2011 Annual Report

Federal Reserve Bank of Boston

stories of

+connecting

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President's Letter

"Connecting" is the theme of our 2011 Annual Report.

Connecting is also a reason the report comes to you for the first time in a multimedia format. We hope the videos and information graphics make it easier than ever for you to connect with the Bank and its work and mission.

We have included three videos showing some of the ways that connections characterized our work in 2011. The vignettes tell three stories of how the Bank worked to serve the public:

- connecting with small banks in Vermont and helping them meet customers' needs when their cash supply was affected by the flooding from Hurricane Irene.

- connecting with Latino small business owners to help identify their needs, highlight their positive role in the region's economy, and support their success.

- working to connect the science of economics and policy analysis to the very human realities of real people in New England.

Within the Bank we saw a great deal of change in 2011. We welcomed several new senior leaders, conducted an intensive self-assessment, and put in place a new organizational structure to align ourselves for the future.

Turning to the economic situation and policymaking, I can mention some of the connections my colleagues and I focused on in 2011.

One connection involved the key role that housing market problems have played in this tepid economic recovery. Problems in the housing sector of the U.S. economy have been a major impediment to recovery.

The Federal Open Market Committee took significant actions to promote a faster recovery in the housing sector and the economy more broadly. I was very supportive of the actions, which were designed to promote stronger growth and reduce unemployment rates, consistent with our dual mandate, by putting downward pressure on longer-term interest rates and helping make financial conditions more accommodative.

While the housing sector and the economy would have been weaker in the absence of those policy actions, I believe it is equally important that policymakers examine housing policies that might be changed to more generally help facilitate recovery.

We also explored in 2011 the connections between housing and issues like consumption, business formation, and employment. For example, the impairment of household financial conditions made new business formation particularly difficult, given the role that home equity often plays in entrepreneurs' start-up capital.

Given the low inflation rate and weak labor markets that persisted in 2011, I regularly stated that the Federal Reserve should continue to explore ways to promote a more rapid recovery. In addition, I noted that policymakers can and should continue to look at ways to better target fiscal and monetary policy to address the housing and small business financing problems we are seeing in this recovery. I believe that the continuing difficulties compel us to think creatively and proactively about ways to return the economy to full employment.

Another set of connections we focused on involves the architecture of the global financial system and, in particular, the issues that remained to be addressed in regard to large global financial intermediaries – issues like approaches to orderly resolution (versus disorderly failure) of such an intermediary, their reliance on wholesale financing in short-term credit markets, and retaining and raising capital. It is critical that participants and policymakers focus on strengthening the financial architecture, so that the struggles of one or more institutions no longer pose risks to the broader global economy. Significant challenges remain to be addressed if we are to have a global banking system where no bank is "too big to fail," given the collateral damage it would cause to economies and citizens.

Other areas of connection that we focused on intently are, for example, the role of money market mutual funds in short-term credit markets and the dependence, to a large degree, of foreign branches and agencies in the U.S. on short-term wholesale funding. It has become clear that financial stability is too central to the performance of economies not to explore options for moving forward and reducing instability. We need to move constructively and prudently to a better place.

I hope that you will also take a look at the message from our Chief Operating Officer Ken Montgomery, which shares other highlights from the Bank's work in 2011.

In closing, I would like to thank the Bank's talented staff members for their hard work and dedication in 2011. I would also like to thank the members of our board of directors who completed terms of service in 2011 – The Connecticut Bank and Trust Company's David Lentini, who served as a director; and Genzyme Corporation's Henri Termeer who served first as a director, then as deputy chairman, and finally as chairman.

Sincerely,

Eric S. Rosengren

Our Year in Review

When I took office as the First Vice President in January 2011, I was impressed with the Bank's commitment to large endeavors and its performance within the Federal Reserve System. Guided by our vision — public service that makes a difference for the region, the nation, and the world — we are proud to serve as a valued partner and business leader for our district, the Federal Reserve System, and the U.S. Treasury. Our many successes in 2011 included making independent, data-driven contributions; pursuing important System-wide initiatives; and preparing our organization for the future. But there is still more to do to accomplish our mission.

In 2011, the Federal Reserve Bank of Boston was challenged by the nation's high unemployment rate, a troubled housing market, and stressed fiscal budgets. We faced both limits on traditional monetary policy tools and a widening population in need. Additionally, the Dodd-Frank Wall Street Reform and Consumer Protection Actof 2010, widely seen as the most sweeping change to U.S. financial laws since the Great Depression, resulted in increased responsibilities for the Bank and the Federal Reserve System. This changing environment provided the Federal Reserve Bank of Boston with the opportunity to make unique and active contributions in bank supervision and financial stability, conduct innovative research, build upon a strong relationship with the U.S. Treasury, and find new ways to help advance economic conditions for New England's low- and moderate-income households. From our perspective, in the early months of 2012, the New England and national economies are slowly advancing toward an improved economic and financial condition.

In 2012 and beyond, the Federal Reserve Bank of Boston will focus on new opportunities in leadership and innovation. We will continue to conduct high-quality research in support of the System's dual mandate of promoting stable prices and full employment. We will continue to be a proactive contributor to the stability of the financial sector, an essential partner to the Treasury, and a leader in our communities. Additionally, we are well positioned to help the Federal Reserve System create value in an efficient and effective way. In information technology, we will demonstrate leadership to improve the Federal Reserve System's proactive stance against Internet threats. We will ensure that our business practices evolve to further foster a culture of diversity and inclusion. And to do these things, we will maintain an environment of highly effective and skilled professionals.

Thank you for your interest in our 2011 endeavors. We hope to continue to serve you to the best of our ability in the future.

Sincerely,

Kenneth C. Montgomery

2011 Bank Highlights

We promote financial stability through our bank supervision program

To advance an understanding of the interconnectedness of the U.S. financial system, the Federal Reserve Bank of Boston supports System efforts to strengthen the supervision of systemically important sectors, markets, and products to protect against financial instability.

In addition to supervising complex banking organizations and regional and community banks, in 2011, the Federal Reserve Bank of Boston:

- helped monitor the money market mutual fund industry and advocated for additional reforms to make the industry more resilient;
- contributed to developing a supervisory approach for insurance-focused savings and loan holding companies;
- worked to enhance loan-valuation methodology and to reduce reliance on credit ratings agencies;
- formed an internal, cross-functional Macro Financial Steering Committee to contribute to Federal Reserve System efforts to strengthen regulation of foreign banking organizations operating in the United States, evaluate capital surcharges, and improve stress testing.

We support economic growth through monetary and public policy research.

The Federal Reserve Bank of Boston contributes to the Federal Reserve System's dual mandate of promoting price stability and encouraging maximum employment. We do this through sharing insightful and compelling research with policymakers and providing extensive policy analysis to President Rosengren prior to each Federal Open Market Committee (FOMC) meeting.

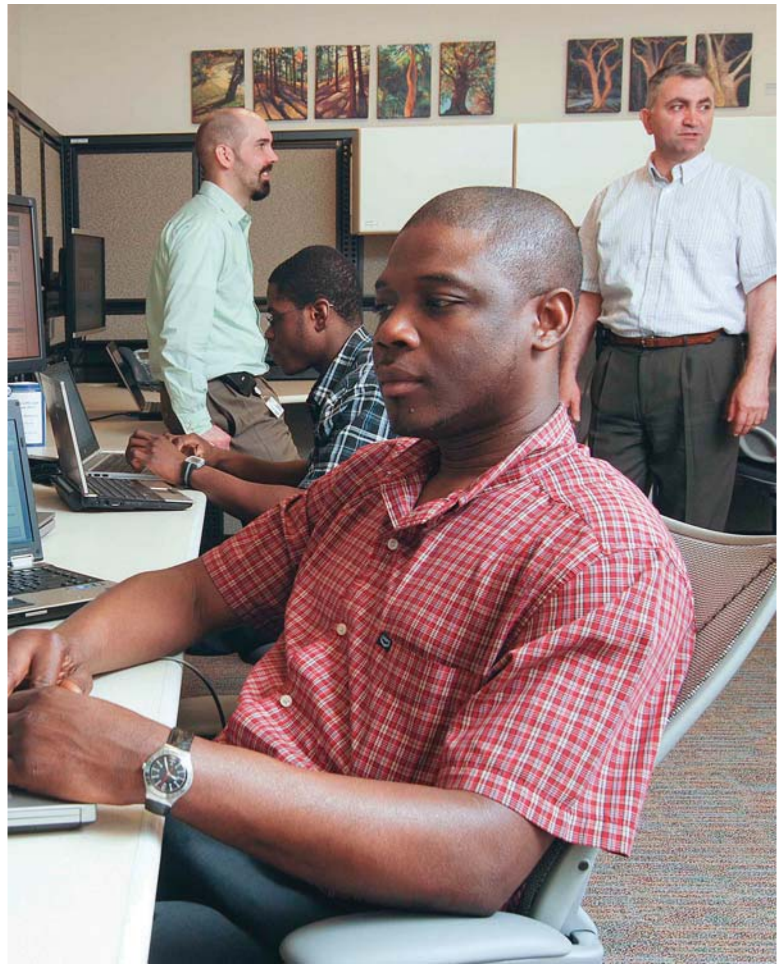
SHARED FED RESEARCH WITH POLICY MAKERS

In 2011, the Federal Reserve Bank of Boston:

- provided insight on the employment outlook, strategies to help mitigate prolonged unemployment, and the impact of structural factors on unemployment;
- examined inflation dynamics, using both macroeconomic and microeconomic evidence to improve our modeling of inflation dynamics and strengthen our ability to forecast inflation.

The Federal Reserve Bank of Boston also undertook substantial, thought-provoking research on important public policy. As a result:

- researchers gathered information about the effectiveness of foreclosure-prevention policies in New England and provided testimony to the U.S. Senate Committee on Banking, Housing, and Urban Affairs Hearing on Housing Finance Reform to help promote stability in the housing market;



- Massachusetts policymakers were briefed about adjusting municipal aid formulas to promote greater equity;
- testimony on behalf of a Senate and House bill was based on recommendations from our research about a mismatch of supply and demand of skilled labor in New England;
- the new Consumer Financial Protection Bureau was informed on consumer payment choice and protection issues.

Also in 2011, the Federal Reserve Bank of Boston hosted its fifty-sixth economic conference, *The Long-Term Effects of the Great Recession*. The conference attracted a new audience in the financial services industry and brought attention to substantive policy questions such as whether the Federal Reserve System could serve as the lender of last resort in the next crisis.

We make a difference in the region with our outreach and volunteerism.

As part of our commitment to advance the economic conditions of low- and moderate-income households in New England and to help stabilize communities, the Federal Reserve Bank of Boston endeavors to spur revitalization in smaller industrial cities.

During 2011, the Federal Reserve Bank of Boston:

- presented research to the mayor of Providence on the growth of small businesses in that community. This grew out of the research the Bank conducted in Springfield, Massachusetts, on the potential of Latino small business to drive revitalization of that city;
- convened business leaders in Greater Springfield to hear President Rosengren advocate for a comprehensive and inclusive vision for the city;
- assisted Western Massachusetts colleges in their efforts to strengthen their role in K–12 education;
- engaged forty-one civic leaders in a "City to City" trip to Grand Rapids, Michigan, to learn about revitalization approaches that have worked in that city with a view to possible application locally.

To provide further financial and economic education to our communities, the Federal Reserve Bank of Boston:

- offered part-time jobs and college-preparation classes to high school students to encourage them to pursue higher education;
- reached a wider subset of consumers and consumer professionals by translating *Consumer Financial Emergency Survival Kit* into Spanish;
- co-conducted a summit that brought together more than five hundred students and educators across the region to engage in learning and teaching economic concepts;
- opened an updated New England Economic Adventure exhibit to the public to provide another opportunity to share the messages and roles of the Federal Reserve System.

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COMMUNITY CARE DAY

VOLUNTEERS

The Federal Reserve Bank of Boston created several opportunities for supporting local communities and people in need. Nearly 35 percent of the Bank's employees and tenants participated in volunteer activities in 2011. Major volunteerism achievements included:

- employee and tenant contributions toward Japan's earthquake and tsunami relief efforts;
- employee donations of $166,000 to the United Way of Massachusetts Bay;
- partnership with eight agencies to bring together eighty-five volunteers to make a difference in local communities for the Bank's United Way Community Care Day.

We advance our business practices with our commitment to diversity and inclusion.

The Federal Reserve Bank of Boston works to advance a diverse and inclusive environment above and beyond the Office of Minority and Women Inclusion (OMWI) requirements stemming from the Dodd-Frank Wall Street Reform and Consumer Protection Act. A key goal is to ensure diversity at every level of the organization by reflecting the diversity of the relevant applicant pools, partnering to increase diversity in the pipeline of candidates, and working proactively to confirm that our recruitment and retention practices keep pace with an increasingly diverse workforce. To that end, as it has done in the past, the Federal Reserve Bank of Boston continues to:

- attract diverse applicants for positions at the Federal Reserve Bank of Boston;
- improve diversity efforts in the areas of recruitment and promotion;
- uncover new candidate pipelines to increase diversity on the Board of Directors.

Another Bank goal is to make diversity and inclusion a conscious part of how we conduct business, including assessing vendor diversity policies, providing technical assistance to suppliers, and evaluating progress on diversity and inclusion at regulated financial institutions.

In 2011, the Federal Reserve Bank of Boston:

- enhanced internal supplier diversity procedures and provided employee training to increase procurement opportunities for minority- and women-owned suppliers;
- developed a supplier diversity good-faith-effort determination model for the Federal Reserve System.

We support the U.S. Treasury by delivering efficient, safe, and accessible payment services.

The Federal Reserve Bank of Boston operates three payment and funds management programs on behalf of the U.S. Treasury. The programs include:

- Internet Payment Platform (IPP), an application that enables federal agencies to handle purchase order and invoice processing electronically in a single Web-based system;
- Stored Value Card (SVC), a program using smart-card technology as a cash-management tool for military personnel in the United States and eleven other countries;

- Treasury Cash Management System (TCMS), a program that enables the Treasury to transfer funds and plays a key role in the Treasury's goal to modernize the accounting, monitoring, and management of its operating cash account.

In 2011, the Federal Reserve Bank of Boston made significant progress in each of these programs:

- IPP continued to expand rapidly to help the Treasury produce cost savings for the government. IPP enrolled fourteen thousand new suppliers, two new agencies, and fourteen bureaus. In support of President Obama's "Campaign to Cut Waste," the U.S. Department of Treasury is mandating that by the end of 2012, all Treasury Bureaus use the IPP, potentially enabling savings of $450 million annually.
- The SVC team enrolled the Marines and Navy in its program of smart cards. The SVC program allows these new members and the U.S. Army and Air Force to use smart cards instead of cash, thereby reducing the need for the Treasury to ship, store, and process hard currency around the globe. Also, SVC supported roughly $4.3 billion of the $5 billion processed through the entire program.
- The TCMS project team met all deliverables for its official implementation in September 2012.

Additionally, in 2011 the Federal Reserve Bank of Boston and the Federal Reserve Bank of Atlanta convened the Industry Mobile Payments workgroup, representing key stakeholder organizations, with the goal of fostering a successful U.S. mobile payments framework. Insights from this workgroup on trends, opportunities, and issues were shared with the Treasury to help ensure domestic mobile payments evolve in a safe, efficient, and accessible manner.

We provide leadership for the Federal Reserve System in IT and financial management.

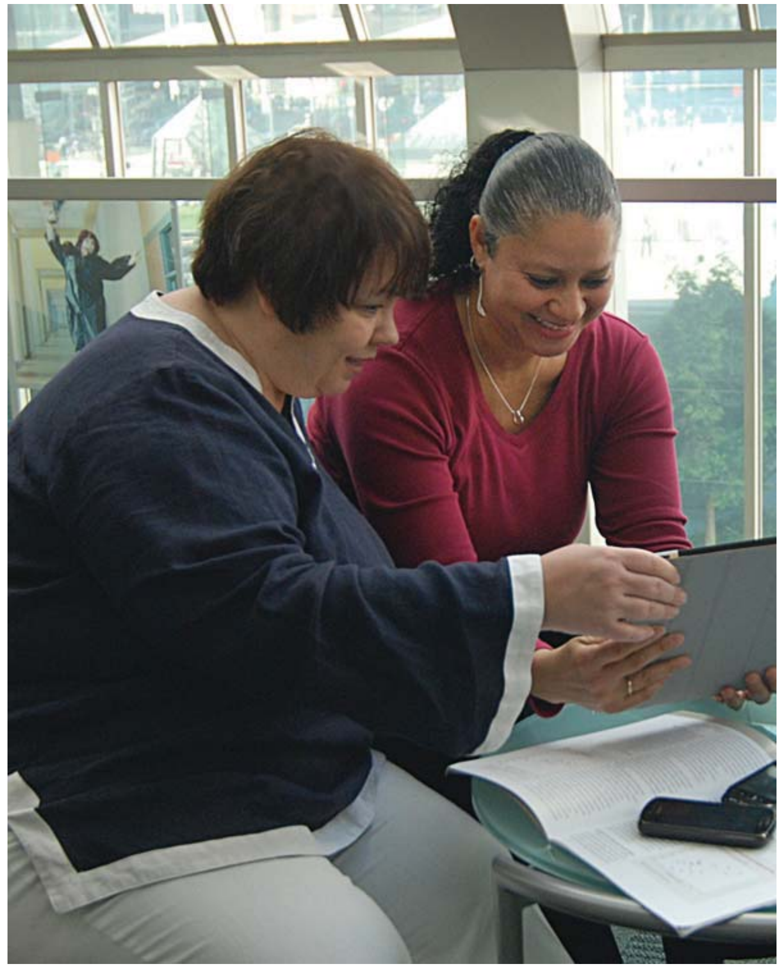
On behalf of all Federal Reserve Banks, the Federal Reserve Bank of Boston is responsible for the coordination of Federal Reserve System financial management and Internet and directory services.

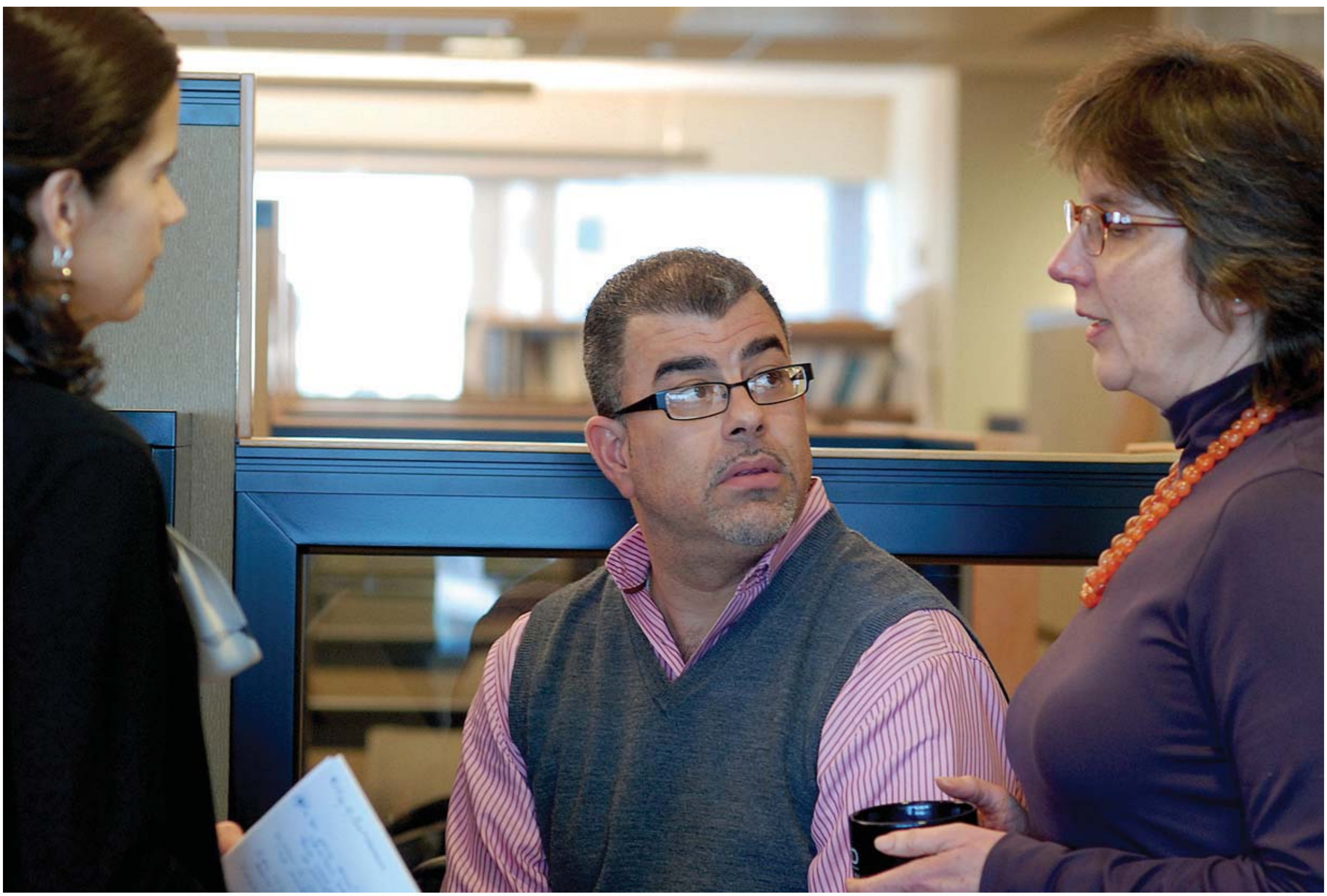
Over the course of 2011, the Federal Reserve Bank of Boston:

- provided System governance groups with value-added financial analysis, consulting, and information needed to make better investment decisions;
- deployed cutting-edge solutions, including new data-analysis tools that will help proactively identify sources of Internet attack activity.

We maintain highly effective and collaborative internal operations.

The Federal Reserve Bank of Boston provides cash services for First District financial institutions. During Hurricane Irene, various depository institutions in Vermont and Connecticut experienced significant flooding in their vaults. We destroyed approximately $700,000 of ruined currency and





ensured that the affected banks had dry currency for their communities' cash needs.

The Federal Reserve Bank of Boston is committed to safety, security, and maintaining a "green" building. In 2011, the Federal Reserve Bank of Boston:

- worked diligently to protect the First Amendment rights of demonstrators while also protecting the safety of employees and tenants during the seventy-two days of Occupy Boston protests, which took place across the street from the Federal Reserve Bank of Boston;
- earned a third consecutive ENERGY STAR Award from the U.S. Environmental Protection Agency and the U.S. Department of Energy in recognition of its exceptional energy performance, which places the Federal Reserve Bank of Boston Building in the top 25 percent of most efficient office buildings in the nation.

The Federal Reserve Bank of Boston also increased its emphasis on innovation in ways it communicates to the public. In order to best share the Bank's work and mission with general audiences:

- President Rosengren gave speeches in many venues and also participated in interviews on radio and television to discuss the state of the economy;
- the Bank expanded the use of the @BostonFed Twitter account, ultimately bringing our follower count to over 6,400 by the end of the year;
- the Bank launched its new public website, www.bostonfed.org, and received 1.8 million visits from 212 countries and territories,
- the Bank made progress developing mobile apps, Quick Response (QR) codes, and interactive multimedia.

1.8M VISITS
WWW.BOSTONFED.ORG

SCAN THIS CODE TO VISIT

stories of

+connecting

Every day, the people of the Boston Fed connect with their world and their region. From identifying trends in data to encouraging collaboration among key populations, Boston Fed employees bring unique backgrounds and talents to their work to better the economic conditions for all in our region and nation.

Here, we share three stories of those connections.

An Empathy Initiative:

Boston Fed analyst goes beyond the quantitative to find solutions for Springfield's Latino population.

Beyond the Fed's sophisticated and effective use of data and analysis to solve economic problems, sometimes a researcher's personal empathy and connection with a community can be her greatest asset, enabling her to frame data in such a way that she can get to the heart of an economic problem. Ana Patricia Muñoz, Senior Policy Analyst, discovered just that in the large Latino community of Springfield, Massachusetts.

"I love economics—that's my background," said Muñoz, "but I'd always been especially interested in development economics and issues that affect lower-income communities." Beginning her Boston Fed career as a Research Assistant, she was thrilled to have the opportunity to join the Bank's initiative "Toward a More Prosperous Springfield," which supports ongoing efforts to revitalize the city of Springfield.

With the oversight of colleague Yolanda Kodrzycki, Muñoz compared Springfield with other small industrial cities across the nation. She found that, despite having considerable assets—hospitals, institutes of higher education, and several key employers—Springfield seemed stalled on the threshold of recovery.

"This wasn't a questionaire, it was a conversation"

What was curbing the city's progress? The city's jobs picture held some clues. Springfield's workforce participation is very low: in some neighborhoods, less than half the working-age population hold a job or are seeking employment, compared with more than 67 percent statewide. The city doesn't lack employers, and the number of available jobs is similar to that found in its peer cities, but many Springfield residents are unable to connect with those positions.

The fact that this disconnect greatly affects Springfield's Latino population is evident in the city's poverty and unemployment data. Springfield's population is 38 percent Latino, and in some neighborhoods, especially the North End, the Latino population is higher than 80 percent. In those neighborhoods, the poverty and unemployment rates are even higher. If the disconnect between employer and unemployed cannot be easily resolved, is there a solution for Springfield's struggling neighborhoods?

During visits to the city, several Boston Fed staff members noticed a surprising dearth of small businesses in the city's neighborhoods. This observation pushed Muñoz toward her hypothesis that promoting self-employment, small-business development, and entrepreneurship among Latino residents would not only provide jobs to lower-income residents but also help revitalize the city.

Back in the office, Muñoz began a literature review on the topic of whether self-employment would benefit Springfield's jobless residents. "Like all research," she says, "it gave mixed results." Few authors looked specifically at the role of entrepreneurship in the Latino population, but some did report signs that looked encouraging. "For low-educated males, the literature showed that they were better off being self-employed," says Muñoz, "and for the demographics we're talking about in Springfield, that could be a good option."

With that encouraging finding, Muñoz felt confident moving ahead. As with anyone trained in economics, she had turned to the data for answers, but the available data had provided only clues and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partial answers. For example, the data gave the number of Latino businesses but did not indicate why those businesses were started or what challenges they faced.

The data did tell Muñoz how important self-employment was to the Latino community. "This is an important sector, and the city should pay more attention to it," says Muñoz.

Determined to prove her hypothesis, Muñoz went back to Springfield. There she interviewed ten Latino small-business owners in predominantly Latino neighborhoods. She was armed with her theories and questions, but her greatest asset may have been her empathy. Like many of the entrepreneurs with whom Muñoz spoke, she herself speaks Spanish as a first language, grew up outside the United States, and immigrated here seeking better opportunities. Because she conducted her interviews in Spanish, most sessions went far beyond her initial questionnaire.

"This wasn't a questionnaire, it was a conversation," said Muñoz. "It's always a good thing to speak the language of the people being interviewed because they can communicate better." Interviewees spoke about how they began their businesses—with their own money rather than with loans—and emphasized their roots in their neighborhood and families and shared their personal stories with Muñoz.

Muñoz found that a small-business owner's role in the community goes beyond economic impact. The entrepreneurs in the Latino community provided many uncompensated services such as translation, tax preparation assistance, support completing forms, and help with job searches.

While they regularly make their services available to their community, most small-business owners were unaware of city services that were available to them. "If those programs are not in the community," says Muñoz, "they won't work." For most small-business owners, availing themselves of city services boils down to an issue of trust. "They need someone who knows the community and works in the community and knows their needs."

Building that trust takes time and understanding. Prabal Chakrabarti, Vice President of Regional and Community Outreach at the Boston Fed, sees Muñoz's success in engaging the small-business owners as demonstrating that: "She wouldn't have gotten these businesspeople to talk to her if she hadn't been speaking their language and being who she was," said Chakrabarti, reflecting on Muñoz's work. "Part of our mandate is economic growth, and we need to make sure there's economic growth for everybody."

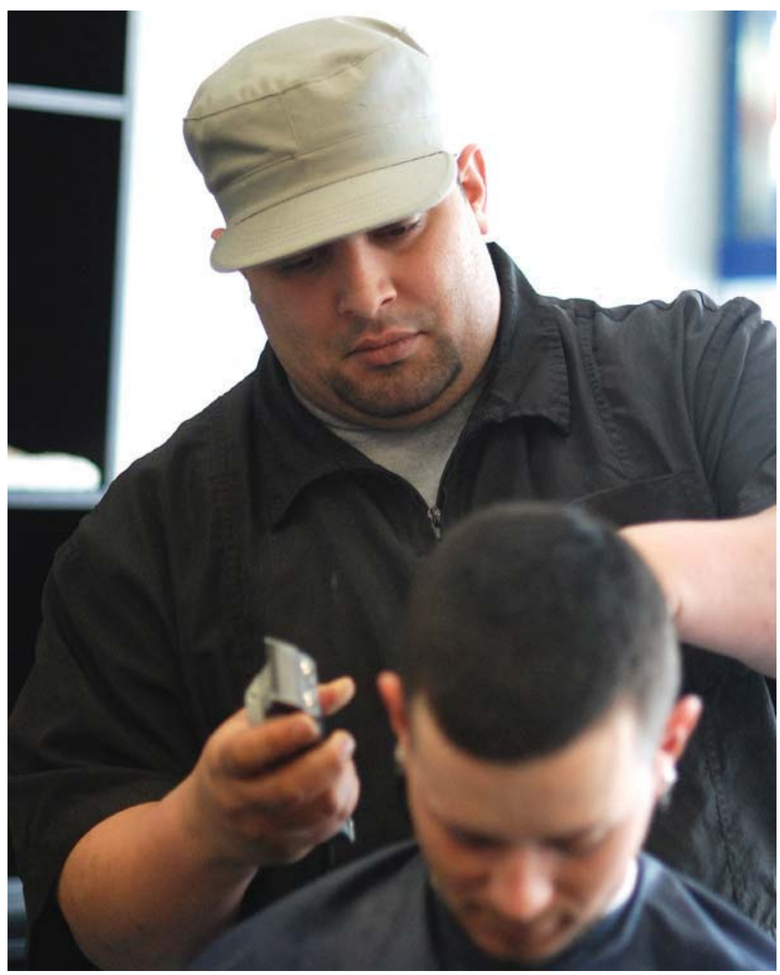
Related Links

- Small Businesses in Springfield, Massachusetts: A Look at Latino Entrepreneurship http://www.bostonfed.org/commdev/pcadp/index.htm#2011

- Toward a More Prosperous Springfield: A Federal Reserve Bank of Boston Initiative http://www.bostonfed.org/commdev/springfield/index.htm

- Collaboration and Leadership in Smaller Industrial Cities: A forum on the economic, fiscal and political challenges and opportunities facing New England's smaller industrial cities http://www.bostonfed.org/commdev/conf/2011/smaller-industrial-cities/index.htm

- The Growth of Latino Small Businesses in Providence http://www.bostonfed.org/commdev/c&b/2012/spring/growth-of-latino-small-businesses-in-providence.htm



Cash During Catastrophe

In times of crisis, Cash Services reacts quickly to ensure the health of our region's banks.

After Hurricane Irene tore through Vermont on August 28, 2011, floodwaters rose relentlessly, causing billions of dollars in damage. The fierce storm washed away homes, tore apart roads, ruined bridges, and shuttered businesses for days.

Even banks weren't immune; some, in fact, were literally underwater for days. "The basement completely flooded, and the water rose to about three feet on the first floor," recalls Wendy Kellett, branch manager of the Northfield Savings Bank in Waterbury, Vermont. "The water was over our desks."

"In emergency situations, people tend to turn to cash"

As the "bank for banks," the Federal Reserve System is responsible for supplying currency to financial institutions throughout the nation. Never is this mission more critical than in times of duress, such as power outages, large-scale computer system failures, or natural disasters, such as Hurricane Irene.

"In emergency situations, people tend to turn to cash in case their credit cards or debit cards are not accepted due to power outages," says Leah Maurer, Vice President of Cash Services at the Federal Reserve Bank of Boston. "Cash is always the backup option, and the need for cash surges during emergencies.

"Being able to supply cash to our customers—at any time and under any conditions—is very important to the Cash community, not just in Boston but throughout the Fed System," adds Maurer. "We work very hard to make sure that we're able to provide continuous service for our customers through any kind of emergency situation, whether it's floods, blizzards, hurricanes, tornadoes, ice storms, or power outages."

So in the aftermath of Hurricane Irene, the Boston Fed, which serves the New England region, stood ready to supply Vermont's banks with an influx of cash should the need arise. While banks were tested by the hurricane, the Green Mountain State's bankers proved resilient and were able to support one another during the crisis.

"The Vermont bankers relied a lot on themselves and on their neighboring banks," recalls Maurer. "In one instance, two competing banks shared a branch location because one of the banks was flooded. They pooled their resources, and as a result we didn't have to step in."

The Boston Fed supported Vermont banks in their cleanup efforts, which consisted of accepting, destroying, and replacing approximately $700,000 in water-logged currency. The acceptance process for damaged currency is an exacting one, involving a Cash Services team that physically handles the contaminated currency, an independent witness from the Cash Services department, a Cash Services executive, and an auditor at the Fed.

It took several weeks for the money to trickle in, as bankers did their best to dry the currency on their own, often in creative ways. One bank used a fan in an attempt to blow-dry currency. "We rented a clothes dryer, dried all the bills, and pressed them flat to get them ready to be sent out," says the Northfield Savings Bank's Kellett, who jokingly adds, "It put a whole new spin on money laundering."

According to Cash Services Manager Bob Costello, the Boston Fed accepted 56,479 contaminated paper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notes, most from Vermont, during September, October, and November 2011—approximately sixty times the amount of damaged currency that Cash Services received during the same period the previous year.

In case of an extreme event that knocks out the Boston Fed's systems, the Bank is part of a System-wide "buddy bank" arrangement, whereby neighboring Reserve Banks can fill orders for customers in another district. The New York and Philadelphia Reserve Banks can supply cash from their vaults for Boston's First District customers, while Boston and other Reserve Banks can do likewise for the Second (New York) and Third (Philadelphia) Districts.

The buddy-bank arrangement is just one element in Cash Services' continuity planning, a multifaceted, System-wide effort that includes multiple tests of systems, equipment, and people each year. Despite all the advances in technology, however, first and foremost, the Cash Services operation relies on good people.

In an emergency such as the Vermont flooding, a core group of Cash Services employees might be called upon to stay overnight or work weekends, ensuring that the Boston Fed is able to supply cash to customers when needed.

"We make sure that the right staff are available to fill orders and to take deposits during emergencies, and we also ensure that management is in place to support them," says Maurer.

"Most of our people have worked here for decades and know each other very well, so we have an unusually close-knit group in Cash," says Costello, who has been with the Bank for almost forty years. "The nature of the work is extremely team-oriented, and work partners truly depend upon each other. So we really have a 'one for all and all for one' mentality; we're almost like a family."

Related Links

- Federal Reserve Bank Services: FedCash
  http://frbservices.org/serviceofferings/fedcash/index.html

- Business Continuity Resources from the Boston Fed
  http://www.bostonfed.org/about/buscont/

- Procedures for Contaminated Currency and Coin
  http://www.frbservices.org/operations/currency/contaminated_currency_coin.html?id=47&loc=3

- Procedures for Mutilated Currency and Coin
  http://www.frbservices.org/operations/currency/mutilated_currency_and_coin.html


$2000

Beyond Monetary Policy

Throughout the economic recovery, Fed economists keep their eye on the bottom line: people.

By historic standards, 2011 was a chaotic year around the globe. Yet, despite the chaos, the Boston Fed never took its eye off the prize of doing its best to foster macroeconomic conditions that encourage job creation and price stability: the two elements of the Fed's "Dual Mandate" that form the backbone of the Fed's charge from Congress.

In a climate of fragile recovery in the wake of an enormous recession, 2011 began with optimism. In February, the expectation was 3.5% growth in an economy that had yet to fully find its feet. In reality, the year's growth reached just half of that prediction. Despite frustrations, Boston Fed Executive Vice President and Senior Policy Advisor Jeff Fuhrer still kept his focus on what matters most: people.

"In this Bank, we're actually pretty good about keeping our eye on the bottom line, and the bottom line is whether we're delivering the highest level of economic welfare to the people in the country that we can," said Fuhrer. "The first thing that matters to people is whether they have a job, that it pays well, and that it is rewarding."

The attention to jobs aligns with the Fed's dual mandate – to promote maximum employment and stable prices – but Fuhrer recognizes there are limits to what the Fed can do. "We can't control the quality of jobs being offered... but we're always thinking 'those are real people out there.' And the welfare loss from unemployment is significant."

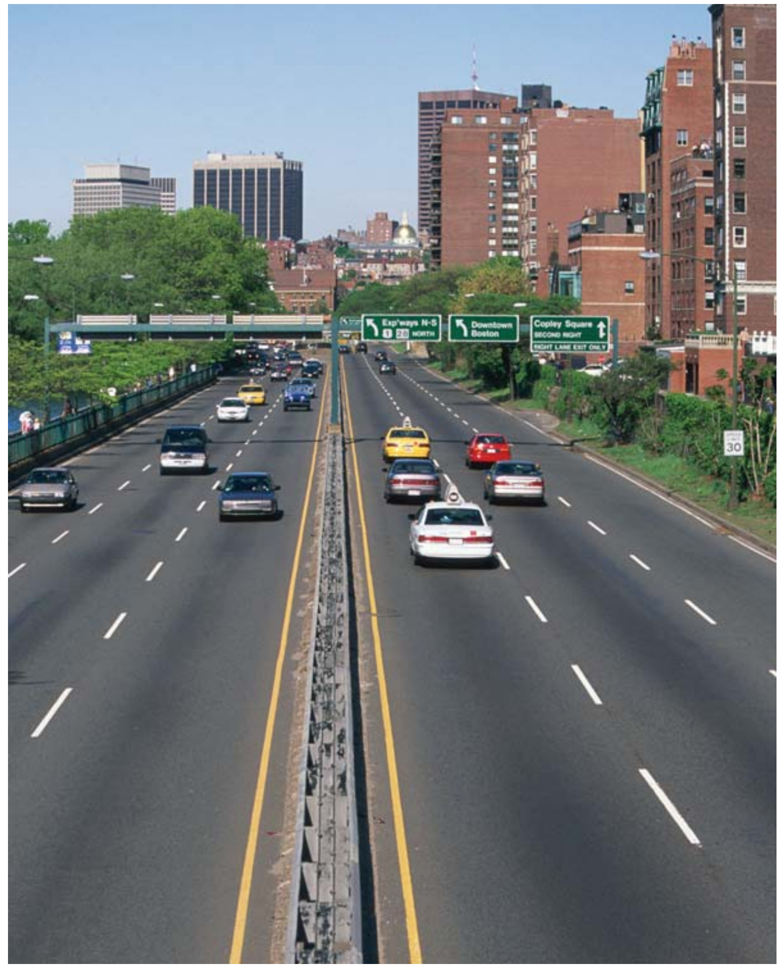
"We're always thinking 'those are real people out there.' And the welfare loss from unemployment is significant."

In a year of new challenges, tackling these issues required creative efforts from the start. "It's important to recognize that it's very, very hard to tell from the first few months of data what the year is going to be," said Fuhrer. "Last year, there was extreme weather." From record snowfalls and ice storms in the United States to the devastating earthquake and tsunami and Japan, the nation's predicted economic recovery hit a speedbump.

"We had a burst of growth and a strong employment expansion in the beginning of 2011, but it subsided quickly," said Senior Vice President and Director of Research Geoff Tootell, noting the questions that emerged from those early months: "Did it subside due to debt crisis here and abroad, or was it subsiding before that? Was it a blip, a false signal? The early part of 2011 reminds us all that 4 months of good data does not a real recovery make."

With unemployment rates stubbornly high and growth in the first half of 2011 meager, it was time for action. Once it became clear that the recovery was proceeding at a subpar pace, the Federal Reserve Open Market Committee wasted no time in responding.

At the time, the Fed owned more than $1 trillion in Treasury bills and bonds, many of which were short- to medium-term bills and bonds set to come due in the next few years. In an effort to reduce longer-term interest rates without swelling the size of the Fed's balance sheet, the Committee elected to sell some of the shorter-maturity securities, using the proceeds to buy longer-term Treasury securities, pushing their yields down. This measure, known as "Operation Twist,"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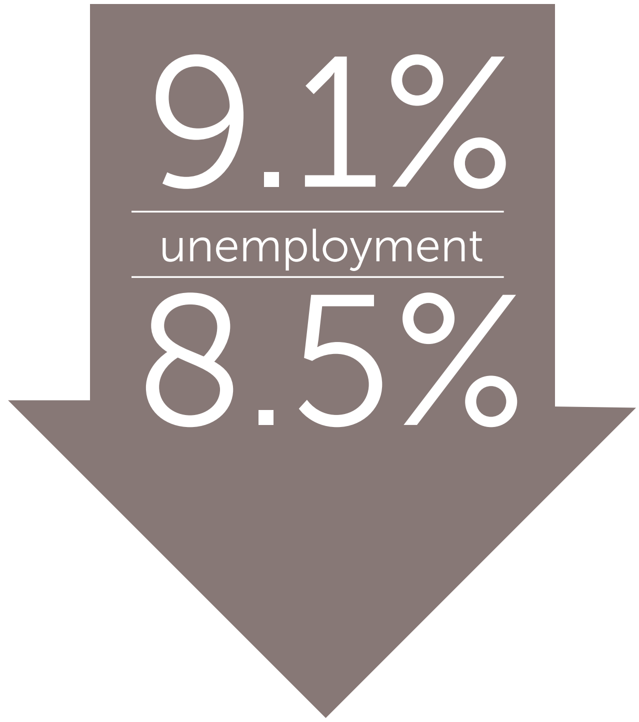
reduced the supply of desirable longer-term bonds available to the private markets, raising their prices and lowering their yields. Importantly, investors see other financial products of similar maturity and risk, such as highly-rated mortgages and business loans, as good substitutes for Treasury bonds. Thus when the rates on Treasuries were affected by Operation Twist, so were other interest rates that more directly affect borrowing and spending in the economy, including mortgages, auto and business loans.

Why push interest rates even lower? For every $500 to 700 billion of securities purchased, the Boston Fed estimates that we were able to save 500,000 to 700,000 jobs; protecting the economic welfare of 500,000 to 700,000 individuals and families, said Fuhrer. To those families, he suggests, that policy made a significant difference.

This measure ultimately could not provide a full recovery, but Boston Fed economists remain upbeat. "A policy action that, for instance, reduces the unemployment rate by half a percent over time will not return the economy to full employment, of course, but will still mean 750,000 jobs that would not have been created in the absence of the action," Boston Fed President Eric Rosengren said at the time, unwilling to settle for the unacceptable 9.1% unemployment rate.

Of course, no one can be certain how much of an outcome derives directly from monetary policy actions. "It is very difficult, in real time, to know how much of an effect any of our actions have on the economy because of other factors," said Fuhrer, pointing to the extreme weather conditions, a political debate on the debt ceiling that shook Washington, D.C., and international economic disruptions that made US Treasuries a more attractive investment. But in the second half of 2011, an unexpected bright spot developed: despite rather meager economic growth, unemployment rates began to fall, more than people



expected. By December of that year, unemployment would reach a 3-year low 8.5%.

Shortly before announcing Operation Twist, the Committee made another major change in its operations that didn't involve sales or purchases. At its August meeting, the Committee established a specific, though non-binding, horizon for holding interest rates near their zero bound. This transparent communication likely reduced some of the speculation swirling around markets at the time: what was once a guessing game for market-watchers became a clearer guide for participants, a bold statement in a weak economy.

Transparency alone would not resolve the pressing economic issues. Several economists pointed to structural unemployment as the source of problems. At the Boston Fed, these claims did not go unheard. "It's too easy to be cavalier about that claim," said Fuhrer. "People say, 'there's not that much structural unemployment, it can't be that all of that is structural.' You can dismiss that out of hand, but that wouldn't be the most responsible way of thinking about it." Aware of the risks of overlooking a potential threat, Boston Fed researchers analyzed the data bearing on structural unemployment hypotheses. "They looked at whether there was evidence of regional or skill-based or sector mismatch by looking at data on job openings and unemployment by region, by industrial sector, and to the extent they can, by skill level," explained Fuhrer. "It turns out it's very hard to see much evidence of structural unemployment in the data."

Numerical data alone do not guide Fuhrer in his professional life. As Executive Vice President of the Bank's Regional and Community Outreach division, he shares his time between monetary policy and the issues facing low- and moderate-income populations in the region. Working with partner entities and advisory councils, he has a view both inside and outside the Fed building.

"We are trying to figure out what's going on in the world and how what we do is affecting them. For the most part that is about monetary policy, but it's not only that. It's also about the things we do in community development and community outreach."

At no point does Fuhrer lose sight of the purpose behind this research. In fact, it has guided his career from the start: "It's pretty clear from the top down that we're here to do a public service. That's why I went into economics."

Related Links

- Research and Data at the Boston Fed
  http://www.bostonfed.org/economic/index.htm

- Boston Fed's Summary of National Economic Data
  http://www.bostonfed.org/economic/natldata/index.htm

- Jeff Fuhrer's Biography and Research
  http://www.bostonfed.org/economic/econbios/fuhrer.htm

- The Estimated Macroeconomic Effects of the Federal Reserve's Large-Scale Treasury Purchase Program
  http://www.bostonfed.org/economic/ppb/2011/ppb112.htm

- Credit and Liquidity Programs and the Balance Sheet
  http://www.federalreserve.gov/monetarypolicy/bst_fedsbalancesheet.htm

- FAQs on the Federal Reserve's Maturity Extension Program ("Operation Twist")
  http://www.federalreserve.gov/faqs/money_15070.htm

- The Federal Open Market Committee (FOMC)
  http://www.federalreserve.gov/monetarypolicy/fomc.htm

- The Federal Reserve Act
  http://www.federalreserve.gov/aboutthefed/fract.htm

- Federal Reserve Economic Data
  http://research.stlouisfed.org/fred2/

Board of Directors

Standing (left to right): David A. Lentini, Eric S. Rosengren, Richard E. Holbrook, William D. Nordhaus, Kenneth C. Montgomery
Seated (left to right): Catherine D'Amato, Kathryn G. Underwood, Henri A. Termeer, Kirk A. Sykes, John F. Fish
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BJ's Wholesale Club

Board of Directors

Each Federal Reserve Bank and its branches are supervised by a board of directors. Each board has three classes of directors (A, B & C) with three members in each class. Class A directors represent the member commercial banks in the District, while Class B & C directors represent the public and are chosen with consideration to the interests of agriculture, commerce, industry, services, labor, and consumers. Class A & Class B directors are elected by member banks in the District, while Class C directors are appointed by the System's Board of Governors in Washington, D.C.

2011 Board of Directors

Henri A. Termeer, Chairman and Class C Director, is Chairman, President, and Chief Executive Officer of Genzyme Corporation. He serves on the Boards of Directors of the Pharmaceutical Research and Manufacturers of America, and of Abiomed, Inc. He is Chairman Emeritus of the New England Healthcare Institute, a nonprofit applied research health policy organization that he was instrumental in founding. Mr. Termeer is also a member of the Board of Directors of Project HOPE, an international nonprofit health education and humanitarian assistance organization, and a Board Member of the MIT Corporation.

Kirk A. Sykes, Deputy Chairman and Class C Director, is President and Managing Director of the Urban Strategy America Fund, L.P. He is a Commissioner for the City of Boston's Civic Design Commission. He also serves as Vice Chairman of the Real Estate Executive Council; as Advisory Board Member of the Northeastern University School of Public Policy and Urban Affairs; and on the Board of the Suffolk University Law School Rappaport Center for Law and Public Service.

Catherine D'Amato, Class C Director, is President and Chief Executive Officer of The Greater Boston Food Bank, New England's largest nonprofit hunger-relief organization and food distribution business. Before coming to the Boston agency in 1995, she was the chief executive at food banks in Western Massachusetts and San Francisco. Ms. D'Amato currently serves on the Board of Directors of the Boston Foundation, the Massachusetts Food Association, and Basic Health International. She was named Vice Chair of the Boston Foundation's Board of Directors in 2009.

John F. Fish, Class B Director, is Chairman and Chief Executive Officer of Suffolk Construction Company, Inc., a privately held firm that provides preconstruction, construction management, design and general contracting services to healthcare, education, science/technology, government, and commercial clients throughout the United States. Mr. Fish is Founder and Chairman of the Red and Blue Foundation, Suffolk Construction's nonprofit initiative. He is a Trustee of Beth Israel Deaconess Medical Center and serves on the Executive Committees of the Greater Boston Chamber of Commerce, Jobs for Mass, the Boston Plan for Excellence, and the Private Industry Council.

Richard E. Holbrook, Class A Director, is Chairman and Chief Executive Officer of Eastern Bank Corporation and of Eastern Bank and its subsidiaries. Eastern is the largest mutually owned commercial banking company in New England. Mr. Holbrook serves on the Executive Committees of the Boston Chamber of Commerce and the Massachusetts Bankers Association. He is Chairman of the Board of Trustees of the North Shore Medical Center and a Trustee of Partners Community HealthCare, Inc.

Joseph L. Hooley, Chairman, President, and Chief Executive Officer of State Street Corporation, is the Federal Advisory Council (FAC) representative for the First Federal Reserve District. The FAC meets quarterly to discuss business and financial conditions with the Federal Reserve Board of Governors in Washington, D.C. It is composed of one banker from each of the 12 Federal Reserve Districts. The First Federal Reserve District comprises all of New England, except Fairfield County, Connecticut.

David A. Lentini, Class A Director, is Chairman, President, and Chief Executive Officer of Connecticut Bank and Trust Company. Mr. Lentini serves as a Director of the St. Francis Hospital and Medical Center and is a Trustee and Treasurer of the St. Francis Foundation.

William D. Nordhaus, Class B Director, is Sterling Professor of Economics at Yale University. Mr. Nordhaus has been on the Yale faculty since 1967. He also teaches at the Yale School of Forestry and Environmental Studies. He served on the President's Council of Economic Advisers from 1977 to 1979. Mr. Nordhaus is a Member of the National Academy of Sciences and a Fellow of the American Academy of Arts and Sciences.

Kathryn G. Underwood, Class A Director, is President and Chief Executive Officer of Ledyard National Bank. She serves on the Board of the New Hampshire Bankers Association and is Vice Chair of the Hanover Area Chamber of Commerce. Ms. Underwood previously served as KeyCorp's District President in Maine with responsibility for all retail and business banking in the state. She has also served as Chair of the Maine Bankers Association, the Maine State Chamber, and the Maine United Way.

Michael T. Wedge, Class B Director, has more than 35 years of retail experience. He is the former President and Chief Executive Officer of BJ's Wholesale Club. He serves on the Boards of the Greater Boston Chamber of Commerce, the Massachusetts Business Roundtable, and the Commercial Club/Merchants Club of Boston, and is a Member of the National Association of Corporate Directors.

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Not pictured: Lynn E. Browne

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Assistant Vice President
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Anthony Bardascino
Assistant Vice President

Theresa J. Barry
Assistant Vice President

Mary Hughes Bickerton
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Krista M. Blair
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Mary L. Cottman
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Joel W. Werkema
Assistant Vice President

Lisa A. Wright
Assistant Vice President
and Assistant General Counsel

Elaine Zetes
Assistant Vice President
and Assistant Corporate Secretary

New England Advisory Council

The New England Advisory Council (NEAC) is comprised of leaders of small- to mid-size businesses throughout New England. Members advise the Bank and its management on economic matters throughout the Federal Reserve's First District.

Standing (left to right): James T. Brett, Kenneth C. Montgomery, Joseph A. Nagle, Ralph D. Crowley, Susan Mailman, Eric S. Rosengren, Charles L. D'Amour
Seated (left to right): Carlton L. Highsmith, Richard W. Anderson, Laura Grondin, Roger Berkowitz, Greg Shell
Not pictured: Ernest A. Pomerleau

Richard W. Anderson
President
Massachusetts Capital Resource Company

Roger Berkowitz
President and Chief Executive Officer
Legal Sea Foods

James T. Brett (Advisor)
President and Chief Executive Officer
The New England Council

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Charles L. D'Amour
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Carlton L. Highsmith
Founder and Vice Chairman
The Specialized Packaging Group, Inc.

Susan Mailman
Owner and President
Coghlin Electrical Contractors, Inc.
Coghlin Network Services, Inc.

Joseph A. Nagle
President and Chief Executive Officer
Delta Dental of Rhode Island

Ernest A. Pomerleau
President
Pomerleau Real Estate

Greg Shell
Portfolio Manager
Grantham, Mayo, Van Otterloo
International Active Division

Community Depository Institution Advisory Council

CDIAC offers a community institution perspective on the economy, credit conditions, regulatory policies, and payments. The members of the First District Community Depository Institution Advisory Council (CDIAC) bring information from their local communities to the Federal Reserve Bank of Boston. The 12 members represent commercial banks, thrifts, and credit unions with assets of less than $10 billion. The CDIACs of the Federal Reserve Board and the 12 Reserve Banks were established by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Standing (left to right): Kenneth C. Montgomery, Michael L'Ecuyer, Gregg R. Tewksbury, John J. Dwyer, Thomas M. Caron
Seated (left to right): Peter L. Judkins, William Stapleton, Eric S. Rosengren, James W. Blake, Gregory R. Shook, Jane C. Walsh, Richard C. Walker III
Not pictured: Merrill Sherman, Christopher Oddleifson, Joseph J. MarcAurele

James W. Blake
President and Chief Executive Officer
HarborOne Credit Union

Thomas M. Caron
President and Chief Executive Officer
Bank of Easton

John J. Dwyer, Jr.
President and Chief Executive Officer
New England Federal Credit Union

Michael L'Ecuyer
President and Chief Executive Officer
Bellwether Community Credit Union

Peter L. Judkins
President and Chief Executive Officer
Franklin Savings Bank

Joseph J. MarcAurele
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Washington Trust

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President and Chief Executive Officer
Rockland Trust Company

Merrill Sherman
President and Chief Executive Officer
Bank Rhode Island

Gregory R. Shook
President and Chief Executive Officer
Essex Savings Bank

William Stapleton
(Representative to the
Federal Reserve Board CDIAC)
President and Chief Executive Officer
Northampton Cooperative Bank

Gregg R. Tewksbury
President and Chief Executive Officer
Savings Bank of Walpole

Jane C. Walsh
President and Chief Executive Officer
Northmark Bank

Community Development Advisory Council

The New England Community Development Advisory Council provides a forum for representatives of community development organizations from the private, public, and nonprofit sectors to inform, advise, and discuss opportunities to facilitate communication among the sectors to encourage effective use of community development resources in the region. The CDAC serve as a mechanism to convey to the broader Federal Reserve System, indirectly through the Federal Reserve Bank of Boston, perspectives on community development to which the System should be sensitive.

Standing (left to right): Rebecca Regan, Craig Welch, Kenneth C. Montgomery, Catherine T. MacKinnon, Katharine Eneguess, Eric S. Rosengren, Mary R. Niebling, Jeffrey C. Fuhrer
Seated (left to right): Dora D. Robinson, Garrett Martin, Meredith Jones, Sam Hamilton, Doreen F. Allen, Richard C. Walker III
Not pictured: Andrew L. Cortés, Cindy Larson

Richard C. Walker III
(Chair)
Senior Vice President and
Community Affairs Officer
Federal Reserve Bank of Boston

Doreen F. Allen
Northfield Branch President and
Community Reinvestment Act Officer
Merchants Bank

Andrew L. Cortés
Director
YouthBuild and Building Futures

Katharine Eneguess
President
White Mountains Community College

Sam Hamilton
Executive Director
Hartford Economic Development
Corporation

Meredith Jones
President and Chief Executive Officer
Maine Community Foundation

Cindy Larson
Senior Program Officer
Local Initiative Support Corporation

Garrett Martin
Executive Director
Maine Center for Economic Policy

Catherine T. MacKinnon
Executive Director
Mutual Housing Association of Greater
Hartford

Mary R. Niebling
Director, Community
Economic Development
Central Vermont Community
Action Council

Rebecca Regan
President, Capital Markets
Housing Partnership Network

Dora D. Robinson
President and Chief Executive Officer
United Way of Pioneer Valley

Craig Welch
Vice President for Housing
New Hampshire Community Loan Fund

Diversity Advisory Council

The Diversity Advisory Council works collaboratively with the President and the Office of Diversity to provide advice, counsel, thought leadership, and feedback regarding actions, initiatives, and strategies that the Federal Reserve Bank of Boston can undertake. The Diversity Advisory Council is comprised of recognized diversity business leaders from the New England region.

Standing (left to right): Kirk A. Sykes, Eric S. Rosengren, Marques E. Benton, Wayne A. Budd, David K. Park, Jeffrey C. Fuhrer, James S. Cunha
Seated (left to right): Ronald Homer, Valerie Mosely, Joseph W. Chow, Vanessa Calderón-Rosado
Not pictured: Gail Snowden

Wayne A. Budd
Senior Counsel
Goodwin Procter

Vanessa Calderón-Rosado
Chief Executive Officer
Inquilinos Boricuas en Acción

Joseph W. Chow
Former Executive Vice President
State Street Bank

Ronald Homer
President and Managing Director
Access Capital Strategies

Valerie Mosley
Manager
Wellington Company

Gail Snowden
Chief Executive Officer
Freedom House

Kirk A. Sykes
President and Managing Director
Urban Strategy America Fund

As part of the nation's central bank, the Federal Reserve Bank of Boston promotes sound growth and financial stability in New England and the nation.

The Bank contributes to local communities, the region, and the nation through its high-quality research, regulatory oversight, and financial services, and through its commitment to leadership and innovation.

FEDERAL RESERVE
BANK OF BOSTON™

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The Federal Reserve Bank of Boston

Financial Statements as of and for the Years Ended December 31, 2011 and 2010 and Independent Auditors' Report

THE FEDERAL RESERVE BANK OF BOSTON

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Management's Report on Internal Control Over Financial Reporting

March 20, 2012

To the Board of Directors

The management of the Federal Reserve Bank of Boston (FRBB) is responsible for the preparation and fair presentation of the Statements of Condition as of December 31, 2011 and 2010, and the Statements of Income and Comprehensive Income, and Statements of Changes in Capital for the years then ended (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 as set forth in the *Financial Accounting Manual for Federal Reserve Banks* (FAM), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the financial statements are, in all material respects, fairly presented in conformity with the accounting principles, policies and practices documented in the FAM and include all disclosures necessary for such fair presentation.

The management of the FRBB is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. The FRBB's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with the FAM. The Bank's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Bank's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with FAM, and that the Bank's receipts and expenditures are being made only in accordance with authorizations of its management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its financial statements.

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 FRBB assessed its internal control over financial reporting 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 FRBB maintained effective internal control over financial reporting.

By ______________________________

Eric S. Rosengren, President

By ______________________________

Kenneth C. Montgomery, First Vice-President

By ______________________________

Jon D. Colvin, CPA, Chief Financial Officer

Deloitte & Touche LLP
200 Berkeley Street
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statements of Condition of the Federal Reserve Bank of Boston ("FRB Boston") as of December 31, 2011 and 2010, and the related Statements of Income and Comprehensive Income, and of Changes in Capital for the years then ended, which have been prepared in conformity with accounting principles established by the Board of Governors of the Federal Reserve System. We also have audited the internal control over financial reporting of the FRB Boston as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The FRB Boston's management is responsible for these Financial Statements, for maintaining effective internal control over financial reporting, and for its assertion 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 FRB Boston's internal control over financial reporting based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, as well as 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 FRB Boston's internal control over financial reporting is a process designed by, or under the supervision of, the FRB Boston's principal executive and principal financial officers, or persons performing similar functions, and effected by the FRB Boston'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 FRB Boston'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 FRB Boston; (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 FRB Boston are being made only in accordance with authorizations of management and directors of the FRB Boston; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the FRB Boston'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 FRB Boston 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, such Financial Statements present fairly, in all material respects, the financial position of the FRB Boston as of December 31, 2011 and 2010, 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 FRB Boston maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

March 20, 2012

FEDERAL RESERVE BANK OF BOSTON

Abbreviations:

ACH	Automated clearinghouse
AMLF	Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility
ASU	Accounting Standards Update
BEP	Benefit Equalization Retirement Plan
Bureau	Bureau of Consumer Financial Protection
FAM	*Financial Accounting Manual for Federal Reserve Banks*
FASB	Financial Accounting Standards Board
Fannie Mae	Federal National Mortgage Association
Freddie Mac	Federal Home Loan Mortgage Corporation
FOMC	Federal Open Market Committee
FRBA	Federal Reserve Bank of Atlanta
FRBNY	Federal Reserve Bank of New York
GAAP	Accounting principles generally accepted in the United States of America
GSE	Government-sponsored enterprise
IMF	International Monetary Fund
MBS	Mortgage-backed securities
OEB	Office of Employee Benefits of the Federal Reserve System
OFR	Office of Financial Research
SDR	Special drawing rights
SERP	Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks
SOMA	System Open Market Account
TAF	Term Auction Facility
TBA	To be announced
TDF	Term Deposit Facility
TOP	Term Securities Lending Facility Options Program
TSLF	Term Securities Lending Facility

FEDERAL RESERVE BANK OF BOSTON
STATEMENTS OF CONDITION
As of December 31, 2011 and December 31, 2010
(in millions)

	2011	2010
ASSETS		
Gold certificates	$ 390	$ 369
Special drawing rights certificates	196	196
Coin	53	47
Loans to depository institutions	2	1
System Open Market Account:		
Treasury securities, net	43,033	27,001
Government-sponsored enterprise debt securities, net	2,651	3,871
Federal agency and government-sponsored enterprise mortgage-backed securities, net	20,856	25,425
Foreign currency denominated assets, net	897	960
Central bank liquidity swaps	3,449	3
Accrued interest receivable	485	360
Bank premises and equipment, net	142	149
Items in process of collection	11	10
Interdistrict settlement account	35,147	4,414
Other assets	33	33
Total assets	$ 107,345	$ 62,839
LIABILITIES AND CAPITAL		
Federal Reserve notes outstanding, net	$ 39,932	$ 36,298
System Open Market Account:		
Securities sold under agreements to repurchase	2,456	1,511
Other liabilities	34	-
Deposits:		
Depository institutions	62,799	22,935
Other deposits	28	6
Interest payable to depository institutions	4	2
Accrued benefit costs	86	83
Deferred credit items	58	71
Accrued interest on Federal Reserve notes	51	90
Other liabilities	11	9
Total liabilities	105,459	61,005
Capital paid-in	943	917
Surplus (including accumulated other comprehensive loss of $11 million at December 31, 2011 and 2010)	943	917
Total capital	1,886	1,834
Total liabilities and capital	$ 107,345	$ 62,839

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

FEDERAL RESERVE BANK OF BOSTON
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the years ended December 31, 2011 and December 31, 2010
(in millions)

	2011	2010
INTEREST INCOME		
Loans to depository institutions	$ -	$ 1
System Open Market Account:		
Treasury securities, net	1,046	622
Government-sponsored enterprise debt securities, net	76	82
Federal agency and government-sponsored enterprise mortgage-backed securities, net	949	1,055
Foreign currency denominated assets, net	9	8
Central bank liquidity swaps	1	-
Total interest income	2,081	1,768
INTEREST EXPENSE		
System Open Market Account:		
Securities sold under agreements to repurchase	1	2
Deposits:		
Depository institutions	57	42
Total interest expense	58	44
Net interest income	2,023	1,724
NON-INTEREST INCOME		
System Open Market Account:		
Treasury securities gains, net	56	-
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net	-	18
Foreign currency gains, net	5	20
Compensation received for service costs provided	16	19
Reimbursable services to government agencies	33	30
Other	16	17
Total non-interest income	126	104
OPERATING EXPENSES		
Salaries and benefits	114	112
Occupancy	26	25
Equipment	14	14
Assessments:		
Board of Governors operating expenses and currency costs	48	45
Bureau of Consumer Financial Protection	8	1
Office of Financial Research	1	-
Other	29	26
Total operating expenses	240	223
Net income prior to distribution	1,909	1,605
Change in prior service costs related to benefit plans	(1)	4
Change in actuarial gains related to benefit plans	1	5
Comprehensive income prior to distribution	$ 1,909	$ 1,614
Distribution of comprehensive income:		
Dividends paid to member banks	$ 56	$ 55
Transferred to (from) surplus and change in accumulated other comprehensive loss	26	(27)
Payments to Treasury as interest on Federal Reserve notes	1,827	1,586
Total distribution	$ 1,909	$ 1,614

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

FEDERAL RESERVE BANK OF BOSTON
STATEMENTS OF CHANGES IN CAPITAL
For the years ended December 31, 2011 and December 31, 2010
(in millions, except share data)

		Surplus			
	Capital paid-in	Net income retained	Accumulated other comprehensive loss	Total surplus	Total capital
Balance at January 1, 2010 (18,888,347 shares)	$ 944	$ 964	$ (20)	$ 944	$ 1,888
Net change in capital stock redeemed (555,986 shares)	(27)	-	-	-	(27)
Transferred from surplus and change in accumulated other comprehensive loss	-	(36)	9	(27)	(27)
Balance at December 31, 2010 (18,332,361 shares)	$ 917	$ 928	$ (11)	$ 917	$ 1,834
Net change in capital stock issued (527,104 shares)	26	-	-	-	26
Transferred to surplus and change in accumulated other comprehensive loss	-	26	-	26	26
Balance at December 31, 2011 (18,859,465 shares)	$ 943	$ 954	$ (11)	$ 943	$ 1,886

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

FEDERAL RESERVE BANK OF BOSTON
NOTES TO FINANCIAL STATEMENTS

1. STRUCTURE

The Federal Reserve Bank of Boston (Bank) is part of the Federal Reserve System (System) and is one of the 12 Federal Reserve Banks (Reserve Banks) created by Congress under the Federal Reserve Act of 1913 (Federal Reserve Act), which established the central bank of the United States. The Reserve Banks are chartered by the federal government and possess a unique set of governmental, corporate, and central bank characteristics. The Bank serves the First Federal Reserve District, which includes the states of Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, and a portion of the state of Connecticut.

In accordance with the Federal Reserve Act, supervision and control of the Bank is exercised by a board of directors. The Federal Reserve Act specifies the composition of the board of directors for each of the Reserve Banks. Each board is composed of nine members serving three-year terms: three directors, including those designated as chairman and deputy chairman, are appointed by the Board of Governors of the Federal Reserve System (Board of Governors) to represent the public, and six directors are elected by member banks. Banks that are members of the System include all national banks and any state-chartered banks that apply and are approved for membership. Member banks are divided into three classes according to size. Member banks in each class elect one director representing member banks and one representing the public. In any election of directors, each member bank receives one vote, regardless of the number of shares of Reserve Bank stock it holds.

In addition to the 12 Reserve Banks, the System also consists, in part, of the Board of Governors and the Federal Open Market Committee (FOMC). The Board of Governors, an independent federal agency, is charged by the Federal Reserve Act with a number of specific duties, including general supervision over the Reserve Banks. The FOMC is composed of members of the Board of Governors, the president of the 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. These functions include participating in formulating and conducting monetary policy; participating in the payment system, including large-dollar transfers of funds, automated clearinghouse (ACH) operations, and check collection; distributing coin and currency; performing fiscal agency functions for the U.S. Department of the Treasury (Treasury), certain federal agencies, and other entities; serving as the federal government's bank; providing short-term loans to depository institutions; providing loans to participants in programs or facilities with broad-based eligibility in unusual and exigent circumstances; serving consumers and communities by providing educational materials and information regarding financial consumer protection rights and laws and information on community development programs and activities; and supervising bank holding companies, state member banks, savings and loan holding companies, and U.S. offices of foreign banking organizations pursuant to authority delegated by the Board of Governors. Certain services are provided to foreign and international monetary authorities, primarily by the FRBNY.

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

The FOMC, in conducting monetary policy, establishes policy regarding domestic open market operations, oversees these operations, and issues authorizations and directives to the FRBNY to execute transactions. The

FOMC authorizes and directs the FRBNY to conduct operations in domestic markets, including the direct purchase and sale of Treasury securities, government-sponsored enterprise (GSE) debt securities, federal agency and GSE mortgage-backed securities (MBS), the purchase of these securities under agreements to resell, and the sale of these securities under agreements to repurchase. The FRBNY holds the resulting securities and agreements in a portfolio known as the System Open Market Account (SOMA). The FRBNY is authorized to lend the Treasury securities and federal agency and GSE debt securities that are held in the SOMA.

In addition to authorizing and directing operations in the domestic securities market, the FOMC authorizes the FRBNY to conduct operations in foreign markets in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC to carry out the System's central bank responsibilities. Specifically, the FOMC authorizes and directs the FRBNY to hold balances of, and to execute spot and forward foreign exchange and securities contracts for 14 foreign currencies and to invest such foreign currency holdings, while maintaining adequate liquidity. The FRBNY is authorized and directed by the FOMC to maintain reciprocal currency arrangements with the Bank of Canada and the Bank of Mexico in the maximum amounts of $2 billion and $3 billion, respectively, and to warehouse foreign currencies for the Treasury and the Exchange Stabilization Fund.

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

Major services provided by the Bank on behalf of the System and for which the costs were not reimbursed by the other Reserve Banks include Internet and Directory Services, Financial Support Office, and Centralized Accounting Technology Services. A portion of the Centralized Accounting Technology Service costs related to services provided to the System in support of the electronic access channel is redistributed to the Federal Reserve Bank of Chicago. The Bank's reimbursement for these services was $1 million for each of the years ended December 31, 2011 and 2010, and is included as a component of "Non-Interest Income: Other" in the Statements of Income and Comprehensive Income.

3. FINANCIAL STABILITY ACTIVITIES

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

Large-Scale Asset Purchase Programs and Reinvestment of Principal Payments

On March 18, 2009, the FOMC authorized and directed the FRBNY to purchase $300 billion of longer-term Treasury securities to help improve conditions in private credit markets. The FRBNY began the purchases of these Treasury securities in March 2009 and completed them in October 2009. On August 10, 2010, the FOMC announced that the Federal Reserve would maintain the level of domestic securities holdings in the SOMA portfolio by reinvesting principal payments from GSE debt securities and federal agency and GSE MBS in longer-term Treasury securities. On November 3, 2010, the FOMC announced its intention to expand the SOMA portfolio holdings of longer-term Treasury securities by an additional $600 billion and completed these purchases in June 2011. On June 22, 2011, the FOMC announced that the Federal Reserve would maintain its existing policy of reinvesting principal payments from all domestic securities in Treasury securities. On September 21, 2011, the FOMC announced that the Federal Reserve intends to purchase, by the end of June 2012, $400 billion par value of Treasury securities with remaining maturities of 6 years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less, of which $133 billion has been purchased and $134 billion sold as of December 31, 2011. In addition, the FOMC announced that it will maintain its existing policy of rolling over maturing Treasury securities at auction and, rather than reinvesting principal payments from GSE debt securities and federal agency and GSE MBS in Treasury securities, such payments will be reinvested in federal agency and GSE MBS.

The FOMC authorized and directed the FRBNY to purchase GSE debt securities and federal agency and GSE MBS, with a goal to provide support to mortgage and housing markets and to foster improved conditions in financial markets more generally. The FRBNY was authorized to purchase up to $175 billion in fixed-rate, non-callable GSE debt securities and $1.25 trillion in fixed-rate federal agency and GSE MBS. Purchases of GSE debt securities began in November 2008, and purchases of federal agency and GSE MBS began in January 2009. The FRBNY completed the purchases of GSE debt securities and federal agency and GSE MBS in March 2010. The settlement of all federal agency and GSE MBS transactions was completed by August 2010. As discussed above, on September 21, 2011, the FOMC announced that the Federal Reserve will begin to reinvest principal payments from its holdings of GSE debt securities and federal agency and GSE MBS in federal agency and GSE MBS.

Central Bank Liquidity Swaps

The FOMC authorized and directed the FRBNY to establish central bank liquidity swap arrangements, which could be structured as either U.S. dollar liquidity or foreign currency liquidity swap arrangements.

In May 2010, U.S. dollar liquidity swap arrangements were re-authorized with the Bank of Canada, the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank through January 2011. Subsequently, these arrangements were extended through February 1, 2013. There is no specified limit to the amount that may be drawn by the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank under these swap arrangements; the Bank of Canada may draw up to $30 billion under the swap arrangement with the FRBNY. In addition to the central bank liquidity swap arrangements, the FOMC has authorized reciprocal currency arrangements with the Bank of Canada and the Bank of Mexico, as discussed in Note 2.

Foreign currency liquidity swap arrangements were authorized with 4 foreign central banks and provided the Reserve Banks with the capacity to offer foreign currency liquidity to U.S. depository institutions. The authorization for these swap arrangements expired on February 1, 2010. In November 2011, as a contingency measure, the FOMC agreed to establish temporary bilateral liquidity swap arrangements with the Bank of Canada, the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank so that liquidity can be provided in any of their currencies if necessary. The swap lines are authorized until February 1, 2013.

Lending to Depository Institutions

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

Lending to Primary Dealers

The Term Securities Lending Facility (TSLF) promoted liquidity in the financing markets for Treasury securities. Under the TSLF, the FRBNY could lend up to an aggregate amount of $200 billion of Treasury securities held in the SOMA to primary dealers on a secured basis for a term of 28 days. The authorization for the TSLF expired on February 1, 2010.

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

Other Lending Facilities

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

Limited differences exist between the accounting principles and practices in the FAM and accounting principles generally accepted in the United States of America (GAAP), due to the unique nature of the Bank's powers and responsibilities as part of the nation's central bank and given the System's unique responsibility to conduct monetary policy. The primary differences are the presentation of all SOMA securities holdings at amortized cost and the recording of SOMA securities on a settlement-date basis. Amortized cost, rather than the fair value presentation, more appropriately reflects the Bank's securities holdings given the System's unique responsibility to conduct monetary policy. Although the application of fair value measurements to the securities holdings may result in values substantially greater or less than their carrying values, these unrealized changes in value have no direct effect on the quantity of reserves available to the banking system or on the prospects for future Bank earnings or capital. Both the domestic and foreign components of the SOMA portfolio may involve transactions that result in gains or losses when holdings are sold before maturity. Decisions regarding securities and foreign currency transactions, including their purchase and sale, are motivated by monetary policy objectives rather than profit. Accordingly, fair values, earnings, and gains or losses resulting from the sale of such securities and currencies are incidental to open market operations and do not motivate decisions related to policy or open market activities. Accounting for these securities on a settlement-date basis, rather than the trade-date basis required by GAAP, better reflects the timing of the transaction's effect on the quantity of reserves in the banking system. The cost bases of Treasury securities, GSE debt securities, and foreign government debt instruments are adjusted for amortization of premiums or accretion of discounts on a straight-line basis, rather than using the interest method required by GAAP.

In addition, the Bank does not present a Statement of Cash Flows as required by GAAP because the liquidity and cash position of the Bank are not a primary concern given the Reserve Banks' unique powers and responsibilities as a central bank. 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, and the accompanying notes to the financial statements. There are no other significant differences, other than those described above, 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. Unique accounts and significant accounting policies are explained below.

a. ***Consolidation***

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

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

The Secretary of the Treasury is authorized to issue gold and special drawing rights (SDR) certificates to the Reserve Banks. Upon authorization, the Reserve Banks acquire gold certificates by crediting equivalent amounts in dollars to the account established for the Treasury. The gold certificates held by the Reserve Banks are required to be backed by the gold owned by the Treasury. The Treasury may reacquire the gold certificates at any time and the Reserve Banks must deliver them to the Treasury. At such time, the Treasury's account is charged, and the Reserve Banks' gold certificate accounts are reduced. The value of gold for purposes of backing the gold certificates is set by law at $42 2/9 per fine troy ounce. The Board of Governors allocates the gold certificates among the Reserve Banks once a year based on the average Federal Reserve notes outstanding at each Reserve Bank.

SDR certificates are issued by the International Monetary Fund (IMF) to its members in proportion to each member's quota in the IMF at the time of issuance. SDR certificates serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for U.S. participation in the SDR system, the Secretary of the Treasury is authorized to issue SDR certificates to the Reserve Banks. When SDR certificates are issued to the Reserve Banks, equivalent amounts in U.S. dollars are credited to the account established for the Treasury and the Reserve Banks' SDR certificate accounts are increased. The Reserve Banks are required to purchase SDR certificates, at the direction of the Treasury, for the purpose of financing SDR acquisitions or for financing exchange stabilization operations. At the time SDR transactions occur, the Board of Governors allocates SDR certificate transactions among the Reserve Banks based upon each Reserve Bank's Federal Reserve notes outstanding at the end of the preceding year. SDRs are recorded by the Bank at original cost. There were no SDR transactions during the years ended December 31, 2011 and 2010.

c. ***Coin***

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

d. ***Loans***

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

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

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

The FRBNY may engage in purchases of securities with primary dealers under agreements to resell (repurchase transactions). These repurchase transactions are settled through a triparty arrangement. In a triparty arrangement, two commercial custodial banks manage the collateral clearing, settlement, pricing, and pledging, and provide cash and securities custodial services for and on behalf of the Bank and counterparty. The collateral pledged must exceed the principal amount of the transaction by a margin determined by the FRBNY for each class and maturity of acceptable collateral. Collateral designated by the FRBNY as acceptable under repurchase transactions primarily includes Treasury securities (including TIPS and STRIP Treasury securities); direct obligations of several federal and GSE-related agencies, including Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac); and pass-through MBS of Fannie Mae, Freddie Mac, and Government National Mortgage Association. The repurchase transactions are accounted for as financing transactions with the associated interest income recognized over the life of the transaction.

The FRBNY may engage in sales of securities under agreements to repurchase (reverse repurchase transactions) with primary dealers and, beginning August 2010, with selected money market funds. The list of eligible counterparties was subsequently expanded to include GSEs, effective in May 2011, and bank and savings institutions, effective in July 2011. These reverse repurchase transactions may be executed through a triparty arrangement as an open market operation, similar to repurchase transactions. Reverse repurchase transactions may also be executed with foreign official and international account holders as part of a service offering. Reverse repurchase agreements are collateralized by a pledge of an amount of Treasury securities, GSE debt securities, and federal agency and GSE MBS that are held in the SOMA. Reverse repurchase transactions are accounted for as financing transactions, and the associated interest expense is recognized over the life of the transaction. These transactions are reported at their contractual amounts as "System Open Market Account: Securities sold under agreements to repurchase" and the related accrued interest payable is reported as a component of "Other liabilities" in the Statements of Condition.

Treasury securities and GSE debt securities held in the SOMA may be lent to primary dealers to facilitate the effective functioning of the domestic securities markets. The amortized cost basis of securities lent continues to be reported as "Treasury securities, net" or "Government-sponsored enterprise debt securities, net," as appropriate, in the Statements of Condition. Overnight securities lending transactions are fully collateralized by Treasury securities that have fair values in excess of the securities lent. The FRBNY charges the primary dealer a fee for borrowing securities, and these fees are reported as a component of "Non-interest income: Other" in the Statements of Income and Comprehensive Income.

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

f. ***Treasury Securities; Government-Sponsored Enterprise Debt Securities; Federal Agency and Government-Sponsored Enterprise Mortgage-Backed Securities; Foreign Currency Denominated Assets; and Warehousing Agreements***

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

In addition to outright purchases of federal agency and GSE MBS that are held in the SOMA, the FRBNY enters into dollar roll transactions (dollar rolls), which primarily involve an initial transaction to purchase or sell "to be announced" (TBA) MBS for delivery in the current month combined with a simultaneous agreement to sell or purchase TBA MBS on a specified future date. In 2010, the FRBNY also executed a limited number of TBA MBS coupon swap transactions, which involve a simultaneous sale of a TBA MBS and purchase of another TBA MBS of a different coupon rate. During the year-ended December 31, 2010, the FRBNY's participation in the dollar roll and coupon swap markets furthered the MBS purchase program goals of providing support to the mortgage and housing markets and of fostering improved conditions in financial markets more generally. During the year-ended December 31, 2011, the FRBNY executed dollar rolls primarily to facilitate settlement. The FRBNY accounts for outstanding commitments under dollar roll and coupon swaps as purchases or sales on a settlement-date basis. Net gains resulting from dollar roll and coupon swap transactions are reported as "Non-interest income: System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net" in the Statements of Income and Comprehensive Income.

Foreign currency denominated assets, which can include foreign currency deposits, securities purchased under agreements to resell, and government debt instruments, are revalued daily at current foreign currency market exchange rates in order to report these assets in U.S. dollars. Realized and unrealized gains and losses on foreign currency denominated assets are reported as "Non-interest income: System Open Market Account: Foreign currency gains, net" in the Statements of Income and Comprehensive Income.

Activity related to Treasury securities, GSE debt securities, and federal agency and GSE MBS, including the premiums, discounts, and realized gains and losses, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of the interdistrict settlement account that occurs in the second quarter of each year. Activity related to foreign currency denominated assets, including the premiums, discounts, and realized and unrealized gains and losses, is allocated to each Reserve Bank based on the ratio of each Reserve Bank's capital and surplus to the Reserve Banks' aggregate capital and surplus at the preceding December 31.

Warehousing is an arrangement under which the FOMC has approved the exchange, at the request of the Treasury, of U.S. dollars for foreign currencies held by the Treasury over a limited period. The purpose of the warehousing facility is to supplement the U.S. dollar resources of the Treasury for financing purchases of foreign currencies and related international operations. Warehousing agreements are designated as held-for-trading purposes and are valued daily at current market exchange rates. Activity related to these agreements is allocated to each Reserve Bank based on the ratio of each Reserve Bank's capital and surplus to the Reserve Banks' aggregate capital and surplus at the preceding December 31.

g. *Central Bank Liquidity Swaps*

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

Central bank liquidity swaps activity, including the related income and expense, is allocated to each Reserve Bank based on the ratio of each Reserve Bank's capital and surplus to the Reserve Banks' aggregate capital and surplus at the preceding December 31. The foreign currency amounts associated with these central bank liquidity swap arrangements are revalued daily at current foreign currency market exchange rates.

U.S. dollar liquidity swaps

At the initiation of each U.S. dollar liquidity swap transaction, the foreign central bank transfers a specified amount of its currency to a restricted account for the 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 as the initial transaction. The Bank's allocated portion of the foreign currency amounts that the FRBNY acquires are reported as "System Open Market Account: Central bank liquidity swaps" in the Statements of Condition. Because the swap transaction will be unwound at the same U.S. dollar amount and exchange rate that were used in the initial transaction, the recorded value of the foreign currency amounts is not affected by changes in the market exchange rate.

The foreign central bank compensates the FRBNY based on the foreign currency amounts it holds for the FRBNY. The Bank's allocated portion of the amount of compensation received during the term of the swap transaction is reported as "Interest income: System Open Market Account: Central bank liquidity swaps" in the Statements of Income and Comprehensive Income.

Foreign currency liquidity swaps

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

h. ***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 2 to 50 years. Major alterations, renovations, and improvements are capitalized at cost as additions to the asset accounts and are depreciated over the remaining useful life of the asset or, if appropriate, over the unique useful life of the alteration, renovation, or improvement. Maintenance, repairs, and minor replacements are charged to operating expense in the year incurred.

Costs incurred for software during the application development stage, whether developed internally or acquired for internal use, are capitalized based on the purchase cost and the cost of direct services and materials associated with designing, coding, installing, and testing the software. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software applications, which generally range from two to five years. Maintenance costs related to software are charged to operating 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.

i. ***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.

j. *Federal Reserve Notes*

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

The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize outstanding Federal Reserve notes. To satisfy the obligation to provide sufficient collateral for outstanding Federal Reserve notes, the Reserve Banks have entered into an agreement that provides for certain assets of the Reserve Banks to be jointly pledged as collateral for the Federal Reserve notes issued to all Reserve Banks. In the event that this collateral is insufficient, the Federal Reserve Act provides that Federal Reserve notes become a first and paramount lien on all the assets of the Reserve Banks. Finally, Federal Reserve notes are obligations of the United States government.

"Federal Reserve notes outstanding, net" in the Statements of Condition represents the Bank's Federal Reserve notes outstanding, reduced by the Bank's currency holdings of $4,275 million and $4,714 million at December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, all Federal Reserve notes issued to the Reserve Banks were fully collateralized. At December 31, 2011, all gold certificates, all special drawing right certificates, and $1,018 billion of domestic securities held in the SOMA were pledged as collateral. At December 31, 2011, no investments denominated in foreign currencies were pledged as collateral.

k. *Deposits*

Depository Institutions

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

The Term Deposit Facility (TDF) consists of deposits with specific maturities held by eligible institutions at the Reserve Banks. The Reserve Banks pay interest on these deposits at interest rates determined by auction. Interest payable is reported as "Interest payable to depository institutions" in the Statements of Condition. There were no deposits held by the Bank under the TDF at December 31, 2011 and 2010.

Other

Other deposits include foreign central bank and foreign government deposits held at the FRBNY that are allocated to the Bank.

l. *Items in Process of Collection and Deferred Credit Items*

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

m. ***Capital Paid-in***

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

By law, each Reserve Bank is required to pay each member bank an annual dividend of 6 percent on the paid-in capital stock. This cumulative dividend is paid semiannually. To meet the Federal Reserve Act requirement that annual dividends be deducted from net earnings, dividends are presented as a distribution of comprehensive income in the Statements of Income and Comprehensive Income.

n. ***Surplus***

The Board of Governors requires the Reserve Banks to maintain a surplus equal to the amount of capital paid-in. On a daily basis, surplus is adjusted to equate the balance to capital paid-in. Accumulated other comprehensive income is reported as a component of "Surplus" in the Statements of Condition and the Statements of Changes in Capital. Additional information regarding the classifications of accumulated other comprehensive income is provided in Notes 12 and 13.

o. ***Interest on Federal Reserve Notes***

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

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

p. ***Income and Costs Related to Treasury Services***

When directed by the Secretary of the Treasury, the Bank is required by the Federal Reserve Act to serve as fiscal agent and depositary of the United States Government. By statute, the Treasury has appropriations to pay for these services. During the years ended December 31, 2011 and 2010, the Bank was reimbursed for all services provided to the Treasury as its fiscal agent.

q. ***Compensation Received for Service Costs 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 in its Statements of Income and Comprehensive Income. Similarly, the FRBNY manages the Reserve Banks' provision of Fedwire funds and securities services and recognizes total System revenue for these services in its Consolidated Statements of Income and Comprehensive Income. The FRBA and the FRBNY compensate the applicable Reserve Banks for the costs incurred to provide these services. The Bank reports this compensation as "Non-interest income: Compensation received for service costs provided" in the Statements of Income and Comprehensive Income.

r. *Assessments*

The Board of Governors assesses the Reserve Banks to fund its operations, the operations of the Bureau and, for a two-year period following the July 21, 2010 effective date of the Dodd-Frank Act, the OFR. These assessments are allocated to each Reserve Bank based on each Reserve Bank's capital and surplus balances as of December 31 of the prior year for the Board of Governors' operations and as of the most recent quarter for the Bureau and OFR operations. The Board of Governors also assesses each Reserve Bank for the expenses incurred by the Treasury to produce and retire Federal Reserve notes based on each Reserve Bank's share of the number of notes comprising the System's net liability for Federal Reserve notes on December 31 of the prior year.

During the period prior to the Bureau transfer date of July 21, 2011, there was no limit on the funding provided to the Bureau and assessed to the Reserve Banks; the Board of Governors was required to provide the amount estimated by the Secretary of the Treasury needed to carry out the authorities granted to the Bureau under the Dodd-Frank Act and other federal law. The Dodd-Frank Act requires that, after the transfer date, the Board of Governors fund the Bureau in an amount not to exceed a fixed percentage of the total operating expenses of the System as reported in the Board of Governors' 2009 annual report, which totaled $4.98 billion. The fixed percentage of total 2009 operating expenses of the System is 10 percent ($498.0 million) for 2011, 11 percent ($547.8 million) for 2012, and 12 percent ($597.6 million) for 2013. After 2013, the amount will be adjusted in accordance with the provisions of the Dodd-Frank Act. The Bank's assessment for Bureau funding is reported as "Assessments: Bureau of Consumer Financial Protection" in the Statements of Income and Comprehensive Income.

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

s. *Taxes*

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property. The Bank's real property taxes were $6 million for each of the years ended December 31, 2011 and 2010, and are reported as a component of "Operating expenses: Occupancy" in the Statements of Income and Comprehensive Income.

t. *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. 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.

The Bank had no significant restructuring activities in 2011 and 2010.

u. *Recently Issued Accounting Standards*

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-20, *Receivables* (Topic 310)*: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which requires additional disclosures about the allowance for credit losses and the credit quality of loan portfolios. The additional disclosures include a rollforward of the allowance for credit losses on a disaggregated basis and more information, by type of receivable, on credit quality indicators, including the amount of certain past-due receivables and troubled debt restructurings and significant purchases and sales. The adoption of this update is effective for the Bank for the year ended December 31, 2011, and did not have a material effect on the Bank's financial statements.

In April 2011, the FASB issued ASU 2011-02, *Receivables* (Topic 310): *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, which clarifies accounting for troubled debt restructurings, specifically clarifying creditor concessions and financial difficulties experienced by borrowers. This update is effective for the Bank for the year ended December 31, 2012, and is not expected to have a material effect on the Bank's financial statements.

In April 2011, the FASB issued ASU 2011-03, *Transfers and Servicing* (Topic 860): *Reconsideration of Effective Control for Repurchase Agreements*, which reconsidered the effective control for repurchase agreements. This update prescribes when the Bank may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. This determination is based, in part, on whether the Bank has maintained effective control over the transferred financial assets. This update is effective for the Bank for the year ended December 31, 2012, and is not expected to have a material effect on the Bank's financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income* (Topic 220): *Presentation of Comprehensive Income*, which requires a reporting entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. The update is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items by presenting the components reported in other comprehensive income. The Bank has adopted the update in this ASU effective for the year ended December 31, 2011, and the required presentation is reflected in the Bank's financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet* (Topic 210): *Disclosures about Offsetting Assets and Liabilities*. This update will require a reporting entity to present enhanced disclosures for financial instruments and derivative instruments that are offset or subject to master netting agreements or similar such agreements. This update is effective for the Bank for the year ended December 31, 2013, and is not expected to have a material effect on the Bank's financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income* (Topic 220): *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. This update indefinitely defers the requirements of ASU 2011-05 related to presentation of reclassification adjustments.

5. LOANS

The remaining maturity distribution of loans outstanding at December 31, 2011, and total loans outstanding at December 31, 2010, was as follows (in millions):

	2011		2010
	Within 15 days	Total	Total
Loans to depository institutions	$ 2	$ 2	$ 1

Loans to Depository Institutions

The Bank offers primary, secondary, and seasonal loans to eligible borrowers, and each program has its own interest rate. Interest is accrued using the applicable interest rate established at least every 14 days by the Bank's board of directors, subject to review and determination by the Board of Governors. Primary and secondary loans are extended on a short-term basis, typically overnight, whereas seasonal loans may be extended for a period of up to nine months.

Primary, secondary, and seasonal loans are collateralized to the satisfaction of the Bank to reduce credit risk. Assets eligible to collateralize these loans include consumer, business, and real estate loans; Treasury securities; GSE debt securities; foreign sovereign debt; municipal, corporate, and state and local government obligations; asset-backed securities; corporate bonds; commercial paper; and bank-issued assets, such as certificates of deposit, bank notes, and deposit notes. Collateral is assigned a lending value that is deemed appropriate by the Bank, which is typically fair value reduced by a margin. Loans to depository institutions are monitored daily to ensure that borrowers continue to meet eligibility requirements for these programs. The financial condition of borrowers is monitored by the Bank and, if a borrower no longer qualifies for these programs, the Bank will generally request full repayment of the outstanding loan or, for primary or seasonal loans, 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.

Allowance for Loan Loss

At December 31, 2011 and 2010, the Bank did not have any impaired loans and no allowance for loan losses was required. There were no impaired loans during the years ended December 31, 2011 and 2010.

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

The FRBNY, on behalf of the Reserve Banks, holds securities bought outright in the SOMA.

The Bank's allocated share of SOMA balances was approximately 2.459 percent and 2.531 percent at December 31, 2011 and 2010, respectively.

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

	2011				
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost	Fair value
Bills	$ 453	$ -	$ -	$ 453	$ 453
Notes	31,627	659	(30)	32,256	34,161
Bonds	8,818	1,508	(2)	10,324	12,507
Total Treasury securities	$ 40,898	$ 2,167	$ (32)	$ 43,033	$ 47,121
GSE debt securities	$ 2,557	$ 94	$ -	$ 2,651	$ 2,809
Federal agency and GSE MBS	$ 20,596	$ 286	$ (26)	$ 20,856	$ 22,017

	2010				
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost	Fair value
Bills	$ 466	$ -	$ -	$ 466	$ 466
Notes	19,569	356	(19)	19,906	20,364
Bonds	5,815	828	(14)	6,629	7,333
Total Treasury securities	$ 25,850	$ 1,184	$ (33)	$ 27,001	$ 28,163
GSE debt securities	$ 3,732	$ 140	$ (1)	$ 3,871	$ 3,968
Federal agency and GSE MBS	$ 25,107	$ 357	$ (39)	$ 25,425	$ 25,965

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

	2011		2010	
	Amortized cost	Fair value	Amortized cost	Fair value
Bills	$ 18,423	$ 18,423	$ 18,422	$ 18,422
Notes	1,311,917	1,389,429	786,575	804,703
Bonds	419,937	508,694	261,955	289,757
Total Treasury securities	$ 1,750,277	$ 1,916,546	$ 1,066,952	$ 1,112,882
GSE debt securities	$ 107,828	$ 114,238	$ 152,972	$ 156,780
Federal agency and GSE MBS	$ 848,258	$ 895,495	$ 1,004,695	$ 1,026,003

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

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

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

Distribution of MBS holdings by coupon rate	2011 Amortized cost	2011 Fair value	2010 Amortized cost	2010 Fair value
Allocated to the Bank:				
3.0%	$ 32	$ 33	$ -	$ -
3.5%	478	483	9	9
4.0%	3,970	4,174	4,243	4,262
4.5%	9,994	10,601	12,594	12,876
5.0%	4,487	4,737	5,856	6,011
5.5%	1,642	1,723	2,357	2,426
6.0%	225	236	327	339
6.5%	28	30	39	42
Total	$ 20,856	$ 22,017	$ 25,425	$ 25,965
Total SOMA:				
3.0%	$ 1,313	$ 1,335	$ -	$ -
3.5%	19,415	19,660	341	352
4.0%	161,481	169,763	167,675	168,403
4.5%	406,465	431,172	497,672	508,798
5.0%	182,497	192,664	231,420	237,545
5.5%	66,795	70,064	93,119	95,873
6.0%	9,152	9,616	12,910	13,376
6.5%	1,140	1,221	1,558	1,656
Total	$ 848,258	$ 895,495	$ 1,004,695	$ 1,026,003

There were no transactions related to securities purchased under agreements to resell during the years ended December 31, 2011 and 2010. Financial information related to securities sold under agreements to repurchase for the years ended December 31 was as follows (in millions):

	2011	2010
Allocated to the Bank:		
Contract amount outstanding, end of year	$ 2,456	$ 1,511
Average daily amount outstanding, during the year	1,788	1,378
Maximum balance outstanding, during the year	3,061	1,705
Securities pledged (par value), end of year	2,117	1,104
Securities pledged (market value), end of year	2,456	1,511
Total SOMA:		
Contract amount outstanding, end of year	$ 99,900	$ 59,703
Average daily amount outstanding, during the year	72,227	58,476
Maximum balance outstanding, during the year	124,512	77,732
Securities pledged (par value), end of year	86,089	43,642
Securities pledged (market value), end of year	99,900	59,703

The contract amounts for securities sold under agreements to repurchase approximate fair value. FRBNY executes transactions for the purchase of securities under agreements to resell primarily to temporarily add reserve balances to the banking system. Conversely, transactions to sell securities under agreements to repurchase are executed to temporarily drain reserve balances from the banking system and as part of a service offering to foreign official and international account holders.

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and securities sold under agreements to repurchase that were allocated to the Bank at December 31, 2011, was as follows (in millions):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Total
Treasury securities (par value)	$ 399	$ 667	$ 2,210	$ 15,974	$ 15,979	$ 5,669	$ 40,898
GSE debt securities (par value)	61	124	484	1,490	340	58	2,557
Federal agency and GSE MBS (par value)[1]	-	-	-	-	1	20,595	20,596
Securities sold under agreements to repurchase (contract amount)	2,456	-	-	-	-	-	2,456

[1] The par amount shown for Federal agency and GSE MBS is the remaining principal balance of the underlying mortgages.

Federal agency and GSE MBS are reported at stated maturity in the table above. The estimated weighted average life of these securities at December 31, 2011, which differs from the stated maturity primarily because it factors in scheduled payments and prepayment assumptions, is approximately 2.4 years.

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

	Allocated to the Bank			
	Amortized cost		Par value	
	2011	2010	2011	2010
Treasury securities	$ 372	$ 573	$ 344	$ 559
GSE debt securities	31	43	30	41

	Total SOMA			
	Amortized cost		Par value	
	2011	2010	2011	2010
Treasury securities	$ 15,121	$ 22,627	$ 13,978	$ 22,081
GSE debt securities	1,276	1,686	1,216	1,610

The FRBNY enters into commitments to buy Treasury and GSE debt securities and records the related securities on a settlement-date basis. As of December 31, 2011, the total purchase price of the Treasury securities under outstanding commitments was $3,200 million. The total purchase price of outstanding commitments allocated to the Bank was $79 million. These commitments had contractual settlement dates extending through January 3, 2012. As of December 31, 2011, the fair value of Treasury securities under outstanding purchase commitments was $3,208 million, of which $79 million was allocated to the Bank.

The FRBNY enters into commitments to buy and sell federal agency and GSE MBS and records the related securities on a settlement-date basis. As of December 31, 2011, the total purchase price of the federal agency and GSE MBS under outstanding purchase commitments was $41,503 million, all of which $513 million was related to dollar roll transactions. The total purchase price of outstanding purchase commitments allocated to the Bank was $1,020 million, of which $13 million was related to dollar roll transactions. As of December 31, 2011, the total sales price of the federal agency and GSE MBS under outstanding sales commitments was $4,430 million, all of which was related to dollar roll transactions. The total sales price of outstanding sales commitments allocated to the Bank was $109 million, all of which was related to dollar roll transactions. These commitments, which had contractual settlement dates extending through February 2012, are for the purchase and sale of TBA MBS for which the number and identity of the pools that will be delivered to fulfill the commitment are unknown at the time of the trade. As of December 31, 2011, the fair value of federal agency and GSE MBS purchases and sales, net under outstanding commitments was $41,873 million and $4,473 million, respectively, of which $1,030 million and $110 million, respectively, was allocated to the Bank. These commitments are subject to varying degrees of off-balance-sheet market risk and counterparty credit risk that result from their future settlement. The FRBNY requires the posting of cash collateral for commitments as part of the risk management practices used to mitigate the counterparty credit risk.

Other liabilities, which are related to federal agency and GSE MBS purchases and sales, includes the FRBNY's obligation to return cash margin posted by counterparties as collateral under commitments to purchase and sell federal agency and GSE MBS. In addition, other liabilities includes obligations that arise from the failure of a seller to deliver securities to the FRBNY on the settlement date. Although the FRBNY has ownership of and records its investments in the MBS as of the contractual settlement date, it is not obligated to make payment until the securities are delivered, and the amount included in other liabilities represents the FRBNY's obligation to pay for the securities when delivered. The amount of other liabilities allocated to the Bank and held in the SOMA at December 31 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2011	2010	2011	2010
Cash margin	$ 31	$ -	$ 1,271	$ -
Obligations from MBS transaction fails	3	-	97	-
Total	$ 34	$ -	$ 1,368	$ -

During the years ended December 31, 2011 and 2010, the Reserve Banks recorded net gains from federal agency and GSE MBS transactions of $10 million and $782 million, respectively, of which $239 thousand and $18 million, respectively, were allocated to the Bank. These net gains are reported as "Non-interest income: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net" in the Statements of Income and Comprehensive Income.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS during the year ended December 31, 2011, is summarized as follows (in millions):

	Allocated to the Bank					
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2010	$ 466	$ 19,906	$ 6,629	$ 27,001	$ 3,871	$ 25,425
Purchases [1]	5,937	18,221	4,015	28,173	-	1,036
Sales [1]	-	(3,386)	-	(3,386)	-	-
Realized gains, net [2]	-	56	-	56	-	-
Principal payments and maturities	(5,937)	(1,666)	-	(7,603)	(1,080)	(4,844)
Amortization of premiums and discounts	-	(110)	(123)	(233)	(42)	(78)
Inflation adjustment on inflation-indexed securities	-	32	27	59	-	-
Annual reallocation adjustment [3]	(13)	(797)	(224)	(1,034)	(98)	(683)
Balance December 31, 2011	$ 453	$ 32,256	$ 10,324	$ 43,033	$ 2,651	$ 20,856
Supplemental information - par value of transactions:						
Purchases	$ 5,937	$ 17,792	$ 3,171	$ 26,900	$ -	$ 1,007
Proceeds from sales	-	(3,315)	-	(3,315)	-	-

	Total SOMA					
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2010	$ 18,422	$ 786,575	$ 261,955	$ 1,066,952	$ 152,972	$ 1,004,695
Purchases [1]	239,487	731,252	161,876	1,132,615	-	42,145
Sales [1]	-	(137,733)	-	(137,733)	-	-
Realized gains, net [2]	-	2,258	-	2,258	-	-
Principal payments and maturities	(239,494)	(67,273)	-	(306,767)	(43,466)	(195,413)
Amortization of premiums and discounts	8	(4,445)	(4,985)	(9,422)	(1,678)	(3,169)
Inflation adjustment on inflation-indexed securities	-	1,283	1,091	2,374	-	-
Balance December 31, 2011	$ 18,423	$ 1,311,917	$ 419,937	$ 1,750,277	$ 107,828	$ 848,258
Supplemental information - par value of transactions:						
Purchases	$ 239,494	$ 713,878	$ 127,802	$ 1,081,174	$ -	$ 40,955
Proceeds from sales	-	(134,829)	-	(134,829)	-	-

[1] Purchases and sales are reported on a settlement-date basis and include payments and receipts related to principal, premiums, discounts, and inflation compensation included in the basis of inflation-indexed securities. The amount reported as sales also includes realized gains, net.

[2] Adjustments for realized gains, net is required because these amounts do not affect the reported amount of the related securities. Excludes gains and losses that result from net settled MBS TBA transactions.

[3] Reflects the annual adjustment to the Bank's allocated portion of the related SOMA securities that results from the annual settlement of the interdistrict settlement account, as discussed in Note 4f.

7. FOREIGN CURRENCY DENOMINATED ASSETS

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

The Bank's allocated share of foreign currency denominated assets was approximately 3.456 percent and 3.683 percent at December 31, 2011 and 2010, respectively.

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

	2011	2010
Euro:		
Foreign currency deposits	$ 324	$ 260
Securities purchased under agreements to resell	-	91
German government debt instruments	65	68
French government debt instruments	91	102
Japanese yen:		
Foreign currency deposits	138	143
Japanese government debt instruments	279	296
Total allocated to the Bank	$ 897	$ 960

At December 31, 2011 and 2010, the fair value of foreign currency denominated assets, including accrued interest, allocated to the Bank was $903 million and $966 million, respectively. The fair value of government debt instruments was determined by reference to quoted prices for identical securities. The cost basis of foreign currency deposits and securities purchased under agreements to resell, adjusted for accrued interest, approximates fair value. Similar to Treasury securities, GSE debt securities, and federal agency and GSE MBS discussed in Note 6, unrealized gains or losses have no effect on the ability of a Reserve Bank, as the central bank, to meet its financial obligations and responsibilities. The fair value is presented solely for informational purposes.

Total Reserve Bank foreign currency denominated assets were $25,950 million and $26,049 million at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the fair value of the total Reserve Bank foreign currency denominated assets, including accrued interest, was $26,116 million and $26,213 million, respectively.

The remaining maturity distribution of foreign currency denominated assets that were allocated to the Bank at December 31, 2011, was as follows (in millions):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Total
Euro	$ 185	$ 101	$ 73	$ 121	$ 480
Japanese yen	144	23	109	141	417
Total	$ 329	$ 124	$ 182	$ 262	$ 897

At December 31, 2011 and 2010, the authorized warehousing facility was $5 billion, with no balance outstanding.

There were no transactions related to the authorized reciprocal currency arrangements with the Bank of Canada and the Bank of Mexico during the years ended December 31, 2011 and 2010.

There were no foreign exchange contracts related to open market operations outstanding as of December 31, 2011.

The FRBNY enters into commitments to buy foreign government debt instruments and records the related securities on a settlement-date basis. As of December 31, 2011, there were $216 million of outstanding commitments to purchase Euro-denominated government debt instruments, of which $7 million was allocated to the Bank. These securities settled on January 4, 2012, and replaced Euro-denominated government debt instruments held in the SOMA that matured on that date. As of December 31, 2011, the fair value of Euro-denominated government debt instruments under outstanding commitments was $216 million of which $7 million was allocated to the Bank.

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

8. Central Bank Liquidity Swaps

U.S. Dollar Liquidity Swaps

The Bank's allocated share of U.S. dollar liquidity swaps was approximately 3.456 percent and 3.683 percent at December 31, 2011 and 2010, respectively.

The total foreign currency held under U.S. dollar liquidity swaps in the SOMA at December 31, 2011 and 2010, was $99,823 million and $75 million, respectively, of which $3,449 million and $3 million, respectively, was allocated to the Bank.

The remaining maturity distribution of U.S. dollar liquidity swaps that were allocated to the Bank at December 31 was as follows (in millions):

	2011			2010	
	Within 15 days	16 days to 90 days	Total	Within 15 days	Total
Euro	$ 1,187	$ 1,765	$ 2,952	$ 3	$ 3
Japanese yen	312	171	483	-	-
Swiss franc	11	3	14	-	-
Total	$ 1,510	$ 1,939	$ 3,449	$ 3	$ 3

Foreign Currency Liquidity Swaps

There were no transactions related to the foreign currency liquidity swaps during the years ended December 31, 2011 and 2010.

9. BANK PREMISES, EQUIPMENT, AND SOFTWARE

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

	2011	2010
Bank premises and equipment:		
Land and land improvements	$ 27	$ 27
Buildings	164	162
Building machinery and equipment	30	30
Construction in progress	4	1
Furniture and equipment	63	63
Subtotal	288	283
Accumulated depreciation	(146)	(134)
Bank premises and equipment, net	$ 142	$ 149
Depreciation expense, for the years ended December 31	$ 16	$ 15

The Bank leases space to outside tenants with remaining lease terms ranging from 2 to 9 years. Rental income from such leases was $13 million for each of the years ended December 31, 2011 and 2010, and is reported as a component of “Non-interest income: Other” in the Statements of Income and Comprehensive Income. Future minimum lease payments that the Bank will receive under noncancelable lease agreements in existence at December 31, 2011, are as follows (in millions):

2012	$ 11
2013	11
2014	11
2015	10
2016	6
Thereafter	10
Total	$ 59

The Bank had capitalized software assets, net of amortization, of $6 million at December 31, 2011 and 2010. Amortization expense was $3 million for each of the years ended December 31, 2011 and 2010. Capitalized software assets are reported as a component of “Other assets” in the Statements of Condition and the related amortization is reported as a component of “Operating expenses: Other” in the Statements of Income and Comprehensive Income.

10. COMMITMENTS AND CONTINGENCIES

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

At December 31, 2011, the Bank was obligated under noncancelable leases for premises and equipment with remaining terms ranging from 1 to approximately 6 years. These leases provide for increased rental payments based upon increases in real estate taxes, operating costs, or selected price indexes.

Rental expense under operating leases for certain operating facilities, warehouses, and data processing and office equipment (including taxes, insurance, and maintenance when included in rent), net of sublease rentals, was $1 million and $2 million for the years ended December 31, 2011 and 2010, respectively.

Future minimum rental payments under noncancelable operating leases, with remaining terms of one year or more, at December 31, 2011, are as follows (in thousands):

	Operating leases
2012	$ 218
2013	189
2014	192
2015	197
2016	199
Thereafter	135
Future minimum rental payments	$ 1,130

At December 31, 2011, there were no material unrecorded unconditional purchase commitments or obligations in excess of one year.

Under the Insurance Agreement of the Reserve Banks, each of the Reserve Banks has agreed to bear, on a per incident basis, a share of certain losses in excess of 1 percent of the capital paid-in of the claiming Reserve Bank, up to 50 percent of the total capital paid-in of all Reserve Banks. Losses are borne in the ratio of a Reserve Bank's capital paid-in to the total capital paid-in of all Reserve Banks at the beginning of the calendar year in which the loss is shared. No claims were outstanding under the agreement at December 31, 2011 and 2010.

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 legal actions 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 employees of the Reserve Banks, Board of Governors, and Office of Employee Benefits of the Federal Reserve System (OEB) participate in the Retirement Plan for Employees of the Federal Reserve System (System Plan). Under the Dodd-Frank Act, newly hired Bureau employees are eligible to participate in the System Plan and transferees from other governmental organizations can elect to participate in the System Plan. In addition, employees at certain compensation levels participate in the Benefit Equalization Retirement Plan (BEP) and certain Reserve Bank officers participate in the Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks (SERP).

The System Plan provides retirement benefits to employees of the Reserve Banks, Board of Governors, OEB, and certain employees of the Bureau. The FRBNY, on behalf of the System, recognizes the net asset or net liability and costs associated with the System Plan in its consolidated financial statements. During the year ended December 31, 2011, certain costs associated with the System Plan were reimbursed by the Bureau. During the year ended December 31, 2010, costs associated with the System Plan were 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, 2011 and 2010, and for the years then ended, were not material.

Thrift Plan

Employees of the Bank participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The Bank matches 100 percent of the first 6 percent of employee contributions from the date of hire and provides an automatic employer contribution of 1 percent of eligible pay. The Bank's Thrift Plan contributions totaled $5 million for each of the years ended December 31, 2011 and 2010, and are reported as a component of "Operating expenses: Salaries and benefits" in the Statements of Income and Comprehensive Income.

12. POSTRETIREMENT BENEFITS OTHER THAN RETIREMENT PLANS AND POSTEMPLOYMENT BENEFITS

Postretirement Benefits Other Than Retirement Plans

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

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

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

	2011	2010
Accumulated postretirement benefit obligation at January 1	$ 71.4	$ 75.4
Service cost benefits earned during the period	1.8	2.0
Interest cost on accumulated benefit obligation	3.7	4.3
Net actuarial gain	(0.5)	(3.4)
Contributions by plan participants	2.1	1.9
Benefits paid	(5.6)	(5.1)
Medicare Part D subsidies	0.2	0.2
Plan amendments	-	(3.9)
Accumulated postretirement benefit obligation at December 31	$ 73.1	$ 71.4

At December 31, 2011 and 2010, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 4.50 percent and 5.25 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):

	2011	2010
Fair value of plan assets at January 1	$ -	$ -
Contributions by the employer	3.3	3.0
Contributions by plan participants	2.1	1.9
Benefits paid	(5.6)	(5.1)
Medicare Part D subsidies	0.2	0.2
Fair value of plan assets at December 31	$ -	$ -
Unfunded obligation and accrued postretirement benefit cost	$ 73.1	$ 71.4

Amounts included in accumulated other comprehensive loss are shown below:

	2011	2010
Prior service cost	$ 3.3	$ 4.1
Net actuarial loss	(13.9)	(15.4)
Total accumulated other comprehensive loss	$ (10.6)	$ (11.3)

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:

	2011	2010
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	2017	2017

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, 2011 (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	$ 0.9	$ (0.8)
Effect on accumulated postretirement benefit obligation	10.0	(8.3)

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

	2011	2010
Service cost-benefits earned during the period	$ 1.8	$ 2.0
Interest cost on accumulated benefit obligation	3.7	4.3
Amortization of prior service cost	(0.8)	(0.2)
Amortization of net actuarial loss	0.9	1.9
Net periodic postretirement benefit expense	$ 5.6	$ 8.0

Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic postretirement benefit expense in 2012 are shown below:

Prior service cost	$ (0.8)
Net actuarial loss	0.9
Total	$ 0.1

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2011 and 2010, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 5.25 percent and 5.75 percent, respectively.

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

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

Federal Medicare Part D subsidy receipts were $233 thousand and $229 thousand for the years ended December 31, 2011 and 2010, respectively. Expected receipts in 2012, related to benefits paid in the years ended December 31, 2011 and 2010, are $78 thousand.

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

	Without subsidy	With subsidy
2012	$ 4.0	$ 3.7
2013	4.1	3.8
2014	4.2	3.9
2015	4.3	3.9
2016	4.5	4.0
2017 - 2021	24.4	21.8
Total	$ 45.5	$ 41.1

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, 2011 and 2010, were $5.9 million and $5.6 million, respectively. This cost is included as a component of "Accrued benefit costs" in the Statements of Condition. Net periodic postemployment benefit expense included in 2011 and 2010 operating expenses were $0.8 million and $0.1 million respectively, and are recorded as a component of "Operating expenses: Salaries and 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 retirement plans
Balance at January 1, 2010	$ (20)
Change in funded status of benefit plans:	
Prior service costs arising during the year	4
Amortization of prior service cost	-
Change in prior service costs related to benefit plans	4
Net actuarial gain arising during the year	3
Amortization of net actuarial loss	2
Change in actuarial losses related to benefit plans	5
Change in funded status of benefit plans - other comprehensive loss	9
Balance at December 31, 2010	$ (11)
Change in funded status of benefit plans:	
Prior service costs arising during the year	-
Amortization of prior service cost	(1)
Change in prior service costs related to benefit plans	(1)
Net actuarial gain arising during the year	-
Amortization of net actuarial loss	1
Change in actuarial losses related to benefit plans	1
Change in funded status of benefit plans - other comprehensive loss	-
Balance at December 31, 2011	$ (11)

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

14. BUSINESS RESTRUCTURING CHARGES

The Bank had no business restructuring charges in 2011 or 2010.

Before 2010, the Reserve Banks announced the acceleration of their check restructuring initiatives to align the check processing infrastructure and operations with declining check processing volumes. The new infrastructure consolidated operations into two regional Reserve Bank processing sites; one in Cleveland, for paper check processing, and one in Atlanta, for electronic check processing.

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

		2009 and prior restructuring plans
Information related to restructuring plans as of December 31, 2011:		
Total expected costs related to restructuring activity	$	3.3
Expected completion date		2010
Reconciliation of liability balances:		
Balance at January 1, 2010	$	0.5
Contract termination costs		1.2
Payments		(0.6)
Balance at December 31, 2010	$	1.1
Adjustments		(0.1)
Payments		(0.5)
Balance at December 31, 2011	$	0.5

Contract termination costs include the charges resulting from terminating existing lease and other contracts and are shown as a component of "Operating expenses: Occupancy" in the Statements of Income and Comprehensive Income.

15. SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2011. Subsequent events were evaluated through March 20, 2012, which is the date that the Bank issued the financial statements.

External Auditor Independence

In 2011, the Board of Governors engaged Deloitte & Touche LLP (D&T) to audit the combined and individual financial statements of the Reserve Banks and those of the consolidated LLC entities.[1] In 2011, D&T also conducted audits of internal control over financial reporting for each of the Reserve Banks and the consolidated LLC entities. Fees for D&T's services totaled $8 million, of which $2 million was for the audits of the consolidated LLC entities. To ensure auditor independence, the Board of Governors requires that D&T be independent in all matters relating to the audits. 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 the Reserve Banks, or in any other way impairing its audit independence. In 2011, the Bank did not engage D&T for any non-audit services.

[1] 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.