2008 Annual Report

Federal Reserve Bank of Kansas City

The Federal Reserve Bank of Kansas City and its Branches in Denver, Oklahoma City and Omaha has three broad focus areas: contributing to monetary policy that promotes stability and growth; providing supervisory and regulatory oversight to financial institutions; and promoting safe and efficient financial services.

This annual report includes information on the leadership and divisions of the Kansas City Fed and its Branches, as well as financial reports for 2008.

Financial Report

2008 YEAR IN PROGRAMS

As the regional headquarters for the nation's central bank, the Federal Reserve Bank of Kansas City and its Branches in Denver, Oklahoma City and Omaha serve the Tenth Federal Reserve District. Although many parts of the Kansas City Fed's mission are related specifically to the financial system, such as its regulatory and supervisory responsibilities or its work in financial services, the Kansas City Fed is also responsible for linking the communities of our seven states to the policy deliberations and work of the nation's central bank. The Kansas City Fed accomplishes this in many ways.

PHOTOS BY GARY BARBER

CONSUMERS

The Kansas City Fed, in partnership with the Minneapolis Fed, operates the national call center for Federal Reserve Consumer Help. In 2008, nearly 40,000 consumers either made an inquiry or filed a complaint through the FRCH website or toll-free line (888-851-1920). Thousands of others used the service to gain access to a wide range of resources about banking, finance and the Federal Reserve.

For more information, visit FederalReserveConsumerHelp.gov.

BANKERS

The Kansas City Fed offers numerous programs for bankers.

In 2008, more than 400 bankers took part in one of 11 Regulatory Update Seminars held throughout the District where Fed officials discussed current regulatory and supervisory issues. Perhaps more importantly, it provided the Kansas City Fed a direct opportunity to learn from bankers what concerns they have.

To help directors of local banks better serve both their institutions and local communities, the Kansas City Fed also offers a wide range of free training resources including an online course and a six-hour on-site training course. The courses are based on the Kansas City Fed's book "Basics for Bank Directors," which also is free.

For more information, visit KansasCityFed.org and click "Banking Supervision."

COMMUNITIES

Numerous public events were held throughout the District, including the latest edition of the long-running Economic Forums series. For nearly 60 years, the Kansas City Fed has hosted programs throughout the District where Fed economists and officials talk about what the central bank is seeing in the economy, but, just as important, the forums are also an opportunity to learn from local business leaders what they are seeing. More than 1,200 attendees took part in forums held in locations such as Norfolk, Neb.; Laramie, Wyo.; and Albuquerque, N.M., in 2008. In addition, economists and officials, including Kansas City Fed President Tom Hoenig, spoke to thousands of District residents at numerous individual gatherings throughout the year, ranging from large chamber of commerce luncheons to more intimate gatherings with local service clubs.

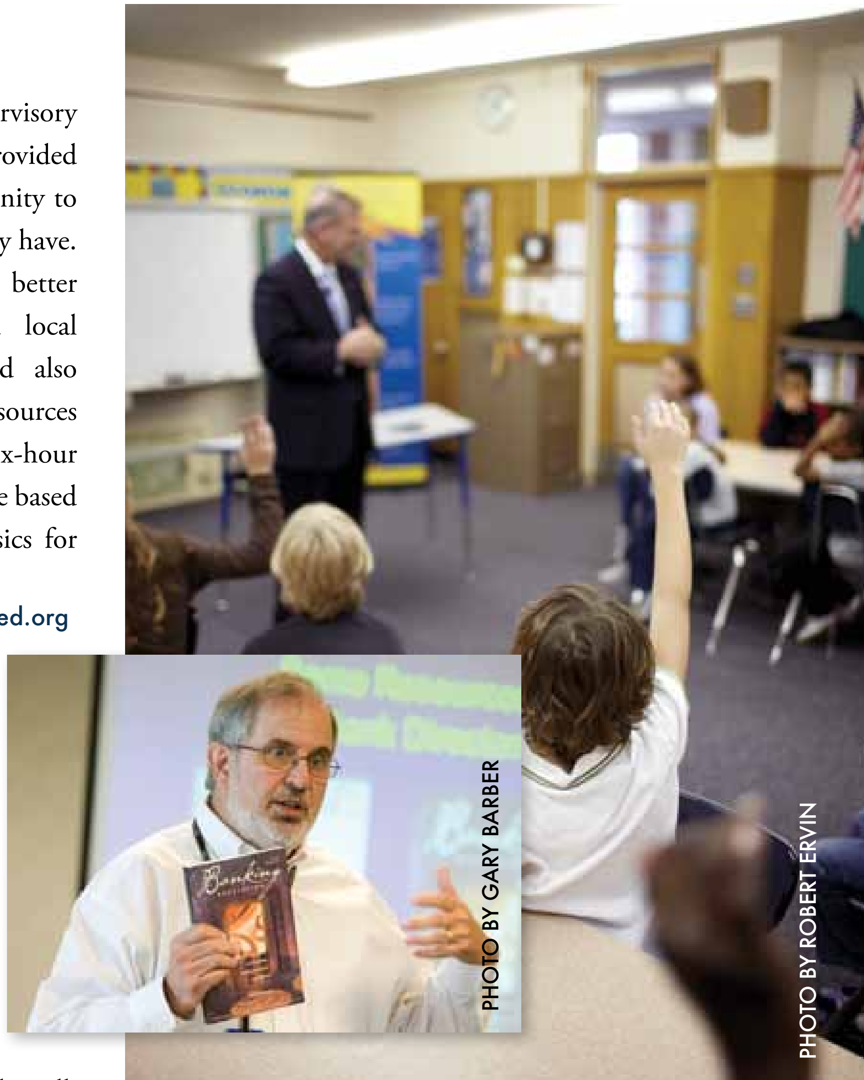


PHOTO BY GARY BARBER

PHOTO BY ROBERT ERVIN

For more information on the Economic Forums and events in the District, visit KansasCityFed.org and click "News and Events."


PHOTO BY GARY BARBER

One of the Kansas City Fed's more concentrated efforts has related to the issue of home foreclosures. In 2008, the Kansas City Fed hosted numerous events throughout the District and worked closely with partner organizations on a series of initiatives and programs that provided troubled borrowers an opportunity to either gain assistance through available resources or meet with loan services to seek options with the goal of making them able to stay in their homes. In one recent Kansas City event alone, more than 700 homeowners received some type of assistance.

The Kansas City Fed also establi
Web-based Foreclosure Resource cen
help address challenges in mortgage m
For homeowners and homebuyers, the c
provide contact information for ag

that can help those in financial trouble or provide counsel for those who want to buy their first home. For community leaders and local municipalities, the center offers information on preserving and protecting the neighborhoods where foreclosures have occurred. The center also provides access to Federal Reserve research and notices of upcoming events.

For more information, visit KansasCityFed.org and click "Community Development."

STUDENTS OF ALL AGES

The Kansas City Fed is committed to financial literacy and economic education.

These efforts take many forms from free lesson plans and on-site training for teachers to educational conferences, designed for educators of all grade levels.

For more information, visit KansasCityFed.org and click "Education Resources."

In addition to the work with teachers, in 2008 the Kansas City Fed's staff gave more than 50 presentations and workshops throughout the District to encourage financial literacy, including Jump$tart Your Money Week in Oklahoma, Money Smart

PHOTO BY GARY BARBER

in Nebraska and Financial Fitness Week in Kansas City. Other events included the Financial Education in Oklahoma conference and a financial literacy summit in Denver.

The Kansas City Fed's headquarters at 1 Memorial Drive also features the 3,000-square-foot Money Museum, featuring a number of interactive educational displays. From the facility's June 2008 opening to year-end, nearly 11,000 guests learned more about the economy and the Federal Reserve through tours. During their visit, they also had the opportunity to see the more than 400-piece coin collection, on loan from the Truman Presidential Library and watch operations inside the region's largest cash vault. Tours also are available at the Denver Branch, and the public is welcome to visit offices in Oklahoma City and Omaha.

For more information, go to KansasCityFed.org/MoneyMuseum, or visit KansasCityFed.org for branch information.

PHOTO BY GARY BARBER

PHOTO BY GARY BARBER

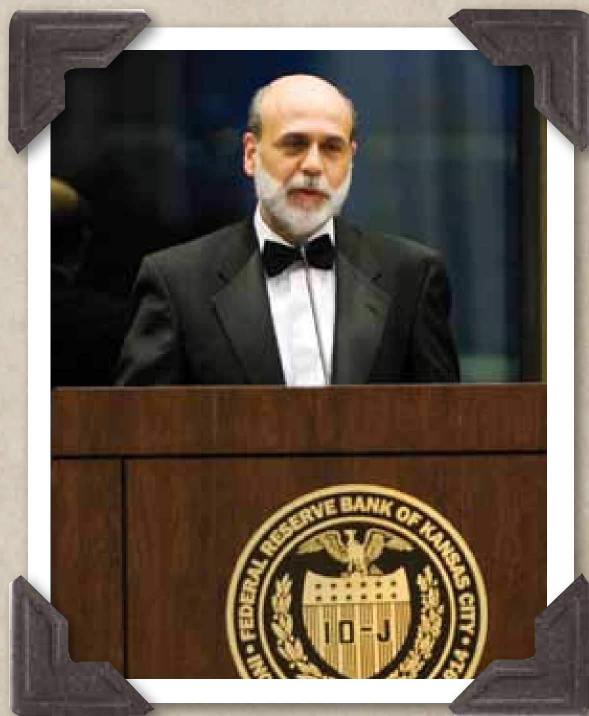
A Mark in Time

Kansas City Fed commemorates grand opening in June

CHAIRMAN OF THE KANSAS CITY FED BOARD OF DIRECTORS LU CÓRDOVA speaks at the grand opening ceremonies.

"CONFIDENCE RESTORED" is a chronicle of the Kansas City Fed's history.

ARCHITECT HENRY COBB, PRESIDENT TOM HOENIG, DEPUTY BOARD CHAIRMAN PAUL DEBRUCE AND BUILDER TERRY DUNN cut the ribbon during grand opening events.



FEDERAL RESERVE CHAIRMAN BEN BERNANKE helps commemorate the Kansas City Fed's new building.

ARTIST TUCK LANGLAND describes the features of the Spirits of Commerce and Industry using two miniature models. The larger-than-life, three-dimensional statues flank the building's front entrance.

In the Federal Reserve Bank of Kansas City's historical timeline, 2008 is a big notch.

Years of planning and preparation culminated with the completion of the Kansas City Fed's new headquarters building. That winter, staff moved from 925 Grand Blvd., where operations had taken place since 1921, to 1 Memorial Drive. In June, regional bankers, community leaders, educators and the public were invited to help commemorate the building's official opening. Special guests included Federal Reserve Chairman Ben Bernanke, as well as former and current members of the Boards of Directors, who are pictured at a reception on Pages 49 - 52.

STATE BANKING COMMISSIONERS Jeff Vogel, Wyoming; Tom Thull, Kansas; Eric McClure, Missouri; Kansas City Fed Senior Vice President Esther George; President Tom Hoenig; Fed Chairman Ben Bernanke; Richard Fulkerson, Colorado; and John Munn, Nebraska, attend a meeting during the grand opening events.

THREE TAPESTRIES BY NEW MEXICO ARTIST REBECCA BLUESTONE are part of the Kansas City Fed's regional art collection.

THE FED RECOGNIZES ITS SITE'S FORMER OCCUPANT, ST. MARY'S HOSPITAL, by dedicating the chapel bell and a plaque to the hospital's Sisters. The hospital closed in 2001.

FORMER CHAIRMEN OF THE KANSAS CITY FED'S Board of Directors Fred Lyons, Terry Dunn, Lu Córdova (current), Richard Bard, Jo Marie Dancik, Bob Funk, Drue Jennings, Irvine Hockaday, seated, President Tom Hoenig, former President Roger Guffey and Former Chairman Harold Andersen.

AREA TEACHERS ATTEND AN OPEN HOUSE at the Kansas City Fed, which provided free materials to assist with their financial education lessons.

KANSAS CITY PUBLIC TELEVISION (KCPT) partnered with the Kansas City Fed to produce "10J: The History of the Federal Reserve Bank of Kansas City." Crews filmed locally as well as in Denver, Oklahoma City, Omaha and elsewhere around the District to fully represent the area.

THE NEW BUILDING is 600,000 square feet and 14 stories tall. About 75 firms were involved in the construction; more than 60 are based within the Tenth District.

THE MONEY MUSEUM includes a window into the cash vault, which is the region's largest with 540,000 cubic feet of storage capacity. Guided and self-guided tours are free and available 8:30 a.m. - 4:30 p.m. weekdays. The variety of exhibits appeals to all ages.

VISITORS STUDY THE TRUMAN COIN COLLECTION in the Fed's Money Museum, which includes nearly 500 coins total from every presidential administration.

Officers | Directors | Advisory Councils

Federal Reserve Bank of Kansas City

Management Committee

(From left) Ms. George, Mr. Barkema, Mr. Hoenig, Mr. Dubbert, Mr. Rasdall, Mr. McBride, Ms. Pacheco, Mr. Sellon

Thomas M. Hoenig
President and
Chief Executive Officer

Richard K. Rasdall, Jr.
First Vice President and
Chief Operating Officer

Alan D. Barkema
Senior Vice President

Kelly J. Dubbert
Senior Vice President and
Chief Information Officer

Esther L. George
Senior Vice President

Stephen E. McBride
Senior Vice President

Barbara S. Pacheco
Senior Vice President

Gordon H. Sellon, Jr.
Senior Vice President and
Director of Research

Federal Reserve Bank Directors:

Governance of the District; guardianship of the System

The Board of Directors of a Federal Reserve Bank is filled through a unique blend of appointed and elected positions. The nine-member panel is divided evenly among three classifications. All directors serve staggered three-year terms.

CLASS A

The three Class A directors represent commercial banks that are members of the Federal Reserve System. These directors are bankers who are nominated and elected by member banks within the Tenth Federal Reserve District. This District includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico.

Under the Class A category, a director will be elected by a specific group of member banks classified as either 1, 2 or 3. This classification is based on the total amount of capital and surplus for each commercial bank, with Group 1 banks being the largest. Each group within the class elects one director.

For example, Robert C. Fricke, president and chief executive officer of the Farmers & Merchants Bank of Ashland, Neb., is a Class A director, who was elected by, and represents, Group 3 member banks.

CLASS B

The three Class B directors represent the public. Class B directors may not be an officer, director or employee of a bank or a bank holding company. However, these directors are also elected by member banks under the same categories as Class A directors. For example, Dan L. Dillingham, chief executive officer of Dillingham Insurance of Enid, Okla., is a Class B director elected by Group 2 member banks.

CLASS C

The three Class C directors also represent the public. These directors, however, are appointed by the Board of Governors of the Federal Reserve System.

Like a Class B director, a Class C director may not be an officer, director or employee of a bank or a bank holding company. These directors may not own stock in a bank or a bank holding company. From the Class C directors, the Board of Governors selects one person as chairman and another as deputy chairman.

SERVING ON THE BOARD

Federal Reserve Bank of Kansas City

Reserve Bank directors meet monthly to oversee the Bank's operations and policies and to confer on economic and banking developments. The directors also provide information on economic conditions within the District as a part of the Bank president's preparation for Federal Open Market Committee meetings. Among directors' responsibilities is establishing the Kansas City Fed's discount rate, which is subject to review and determination by the Federal Reserve Board. The directors and their classifications are on Page 49.

SERVING THE BRANCHES

Denver, Oklahoma City and Omaha

Each Branch of the Federal Reserve Bank of Kansas City also has its own seven-member Board of Directors. Four of these directors are appointed by the Federal Reserve Bank of Kansas City while three are appointed by the Board of Governors. Branch directors serve three-year terms and provide their respective Branch Executives with insight on regional economic conditions as well as offer advice and counsel. Branch directors are on Pages 50-52.

FEDERAL RESERVE BANK OF KANSAS CITY · INCORPORATED MAY 18, 1914 · 10-J

Kansas City

(From left) Mr. Smalley, Mr. Moore, Mr. Fricke, Ms. Córdova, Mr. DeBruce, Mr. Dillingham, Mr. Nunnink, Mr. Schifferdecker

Lu M. Córdova, Board Chairman;
Chief Executive Officer, Corlund Industries;
President and General Manager, Almacen Storage Group
Boulder, Colorado (Class C)

Paul DeBruce, Board Deputy Chairman;
Chief Executive Officer, Chair/Founder
DeBruce Grain Inc.
Kansas City, Missouri (Class C)

Dan L. Dillingham
Chief Executive Officer
Dillingham Insurance
Enid, Oklahoma (Class B, Group 2)

Robert C. Fricke
President and Chief Executive Officer
Farmers & Merchants National Bank
Ashland, Nebraska (Class A, Group 3)

Terry L. Moore
President
Omaha Federation of Labor
Omaha, Nebraska (Class C)

Kevin K. Nunnink
Chairman
Integra Realty Resources
Westwood, Kansas (Class B, Group 1)

Mark W. Schifferdecker
President and Chief Executive Officer
Girard National Bank
Girard, Kansas (Class A, Group 2)

Rick L. Smalley
Chief Executive Officer
Dickinson Financial Corporation
Kansas City, Missouri (Class A, Group 1)

Federal Advisory Council Representative
David C. Boyles (not pictured)
Chairman, Columbine Capital Corp.;
Director, Columbine Capital Corp. &
Collegiate Peaks Bank
Buena Vista, Colorado

Denver

(From left) Mr. Stanford, Ms. Mowry, Mr. Brown, Ms. Schloss, Mr. Alexander, Ms. Leavesley, Mr. Pearson

Kristy A. Schloss, Board Chairman;
President and Chief Executive Officer
Schloss Engineered Equipment
Aurora, Colorado

Bruce K. Alexander
President and Chief Executive Officer
Vectra Bank Colorado
Denver, Colorado

Charles H. Brown III
President
C.H. Brown Co.
Wheatland, Wyoming

Diane Leavesley
President
Mercy Loan Fund
Denver, Colorado

Barbara Mowry
President, Chief Executive Officer and Board Member
Silver Creek Systems
Westminster, Colorado

John D. Pearson
Real Estate Broker and Owner
Pearson Real Estate Company Inc.
Buffalo, Wyoming

Michael R. Stanford
President and Chief Executive Officer
First State Bancorporation
Albuquerque, New Mexico

Oklahoma City

(From left) Mr. Ramos, Mr. Ratcliffe, Mr. Agee, Ms. Almon, Mr. Dunn

Richard K. Ratcliffe, Board Chairman;
Chairman
Ratcliffe's Inc.
Weatherford, Oklahoma

Steven C. Agee
President
Agee Energy, L.L.C.
Oklahoma City, Oklahoma

Terry M. Almon
President
Oklahoma Community Capital Corporation
Broken Arrow, Oklahoma

Steve Burrage (not pictured)
Chairman
FirstBank
Antlers, Oklahoma

James D. Dunn
Chair
Mill Creek Lumber & Supply Co.
Tulsa, Oklahoma

Barry H. Golsen (not pictured)
Board Vice Chairman, President and Chief Operating Officer
LSB Industries Inc.
Oklahoma City, Oklahoma

Fred M. Ramos
President
RGF Inc.
Oklahoma City, Oklahoma

Douglas E. Tippens (not pictured)
President and Chief Executive Officer
Canadian State Bank
Yukon, Oklahoma

Omaha

(From left) Ms. Martin, Mr. Adams, Mr. Hermes, Mr. Timmerman, Mr. Sutko

Charles R. Hermes, Board Chairman
President
Dutton-Lainson Company
Hastings, Nebraska

Todd S. Adams
Chief Executive Officer
Adams Bank and Trust
Ogallala, Nebraska

Rodrigo Lopez (not pictured)
President and Chief Executive Officer
AmeriSphere Multifamily Finance, L.L.C.
Omaha, Nebraska

JoAnn M. Martin
President and Chief Executive Officer
Ameritas Life Insurance Corp.
Lincoln, Nebraska

Mark A. Sutko
President and Chief Executive Officer
Platte Valley State Bank
Kearney, Nebraska

James A. Timmerman
Chief Financial Officer
Timmerman & Sons Feeding Co.
Springfield, Nebraska

Lyn Wallin Ziegenbein (not pictured)
Executive Director
Peter Kiewit Foundation
Omaha, Nebraska

Economic Advisory Council

(From left) Mr. Stout, Ms. Herda, Mr. Price, Mr. Mead, Mr. Kemp, Ms. Bass, Mr. McClain, Mr. Sunderland

Deborah Bass
President and Chief Executive Officer
Bass & Associates, Inc.
Omaha, Nebraska

Larissa Herda
Chairman, Chief Executive Officer and President
tw telecom inc.
Littleton, Colorado

Garry Kemp
Secretary-Business Manager and Executive Officer
Greater Kansas City Building &
Construction Trades Council, AFL-CIO
Independence, Missouri

Terry McClain
Senior Vice President and Chief Financial Officer
Valmont Industries, Inc.
Omaha, Nebraska

Bradford S. Mead
Attorney at Law
Mead & Mead
Jackson, Wyoming

Xavier Neira (not pictured)
Vice President of Special Projects
Rooney Holdings, Inc.
Oklahoma City, Oklahoma

Russell Perry (not pictured)
President
Perry Publishing and Broadcasting Company
Oklahoma City, Oklahoma

Tom B. Price
President
UFCW District Local Two
Kansas City, Missouri

John Stout
Chief Executive Officer
Plaza Belmont Management Group L.L.C.
Shawnee Mission, Kansas

Charles T. Sunderland
Chairman and Chief Executive Officer
Ash Grove Cement Company
Overland Park, Kansas

Community Development Advisory Council

(From left) Ms. Meyer, Ms. Tinney, Mr. Jensen, Ms. Dobreff, Mr. Yost, Ms. Noonan, Ms. Capps, Mr. Padilla

Linda Capps
Vice Chairman
Citizen Potawatomi Nation
Shawnee, Oklahoma

Erica Dobreff
President
Kansas City Equity Fund
Kansas City, Missouri

Bernard Franklin (not pictured)
President
Penn Valley Community College
Kansas City, Missouri

Robert Jensen
Chief Operating Officer
Wyoming Business Council
Cheyenne, Wyoming

Carol Meyer
Southwest Regional Representative
Kansas Department of Commerce
Garden City, Kansas

Agnes Noonan
Executive Director
WESST Corporation
Albuquerque, New Mexico

Daniel Padilla
Regional Branch Director
First National Bank
Omaha, Nebraska

Linda Tinney
Vice President
U.S. Bank
Denver, Colorado

Jeffrey Yost
President and Chief Executive Officer
Nebraska Community Foundation
Lincoln, Nebraska

Advisory Council On Payments

(From left) Mr. Champion, Mr. DeBroeck, Mr. Copeland, Mr. Fosler, Mr. Connealy, Mr. Oatman, Mr. Davidson, Mr. Frank

Kansas City

Tim Connealy
Executive Vice President and
Chief Operating Officer
Bank Midwest
Kansas City, Missouri

Lloyd Davidson
President
First Bank Kansas
Salina, Kansas

Steve Hipp (not pictured)
Executive Vice President
INTRUST Bank, N.A.
Wichita, Kansas
Michael DeBroeck
Senior Vice President
(in place of Mr. Hipp)

Denver

Mark Frank
Senior Vice President
CoBiz Bank, N.A.
Denver, Colorado

James A. Reuter (not pictured)
President
FirstBankData Corporation
Lakewood, Colorado

Oklahoma City

Scott Copeland
Executive Vice President
BancFirst
Oklahoma City, Oklahoma

C.H. Wyatt, Jr. (not pictured)
Vice Chair and
President
Rose Rock Bank
El Reno, Oklahoma

Omaha

Craig E. Champion
Senior Vice President
TierOne Bank
Lincoln, Nebraska

Alan L. Fosler
Senior Vice President and
Cashier
Union Bank and Trust Company
Lincoln, Nebraska

Russell A. Oatman
Senior Vice President
First National Bank of Omaha
Omaha, Nebraska

Food and Agriculture Roundtable

(Front row, from left) Mr. Cooper, Mr. Adams, Mr. R. Farrell, Mr. Horan, Mr. McCauley, Mr. Kollar, Mr. J. Farrell, Mr. Timmerman, Senior Vice President Alan Barkema, (Back row, from left) Branch Executive Jason Henderson, Mr. Black, Mr. West, Mr. Swedberg, Mr. Brooks, Mr. Devine, Mr. Gottschalk, Mr. Lapp, Mr. Detrick, Mr. Reynolds

Jerry Adams
Adams Land & Cattle Company Inc.
Broken Bow, Nebraska

Bryan Black
National Pork Producers Council
Urbandale, Iowa

Bill Brooks
Downes-O'Neill/e-Dairy Inc.
Dearborn, Missouri

Ed Cooper
Wells Fargo Bank, N.A.
Chicago, Illinios

Terry Detrick
American Farmers & Ranchers
Oklahoma City, Oklahoma

Don Devine
Harris Ranch
Coalinga, California

Jim Farrell
Farmers National Company
Omaha, Nebraska

Ron Farrell
Farrell Growth Group
Kansas City, Missouri

Andrew Gottschalk
R.J. O'Brien & Associates
Greenwood Village, Colorado

William Horan
Horan Brothers Agricultural Enterprises
Rockwell City, Iowa

Ken Kollar
MetLife
Overland Park, Kansas

William Lapp
Advanced Economic Solutions
Omaha, Nebraska

Ken McCauley
National Corn Growers Association
Chesterfield, Missouri

Tom Reynolds
John Deere
Lenexa, Kansas

Joe Swedberg
Hormel Foods Corporation
Austin, Minnesota

Jim Timmerman
Timmerman & Sons Feeding Co.
Springfield, Nebraska

Thomas West
Pioneer Hi-Bred International Inc.
Johnston, Iowa

Regional Economic Roundtable

(From left) Senior Vice President Alan Barkema, Mr. Liu, Mr. Thompson, Ms. Reynis, Mr. Snead, Ms. Franklin, Mr. Crader, Mr. Wobbekind, Branch Executive Chad Wilkerson

Dean Crader
Research Analyst at the Economic & Policy Analysis Research Center
University of Missouri – Columbia
Columbia, Missouri

Debra Franklin
Regional Labor Force Analyst at the Center for Economic Development and Business Research
Wichita State University
Wichita, Kansas

Wenlin Liu
Senior Economist at the Division of Economic Analysis
State of Wyoming
Cheyenne, Wyoming

Lee Reynis
Director of the Bureau of Business and Economic Research
University of New Mexico
Albuquerque, New Mexico

Mark Snead
Director of the Center for Applied Economic Research
Oklahoma State University
Stillwater, Oklahoma

Eric Thompson
Director of the Bureau of Business Research
University of Nebraska – Lincoln
Lincoln, Nebraska

Rich Wobbekind
Director of the Business Research Division and Associate Dean
University of Colorado – Boulder
Boulder, Colorado

The Work of the Federal Reserve Bank of Kansas City

Employees are involved in a wide range of duties at the Kansas City Fed and its Branches in Denver, Oklahoma City and Omaha.

ADMINISTRATIVE SERVICES

Administrative Services performs a variety of services to keep the internal operations of the Federal Reserve Bank of Kansas City running smoothly on a daily basis. Functions include maintaining the Kansas City Fed's facilities; providing a safe and secure environment; developing and implementing human resources strategies to meet the evolving needs of the Fed's workforce and environment; developing the budget; and providing accurate financial accounting and reporting. Additionally, the division performs services on behalf of the Federal Reserve System, such as providing human resources information systems and billing users of Federal Reserve System services. Facilities Management, Protection, Business Continuity, Human Resources, Accounting, Financial Management, Human Resources Technology Center, and the National Billing Operations Site are included in this division, which employs 307 people.

AUDIT

Audit serves as an independent and objective evaluator of the Tenth Federal Reserve District's performance. This division reports on the soundness of the Kansas City Fed's operations to the Board of Directors, senior management and the Board of Governors. This division employs 23 people.

LEGAL

The Legal Department serves as the Kansas City Fed's counsel. It provides advice to management and the Board of Directors; represents the Kansas City Fed in administrative and judicial proceedings; helps the Kansas City Fed comply with applicable law; counsels employees concerning the Kansas City Fed's Code of Conduct; and helps educate employees on legal issues. This division employs six people.

INFORMATION TECHNOLOGY

The Information Technology Division consists of three functions: information technology services and support to local and select System business areas; technical support for System check processing services; and technology project management for the U.S. Treasury. This division employs about 262 people.

FINANCIAL SERVICES

Financial Services works to provide financial institutions across the U.S. with services and support to assist them in carrying out their daily business. Through Cash Services, Wholesale Operations, Check Services, the Customer Contact Center and Regional Sales Departments, the division distributes coin and currency; provides secure and quick transfers of funds and securities between banks; processes paper and electronic checks; provides customer support and access to payments networks; manages customer relationships; and provides service to consumers nationwide who have questions or complaints about their financial institution. This division employs 251 people.

ECONOMIC RESEARCH

This division conducts research on macroeconomics and monetary policy; banking and financial markets; the payments system; and other issues of importance to the Kansas City Fed and the Federal Reserve System. Through publications and presentations, staff members communicate the results of this research to policymakers, other researchers and the general public. This division employs 45 people.

REGIONAL, PUBLIC AND COMMUNITY AFFAIRS

The division's two primary responsibilities are research and communications. The division's economists track developments in the District's economy and present their findings to senior management as part of the Fed's monetary policy deliberations. Through publications, media relations, electronic communication and programs, Public Affairs works to explain the Fed's purpose and functions. Community Affairs promotes economic development through fair and impartial access to credit throughout the District. This division employs 56 people.

SUPERVISION AND RISK MANAGEMENT

Supervision and Risk Management is responsible for regulating bank holding companies and state-chartered member banks in the Tenth District. Staff members conduct examinations of these institutions to ensure a safe and sound banking system. In addition, the division works to make sure consumers are treated fairly in their dealings with banks and reviews applications by banking organizations seeking to acquire another institution, open a branch, change ownership or conduct other activities. The division also makes advances to depository institutions through the discount window and studies financial industry trends. This division employs 272 people.

Tenth District

Officers

Kansas City

Thomas M. Hoenig
President and
Chief Executive Officer

Richard K. Rasdall, Jr.
First Vice President and
Chief Operating Officer

Alan D. Barkema
Senior Vice President

Kelly J. Dubbert
Senior Vice President and
Chief Information Officer

Esther L. George
Senior Vice President

Barbara S. Pacheco
Senior Vice President

Stephen E. McBride
Senior Vice President

Gordon H. Sellon, Jr.
Senior Vice President and
Director of Research

Charles L. Bacon, Jr.
Senior Vice President,
General Counsel and
Secretary

Craig S. Hakkio
Senior Vice President and
Special Advisor on
Economic Policy

Josias A. Aleman
Vice President and
General Auditor

Larry D. Bailey
Vice President

Todd E. Clark
Vice President and Economist

Denise I. Connor
Vice President

Anita F. Costanza
Vice President

Kristi A. Coy
Vice President

Steven D. Evans
Vice President

Janel K. Frisch
Vice President and
Chief Financial Officer

Mark C. Horan
Vice President

George A. Kahn
Vice President and Economist

Korie S. Miller
Vice President

Kevin L. Moore
Vice President

Dawn B. Morhaus
Vice President

Charles S. Morris
Vice President

Karen A. Pennell
Vice President

Diane M. Raley
Vice President and
Public Information Officer

Linda S. Schroeder
Vice President

Veronica R. Sellers
Vice President and
Associate General Counsel

Donna J. Ward
Vice President

Stuart E. Weiner
Vice President, Economist and
Director of Payments
System Research

Susan E. Zubradt
Vice President

Stanley R. Beatty
Assistant Vice President

Harriet I. Chern
Assistant Vice President

Michael R. Childs
Assistant Vice President

Kelley D. Courtright
Assistant Vice President

Kevin J. Craig
Assistant Vice President

Tanya L. Cvetan
Assistant Vice President

Troy A. Davig
Assistant Vice President and
Economist

Justin M. Dean
Assistant General Counsel

Dennis V. Denney
Assistant Vice President

Linda K. Edwards
Assistant Vice President

Tammy Edwards
Assistant Vice President

C. Alan Garner
Assistant Vice President and
Economist

Lori D. Haley
Assistant Vice President

Robert L. Hampton
Assistant Vice President

Ann L. Hoelting
Assistant Vice President

Kristofer K. Hogan
Assistant Vice President

Megan L. Hruda
Assistant Vice President and
Assitant General Auditor

James H. Hunter
Assistant Vice President
and Assistant Secretary

Lowell C. Jones
Assistant Vice President

William R. Keeton
Assistant Vice President and
Economist

W. Todd Mackey
Assistant Vice President

D. Michael Manies
Assistant Vice President

Renu A. Mehra
Assistant Vice President

Randall L. Mueller
Assistant Vice President

Todd A. Offenbacker
Assistant Vice President

Annette K. Owens
Assistant Vice President

Wayne M. Powell
Assistant Vice President

Amy M. Seck
Assistant Vice President

Michael R. Steckline
Assistant Vice President

Stephanie L. Stratemeier
Assistant Vice President

Leesa Guyton Thompson
Assistant Vice President

Wilmer R. Ullmann
Associate General Counsel and
Ethics Officer

Mark A. Watson
Assistant Vice President

Kathryn A. Webster
Assistant Vice President

James Wilkinson
Assistant Vice President and
Economist

Jonathan L. Willis
Assistant Vice President and
Economist

Ginger K. Wise
Assistant Vice President

Kristina J. Young
Assistant Vice President

Catherine A. Zeigler
Assistant Vice President

Denver

Pamela L. Weinstein
Vice President

Debbie L. Meyers
Assistant Vice President

Dennis J. Stansbury
Assistant Vice President

Oklahoma City

Chad R. Wilkerson
Vice President,
Branch Executive and
Economist

Robert W. Toler
Assistant Vice President

Omaha

Jason R. Henderson
Vice President,
Branch Executive and
Economist

D. Rick Lay
Assistant Vice President

Financial Report

Federal Reserve Bank of Kansas City

FEDERAL RESERVE BANK *of* KANSAS CITY

April 2, 2009

To the Board of Directors

The management of the Federal Reserve Bank of Kansas City (the "Bank") is responsible for the preparation and fair presentation of the Statement of Financial Condition, Statements of Income and Comprehensive Income, and Statement of Changes in Capital as of December 31, 2008 (the "Financial Statements"). The Financial Statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System and as set forth in the Financial Accounting Manual for the Federal Reserve Banks ("Manual"), and as such, include amounts, some of which are based on management judgments and estimates. To our knowledge, the Financial Statements are, in all material respects, fairly presented in conformity with the accounting principles, policies and practices documented in the Manual and include all disclosures necessary for such fair presentation.

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

Even effective internal control, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

Thomas M. Hoenig, President

Richard K. Rasdall, Jr., First Vice President

Janel K. Frisch, Vice President, Chief Financial Officer

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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 Kansas City:

We have audited the accompanying statements of condition of the Federal Reserve Bank of Kansas City (the "Bank") as of December 31, 2008 and 2007 and the related 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 the Bank 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. The Bank'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 financial statements and an opinion on the Bank'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.

The Bank's internal control over financial reporting is a process designed by, or under the supervision of, the Bank's principal executive and principal financial officers, or persons performing similar functions, and effected by the Bank'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. The Bank'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 the Bank; (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 the Bank are being made only in accordance with authorizations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or

Member of
Deloitte Touche Tohmatsu

timely detection of unauthorized acquisition, use, or disposition of the Bank'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 financial statements, the Bank 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 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 the Bank 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, the Bank 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

FEDERAL RESERVE BANK OF KANSAS CITY

STATEMENTS OF CONDITION (in millions)

As of December 31, 2008 and 2007

	2008	2007
ASSETS		
Gold certificates	$ 349	$ 335
Special drawing rights certificates	66	66
Coin	114	72
Items in process of collection	14	215
Loans to depository institutions	7,310	7
System Open Market Account:		
Securities purchased under agreements to resell	2,937	1,505
U.S. government, Federal agency, and government-sponsored enterprise securities, net	18,439	24,137
Investments denominated in foreign currencies	261	264
Central bank liquidity swaps	5,825	280
Interdistrict settlement account	5,080	5,239
Bank premises and equipment, net	304	298
Accrued interest receivable	218	206
Other assets	16	19
Total assets	$ 40,933	$ 32,643
LIABILITIES AND CAPITAL		
Liabilities:		
Federal Reserve notes outstanding, net	$ 26,332	$ 30,104
System Open Market Account:		
Securities sold under agreements to repurchase	3,244	1,424
Deposits:		
Depository institutions	10,769	449
Other deposits	2	2
Deferred credit items	102	157
Interest on Federal Reserve notes due to U.S. Treasury	7	43
Accrued benefit costs	50	45
Other liabilities	11	31
Total liabilities	40,517	32,255
Capital:		
Capital paid-in	208	194
Surplus (including accumulated other comprehensive loss of $8 million and $2 million at December 31, 2008 and 2007, respectively)	208	194
Total capital	416	388
Total liabilities and capital	$ 40,933	$ 32,643

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

FEDERAL RESERVE BANK OF KANSAS CITY

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (in millions)

For the years ended December 31, 2008 and 2007

	2008	2007
Interest income:		
Loans to depository institutions	$ 36	$ 1
System Open Market Account:		
Securities purchased under agreements to resell	67	45
U.S. government, Federal agency, and government-sponsored enterprise securities	900	1,218
Investments denominated in foreign currencies	7	7
Central bank liquidity swaps	38	-
Total interest income	1,048	1,271
Interest expense:		
System Open Market Account:		
Securities sold under agreements to repurchase	26	53
Depository institutions deposits	9	-
Total interest expense	35	53
Net interest income	1,013	1,218
Non-interest income:		
System Open Market Account:		
U.S. government, Federal agency, and government-sponsored enterprise securities gains, net	128	-
Foreign currency gains, net	14	21
Compensation received for services provided	66	81
Reimbursable services to government agencies	10	11
Other income	30	3
Total non-interest income	248	116
Operating expenses:		
Salaries and other benefits	120	124
Occupancy expense	15	7
Equipment expense	11	10
Assessments by the Board of Governors	27	27
Other expenses	34	47
Total operating expenses	207	215
Net income prior to distribution	1,054	1,119
Change in funded status of benefit plans	(6)	4
Comprehensive income prior to distribution	$ 1,048	$ 1,123
Distribution of comprehensive income:		
Dividends paid to member banks	$ 12	$ 11
Transferred to surplus and change in accumulated other comprehensive loss	14	18
Payments to U.S. Treasury as interest on Federal Reserve notes	1,022	1,094
Total distribution	$ 1,048	$ 1,123

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

FEDERAL RESERVE BANK OF KANSAS CITY

STATEMENTS OF CHANGES IN CAPITAL (in millions, except share data)

For the years ended December 31, 2008 and 2007

		Surplus			
	Capital Paid-In	Net Income Retained	Accumulated Other Comprehensive Loss	Total Surplus	Total Capital
Balance at January 1, 2007 (3.5 million shares)	$ 176	$ 182	$ (6)	$ 176	$ 352
Net change in capital stock issued (0.4 million shares)	18	-	-	-	18
Transferred to surplus and change in accumulated other comprehensive loss	-	14	4	18	18
Balance at December 31, 2007 (3.9 million shares)	$ 194	$ 196	$ (2)	$ 194	$ 388
Net change in capital stock issued (0.3 million shares)	14	-	-	-	14
Transferred to surplus and change in accumulated other comprehensive loss	-	20	(6)	14	14
Balance at December 31, 2008 (4.2 million shares)	$ 208	$ 216	$ (8)	$ 208	$ 416

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

1. STRUCTURE

The Federal Reserve Bank of Kansas City ("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 Tenth Federal Reserve District, which includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, and portions of Missouri and New Mexico.

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 Federal Reserve Bank of New York ("FRBNY"), 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 the consumer and the community 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 FRBNY.

The FOMC, in the conduct of monetary policy, establishes policy regarding domestic open market operations, oversees these operations, and annually issues authorizations and directives to the FRBNY to execute transactions. The FRBNY 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 FRBNY 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 FRBNY 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 FRBNY 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 FRBNY is also authorized and directed by the FOMC to maintain reciprocal 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 the 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 Customer Relations and Support Office/ Customer Contact Center, Human Resources Technology Center, and Billing Operations Site.

3. RECENT FINANCIAL STABILITY ACTIVITIES

The Federal Reserve 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 financial statements.

Expanded Open Market Operations and Support for Mortgage Related Securities

The Single-Tranche Open Market Operation Program, created on March 7, 2008, allows primary dealers to initiate a series of term repurchase transactions that are expected to accumulate up to $100 billion in total. Under the provisions of the program, these transactions are conducted as 28-day term repurchase agreements for which primary dealers pledge U.S. Treasury and agency securities and agency Mortgage-Backed Securities ("MBS") as collateral. The FRBNY 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 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 GSE and agency MBS. In March 2009, the FOMC authorized FRBNY to purchase up to an additional $750 billion of GSE and agency MBS and up to an additional $100 billion of GSE direct obligations.

The FRBNY 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 FRBNY to establish temporary reciprocal 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 reciprocal currency swap arrangements with additional foreign central banks. Such arrangements are now authorized with the following central banks: the Reserve Bank of Australia, the 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, the Banco de Mexico, 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 arrangements varies by central bank. The central bank liquidity swap arrangements are authorized through October 30, 2009.

Lending to Depository Institutions

The temporary Term Auction Facility ("TAF") program was created on December 12, 2007. The goal of the 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 judged to be in generally sound financial condition by their Reserve Bank and 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 Statements of Condition.

Lending to Primary Dealers

The Term Securities Lending Facility ("TSLF") was created on March 11, 2008, to promote the liquidity in the financing markets for U.S. Treasuries and other collateral. Under the TSLF, the FRBNY will lend up to an aggregate amount of $200 billion of U.S. Treasury securities to primary dealers secured for a term of 28 days. Securities loans 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, and are awarded to primary dealers through a competitive single-price auction. The TSLF is authorized through October 30, 2009. The fees related to these securities lending transactions are reported as a component of "Non-interest income: Other income" in the Statements of Income and Comprehensive Income.

The Term Securities Lending Facility Options Program ("TOP") created 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 FRBNY, and the program authorization ends concurrently with the TSLF.

Other Lending Facilities

The Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AMLF"), created on September 19, 2008, is a lending facility that provides funding 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 under certain conditions. 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 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 Tenth Federal 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.

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 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 required by GAAP. U.S. government, 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 the application of current market prices to the securities holdings may result in values substantially above or below their carrying values, these unrealized changes in value would have no direct effect on the quantity of reserves available to the banking system or on the prospects for future Bank earnings or capital. Both the domestic and foreign components of the SOMA portfolio may involve transactions that result in gains or losses when holdings are sold prior to maturity. Decisions regarding 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 position of the Bank are not a primary concern given the Reserve Banks' unique powers and responsibilities. Other information regarding the Bank's activities is provided in, or may be derived from, the 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 financial statements in conformity with the FAM requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. 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. 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.

b. Loans to Depository Institutions

Loans are reported at their outstanding principal balances net of 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.

c. Securities Purchased Under Agreements to Resell, Securities Sold Under Agreements to Repurchase, and Securities Lending

The FRBNY 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 Statements of Condition and the related accrued interest payable is reported as a component of "Other liabilities."

U.S. government securities held in the SOMA are lent to U.S. government securities dealers to facilitate the effective functioning of the domestic securities market. Overnight securities lending transactions are fully collateralized by other U.S. government securities. Term securities lending 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 term securities lending transactions is in excess of the fair value of the securities loaned. The FRBNY 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 is allocated to each of the Reserve Banks on a percentage basis derived from an annual settlement of the interdistrict settlement account.

d. 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 (losses) gains, net" in the 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.

e. 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 FRBNY in exchange for U.S. dollars at the prevailing market exchange rate. Concurrent with this transaction, the FRBNY and the foreign central bank agree to a second transaction that obligates the foreign central bank to return the U.S. dollars and the FRBNY to return the foreign currency on a specified future date at the same exchange rate. The foreign currency amounts that the FRBNY acquires are reported as "Central bank liquidity swaps" on the Statements of Condition. Because the swap transaction will be unwound at the same exchange rate that was 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 FRBNY based on the foreign currency amounts held by the FRBNY. The FRBNY 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 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 foreign currency market exchange rates and allocated to the other Reserve Banks. 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 FRBNY. This revaluation method eliminates the effects of the changes in the market exchange rate. As of December 31, 2008, the FRBNY began allocating this currency exchange valuation account to the Bank and, as a result, the reported amount of central bank liquidity swaps reflects the Bank's allocated portion at the contract exchange rate.

f. *Interdistrict Settlement Account*

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

g. *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 impaired and an adjustment is recorded when events or changes in circumstances indicate that the carrying amount of assets or asset groups is not recoverable and significantly exceeds the assets' fair value.

h. Federal Reserve Notes

Federal Reserve notes are the circulating currency of the United States. These notes are issued through the various Federal Reserve agents (the chairman of the board of directors of each Reserve Bank 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 Statements of Condition represents the Bank's Federal Reserve notes outstanding, reduced by the Bank's currency holdings of $3,536 million and $3,212 million at December 31, 2008 and 2007, respectively.

i. Items in Process of Collection and Deferred Credit Items

"Items in process of collection" in the Statements of Condition primarily represents amounts attributable to checks that have been deposited for collection and that, as of the balance sheet date, have not yet been presented to the paying bank. "Deferred credit items" are the counterpart liability to items in process of collection, 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.

j. Capital Paid-in

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

By law, each Reserve Bank is required to pay each member bank an annual dividend of 6 percent on the paid-in capital stock. This cumulative dividend is paid semiannually. To 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 Statements of Income and Comprehensive Income.

k. 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 Statements of Condition and the Statements of Changes in Capital. The balance of accumulated other comprehensive income is comprised of expenses, gains, and losses related to 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 and 13.

l. 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 Statements of Income and Comprehensive Income and is reported as a liability, or as an asset if overpaid during the year, in the Statements of Condition. Weekly payments to the U.S. Treasury may vary significantly.

In the event of losses or an increase in capital paid-in at a Reserve Bank, payments to the U.S. Treasury are suspended and earnings are retained until the surplus is equal to the capital paid-in.

In the event of a decrease in capital paid-in, the excess surplus, after equating capital paid-in and surplus at December 31, is distributed to the U.S. Treasury in the following year.

m. *Interest on Depository Institutions Deposits*

Beginning October 9, 2008, the Reserve Banks began paying 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.

n. *Income and Costs Related to U.S. Treasury Services*

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

o. *Compensation Received for Services Provided*

The Federal Reserve Bank of Atlanta ("FRBA") has overall responsibility for managing the Reserve Banks' provision of check and ACH services to depository institutions and, as a result, recognizes total System revenue for these services on its Statements of Income and Comprehensive Income. The FRBNY manages the Reserve Banks' provision of Fedwire funds and securities transfer services, and recognizes total System revenue for these services on its Statements of Income and Comprehensive Income. Similarly, the Federal Reserve Bank of Chicago ("FRBC") has overall responsibility for managing the Reserve Banks' provision of electronic access services to depository institutions and, as a result, recognizes total System revenue for these services on its Statements of Income and Comprehensive Income. The FRBA, FRBNY, and FRBC compensate the other Reserve Banks for the costs incurred to provide these services. The Bank reports this compensation as "Compensation received for services provided" in the Statements of Income and Comprehensive Income.

p. *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.

q. *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 $4 million and $201 thousand for the years ended December 31, 2008 and 2007, respectively, and are reported as a component of "Occupancy expense."

r. Restructuring Charges

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

Note 14 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 Bank assets are discussed in Note 9. 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 FRBNY.

s. Recently Issued Accounting Standards

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which established 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 effective January 1, 2008. The provisions of this standard have no material effect on the Bank's financial statements.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," including an amendment of FASB Statement No. 115 ("SFAS 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 is 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. SFAS 159 reduces the accounting complexity for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently, and it eliminates the operational complexities of applying hedge accounting. The Bank adopted SFAS 159 effective January 1, 2008. The provisions of this standard have no material effect on the Bank's financial statements.

In February 2008, FASB issued FASB Staff Position ("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 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", unless certain criteria are met. FSP FAS 140-3 is effective for the Bank's financial statements for the year beginning on January 1, 2009 and earlier adoption is not permitted. The provisions of this standard will not have a material effect on the Bank's financial statements.

5. LOANS

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

	2008	2007
Primary, secondary, and seasonal credit	$ 4,570	$ 7
TAF	2,740	-
Total loans to depository institutions	$ 7,310	$ 7

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 the 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 28 or 84 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 and, if a borrower no longer qualifies for these programs, the Bank will generally request full repayment of the outstanding loan or may convert the loan to a secondary credit loan.

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

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

	Primary, secondary, and seasonal credit	TAF
Within 15 days	$ 4,526	$ 1,230
16 days to 90 days	44	1,510
91 days to 1 year	-	-
Over 1 year to 5 years	-	-
Over 5 years to 10 years	-	-
Over 10 years	-	-
Total loans	$ 4,570	$ 2,740

Allowance for Loan Losses

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 FRBNY, on behalf of the Reserve Banks, holds securities bought outright in the SOMA. The Bank's allocated share of SOMA balances was approximately 3.672 percent and 3.237 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	$ 676	$ 7,375
Notes	12,292	13,006
Bonds	4,506	3,593
Federal agency and GSE securities	724	-
Total par value	18,198	23,974
Unamortized premiums	296	259
Unaccreted discounts	(55)	(96)
Total allocated to the Bank	$ 18,439	$ 24,137

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 $20,798 million and $25,157 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 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, were 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	$ 2,937	$ 1,505	$ 3,244	$ 1,424
Weighted average amount outstanding, during the year	3,563	1,135	2,404	1,128
Maximum month-end balance outstanding, during the year	4,369	1,667	3,619	1,424
Securities pledged, end of year			2,897	1,426
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 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)	Subtotal: 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	$ 703	$ 17	$ 720	$ 1,468	$ 3,244
16 days to 90 days	770	120	890	1,469	-
91 days to 1 year	2,325	36	2,361	-	-
Over 1 year to 5 years	6,364	417	6,781	-	-
Over 5 years to 10 years	3,573	134	3,707	-	-
Over 10 years	3,739	-	3,739	-	-
Total allocated to the Bank	$ 17,474	$ 724	$ 18,198	$ 2,937	$ 3,244

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 $6,637 million and $539 million, respectively, were allocated to the Bank.

7. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES

The FRBNY, 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 1.052 percent and 1.151 percent at December 31, 2008 and 2007, respectively.

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

	2008	2007
Euro:		
Foreign currency deposits	$ 59	$ 83
Securities purchased under agreements to resell	43	29
Government debt instruments	48	54
Japanese yen:		
Foreign currency deposits	37	32
Government debt instruments	74	66
Total allocated to the Bank	$ 261	$ 264

At December 31, 2008 and 2007, the fair value of investments denominated in foreign currencies, including accrued interest, allocated to the Bank was $263 million for each year. 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 maturity distribution of investments denominated in foreign currencies that were allocated to the Bank at December 31, 2008, was as follows (in millions):

	Euro	Japanese yen	Total
Within 15 days	$ 80	$ 37	$ 117
16 days to 90 days	12	6	18
91 days to 1 year	19	21	40
Over 1 year to 5 years	39	47	86
Total allocated to the Bank	$ 150	$ 111	$ 261

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 FRBNY 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 FRBNY controls these risks by obtaining credit approvals, establishing transaction limits, and performing daily monitoring procedures.

8. CENTRAL BANK LIQUIDITY SWAPS

Central bank liquidity swap arrangements are contractual agreements between two parties, the FRBNY 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 1.052 percent and 1.151 percent at December 31, 2008 and 2007, respectively.

At December 31, 2008 and 2007, the total System amount of foreign currency held under central bank liquidity swaps was $553,728 million and $24,353 million, respectively, of which $5,825 million and $280 million, respectively, was allocated to the Bank.

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

	2008			2007
	Within 15 days	16 days to 90 days	Total	16 days to 90 days
Australian dollar	$ 105	$ 135	$ 240	$ -
Danish krone	-	158	158	-
Euro	1,588	1,477	3,065	233
Japanese yen	504	787	1,291	-
Korean won	-	109	109	-
Norwegian krone	23	63	86	-
Swedish krona	105	158	263	-
Swiss franc	202	63	265	47
U.K. pound	1	347	348	-
Total	$ 2,528	$ 3,297	$ 5,825	$ 280

9. BANK PREMISES, EQUIPMENT, AND SOFTWARE

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

	2008	2007
Bank premises and equipment:		
Land	$ 45	$ 45
Buildings	215	16
Building machinery and equipment	34	6
Construction in progress	-	217
Furniture and equipment	64	71
Subtotal	358	355
Accumulated depreciation	(54)	(57)
Bank premises and equipment, net	$ 304	$ 298
Depreciation expense, for the years ended December 31	$ 12	$ 5

The Bank completed construction of a new headquarters building in Kansas City in 2008.

The Bank leases space to outside tenants with remaining lease terms ranging from one to three years. Rental income from such leases was not material for the years ended December 31, 2008 and 2007. Future minimum lease payments that the Bank will receive under noncancelable lease agreements in existence at December 31, 2008, were not material.

The Bank has capitalized software assets, net of amortization, of $6 million for each of the years ended December 31, 2008 and 2007. Amortization expense was $1 million for each of the years ended December 31, 2008 and 2007. 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 14, include check equipment. Asset impairment losses of $2 million for the period 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.

10. 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.

At December 31, 2008, the Bank was obligated under noncancelable leases for premises and equipment with remaining terms ranging from two to approximately three years. These leases provide for increased rental payments based upon increases in real estate taxes, operating costs, or selected price indices.

Rental expense under operating leases for certain operating facilities, warehouses, and data processing and office equipment (including taxes, insurance and maintenance when included in rent), net of sublease rentals, was $2 million and $5 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 not material.

At December 31, 2008, there were no material unrecorded unconditional purchase commitments or long-term obligations in excess of one year.

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 one 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.

11. 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 FRBNY, on behalf of the System, recognizes the net asset or net liability and costs associated with the System Plan in its financial statements. Costs associated with the System Plan are not reimbursed by other participating employers.

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 $4 million for each of the years ended December 31, 2008 and 2007, and are reported as a component of "Salaries and other benefits" in the 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.

12. 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	$ 36.5	$ 38.6
Service cost-benefits earned during the period	1.3	1.5
Interest cost on accumulated benefit obligation	2.3	2.3
Net actuarial loss (gain)	4.5	(2.6)
Curtailment gain	(0.2)	(1.1)
Contributions by plan participants	1.1	0.9
Benefits paid	(3.7)	(3.3)
Medicare Part D subsidies	0.2	0.2
Accumulated postretirement benefit obligation at December 31	$ 42.0	$ 36.5

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	2.4	2.2
Contributions by plan participants	1.1	0.9
Benefits paid	(3.7)	(3.3)
Medicare Part D subsidies	0.2	0.2
Fair value of plan assets at December 31	$ -	$ -
Unfunded obligation and accrued postretirement benefit cost	$ 42.0	$ 36.5
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service cost	$ 2.7	$ 3.7
Net actuarial loss	(11.2)	(7.2)
Deferred curtailment gain	0.4	1.3
Total accumulated other comprehensive loss	$ (8.1)	$ (2.2)

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

For measurement purposes, the assumed health care cost trend rates at December 31 are 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	$ -	$ (0.1)
Effect on accumulated postretirement benefit obligation	(0.3)	-

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	$ 1.3	$ 1.5
Interest cost on accumulated benefit obligation	2.3	2.3
Amortization of prior service cost	(1.2)	(1.4)
Amortization of net actuarial loss	0.5	1.2
Total periodic expense	2.9	3.6
Curtailment gain	(0.9)	-
Net periodic postretirement benefit expense	$ 2.0	$ 3.6
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	$ (1.2)	
Net actuarial loss	0.6	
Total	$ (0.6)	

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 Statements of Income and Comprehensive Income.

The curtailment gain associated with restructuring programs announced in 2006 and 2007 and described in Note 14 was recognized when the related employees terminated employment in 2008. Additionally, a deferred curtailment gain was recorded in 2008 as a component of accumulated other comprehensive loss; the gain will be recognized in net income in future years when the related employees terminate employment.

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 $0.2 million for each of the years ended December 31, 2008 and 2007. Expected receipts in 2009, related to benefits paid in the years ended December 31, 2008 and 2007 are $0.1 million.

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

	Without subsidy	With subsidy
2009	$ 3.3	$ 3.0
2010	3.5	3.3
2011	3.8	3.5
2012	3.9	3.5
2013	4.1	3.7
2014 - 2018	22.8	20.1
Total	$ 41.4	$ 37.1

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 at December 31, 2008 and 2007, were $5 million and $6 million, respectively. This cost is included as a component of "Accrued benefit costs" in the Statements of Condition. Net periodic postemployment benefit (credit) expense included in 2008 and 2007 operating expenses were $(1) million and $1 million, respectively, and are recorded as a component of "Salaries and other benefits" in the Statements of Income and Comprehensive Income.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME

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

	Amount related to postretirement benefits other than pensions
Balance at January 1, 2007	$ (6)
Change in funded status of benefit plans:	
Prior service costs arising during the year	(1)
Net actuarial gain arising during the year	4
Deferred curtailment gain	1
Amortization of prior service cost	(1)
Amortization of net actuarial loss	1
Change in funded status of benefit plans - other comprehensive income	4
Balance at December 31, 2007	$ (2)
Change in funded status of benefit plans:	
Net actuarial loss arising during the year	(5)
Amortization of prior service cost	(1)
Amortization of net actuarial loss	1
Amortization of deferred curtailment loss	(1)
Change in funded status of benefit plans - other comprehensive loss	(6)
Balance at December 31, 2008	$ (8)

Additional detail regarding the classification of accumulated other comprehensive loss is included in Note 12.

14. BUSINESS RESTRUCTURING CHARGES

In 2007, the Reserve Banks announced a restructuring initiative to align the check processing infrastructure and operations with declining check processing volumes. The Bank incurred various restructuring charges prior to 2007 related to the consolidation of check and cash operations and staff reductions in other functions of the bank.

Following is a summary of financial information related to the restructuring plans (in millions):

	2006 and Prior restructuring plans	2007 Restructuring plans	Total
Information related to restructuring plans as of December 31, 2008:			
Total expected costs related to restructuring activity	$ 6	$ 3	$ 9
Expected completion date	2008	2010	
Reconciliation of liability balances:			
Balance at January 1, 2007	$ 3	$ -	$ 3
Employee separation costs	-	3	3
Balance at December 31, 2007	$ 3	$ 3	$ 6
Payments	(3)	(1)	(4)
Balance at December 31, 2008	$ -	$ 2	$ 2

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 Statements of Income and Comprehensive Income.

Restructuring costs associated with the impairment of Bank assets, such as check equipment, are discussed in Note 9. Costs associated with enhanced pension benefits for all Reserve Banks are recorded on the books of the FRBNY as discussed in Note 11.

15. SUBSEQUENT EVENTS

In February 2009, the System announced the extension through October 30, 2009, of liquidity programs that were previously scheduled to expire on April 30, 2009. The extension pertains to the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility and the Term Securities Lending Facility. In addition, the temporary reciprocal currency arrangements (swap lines) between the Federal Reserve and other central banks were extended to October 30, 2009.

VOLUME OF PRINCIPAL OPERATIONS (UNAUDITED)*

	2008	2007
Loans and Discounts, Daily Average	$ 2,060,367,000	$ 18,305,000
Number of Institutions Borrowing	104	61
Commercial Checks - Paper	$ 300,496,000,000	$ 906,509,000,000
Commercial Checks Processed	230,094,000	664,832,000
Commercial Checks - Check 21	$ 1,264,807,000,000	$ 805,538,000,000
Commercial Checks Received	866,634,000	426,733,000
Currency Receipts and Payments	$ 42,981,823,000	$ 42,394,167,000
Pieces	2,823,340,000	2,724,237,000
Coin Receipts and Payments	$ 212,154,000	$ 207,145,000
Bags	270,000	246,000

*Numbers are not included in our audited financial statements.

Auditor Independence

In 2008, the Board of Governors engaged Deloitte & Touche LLP (D&T) for the audits of the individual and combined financial statements of the Reserve Banks. Fees for D&T's services are estimated to be $10.2 million. Approximately $2.7 million of the estimated total fees were for the audits of the limited liability companies (LLCs) that are associated with recent Federal Reserve actions to address the financial crisis, and are consolidated in the financial statements of the Federal Reserve Bank of New York. Each LLC will reimburse the Board of Governors for the fees related to the audit of its financial statements from the entity's available net assets. To ensure auditor independence, the Board of Governors requires that D&T be independent in all matters relating to the audit. Specifically, D&T may not perform services for the Reserve Banks or others that would place it in a position of auditing its own work, making management decisions on behalf of Reserve Banks, or in any other way impairing its audit independence. In 2008, the Bank did not engage D&T for any non-audit services.