variable interest entities		**$(2,824)**	
Other liabilities (actual value)[1]	**$ (5,813)**		

[1] The amount reported as "Consolidated variable interest entities: Other liabilities" in the Consolidated Statements of Condition includes $2.6 billion related to cash collateral received on swap contracts and $2.4 billion payable for investments purchased by VIEs. The amount also includes accrued interest, unearned registration fees, and accrued professional fees.

Total realized gains (losses) and unrealized gains (losses) associated with the investments held by consolidated VIEs at December 31, 2008, were as follows (in millions):

	Total Realized Gains (Losses)	Fair Value Changes Unrealized Gains (Losses)	Total Realized/Unrealized Gains (Losses)
CDOs	$ —	$(3,281)	$(3,281)
RMBS	—	(1,499)	(1,499)
Agency CMOs	(109)	60	(49)
Non-agency CMOs	(4)	(1,502)	(1,506)
Commercial and residential mortgage loans	39	(2,693)	(2,654)
Swap contracts	(70)	155	85
TBA commitments	(57)	(10)	(67)
Other investments	237	(892)	(655)
Total	**$ 36**	**$(9,662)**	**$(9,626)**

b. Commercial Paper Funding Facility LLC

The interest rate for unsecured commercial paper held by the CPFF is the three-month OIS rate plus 100 basis points, along with an additional surcharge ("credit enhancement fee") of 100 basis points. The interest rate for asset-backed commercial paper is the three-month OIS rate plus 300 basis points.

The non-refundable facility fee ("registration fee') is equal to 10 basis points times the maximum amount of the participant's commercial paper that the CPFF may purchase, which equals the greatest amount of U.S.-dollar-denominated commercial paper that the issuer had outstanding on the days between January 1 and August 31, 2008. The registration fee is recognized on a straight-line basis over the life of the program.

The credit enhancement fee is equal to 100 basis points per annum of the face value of the unsecured commercial paper purchased. Unsecured commercial paper issuers covered by the FDIC Temporary Liquidity Guarantee Program are viewed as having a satisfactory guarantee and the credit enhancement fee for those participants is waived. The credit enhancement fee is recognized on a straight-line basis over the term of the commercial paper, which is not materially different from the interest method.

The Bank conducts a periodic review of the CPFF's commercial paper to determine if impairment is other-than-temporary such that a loss should be recognized. At December 31, 2008, there were no commercial paper securities for which management considered impairment to be other-than-temporary.

The remaining maturity distribution of the commercial paper and trading securities held by the CPFF, excluding interest receivable, at December 31, 2008, was as follows (in millions):

	Commercial Paper			
	Asset-Backed	Non-Asset-Backed	Trading Securities	Total
0 to 15 days	$ —	$ —	$ 233	$ 233
16 to 60 days	95,306	201,660	473	297,439
61 to 92 days	25,625	11,040	565	37,230
Total	**$ 120,931**	**$212,700**	**$1,271**	**$334,902**

Top-tier commercial paper has received investment-grade ratings from all rating agencies (A-1, P-1, F1). Split-rated commercial paper has received a top tier rating from two rating agencies and second-tier rating (A-2, P-2, F2) from a third rating agency. Second-tier commercial paper has received non-investment-grade ratings from two or more rating agencies (A-2, P-2, F2). The credit ratings profile of the commercial paper held by the CPFF, by asset type, issuer type, and industry sector at December 31, 2008, was as follows (in millions):

	Top-Tier	Split-Rated	Second-Tier	Total
Asset-backed				
Multi-seller	$ 58,879	$ —	$ —	$ 58,879
Hybrid	24,625	—	—	24,625
Single-seller	23,129	—	—	23,129
Other	14,298	—	—	14,298
	120,931	—	—	120,931
Non-asset-backed				
Diversified financial	179,651	1,685		181,336
Insurance	17,647	1,805	204	19,656
Other	8,051	3,657	—	11,708
	205,349	7,147	204	212,700
Total	**$ 326,280**	**$7,147**	**$ 204**	**$333,631**

Commercial paper that is rated other than top tier results from ratings changes after acquisition of the commercial paper.

The top ten issuers of commercial paper held by the CPFF accounted for 43.5 percent of the total commercial paper portfolio holdings at December 31, 2008. The largest issuer, a diversified financial company, represents 10.8 percent of the total commercial paper at December 31, 2008.

c. Maiden Lane LLC

ML's investment portfolio consists primarily of agency and non-agency CMOs, commercial and residential mortgage loans, and derivatives and associated hedges. A synopsis of the significant holdings at December 31, 2008, and the associated credit risk for each holding follows.

i. Agency CMOs and Non-Agency CMOs

CMOs represent fractional ownership interests in residential mortgage-backed securities issued by either U.S. government agencies or private entities. 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 or defaults on assets underlying these securities, can affect the value, income, or liquidity of such positions.

At December 31, 2008, the ratings breakdown of the $16.8 billion of securities recorded at fair value in the ML portfolio (as a percentage of aggregate fair value of all securities in the portfolio) was as follows:

	Ratings[1]						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and Lower	Government/ Agency	Total
Security type:[2]							
Agency CMOs	0.0%	0.0%	0.0%	0.0%	0.0%	80.9%	80.9%
Non-agency CMOs	6.7%	0.7%	0.7%	0.7%	2.2%	0.0%	11.0%
Other[3]	3.2%	1.3%	1.0%	1.5%	1.1%	0.0%	8.1%
Total	**9.9%**	**2.0%**	**1.7%**	**2.2%**	**3.3%**	**80.9%**	**100.0%**

[1] Lowest of all ratings is used for the purposes of this table.

[2] This table does not include ML swaps and other derivative contracts, commercial and residential mortgage loans, and TBA investments.

[3] Includes all asset sectors that, individually, represent less than 5 percent of aggregate portfolio fair value.

At December 31, 2008, non-agency CMOs held by ML were collateralized by properties at the locations identified below:

Geographic Location	Percentage[1]
California	39.1%
Florida	11.7%
Other[2]	49.2%
Total	100.0%

[1]Based on a percentage of the total unpaid principal balance of the underlying loans.
[2]No other individual state comprises more than 5 percent of the total.

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 factors, construction trends, consumer behavior, regional economic conditions, interest rates, and other factors beyond the control of the Bank.

The performance profile for the commercial and residential mortgage loans at December 31, 2008, was as follows (in millions):

	Remaining Principal Amount Outstanding	Fair Value	Fair Value as Percentage of Principal Remaining
Performing loans			
Commercial	$ 8,406	$5,529	65.8%
Residential	1,288	817	63.4%
Subtotal	9,694	6,346	65.5%
Non-performing loans (past due greater than 60 days)			
Commercial	79	24	30.3%
Residential	380	120	31.7%
Subtotal	459	144	31.4%
Total			
Commercial	8,485	5,553	65.4%
Residential	1,668	937	56.2%
Total loans	**$10,153**	**$6,490**	**63.9%**

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 at December 31, 2008:

	Concentration of Unpaid Principal Balances	
	Residential	Commercial[2]
By state:		
California	35.8%	
Florida	9.1%	
Other[1]	55.1%	
	100.0%	
By property:		
Hospitality		80.3%
Office		10.2%
Other[1]		9.5%
		100.0%

[1] No other individual state or property type comprises more than 5 percent of the total.

[2] At December 31, 2008, one issuer represented approximately 48 percent of total unpaid principal balance of the commercial mortgage loan portfolio.

iii. Derivative Instruments

The ML portfolio included various derivative financial instruments, primarily consisting of a total return swap agreement ("TRS") with JPMC. ML may enter into additional derivative contracts during the normal course of business to economically hedge its exposure to interest rates. Losses may arise if the value of the derivative contracts acquired decrease because of an unfavorable change in the market price of the underlying security, or if the counterparty does not perform under the contract.

Total return swaps are agreements in which one party commits to pay a fee in exchange for a return linked to the market performance of an underlying security or, group of securities, index, or other asset ("reference obligation"). Risks may arise if the value of the swap acquired decreases because of an unfavorable change in the price of the reference obligation or because of the inability of the counterparty to meet the terms of its contracts.

During the term of a swap contract, unrealized gains or losses are recorded as a result of marking the swap to fair value. When a swap is settled or terminated, a realized gain or loss is recorded equal to the difference, if any, between the contractual amount and the actual proceeds on settlement of the contract.

At closing, ML and JPMC entered into the TRS with reference obligations representing a basket of CDS and interest rate swaps ("IRS"). The TRS is structured such that ML's economic position for each CDS and IRS replicates Bear Stearns' economic position. JPMC is the calculation agent for the TRS and the underlying values are also monitored by the Investment Manager on behalf of the Bank. ML made an initial payment to JPMC of $3.3 billion, which was included in the purchase price of the assets.

At December 31, 2008, the cash collateral liability associated with the TRS is invested in cash and cash equivalents and investments in the amounts of $2.1 billion and $0.5 billion, respectively. In addition, the ML has pledged $3.0 billion of agency CMOs to JPMC.

CDS are agreements that provide protection against a credit event on one or more referenced obligations. 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 collateral provisions outlined in the contract, including seizure and liquidation of collateral pledged by the buyer.

The following table summarizes the maximum credit exposure (notional amount, as described above) and fair value as of December 31, 2008, related to those CDS for which ML was the protection seller or guarantor (in millions):

	Notional Amount	Maturity Range (Date)[1]	Fair Value
Single-name CDS:[2]			
ABS	$ 2,530	04/20/10-11/07/47	$ (2,158)
CMBS	621	01/25/36-10/12/52	(371)
CMO	83	07/25/34-10/25/44	(61)
Corporate debt	358	12/20/10-03/20/18	(150)
	$ 3,592		$ (2,740)
Index CDS			
CMBS	17	2/17/51	(12)
Totals	**$ 3,609**		**$ (2,752)**

[1] The maturity date range represents a range of legal final maturity dates of single-name CDS within the corresponding CDS sector. Due to the fact that most of the reference obligations may be prepaid prior to the respective legal final maturity dates, the term of ML's obligation under a given CDS contract may terminate sooner than the legal final maturity date.

[2] Included in the reference obligations of the TRS with JPMC.

Interest rate swaps 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 interest rate swaps. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties. ML entered into interest rate swaps as part of its interest rate risk management strategy. Additionally, there is exposure to credit risk in the event of nonperformance by the counterparty to the swap. The notional value of the interest rate swaps in ML, including those embedded in the TRS, totals approximately $11.2 billion at December 31, 2008.

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 "marking-to-market" on a daily basis 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. At December 31, 2008, ML had pledged collateral related to future contracts of $69.0 million.

d. Maiden Lane II LLC

ML II's RMBS investment portfolio has risks related to credit, interest rate, general market, and concentration risk. Credit-related risk on 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 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 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 the holder of such 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 RMBS asset may be subject to substantial variation. The entire market or particular instruments traded on a market may decline even if projected cash flow or other factors improve inasmuch as the prices of such instruments are subject to numerous other factors that have little or no correlation to the performance of a particular instrument.

Since ML II concentrates its investments in RMBS, the overall impact on ML II as a result of adverse developments in the RMBS market could be considerably greater than if ML II did not concentrate its investments in RMBS.

At December 31, 2008, the sector/rating composition of ML II's $18.8 billion RMBS portfolio, recorded at fair value, as a percentage of aggregate fair value, was as follows:

	Ratings[1]					
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and Lower	Total
Asset type						
Alt-A (adjustable rate)	10.6%	5.4%	4.1%	3.1%	4.7%	27.7%
Subprime	22.5%	8.5%	6.7%	6.8%	12.7%	57.3%
Other[2]	7.1%	1.1%	0.8%	4.4%	1.5%	15.0%
Total[3]	40.1%	15.0%	11.6%	14.3%	18.9%	100.0%

[1] Lowest of all ratings is used for the purposes of this table.

[2] Includes all asset sectors that, individually, represent less than 5 percent of aggregate outstanding fair value of the portfolio.

[3] Rows and columns may not total due to rounding.

At December 31, 2008, the RMBS held by the ML II were collateralized by properties at the locations identified below, as a percentage of the total unpaid principal balance of the underlying loans:

Geographic Location	Percentage[1]
California	32.5%
Florida	12.6%
Other[2]	54.9%
Total	100.0%

[1] Based on geographic location information that was available for approximately 88 percent of underlying mortgage loans by outstanding unpaid principal balance.

[2] Includes all geographic locations that, individually, represent less than 5 percent of total aggregate outstanding unpaid principal balance of the underlying loans.

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 will vary in risk profile and yield. The junior tranches will 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 will typically have higher credit ratings and lower yields than their 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 RMBS or CMBS.

Over the past several years, default rates, delinquencies, and rating downgrades on RMBS and CMBS have increased significantly. This trend has reduced the amount of credit support available for the ABS CDOs. Such diminished credit support increases the likelihood that payments may not be made to holders of ABS CDOs.

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”), which 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. As of December 31, 2008, the total notional value of ABS CDOs held by the ML III with embedded 2a-7 Puts for which AIGFP was, directly or indirectly, the Put Provider was $2.7 billion. ML III has agreed, in return for the put premiums, to either convert the ABS CDOs to long-term notes or extinguish the 2a-7 Puts, to not exercise the 2a-7 Puts, or only to exercise the 2a-7 Puts if it simultaneously re-purchases the ABS CDOs at par. The maturity dates of these agreements are on or before December 31, 2009.

At December 31, 2008, the ABS CDO type/vintage and rating composition of the ML III's $26.7 billion portfolio, recorded at fair value, as a percentage of aggregate fair value of all securities in the portfolio, was as follows:

	Ratings[1]					
CDO type/vintage	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and Lower	Total
High-grade ABS CDO	**0.2%**	**24.2%**	**7.4%**	**12.5%**	**26.1%**	**70.4%**
2003-2004	0.2%	9.4%	5.1%	3.9%	7.8%	26.3%
2005	0.0%	3.8%	2.3%	8.6%	15.9%	30.6%
2006	0.0%	11.1%	0.0%	0.0%	2.4%	13.5%
Mezzanine ABS CDO	**0.3%**	**2.4%**	**1.6%**	**0.2%**	**7.1%**	**11.6%**
2003-2004	0.3%	1.2%	0.9%	0.0%	1.3%	3.7%
2005	0.0%	1.2%	0.7%	0.2%	5.8%	7.9%
2006	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Commercial-real-estate CDO	**17.6%**	**0.4%**	**0.0%**	**0.0%**	**0.0%**	**18.0%**
2002-2005	2.8%	0.4%	0.0%	0.0%	0.0%	3.2%
2006	2.3%	0.0%	0.0%	0.0%	0.0%	2.3%
2007	12.5%	0.0%	0.0%	0.0%	0.0%	12.5%
Total[2]	**18.1%**	**27.0%**	**9.0%**	**12.6%**	**33.2%**	**100.0%**

[1] Lowest of all ratings is used for the purpose of this table.

[2] Rows and columns may not total due to rounding.

f. Fair Value Measurement

The Bank has adopted SFAS 159 and SFAS 157, and has elected the fair value option for all securities and commercial and residential mortgages held in ML. ML II and ML III qualify as non-registered investment companies under the provisions of the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Investment Companies* and, therefore, all investments are recorded at fair value in accordance with SFAS 157. In addition, the Bank has elected to record the beneficial interests in ML, ML II, and ML III 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 reflects the amount of the assets available to liquidate the entities' obligations.

i. Fair Value Hierarchy

SFAS 157 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 own assumptions about market participant assumptions developed using the best information available in the circumstances (unobservable inputs).

The three levels established by SFAS 157 are described below:

- 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 inputs from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Bank's own estimates of assumptions that market participants would use in pricing the asset and liability. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

ii. 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 certain information with respect to transactions in such investments, quotations from dealers, pricing metrics, market transactions in comparable investments, various 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 certain circumstances in which the investment manager believes that facts and circumstances applicable to an issuer, a seller or a purchaser, or the market for a particular security cause current market quotations to not reflect the fair value of the security. The investment manager applies proprietary valuation models that use collateral performance scenarios and pricing metrics derived from reported performance of the universe of bonds with similar characteristics as well as observable market data to determine fair value.

Due to the inherent uncertainty of 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 used had a readily available fair value 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.

iii. Valuation Methodologies for Level 3 Assets and Liabilities

In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. For instance, in valuing collateralized debt obligations, 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 as well as 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 are market spreads, data for each credit rating, collateral type, and other relevant contractual features. Because there is lack of observable pricing, loans carried at fair value are classified within level 3.

The following table presents the financial instruments recorded in VIEs at fair value as of December 31, 2008, by SFAS 157 hierarchy (in millions):

	Level 1	Level 2	Level 3	Total Fair Value
Assets				
CDOs	$ —	$ 155	$26,802	$ 26,957
RMBS	—	7,406	11,433	18,839
Agency CMOs	—	12,670	895	13,565
Non-agency CMOs	—	759	1,077	1,836
Commercial and residential mortgage loans	—	—	6,490	6,490
Swap contracts	—	—	2,454	2,454
TBA commitments	—	2,089	—	2,089
Other investments	—	1,992	348	2,340
Total assets	$ —	$25,071	$49,499	$ 74,570
Liabilities				
Beneficial interest in consolidated variable interest entities			$(2,824)	$(2,824)

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3) during the year ended December 31, 2008, including realized and unrealized gains (losses) (in millions):

	Net Purchases, Sales, and Settlements	Total Realized/ Unrealized Gains/(Losses)	Transfers In or Out	Fair Value, December 31, 2008
Assets				
CDOs	$29,740	$(2,938)	$ —	$ 26,802
RMBS	12,606	(1,173)	—	11,433
Agency CMOs	891	4	—	895
Non-agency CMOs	2,062	(985)	—	1,077
Commercial and residential mortgage loans	9,183	(2,693)	—	6,490
Swap contracts	2,369	85	—	2,454
Other investments	625	(277)	—	348
Total assets	$57,476	$(7,977)	$ —	$ 49,499
Liabilities				
Beneficial interest in consolidated variable interest entities	[1]($7,213)	$ 4,389		$(2,824)

[1] Includes $63 million in capitalized interest.

g. Professional Fees

The Bank has contracted with several nationally recognized institutions to serve as Investment Manager, Administrator, and Custodian for the VIE's assets. Service providers to the VIEs operate under multi-year contracts that include provisions governing termination.

The fees charged by the investment managers, custodians, administrators, auditors, other service providers and organization costs are recorded in "Professional fees" in the Consolidated Statements of Income and Comprehensive Income.

10. BANK PREMISES, EQUIPMENT, AND SOFTWARE

Bank premises and equipment at December 31, 2008, were as follows (in millions):

	2008	2007
Bank premises and equipment:		
Land	$ 20	$ 20
Buildings	257	261
Building machinery and equipment	70	70
Construction in progress	15	7
Furniture and equipment	100	128
Subtotal	462	486
Accumulated depreciation	(208)	(230)
Bank premises and equipment, net	$ 254	$ 256
Depreciation expense, for the year ended December 31	$ 25	$ 25

The Bank has capitalized software assets, net of amortization, of $43 million and $54 million at December 31, 2008 and 2007, respectively. Amortization expense was $14 million and $11 million for the years ended December 31, 2008 and 2007, respectively. Capitalized software assets are reported as a component of "Other assets" and the related amortization is reported as a component of "Other expenses."

Assets impaired as a result of the Bank's restructuring plan, as discussed in Note 15, include check equipment. Asset impairment losses of $1.2 million for the year ended December 31, 2007, were determined using fair values based on quoted fair values or other valuation techniques and are reported as a component of "Other expenses." The Bank had no impairment losses in 2008.

11. COMMITMENTS AND CONTINGENCIES

In the normal course of its operation, the Bank enters into contractual commitments, normally with fixed expiration dates or termination provisions, at specific rates and for specific purposes.

Operating Leases

At December 31, 2008, the Bank was obligated under noncancelable leases for premises and equipment with remaining terms ranging from one to approximately fifteen 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 (reported as a component of "Other income"), was $14 million for the years ended December 31, 2008 and 2007, respectively. Certain of the Bank's leases have options to renew.

Future minimum rental payments under noncancelable operating leases, net of sublease rentals, with remaining terms of one year or more, at December 31, 2008, were as follows (in millions):

	Operating Leases
2009	$ 7
2010	7
2011	8
2012	8
2013	8
Thereafter	88
Future minimum rental payments	$ 126

Under the Insurance Agreement of the Federal Reserve Banks, 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 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, 2008 or 2007.

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 and backstop support to financial institutions. The contractual amount represents the Bank's maximum exposure to loss, in the event of default by the borrower or total loss in value of pledged collateral. Total commitments at December 31, 2008, were as follows (in millions):

	Contractual Amount	Unfunded Amount
Loan commitment (Citigroup)	$244,800	$ 244,800
Secured line of credit (AIG)	60,000	23,200
Commercial loan commitments (ML)	266	266
Total	**$305,066**	**$ 268,266**

The agreement with Citigroup, while legally a loan commitment, is accounted for in accordance with FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." As of December 31, 2008, both the probable loss and the fair value of the Bank's loan commitment were deemed to be zero, because under a range of scenarios it is unlikely that the Bank will be required to make the loan.

The secured line of credit relates to the undrawn portion of the line of credit provided to AIG to assist it with meeting obligations as they come due. Collateral to secure the line of credit includes the equity in AIG's subsidiaries. The Bank does not expect to incur any losses related to the unfunded commitment as of December 31, 2008.

The commercial loan commitments relate to commercial mortgage loans acquired by ML that have underlying unfunded commitments due to the borrower.

12. RETIREMENT AND THRIFT PLANS

Retirement Plans

The Bank currently offers three defined benefit retirement plans to its employees, based on length of service and level of compensation. Substantially all of the Bank's employees participate in the Retirement Plan for Employees of the Federal Reserve System ("System Plan"). Employees at certain compensation levels participate in the Benefit Equalization Retirement Plan ("BEP") and certain Reserve Bank officers participate in the Supplemental Employee Retirement Plan ("SERP").

The System Plan provides retirement benefits to employees of the Federal Reserve Banks, the Board of Governors, and the Office of Employee Benefits of the Federal Reserve Employee Benefits System. 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. Costs associated with the System Plan are not reimbursed by other participating employers.

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

	2008	2007
Estimated actuarial present value of projected benefit obligation at January 1	$5,325	$ 5,147
Service cost - benefits earned during the period	150	146
Interest cost on projected benefit obligation	357	317
Actuarial loss (gain)	599	(46)
Contributions by plan participants	3	3
Special termination benefits	9	22
Benefits paid	(280)	(264)
Plan amendments	868	—
Estimated actuarial present value of projected benefit obligation at December 31	$7,031	$ 5,325

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

	2008	2007
Estimated fair value of plan assets at January 1	$ 6,604	$ 6,330
Actual return on plan assets	(1,274)	535
Contributions by plan participants	3	3
Benefits paid	(280)	(264)
Estimated fair value of plan assets at December 31	$ 5,053	$ 6,604
Funded status and (accrued) prepaid pension benefit costs	$ (1,978)	$ 1,279
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service cost	$ (989)	$ (163)
Net actuarial loss	(3,429)	(1,135)
Total accumulated other comprehensive loss	$ (4,418)	$(1,298)

Accrued and prepaid pension benefit costs are reported as “Accrued benefit cost” and “Federal Reserve System prepaid pension benefit costs,” respectively, 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 $6,143 million and $4,621 million at December 31, 2008 and 2007, respectively.

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

	2008	2007
Discount rate	6.00%	6.25%
Rate of compensation increase	5.00%	5.00%

In 2008, the System approved several Plan amendments. As a result, the actuarially determined net periodic benefit expenses for the year ended December 31, 2008, were remeasured, using a 7.75 percent discount rate, as of November 1. The approved plan amendments, the most significant of which was to incorporate annual, rather than ad hoc, cost-of-living adjustments to the plan benefit, resulted in a $60 million increase in net periodic benefit expenses for the year ended December 31, 2008.

Net periodic benefit expenses for the year ended December 31, 2007, 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:

	2008	2007
Discount rate	6.50%	6.00%
Expected asset return	8.00%	8.00%
Rate of compensation increase	5.00%	4.50%

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. The expected long-term rate of return on assets was based on a combination of methodologies including the System Plan's historical returns; surveys of expected rates of return for other entities' plans; building 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):

	2008	2007
Service cost - benefits earned during the period	$ 150	$ 146
Interest cost on accumulated benefit obligation	357	317
Amortization of prior service cost	41	29
Amortization of net loss	78	79
Expected return on plan assets	(497)	(496)
Net periodic pension benefit expense	129	75
Special termination benefits	9	22
Total periodic pension benefit expense	**$ 138**	**$ 97**
Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic pension benefit expense in 2009 are shown below:		
Prior service cost	$ 116	
Actuarial loss	284	
Total	**$ 400**	

The recognition of special termination losses is the result of enhanced retirement benefits provided to employees during the restructuring described in Note 15.

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

	Expected Benefit Payments
2009	$ 315
2010	330
2011	346
2012	368
2013	391
2014-2018	2,278
Total	**$ 4,028**

The System's Committee on Investment Performance ("CIP") is responsible for establishing investment policies, selecting investment managers, and monitoring the investment managers' compliance with the policies. In 2008, the CIP reassessed the System Plan investment strategies and the resulting target allocations evolved considerably. The System Plan's assets were held in five investment vehicles: actively managed balanced accounts, a constant mix asset allocation account, a liability-linked account, indexed commingled trusts, and a money market fund. The actively managed balanced accounts have equity, fixed income, and temporary investment segments, with a performance benchmark for these assets based upon 60 percent of the return of the Standard & Poor's 500 Stock Index and 40 percent of the return of the Barclays Aggregate Bond Index, with required equity segment exposures in the range of 40 percent to 80 percent of each account. The constant mix account is comprised of two index funds, one tracking the Standard & Poor's 500 Stock Index and the other tracking the Barclays Aggregate Bond Index, and is automatically rebalanced. The liability-linked account, funded in April 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 next two years of a portion of retiree benefits payments and immunizing the remaining obligation. The three indexed commingled trust investments, initially funded in October 2008, are intended to provide the System Plan with-low cost broadly diversified exposures to U.S. equities, U.S. investment-grade bonds, and international equities. The money market fund is the repository for cash balances and adheres to a constant dollar accounting methodology.

The System's Plan weighted-average asset allocations at December 31, by asset category were as follows:

	2008	2007
Equities	55.4%	65.7%
Fixed income	42.8%	33.2%
Cash	1.8%	1.1%
Total	**100.0%**	**100.0%**

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 $150 million and $200 million. Beginning in January 2009, the System will make monthly contributions of $20 million and will reevaluate funding upon completion of the 2009 actuarial valuation. The Bank's projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2008 and 2007, and for the years then ended, were not material.

Thrift Plan

Employees of the Bank may also participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System ("Thrift Plan"). The Bank matches employee contributions based on a specified formula. For the years ended December 31, 2008 and 2007, the Bank matched 80 percent on the first 6 percent of employee contributions for employees with less than five years of service and 100 percent on the first 6 percent of employee contributions for employees with five or more years of service. The Bank's Thrift Plan contributions totaled $15 million and $14 million for the years ended December 31, 2008 and 2007, respectively, and are reported as a component of "Salaries and other benefits" in the Consolidated Statements of Income and Comprehensive Income. Beginning in 2009, the Bank will match 100 percent of the first 6 percent of employee contributions from the date of hire and provide an automatic employer contribution of 1 percent of eligible pay.

13. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND POSTEMPLOYMENT BENEFITS

Postretirement Benefits Other Than Pensions

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

The Bank funds benefits payable under the medical and life insurance plans as due and, accordingly, has no plan assets.

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

	2008	2007
Accumulated postretirement benefit obligation at January 1	$ 226.7	$247.9
Service cost - benefits earned during the period	5.5	6.1
Interest cost on accumulated benefit obligation	14.1	14.0
Net actuarial loss (gain)	14.4	(29.6)
Curtailment gain	(0.6)	—
Contributions by plan participants	1.7	1.6
Benefits paid	(15.5)	(14.1)
Medicare Part D subsidies	0.8	0.8
Accumulated postretirement benefit obligation at December 31	$ 247.1	$226.7

At December 31, 2008 and 2007, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 6.00 percent and 6.25 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):

	2008	2007
Fair value of plan assets at January 1	$ —	$ —
Contributions by the employer	13.0	11.7
Contributions by plan participants	1.7	1.6
Benefits paid	(15.5)	(14.1)
Medicate Part D subsidies	0.8	0.8
Fair value of plan assets at December 31	$ —	$ —
Unfunded obligation and accrued postretirement benefit cost	$247.1	$226.7
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service cost	$ 10.7	$ 14.8
Net actuarial loss	(64.0)	(55.6)
Total accumulated other comprehensive loss	$(53.3)	$(40.8)

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:

	2008	2007
Health care cost trend rate assumed for next year	7.50%	8.00%
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	2014	2013

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, 2008 (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	$ 2.8	$ (2.3)
Effect on accumulated postretirement benefit obligation	28.6	(24.0)

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

	2008	2007
Service cost - benefits earned during the period	$ 5.5	$ 6.1
Interest cost on accumulated benefit obligation	14.1	14.0
Amortization of prior service cost	(5.3)	(5.2)
Amortization of actuarial loss	4.9	10.1
Total periodic expense	19.2	25.0
Curtailment loss	0.6	—
Net periodic postretirement benefit expense	$ 19.8	$ 25.0
Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic postretirement benefit expense in 2009 are shown below:		
Prior service cost	$ (5.4)	
Actuarial loss	6.1	
Total	**$ 0.7**	

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2008 and 2007, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 6.25 percent and 5.75 percent, respectively.

Net periodic postretirement benefit expense is reported as a component of "Salaries and other 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 $0.4 million and $0.5 million in the years ended December 31, 2008 and 2007, respectively. Expected receipts in 2009, related to benefits paid in the year ended December 31, 2008, are $0.4 million.

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

	Without Subsidy	With Subsidy
2009	$ 15.6	$ 14.6
2010	16.7	15.5
2011	17.6	16.4
2012	18.2	16.9
2013	19.0	17.5
2014-2018	102.6	93.2
Total	**$189.7**	**$174.1**

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 were $29 million for each of the years ended December 31, 2008 and 2007, respectively. This cost is included as a component of "Accrued benefit costs" in the Consolidated Statements of Condition. Net periodic postemployment benefit expenses included in 2008 and 2007 operating expenses were $4 million and $3 million, respectively, and are recorded as a component of "Salaries and other benefits" in the Consolidated Statements of Income and Comprehensive Income.

14. 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 Pensions	Total Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2007	$ (1,492)	$ (75)	$ (1,567)
Change in funded status of benefit plans:			
Prior service costs arising during the year	$ —	$ —	—
Net actuarial gain arising during the year	86	30	116
Amortization of prior service cost	29	(5)	24
Amortization of net actuarial loss	79	10	89
Change in funded status of benefit plans - other comprehensive income	194	35	229
Balance at December 31, 2007	$ (1,298)	$ (40)	$ (1,338)
Change in funded status of benefit plans:			
Prior service costs arising during the year	$ (868)	$ —	(868)
Net actuarial loss arising during the year	(2,371)	(14)	(2,385)
Deferred curtailment gain	—	1	1
Amortization of prior service cost (credit)	41	(5)	36
Amortization of net actuarial loss	78	5	83
Change in funded status of benefit plans - other comprehensive loss	(3,120)	(13)	(3,133)
Balance at December 31, 2008	$ (4,418)	$ (53)	$ (4,471)

Additional detail regarding the classification of accumulated other comprehensive loss is included in Notes 12 and 13.

15. BUSINESS RESTRUCTURING CHARGES

2007 and Prior Restructuring Plans

In 2007, the Board of Governors announced restructuring plans related to aligning the check processing infrastructure and operations with declining processing volumes. The new infrastructure would involve consolidation of operations into four regional Reserve Bank processing sites in Philadelphia, Cleveland, Atlanta, and Dallas. In 2006, the Bank incurred various restructuring charges related to the initial phases of restructuring of the System's check processing and cash handling infrastructure.

Employee separation costs are primarily severance costs for identified staff reductions associated with the announced restructuring plans. Separation costs that are provided under terms of ongoing benefit arrangements are recorded based on the accumulated benefit earned by the employee. Separation costs that are provided under the terms of one-time benefit arrangements are generally measured based on the expected benefit as of the termination date and recorded ratably over the period to termination. Restructuring costs related to employee separations are reported as a component of "Salaries and other benefits" in the Consolidated Statements of Income and Comprehensive Income. Restructuring costs were $0.1 million and $5 million for the years ended December 31, 2008 and 2007, respectively.

16. SUBSEQUENT EVENTS

All subsequent events are disclosed in Note 3 where applicable.

The effects of subsequent events do not require adjustment to the consolidated financial statements as of December 31, 2008.