Financial Statements:

Federal Reserve Bank of St. Louis

As of and for the Years Ended
December 31, 2016 and 2015 and
Independent Auditors’ Report

Federal Reserve Bank of St. Louis

Contents

FEDERAL RESERVE BANK OF ST. LOUIS

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Management's Report on Internal Control Over Financial Reporting

March 8, 2017

To the Board of Directors

The management of the Federal Reserve Bank of St. Louis (Bank) is responsible for the preparation and fair presentation of the Statements of Condition as of December 31, 2016 and 2015, and the Statements of Operations, 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 Bank is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. The Bank'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 Bank assessed its internal control over financial reporting based upon the criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the Bank maintained effective internal control over financial reporting.

James Bullard, President and Chief Executive Officer

David A. Sapenaro, First Vice President and Chief Operating Officer

Marilyn K. Corona, Vice President and Chief Financial Officer

KPMG LLP
Suite 900
10 South Broadway
St. Louis, MO 63102-1761

Independent Auditors' Report

To the Board of Governors of the Federal Reserve System
and the Board of Directors of the Federal Reserve Bank of St. Louis:

We have audited the accompanying statements of condition of the Federal Reserve Bank of St. Louis ("FRB St. Louis") as of December 31, 2016 and 2015, and the related statements of operations and changes in capital for the years then ended. We also have audited the FRB St. Louis' internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The FRB St. Louis' management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the FRB St. Louis' internal control over financial reporting based on our audits.

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

The FRB St. Louis' internal control over financial reporting is a process designed 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 "Board") as described in Note 3 of the financial statements and as set forth in the *Financial Accounting Manual for Federal Reserve Banks* ("FAM"). The FRB St. Louis' 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 St. Louis; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the FAM, and that receipts and expenditures of the FRB St. Louis are being made only in accordance with authorizations of management and directors of the FRB St. Louis; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the FRB St. Louis' assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

As described in Note 3 to the financial statements, the FRB St. Louis has prepared these financial statements in conformity with the accounting principles established by the Board, as set forth in the FAM, which is a basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FRB St. Louis as of December 31, 2016 and 2015, and the results of its operations for the years then ended, on the basis of accounting described in Note 3. Also, in our opinion, the FRB St. Louis maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

KPMG LLP

St. Louis, Missouri
March 8, 2017

Abbreviations

ACH	**Automated clearinghouse**
ASC	**Accounting Standards Codification**
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**
FAST Act	**Fixing America's Surface Transportation Act**
FOMC	**Federal Open Market Committee**
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**
MAPD	**Medicare Advantage and Prescription Drug**
MBS	**Mortgage-backed securities**
OEB	**Office of Employee Benefits of the Federal Reserve System**
SDR	**Special drawing rights**
SERP	**Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks**
SOMA	**System Open Market Account**
TBA	**To be announced**
TDF	**Term Deposit Facility**

Statements of Condition

As of December 31, 2016 and December 31, 2015
(in millions)

		2016	2015
ASSETS			
Gold certificates		$ 360	$ 299
Special drawing rights certificates		150	150
Coin		29	31
Loans	Note 4	-	35
System Open Market Account:	Note 5		
Treasury securities, net (of which $318 and $198 is lent as of December 31, 2016 and 2015, respectively)		32,403	26,913
Government-sponsored enterprise debt securities, net (of which $1 and $2 is lent as of December 31, 2016 and 2015, respectively)		210	352
Federal agency and government-sponsored enterprise mortgage-backed securities, net		22,654	18,776
Foreign currency denominated investments, net		199	182
Central bank liquidity swaps		57	9
Accrued interest receivable		323	265
Bank premises and equipment, net	Note 6	128	133
Interdistrict settlement account		5,681	15,633
Other assets		87	82
Total assets		$ 62,281	$ 62,860
LIABILITIES AND CAPITAL			
Federal Reserve notes outstanding, net		$ 44,274	$ 47,272
System Open Market Account:	Note 5		
Securities sold under agreements to repurchase		9,153	7,429
Other liabilities		13	5
Deposits:			
Depository institutions		8,237	7,506
Other deposits		20	97
Interest payable to depository institutions and others		2	1
Accrued benefit costs	Notes 8 and 9	105	101
Accrued remittances to the Treasury		24	32
Other liabilities		11	11
Total liabilities		61,839	62,454
Capital paid-in		333	303
Surplus (including accumulated other comprehensive loss of $1 at December 31, 2016 and 2015, respectively)		109	103
Total capital		442	406
Total liabilities and capital		$ 62,281	$ 62,860

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

Statements of Operations

For the years ended December 31, 2016 and December 31, 2015
(in millions)

		2016	2015
INTEREST INCOME			
System Open Market Account:	Note 5		
Treasury securities, net		$ 767	$ 692
Government-sponsored enterprise debt securities, net		11	15
Federal agency and government-sponsored enterprise mortgage-backed securities, net		552	538
Total interest income		1,330	1,245
INTEREST EXPENSE			
System Open Market Account:	Note 5		
Securities sold under agreements to repurchase		14	3
Deposits:			
Depository institutions and others		45	22
Total interest expense		59	25
Net interest income		1,271	1,220
NON-INTEREST INCOME			
System Open Market Account:	Note 5		
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net		-	1
Foreign currency translation losses, net		(2)	(12)
Compensation received for service costs provided		3	2
Reimbursable services to government agencies		209	175
Other		1	1
Total non-interest income		211	167
OPERATING EXPENSES			
Salaries and benefits		187	167
Occupancy		16	15
Equipment		5	6
Other		160	136
Assessments:			
Board of Governors operating expenses and currency costs		30	27
Bureau of Consumer Financial Protection		6	5
Total operating expenses		404	356
Net income before providing for remittances to the Treasury		1,078	1,031
Earnings remittances to the Treasury:	Note 12		
Interest on Federal Reserve notes		-	919
Required by the Federal Reserve Act	Note 3n	1,058	258
Total earnings remittances to the Treasury		1,058	1,177
Net income (loss) after providing for remittances to the Treasury		20	(146)
Change in prior service costs and actuarial gains (losses) related to benefit plans	Note 9	-	-
Total other comprehensive income		-	-
Comprehensive income (loss)		$ 20	$ (146)

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

Statements of Changes in Capital

For the years ended December 31, 2016 and December 31, 2015
(in millions, except share data)

		Surplus			
	Capital paid-in	Net income retained	Accumulated other comprehensive loss	Total surplus	Total capital
Balance at December 31, 2014 (5,322,539 shares)	$ 266	$ 267	$ (1)	$ 266	$ 532
Net change in capital stock issued (732,518 shares)	37	-	-	-	37
Comprehensive income:					
Net loss	-	(146)	-	(146)	(146)
Other comprehensive income	-	-	-	-	-
Dividends on capital stock	-	(17)	-	(17)	(17)
Net change in capital	37	(163)	-	(163)	(126)
Balance at December 31, 2015 (6,055,057 shares)	$ 303	$ 104	$ (1)	$ 103	$ 406
Net change in capital stock issued (603,992 shares)	30	-	-	-	30
Comprehensive income:					
Net income	-	20	-	20	20
Other comprehensive income	-	-	-	-	-
Dividends on capital stock	-	(14)	-	(14)	(14)
Net change in capital	30	6	-	6	36
Balance at December 31, 2016 (6,659,049 shares)	$ 333	$ 110	$ (1)	$ 109	$ 442

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

Federal Reserve Bank of St. Louis
Notes to Financial Statements

(1) Structure

The Federal Reserve Bank of St. Louis (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 Eighth Federal Reserve District, which includes Arkansas, and portions of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

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 nationally-chartered 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 director 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 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, U.S. offices of foreign banking organizations, edge and agreement corporations, and certain financial market utilities that have been designated as systemically important. Certain services are provided to foreign official and international account holders, primarily by the FRBNY.

The FOMC, in conducting monetary policy, establishes policy regarding domestic open market operations and oversees these operations. The FOMC has selected the FRBNY to execute open market transactions for the System Open Market Account (SOMA) as provided in its annual authorization. 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, and 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 SOMA. The FRBNY is authorized and directed to lend the Treasury securities and GSE debt securities that are held in the SOMA.

To be prepared to meet the needs specified by the FOMC to carry out the System's central bank responsibilities, the FOMC has authorized and directed the FRBNY to execute standalone spot and forward foreign exchange transactions in the resultant foreign currencies, to hold balances in those currencies, and to invest such foreign currency holdings, while maintaining adequate liquidity. The FRBNY holds these securities and agreements in the SOMA. The FOMC has also authorized and directed the FRBNY 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 in the maximum amount of $5 billion.

Because of the global character of bank funding markets, the System has, at times, coordinated with other central banks to provide liquidity. The FOMC authorized and directed the FRBNY to maintain standing U.S. dollar liquidity swap arrangements and standing foreign currency liquidity swap arrangements with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank. The FRBNY holds amounts outstanding under these swap lines in the SOMA. These swap lines, which were originally established as temporary arrangements, were converted to standing arrangements on October 31, 2013, and will remain in place until further notice.

The FOMC has authorized and directed the FRBNY to conduct small-value exercises periodically for the purpose of testing operational readiness.

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 for which the costs were not reimbursed by the other Reserve Banks include operation of the Treasury Relations and Support Office, the Treasury Financial Management Department and the Treasury Agency Support Department, which provide services to the Treasury. These services include: relationship management, strategic consulting, and monitoring of Federal Reserve System operations and technology support for the Treasury. In addition, operational support is provided for the Treasury's cash management, debt management and accounting functions.

(3) SIGNIFICANT ACCOUNTING POLICIES

Accounting principles for entities with the unique powers and responsibilities of the nation's central bank have not been formulated by 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. The financial statements and associated disclosures have been prepared in accordance with the FAM.

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 Board has adopted accounting principles and practices in the FAM that differ from accounting principles generally accepted in the United States of America (GAAP). The more significant differences are the presentation of all SOMA securities holdings at amortized cost, adjusted for credit impairment, if any, the recording of all SOMA securities on a settlement-date basis, and the use of straight-line amortization of premiums and discounts for Treasury securities, GSE debt securities, and foreign currency denominated investments. Amortized cost, rather than the fair value presentation, more appropriately reflects the financial position associated with 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 ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. 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 primarily motivated by monetary policy and financial stability 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 Bank's 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, Operations, and Changes in Capital, and the accompanying notes to the financial statements. Other than those described above, the accounting policies described in FAM are generally consistent with those in GAAP and the references to GAAP in the notes to the financial statement highlight those areas where FAM is consistent with 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.

The Statements of Operations have been renamed to better reflect the underlying nature of the activity reported and, in the prior year, had been titled the Statements of Income and Comprehensive Income.

Significant accounts and accounting policies are explained below.

a. Consolidation

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) established the 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 in connection with those institutions' compliance with consumer protection statutes. 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. The Board of Governors funds the Bureau 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 relationship to the Bureau and determined that it should not 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 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. Gold certificates are recorded by the Reserve Banks at original cost. The Board of Governors allocates the gold certificates among the Reserve Banks once a year based on each Reserve Bank's average Federal Reserve notes outstanding during the preceding 12 months.

Special drawing rights (SDR) 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. SDRs serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for 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 certificate transactions occur, the Board of Governors allocates the SDR certificates among the Reserve Banks based upon each Reserve Bank's Federal Reserve notes outstanding at the end of the preceding calendar year. SDR certificates are recorded by the Reserve Banks at original cost.

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 under agreements to resell (repurchase agreements) with primary dealers. Transactions under these repurchase agreements are typically settled through a tri-party arrangement. In the United States, there are currently two commercial custodial banks that provide these services. In a tri-party arrangement, a commercial custodial bank manages the collateral clearing, settlement, pricing, and pledging, and provides cash and securities custodial services for and on behalf of the FRBNY 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 agreements primarily includes Treasury securities (including Treasury Inflation-Protected Securities, Separate Trading of Registered Interest and Principal of Securities Treasury securities, and Treasury Floating Rate Notes); direct obligations of several federal and GSE-related agencies, including Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Banks; and pass-through federal agency and GSE MBS. The repurchase agreements are accounted for as financing transactions with the associated interest income recognized over the life of the transaction. These repurchase agreements are reported at their contractual amounts as “System Open Market Account: Securities purchased under agreements to resell” and the related accrued interest receivable is reported as a component of “System Open Market Account: Accrued interest receivable” in the Statements of Condition.

The FRBNY may engage in sales of securities under agreements to repurchase (reverse repurchase agreements) with primary dealers and with a set of expanded counterparties that includes banks, savings associations, GSEs, and domestic money market funds. Transactions under these reverse repurchase agreements are designed to have a margin of zero and are settled through a tri-party arrangement, similar to repurchase agreements. Reverse repurchase agreements 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, or federal agency and GSE MBS that are held in the SOMA. Reverse repurchase agreements are accounted for as financing transactions, and the associated interest expense is recognized over the life of the transaction. These reverse repurchase agreements 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 “System Open Market Account: Other liabilities” in the Statements of Condition.

Treasury securities and GSE debt securities held in the SOMA may be lent to primary dealers, typically overnight, to facilitate the effective functioning of the domestic securities markets. The amortized cost basis of securities lent continues to be reported as “System Open Market Account: Treasury securities, net” and “System Open Market Account: Government-sponsored enterprise debt securities, net,” as appropriate, in the Statements of Condition. Securities lending transactions are fully collateralized by Treasury securities based on the fair values of the securities lent increased by a margin determined by the FRBNY. The FRBNY charges the primary dealer a fee for borrowing securities, and these fees are reported as a component of “Non-interest income: System Open Market Account: Other” in the Statements of Operations.

Activity related to repurchase agreements, reverse repurchase agreements, 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, and Foreign Currency Denominated Investments

Interest income on Treasury securities, GSE debt securities, and foreign currency denominated investments included in the SOMA is recorded when earned and includes amortization of premiums and discounts on the straight-line method. 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 or accreted 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 Operations.

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. During the years ended December 31, 2016 and 2015, the FRBNY executed dollar rolls to facilitate settlement of outstanding purchases of federal agency and GSE MBS. The FRBNY accounts for dollar rolls as individual purchases and sales, on a settlement-date basis. Accounting for these transactions as purchases and sales, rather than as financing transactions, is appropriate because the purchase or sale component of the MBS TBA dollar roll is paired off or assigned prior to settlement and, as a result, there is no transfer and return of securities. Net gains resulting from MBS transactions are reported as a component of "Non-interest income: System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net" in the Statements of Operations.

Foreign currency denominated investments, which can include foreign currency deposits, repurchase agreements, and government debt instruments, are revalued daily at current foreign currency market exchange rates in order to report these assets in U.S. dollars. Any negative interest associated with these foreign currency denominated investments is included as a component of "Interest income: System Open Market Account: Foreign currency denominated investments, net" in the Statements of Operations. Foreign currency translation gains and losses that result from the daily revaluation of foreign currency denominated investments are reported as "Non-interest income: System Open Market Account: Foreign currency translation losses, net" in the Statements of Operations.

Because the FRBNY enters into commitments to buy Treasury securities, federal agency and GSE MBS, and foreign government debt instruments and records the related securities on a settlement-date basis in accordance with the FAM, the related outstanding commitments are not reflected in the Statements of Condition.

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 investments, including the premiums, discounts, and realized and unrealized gains and losses, is generally allocated in the first quarter of each year to each Reserve Bank based on the ratio, updated in the first quarter of the year, 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 or foreign currency liquidity swap arrangements.

Central bank liquidity swaps activity, including the related income and expense, is generally allocated in the first quarter of each year to each Reserve Bank based on the ratio, updated in the first quarter of the year, of each Reserve Bank's capital and surplus to the Reserve Banks' aggregate capital and surplus at the preceding December 31.

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 amount outstanding and the rate under the swap agreement. 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 Operations.

Foreign currency liquidity swaps

Foreign currency liquidity swap transactions involve 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 amounts that the FRBNY receives are recorded as a liability.

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. Reserve Banks may transfer assets to other Reserve Banks or may lease property of other Reserve Banks.

Costs incurred to acquire software are capitalized based on the purchase price. Costs incurred during the application development stage to develop internal-use software are capitalized based on the cost of direct services and materials associated with designing, coding, installing, and testing the software. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software applications, which generally range from two to five years. Maintenance costs and minor replacements 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

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.

An annual settlement of the interdistrict settlement account occurs in the second quarter of each year. As a result of the annual settlement, the balance in each Bank's interdistrict settlement account is adjusted by an amount equal to the average balance in the account during the previous twelve-month period ended March 31. An equal and offsetting adjustment is made to each Bank's allocated portion of SOMA assets and liabilities.

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 reverse repurchase agreements 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 $5,134 million and $4,449 million at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, all Federal Reserve notes outstanding, net, were fully collateralized. At December 31, 2016, all gold certificates, all SDR certificates, and $1,447 billion of domestic securities held in the SOMA were pledged as collateral.

k. Deposits

Depository Institutions

Depository institutions' deposits represent the reserve and service-related balances in the accounts that depository institutions hold at the Bank. Required reserve balances are those that a depository institution must hold to satisfy its reserve requirement. Reserve requirements are the amount of funds that a depository institution must hold in reserve against specified deposit liabilities. Excess reserves are those held by the depository institutions in excess of their required reserve balances. 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 expense on depository institutions' deposits is accrued daily at the appropriate rate. Interest payable is reported as a component of "Interest payable to depository institutions and other" 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 expense on depository institutions' deposits is accrued daily at the appropriate rate. Interest payable is reported as a component of "Interest payable to depository institutions and others" in the Statements of Condition. There were no deposits held by the Bank under the TDF at December 31, 2016 and 2015**.**

Other

Other deposits include the Bank's allocated portion of foreign central bank and foreign government deposits held at the FRBNY. Other deposits also include cash collateral, deposits of designated financial market utilities, and GSE deposits held by the Bank.

l. 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.

The Fixing America's Surface Transportation Act (FAST Act), which was enacted on December 4, 2015, amended section 7 of the Federal Reserve Act related to Reserve Bank surplus and the payment of dividends to member banks. Until January 1, 2016, each Reserve Bank was required by law to pay each member bank an annual dividend of 6 percent on the paid-in capital stock. Effective January 1, 2016, the FAST Act changed the dividend rate for member banks with more than $10 billion of consolidated assets to the smaller of 6 percent or the rate equal to the high yield of the 10-year Treasury note auctioned at the last auction held prior to the payment of the dividend. The FAST Act did not change the 6 percent dividend rate for member banks with $10 billion or less of total consolidated assets. The dividend is paid semiannually and is cumulative.

m. Surplus

Before the enactment of the FAST Act, the Board of Governors required the Reserve Banks to maintain a surplus equal to the amount of capital paid-in. On a daily basis, surplus was adjusted to equate the balance to capital paid-in. Effective December 4, 2015, the FAST Act limits aggregate Reserve Bank surplus to $10 billion. Reserve Bank surplus is allocated among the Reserve Banks based on the ratio of each Bank's capital paid-in to total Reserve Bank capital paid-in as of December 31 of each year. The amount reported as surplus by the Bank as of December 31, 2016 and 2015 represents the Bank's allocated portion of surplus.

Accumulated other comprehensive loss 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 9 and 10.

n. Earnings Remittances to the Treasury

Before the enactment of the FAST Act, the Board of Governors required 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. The Federal Reserve Act, as amended by the FAST Act effective December 4, 2015, requires that any amounts of the surplus funds of the Reserve Banks that exceed, or would exceed, the aggregate surplus limitation of $10 billion shall be transferred to the Board of Governors for transfer to the Treasury. The Bank remits excess earnings to the Treasury after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to maintain surplus at the Bank's allocated portion of the $10 billion aggregate surplus limitation. Remittances to the Treasury are made on a weekly basis. The amount of the remittances to the Treasury that were required under the Board of Governor's policy is reported as "Earnings remittances to the Treasury: Interest on Federal Reserve notes" in the Statements of Operations. The amount of the remittances to the Treasury that are required by the FAST Act is reported as "Earnings remittances to the Treasury: Required by the Federal Reserve Act" in the Statements of Operations. The amount due to the Treasury is reported as "Accrued remittances to the Treasury" in the Statements of Condition. See Note 12 for additional information on earnings remittances to the Treasury.

Under the previous Board of Governor's policy, if earnings during the year were not sufficient to provide for the costs of operations, payment of dividends, and equating surplus and capital paid-in, remittances to the Treasury were suspended, and under the FAST Act, if earnings during the year are not sufficient to provide for the costs of operations, payment of dividends, and maintaining surplus at an amount equal to the Bank's allocated portion of the $10 billion aggregate surplus limitation, remittances to the Treasury are suspended. This decrease in earnings remittances to the Treasury results in a deferred asset that represents the amount of net earnings a Reserve Bank will need to realize before remittances to the Treasury resume.

o. 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, 2016 and 2015, the Bank was reimbursed for all services provided to the Treasury as its fiscal agent.

The Bank seeks reimbursement from the Treasury and other government agencies on behalf of all Reserve Banks for costs of performing fiscal agency functions. Each Reserve Bank transfers its Treasury reimbursement receivable to the Bank. The reimbursement receivable is reported in “Other assets” and totaled $1 million for each of the years ended December 31, 2016 and 2015. There were no costs of unreimbursed Treasury services at December 31, 2016 and 2015.

p. Compensation Received for Service Costs Provided

The Federal Reserve Bank of Atlanta has overall responsibility for managing the Reserve Banks’ provision of check and ACH services to depository institutions, the FRBNY has overall responsibility for managing the Reserve Banks’ provision of Fedwire funds and securities services, and the Federal Reserve Bank of Chicago has overall responsibility for managing the Reserve Banks’ provision of electronic access services to depository institutions. The Reserve Bank that has overall responsibility for managing these services recognizes the related total System revenue in its Statements of Operations. The Bank is compensated for costs incurred to provide these services by the Reserve Banks responsible for managing these services and reports this compensation as “Non-interest income: Compensation received for service costs provided” in its Statements of Operations.

q. Assessments

The Board of Governors assesses the Reserve Banks to fund its operations and the operations of the Bureau. These assessments are allocated to each Reserve Bank based on each Reserve Bank’s capital and surplus balances. The Board of Governors also assesses each Reserve Bank for expenses related to producing, issuing, and retiring 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.

The Dodd-Frank Act requires that, after the transfer of its responsibilities to the Bureau on July 21, 2011, 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 Governor’s 2009 annual report, which totaled $4.98 billion. After 2013, the amount will be adjusted annually in accordance with the provisions of the Dodd-Frank Act. The percentage of total operating expenses of the System for the years ended December 31, 2016 and 2015 was 12.68 percent ($631.7 million) and 12.42 percent ($618.7 million), respectively. The Bank’s assessment for Bureau funding is reported as “Assessments: Bureau of Consumer Financial Protection” in the Statements of Operations.

r. 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 $1 million for each of the years ended December 31, 2016 and 2015, respectively, and are reported as a component of “Operating expenses: Occupancy” in the Statements of Operations.

s. 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.

In 2014, the Treasury announced plans to consolidate the provision of substantially all fiscal agent services for the U.S. Treasury at the Federal Reserve Bank of Cleveland, the Federal Reserve Bank of Kansas City, the FRBNY, and the Bank. The consolidation is expected to be completed in future years.

The Bank had no significant restructuring activities in 2016 and 2015.

t. Accounting Policy Change and Recently Issued Accounting Standards

The Board of Governors approved, effective January 2017, accounting for Treasury securities, GSE debt securities, and foreign government debt instruments held in the SOMA using the effective interest method. Previously, the cost bases of these securities were adjusted for amortization of premiums or accretion of discounts on a straight-line basis. This change will be applied prospectively. This update is not expected to have a material effect on the Bank's financial statements for the year ended December 31, 2017.

Other than the significant differences described in Note 3, the accounting policies described in FAM are generally consistent with those in GAAP. The following items represent recent GAAP accounting standards and describes how FAM was or will be revised to be consistent with these standards.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update was issued to create common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The guidance is applicable to all contracts for the transfer of goods or services regardless of industry or type of transaction. This update requires recognition of revenue in a manner that reflects the consideration that the entity expects to receive in return for the transfer of goods or services to customers. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delayed the required effective date of this accounting by one year. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* which provided clarity regarding what constitutes the transfer of a good or service. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. This update provides further criteria to help identify whether goods or services within a contract are separately identifiable and, consequently, should be deemed distinct revenue streams. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which provides guidance on assessing collectability, noncash consideration, and how contract modifications and completed contracts should be treated during the transition to new accounting guidance. This revenue recognition accounting guidance is effective for the Bank for the year ending December 31, 2019, although the Bank may elect to adopt the guidance earlier. The Bank is continuing to evaluate the effect of this new guidance on the Bank's financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40)*. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. Consequently, all software licenses within the scope of subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. This update is effective prospectively for the Bank for the year ended December 31, 2016, and did not have a material effect on the Bank's financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this update eliminate the requirement to disclose methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet. This update is effective for the Bank for the year ending December 31, 2019. The Bank is continuing to evaluate the effect of this new guidance on the Bank's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This update revises the model to assess how a lease should be classified and provides guidance for lessees, requiring lessees to present right-of-use assets and lease liabilities on the balance sheet. The update is effective for the Bank for the year ended December 31, 2020, although earlier adoption is permitted. The Bank is continuing to evaluate the effect of this new guidance on its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update revises the methodology for assessing expected credit losses and requires consideration of reasonable and supportable information to inform credit loss estimates. The update is effective for the Bank for the year ending December 31, 2021, although earlier adoption is permitted. The Bank is continuing to evaluate the effect of this new guidance on its financial statements.

(4) LOANS

Loans to Depository Institutions

The Bank offers primary, secondary, and seasonal loans to eligible borrowers (depository institutions that maintain reservable transaction accounts or nonpersonal time deposits and have established discount window borrowing privileges). Each program has its own interest rate and 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. 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.

The remaining maturity distribution of loans to depository institutions outstanding as of December 31, 2015, was as follows (in millions):

	Within 15 days	16 days to 90 days	Total
December 31, 2015	$ 26	$ 9	$ 35

The Bank had no loans outstanding as of December 31, 2016.

At December 31, 2016 and 2015, the Bank did not have any loans that were impaired, restructured, past due, or on non-accrual status, and no allowance for loan losses was required. There were no impaired loans during the years ended December 31, 2016 and 2015. Interest income attributable to loans to depository institutions was immaterial during the years ended December 31, 2016 and 2015.

(5) SYSTEM OPEN MARKET ACCOUNT

a. Domestic Securities Holdings

The FRBNY conducts domestic open market operations and, on behalf of the Reserve Banks, holds the resulting securities in the SOMA.

Pursuant to FOMC directives, the FRBNY has continued to reinvest principal payments from its holdings of GSE debt securities and federal agency and GSE MBS in federal agency and GSE MBS and to roll over maturing Treasury securities at auction. During the years ended December 31, 2016 and 2015, the FRBNY continued the reinvestments and rollovers.

The Bank's allocated share of activity related to domestic open market operations was 1.262 percent and 1.043 percent at December 31, 2016 and 2015, 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, 2016 and 2015 was as follows (in millions):

	2016			
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost
Treasury securities				
Notes	$ 20,675	$ 186	$ (71)	$ 20,790
Bonds	10,418	1,309	(114)	11,613
Total Treasury securities	$ 31,093	$ 1,495	$ (185)	$ 32,403
GSE debt securities	$ 204	$ 6	$ -	$ 210
Federal agency and GSE MBS	$ 21,978	$ 681	$ (5)	$ 22,654

	2015			
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost
Treasury securities				
Notes	$ 17,048	$ 218	$ (67)	$ 17,199
Bonds	8,622	1,189	(97)	9,714
Total Treasury securities	$ 25,670	$ 1,407	$ (164)	$ 26,913
GSE debt securities	$ 344	$ 8	$ -	$ 352
Federal agency and GSE MBS	$ 18,223	$ 561	$ (8)	$ 18,776

There were no material transactions related to repurchase agreements during the years ended December 31, 2016 and 2015.

During the years ended December 31, 2015 and 2016, the FRBNY entered into reverse repurchase agreements as part of its monetary policy activities. From September 23, 2013 through December 16, 2015, these operations were for the purpose of further assessing the appropriate structure of such operations in supporting the implementation of monetary policy during normalization. Since then these operations have been undertaken as necessary to maintain the federal funds rate in a target range. In addition, reverse repurchase agreements are entered into as part of a service offering to foreign official and international account holders. Financial information related to reverse repurchase agreements for the years ended December 31, 2016 and 2015 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2016	2015	2016	2015
Primary dealers and expanded counterparties:				
Contract amount outstanding, end of year	$ 5,911	$ 4,949	$ 468,355	$ 474,592
Average daily amount outstanding, during the year	1,284	1,391	105,648	125,656
Maximum balance outstanding, during the year	5,911	4,949	474,592	474,592
Securities pledged (par value), end of year	5,601	4,567	443,799	437,961
Securities pledged (fair value), end of year	5,923	4,958	469,282	475,422
Foreign official and international accounts:				
Contract amount outstanding, end of year	$ 3,242	$ 2,480	$ 256,855	$ 237,809
Average daily amount outstanding, during the year	2,906	1,718	241,848	157,929
Maximum balance outstanding, during the year	3,345	2,480	265,041	237,809
Securities pledged (par value), end of year	3,148	2,402	249,417	230,333
Securities pledged (fair value), end of year	3,242	2,480	256,897	237,825
Total contract amount outstanding, end of year	$ 9,153	$ 7,429	$ 725,210	$ 712,401
Supplemental information - interest expense:				
Primary dealers and expanded counterparties	$ 4	$ 1	$ 303	$ 84
Foreign official and international accounts	10	2	819	164
Total interest expense - securities sold under agreements to repurchase	$ 14	$ 3	$ 1,122	$ 248

Securities pledged as collateral, at December 31, 2016 and 2015, consisted solely of Treasury securities. The contract amount outstanding as of December 31, 2016 of reverse repurchase agreements that were transacted with primary dealers and expanded counterparties had a term of one business day and matured on January 3, 2017. The contract amount outstanding as of December 31, 2016 of reverse repurchase agreements that were transacted with foreign official and international account holders had a term of one business day and matured on January 3, 2017.

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and reverse repurchase agreements that were allocated to the Bank at December 31, 2016 and 2015 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
December 31, 2016:							
Treasury securities (par value)	$ 187	$ 521	$ 1,903	$ 15,452	$ 5,039	$ 7,991	$ 31,093
GSE debt securities (par value)	-	36	113	26	-	29	204
Federal agency and GSE MBS (par value)[1]	-	-	-	1	134	21,843	21,978
Securities sold under agreements to repurchase (contract amount)	9,153	-	-	-	-	-	9,153
December 31, 2015:							
Treasury securities (par value)	$ -	$ 403	$ 1,851	$ 11,662	$ 5,102	$ 6,652	$ 25,670
GSE debt securities (par value)	-	39	136	144	-	25	344
Federal agency and GSE MBS (par value)[1]	-	-	-	5	94	18,124	18,223
Securities sold under agreements to repurchase (contract amount)	7,429	-	-	-	-	-	7,429

[1] The par amount shown for federal agency and GSE MBS is the remaining principal balance of the securities.

Federal agency and GSE MBS are reported at stated maturity in the table above. The estimated weighted-average life of these securities, which differs from the stated maturity primarily because it factors in scheduled payments and prepayment assumptions, was approximately 7.2 and 6.5 years as of December 31, 2016 and 2015, respectively.

The amortized cost and par value of Treasury securities and GSE debt securities that were loaned from the SOMA under securities lending agreements at December 31, 2016 and 2015 were as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2016	2015	2016	2015
Treasury securities (amortized cost)	$ 318	$ 198	$ 25,195	$ 18,960
Treasury securities (par value)	312	188	24,698	18,055
GSE debt securities (amortized cost)	1	2	44	146
GSE debt securities (par value)	1	1	44	137

Securities pledged as collateral by the counterparties in the securities lending arrangements at December 31, 2016 and 2015 consisted solely of Treasury securities. The securities lending agreements outstanding as of December 31, 2016 had a term of one business day and matured on January 3, 2017.

The FRBNY enters into commitments to buy and sell Treasury securities and records the related securities on a settlement-date basis. As of December 31, 2016, the total purchase price of the Treasury securities under outstanding commitments was $11,679 million, of which $147 million was allocated to the Bank. These commitments had contractual settlement dates extending through January 3, 2017.

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, 2016, the total purchase price of the federal agency and GSE MBS under outstanding purchase commitments was $35,787 million, none of which was related to dollar rolls. The total purchase price of outstanding purchase commitments allocated to the Bank was $452 million, none of which was related to dollar rolls. These commitments, which had contractual settlement dates extending through January 2017, are for the purchase 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, 2016, there were no outstanding sales commitments for federal agency and GSE MBS. MBS 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 MBS commitments as part of its risk management practices used to mitigate the counterparty credit risk.

Other assets consist primarily of cash and short-term investments related to the federal agency and GSE MBS portfolio. Other liabilities, which are primarily 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 include obligations that arise from the failure of a seller to deliver MBS 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 assets and other liabilities allocated to the Bank and held in the SOMA at December 31, 2016 and 2015 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2016	2015	2016	2015
Other assets:				
MBS portfolio related cash and short term investments	$ -	$ -	$ 7	$ 13
Other	-	-	1	1
Total other assets	$ -	$ -	$ 8	$ 14
Other liabilities:				
Cash margin	$ 13	$ 5	$ 983	$ 486
Obligations from MBS transaction fails	-	-	9	16
Other	-	-	20	6
Total other liabilities	$ 13	$ 5	$ 1,012	$ 508

Accrued interest receivable on domestic securities holdings held in the SOMA was $25,517 million and $25,354 million as of December 31, 2016 and 2015, respectively, of which $323 million and $265 million, respectively, was allocated to the Bank. These amounts are reported as a component of "System Open Market Account: Accrued interest receivable" in the Statements of Condition.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS allocated to the Bank and held in the SOMA during the years ended December 31, 2016 and 2015, is summarized as follows (in millions):

	Allocated to the Bank				
	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance at December 31, 2014	$ 20,412	$ 11,611	$ 32,023	$ 493	$ 22,067
Purchases[1]	28	8	36	-	3,902
Sales[1]	-	-	-	-	(6)
Realized gains, net[2]	-	-	-	-	-
Principal payments and maturities	(31)	(6)	(37)	(65)	(3,653)
Amortization of premiums and accretion of discounts, net	(60)	(112)	(172)	(5)	(128)
Inflation adjustment on inflation-indexed securities	-	(1)	(1)	-	-
Annual reallocation adjustment[3]	(3,150)	(1,786)	(4,936)	(71)	(3,406)
Balance at December 31, 2015	$ 17,199	$ 9,714	$ 26,913	$ 352	$ 18,776
Purchases[1]	2,282	167	2,449	-	4,699
Sales[1]	(7)	(1)	(8)	-	(3)
Realized gains, net[2]	-	-	-	-	-
Principal payments and maturities	(2,240)	(204)	(2,444)	(203)	(4,644)
Amortization of premiums and accretion of discounts, net	(60)	(120)	(180)	(4)	(164)
Inflation adjustment on inflation-indexed securities	7	19	26	-	-
Annual reallocation adjustment[3]	3,609	2,038	5,647	65	3,990
Balance at December 31, 2016	$ 20,790	$ 11,613	$ 32,403	$ 210	$ 22,654
Year-ended December 31, 2015					
Supplemental information - par value of transactions:					
Purchases[4]	$ 29	$ 8	$ 37	$ -	$ 3,764
Sales	-	-	-	-	-
Year-ended December 31, 2016					
Supplemental information - par value of transactions:					
Purchases[4]	$ 2,285	$ 167	$ 2,452	$ -	$ 4,529
Sales	(7)	(1)	(8)	-	(3)

[1] Purchases and sales may include payments and receipts related to principal, premiums, discounts, and inflation compensation adjustments to the basis of inflation-indexed securities. The amount reported as sales includes the realized gains and losses on such transactions. Purchases and sales exclude MBS TBA transactions that are settled on a net basis.

[2] Realized gains, net is the offset of the amount of realized gains and losses included in the reported sales amount.

[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 3i**.**

[4] Includes inflation compensation.

	Total SOMA				
	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance at December 31, 2014	$ 1,654,901	$ 941,340	$ 2,596,241	$ 39,990	$ 1,789,083
Purchases[1]	2,736	761	3,497	-	356,976
Sales[1]	-	-	-	-	(464)
Realized gains, net[2]	-	-	-	-	16
Principal payments and maturities	(2,977)	(543)	(3,520)	(5,733)	(333,441)
Amortization of premiums and accretion of discounts, net	(5,485)	(10,253)	(15,738)	(509)	(11,721)
Inflation adjustment on inflation-indexed securities	53	143	196	-	-
Balance at December 31, 2015	$ 1,649,228	$ 931,448	$ 2,580,676	$ 33,748	$ 1,800,449
Purchases[1]	190,992	13,882	204,874	-	387,210
Sales[1]	(534)	(62)	(596)	-	(213)
Realized gains, net[2]	(22)	7	(15)	-	6
Principal payments and maturities	(187,843)	(16,597)	(204,440)	(16,764)	(379,065)
Amortization of premiums and accretion of discounts, net	(5,049)	(10,033)	(15,082)	(336)	(13,384)
Inflation adjustment on inflation-indexed securities	567	1,438	2,005	-	-
Balance at December 31, 2016	$ 1,647,339	$ 920,083	$ 2,567,422	$ 16,648	$ 1,795,003
Year-ended December 31, 2015					
Supplemental information - par value of transactions:					
Purchases[3]	$ 2,747	$ 766	$ 3,513	$ -	$ 344,505
Sales	-	-	-	-	(435)
Year-ended December 31, 2016					
Supplemental information - par value of transactions:					
Purchases[3]	$ 191,231	$ 13,868	$ 205,099	$ -	$ 373,197
Sales	(555)	(45)	(600)	-	(203)

[1] Purchases and sales may include payments and receipts related to principal, premiums, discounts, and inflation compensation adjustments to the basis of inflation-indexed securities. The amount reported as sales includes the realized gains and losses on such transactions. Purchases and sales exclude MBS TBA transactions that are settled on a net basis.

[2] Realized gains, net is the offset of the amount of realized gains and losses included in the reported sales amount.

[3] Includes inflation compensation.

b. Foreign Currency Denominated Investments

The FRBNY conducts foreign currency operations and, on behalf of the Reserve Banks, holds the resulting foreign currency denominated investments in the SOMA.

The FRBNY holds foreign currency deposits with foreign central banks and the Bank for International Settlements and invests in foreign government debt instruments of France, Germany, the Netherlands, and Japan. These foreign government debt instruments are backed by the full faith and credit of the issuing foreign governments. In addition, the FRBNY may enter into repurchase agreements to purchase government debt securities for which the accepted collateral is the debt instruments issued by a foreign government.

At December 31, 2016 and 2015, there were no repurchase agreements outstanding and, consequently, no related foreign securities held as collateral.

The Bank's allocated share of activity related to foreign currency operations was 1.026 percent and 0.931 percent at December 31, 2016 and 2015, respectively.

Information about foreign currency denominated investments recorded at amortized cost and valued at foreign currency market exchange rates held in the SOMA and allocated to the Bank at December 31, 2016 and 2015 was as follows (in millions):

	Allocated to Bank		Total SOMA	
	2016	2015	2016	2015
Euro:				
Foreign currency deposits	$ 43	$ 58	$ 4,205	$ 6,218
French government debt instruments	40	31	3,892	3,325
German government debt instruments	19	21	1,884	2,261
Dutch government debt instruments	15	-	1,462	-
Japanese yen:				
Foreign currency deposits	48	24	4,668	2,568
Japanese government debt instruments	34	48	3,331	5,195
Total	$ 199	$ 182	$ 19,442	$ 19,567

Net interest income earned on foreign currency denominated investments held in the SOMA for the years ended December 31, 2016 and 2015 was as follows (in millions):

	Total SOMA	
	2016	2015
Net interest income:[1]		
Euro	$ (11)	$ 24
Japanese yen	4	7
Total net interest income	$ (7)	$ 31

[1] As a result of negative interest rates in certain foreign currency denominated investments held in the SOMA, interest income on foreign currency denominated investments, net contains negative interest of $32 million and $13 million for the years ended December 31, 2016 and 2015, respectively.

Accrued interest receivable on foreign currency denominated investments, net was $79 million and $64 million as of December 31, 2016 and 2015, respectively, of which $1 million for each year was allocated to the Bank**.** These amounts are reported as a component of "System Open Market Account: Accrued interest receivable" in the Statements of Condition.

The remaining maturity distribution of foreign currency denominated investments that were allocated to the Bank at December 31, 2016 and 2015 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	Total
December 31, 2016:						
Euro	$ 44	$ 3	$ 12	$ 32	$ 26	$ 117
Japanese yen	49	4	14	15	-	82
Total	$ 93	$ 7	$ 26	$ 47	$ 26	$ 199
December 31, 2015:						
Euro	$ 20	$ 42	$ 10	$ 35	$ 3	$ 110
Japanese yen	25	3	15	29	-	72
Total	$ 45	$ 45	$ 25	$ 64	$ 3	$ 182

There were no foreign exchange contracts related to foreign currency operations outstanding as of December 31, 2016.

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, 2016, there were no outstanding commitments to purchase foreign government debt instruments. During 2016, there were purchases and maturities of foreign government debt instruments of $3,524 million and $3,767 million, respectively, of which $36 million and $38 million, respectively, were allocated to the Bank. There were no sales of foreign government debt instruments in 2016.

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 monitoring procedures.

Foreign currency working balances held and foreign exchange contracts executed by the Bank to facilitate international payments and currency transactions made on behalf of foreign central banks and U.S. official institution customers were immaterial as of December 31, 2016 and 2015.

c. Central Bank Liquidity Swaps

U.S. Dollar Liquidity Swaps

The Bank's allocated share of U.S. dollar liquidity swaps was 1.026 percent and 0.931 percent at December 31, 2016 and 2015, respectively.

The total foreign currency held under U.S. dollar liquidity swaps held in the SOMA at December 31, 2016 and 2015 was $5,563 million and $997 million, respectively, of which $57 million and $9 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, 2016 and 2015 was as follows (in millions):

	2016	2015
	Within 15 days	Within 15 days
Euro	44	8
Japanese yen	13	1
Total	$ 57	$ 9

Foreign Currency Liquidity Swaps

At December 31, 2016 and 2015, there was no balance outstanding related to foreign currency liquidity swaps.

d. Fair Value of SOMA Assets and Liabilities

The fair value amounts below are presented solely for informational purposes and are not intended to comply with the fair value disclosures required by FASB Accounting Standards Codification (ASC) Topic 820 (ASC 820), *Fair Value Measurement*. Although the fair value of SOMA 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. Because SOMA securities are recorded at amortized cost, cumulative unrealized gains (losses) are not recognized in the Statements of Condition and the changes in cumulative unrealized gains (losses) are not recognized in the Statements of Operations.

The fair value of the Treasury securities, GSE debt securities, federal agency and GSE MBS, and foreign government debt instruments held in the SOMA is subject to market risk, arising from movements in market variables such as interest rates and credit risk. 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 fair value of foreign government debt instruments is also affected by currency risk. Based on evaluations performed as of December 31, 2016 and 2015, there are no credit impairments of SOMA securities holdings.

The following table presents the amortized cost, fair value, and cumulative unrealized gains (losses) on the Treasury securities, GSE debt securities, and federal agency and GSE MBS held in the SOMA and allocated to the Bank at December 31, 2016 and 2015 (in millions):

	Allocated to the Bank					
	2016			2015		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
Treasury securities:						
Notes	$ 20,790	$ 20,913	$ 123	$ 17,199	$ 17,409	$ 210
Bonds	11,613	12,415	802	9,714	10,497	783
Total Treasury securities	32,403	33,328	925	26,913	27,906	993
GSE debt securities	210	220	10	352	367	15
Federal agency and GSE MBS	22,654	22,559	(95)	18,776	18,878	102
Total domestic SOMA portfolio securities holdings	$ 55,267	$ 56,107	$ 840	$ 46,041	$ 47,151	$ 1,110
Memorandum - Commitments for:						
Purchases of Treasury securities	$ 147	$ 148	$ 1	$ -	$ -	$ -
Purchases of Federal agency and GSE MBS	452	454	2	231	231	-
Sales of Federal agency and GSE MBS	-	-	-	-	-	-

	Total SOMA					
	2016			2015		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
Treasury securities:						
Notes	$ 1,647,339	$ 1,657,026	$ 9,687	$ 1,649,228	$ 1,669,395	$ 20,167
Bonds	920,083	983,680	63,597	931,448	1,006,514	75,066
Total Treasury securities	2,567,422	2,640,706	73,284	2,580,676	2,675,909	95,233
GSE debt securities	16,648	17,442	794	33,748	35,165	1,417
Federal agency and GSE MBS	1,795,003	1,787,484	(7,519)	1,800,449	1,810,256	9,807
Total domestic SOMA portfolio securities holdings	$ 4,379,073	$ 4,445,632	$ 66,559	$ 4,414,873	$ 4,521,330	$ 106,457
Memorandum - Commitments for:						
Purchases of Treasury securities	$ 11,679	$ 11,719	$ 40	$ -	$ -	$ -
Purchases of Federal agency and GSE MBS	35,787	35,974	187	22,187	22,170	(17)
Sales of Federal agency and GSE MBS	-	-	-	-	-	-

The fair value of Treasury securities and GSE debt securities was determined using pricing services that provide market consensus prices based on indicative quotes from various market participants. The fair value of federal agency and GSE MBS was determined using a pricing service that utilizes a model-based approach that considers observable inputs for similar securities.

The cost bases of repurchase agreements, reverse repurchase agreements, central bank liquidity swaps, and other investments held in the SOMA portfolio approximate fair value. Due to the short-term nature of these agreements and the defined amount that will be received upon settlement, the cost basis is estimated to approximate fair value.

At December 31, 2016 and 2015, the fair value of foreign currency denominated investments held in the SOMA was $19,510 million and $19,630 million, respectively, of which $200 million and $183 million, respectively, was allocated to the Bank. The fair value of foreign government debt instruments was determined using pricing services that provide market consensus prices based on indicative quotes from various market participants. The fair value of foreign currency deposits was determined by reference to market interest rates.

The following table provides additional information on the amortized cost and fair values of the federal agency and GSE MBS portfolio held in the SOMA and allocated to the Bank at December 31, 2016 and 2015 (in millions):

Distribution of MBS holdings by coupon rate	2016 Amortized cost	2016 Fair value	2015 Amortized cost	2015 Fair value
Allocated to the Bank:				
2.0%	$ 133	$ 129	$ 117	$ 115
2.5%	1,531	1,497	1,215	1,199
3.0%	8,753	8,539	5,782	5,665
3.5%	7,084	7,074	6,043	6,069
4.0%	3,479	3,532	3,766	3,844
4.5%	1,090	1,163	1,209	1,294
5.0%	463	494	510	548
5.5%	105	113	116	125
6.0%	14	16	16	17
6.5%	2	2	2	2
Total	$ 22,654	$ 22,559	$ 18,776	$ 18,878
Total SOMA:				
2.0%	$ 10,556	$ 10,243	$ 11,198	$ 10,993
2.5%	121,326	118,641	116,527	115,018
3.0%	693,524	676,572	554,430	543,270
3.5%	561,271	560,510	579,403	581,940
4.0%	275,650	279,877	361,149	368,576
4.5%	86,351	92,111	115,914	124,043
5.0%	36,708	39,159	48,931	52,523
5.5%	8,298	8,939	11,138	11,989
6.0%	1,155	1,253	1,542	1,666
6.5%	164	179	217	238
Total	$ 1,795,003	$ 1,787,484	$ 1,800,449	$ 1,810,256

The following tables present the realized gains (losses) and the change in the cumulative unrealized gains (losses) related to SOMA domestic securities holdings during the years ended December 31, 2016 and 2015 (in millions):

	Allocated to Bank			
	2016		2015	
	Realized gains (losses), net[1]	Change in cumulative unrealized gains (losses)[2,3]	Realized gains (losses), net[1]	Change in cumulative unrealized gains (losses)[2,3]
Treasury securities	$ -	$ (470)	$ -	$ (376)
GSE debt securities	-	(8)	-	(12)
Federal agency and GSE MBS	-	(285)	1	(200)
Total	$ -	$ (763)	$ 1	$ (588)

	Total SOMA			
	2016		2015	
	Realized gains (losses), net[1]	Change in cumulative unrealized gains (losses)[2]	Realized gains (losses), net[1]	Change in cumulative unrealized gains (losses)[2]
Treasury securities	$ (15)	$ (21,949)	$ -	$ (44,819)
GSE debt securities	-	(623)	-	(1,092)
Federal agency and GSE MBS	19	(17,326)	43	(21,654)
Total	$ 4	$ (39,898)	$ 43	$ (67,565)

[1] Realized gains for federal agency and GSE MBS are reported in "Non-interest income: System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net" in the Statements of Operations.

[2] Because SOMA securities are recorded at amortized cost, the change in the cumulative unrealized gains (losses) is not reported in the Statements of Operations.

[3] The amount reported as change in cumulative unrealized gains (losses) allocated to the Bank is affected by the annual adjustment to the Bank's allocated portion of the related SOMA securities, as discussed in Note 3f.

The amount of change in cumulative unrealized gains (losses) position, net related to foreign currency denominated investments was a gain of $5 million and a loss of $33 million for the years ended December 31, 2016 and 2015, respectively, of which $15 thousand and $298 thousand, respectively, were allocated to the Bank.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that distinguishes between assumptions developed using market data obtained from independent sources (observable inputs) and the Bank's assumptions developed using the best information available in the circumstances (unobservable inputs). The three levels established by ASC 820 are described as follows:

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

- Level 3 – Valuation is based on model-based techniques that use significant inputs and assumptions not observable in the market. These unobservable inputs and assumptions reflect the Bank's estimates of inputs and assumptions that market participants would use in pricing the assets and liabilities. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

Treasury securities, GSE debt securities, federal agency and GSE MBS, and foreign government debt instruments are classified as Level 2 within the ASC 820 hierarchy because the fair values are based on indicative quotes and other observable inputs obtained from independent pricing services. The fair value hierarchy level of SOMA financial assets is not necessarily an indication of the risk associated with those assets.

(6) BANK PREMISES, EQUIPMENT, AND SOFTWARE

Bank premises and equipment at December 31, 2016 and 2015 were as follows (in millions):

	2016	2015
Bank premises and equipment:		
Land and land improvements	$ 12	$ 12
Buildings	162	159
Building machinery and equipment	22	22
Construction in progress	-	1
Furniture and equipment	34	34
Subtotal	230	228
Accumulated depreciation	(102)	(95)
Bank premises and equipment, net	$ 128	$ 133
Depreciation expense, for the years ended December 31	$ 10	$ 10

The Bank had capitalized software assets, net of amortization, of $18 million and $21 million at December 31, 2016 and 2015, respectively. Amortization expense was $7 million for each of the years ended December 31, 2016 and 2015, respectively. 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 Operations.

(7) COMMITMENTS AND CONTINGENCIES

In 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, 2016, the Bank was obligated under non-cancelable leases for premises and equipment with remaining terms ranging from 3 to approximately 10 years. These leases provide for increased lease 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 $3 million and $2 million for the years ended December 31, 2016 and 2015, respectively. Certain of the Bank's leases have options to renew.

Future minimum lease payments under non-cancelable operating leases, net of sublease rentals, with remaining terms of one year or more, at December 31, 2016, are as follows (in millions):

	Operating leases
2017	$ 1.9
2018	1.9
2019	2.0
2020	1.4
2021	1.3
Thereafter	6.1
Future minimum lease payments	$ 14.6

At December 31, 2016, 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, 2016 and 2015.

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.

(8) 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).[1] Under the Dodd-Frank Act, newly hired Bureau employees are eligible to participate in the System Plan and, during the years ended December 31, 2016 and 2015, certain costs associated with the System Plan were reimbursed by the Bureau. 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 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. The Bank reports the net cost related to the BEP and SERP as a component of "Operating expenses: Salaries and benefits" in its Statements of Operations and reports the net liability as a component of "Accrued benefit costs" in its Statements of Condition.

[1] The OEB was established by the System to administer selected System benefit plans.

The Bank's projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2016 and 2015, and for the years then ended, were immaterial.

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 $8 million and $7 million for the years ended December 31, 2016 and 2015, respectively, and are reported as a component of "Operating expenses: Salaries and benefits" in the Statements of Operations.

(9) 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 and life insurance benefits during retirement.

The Bank and plan participants fund benefits payable under the medical and life insurance plans as due and the plans have no assets.

Following is a reconciliation of the beginning and ending balances of the benefit obligation for the years ended December 31, 2016 and 2015 (in millions):

	2016	2015
Accumulated postretirement benefit obligation at January 1	$ 83.9	$ 81.5
Service cost benefits earned during the period	3.9	3.6
Interest cost on accumulated benefit obligation	3.6	3.3
Net actuarial loss (gain)	12.1	(0.8)
Contributions by plan participants	1.7	1.5
Benefits paid	(6.0)	(5.5)
Medicare Part D subsidies	0.3	0.3
Plan amendments	(14.1)	-
Accumulated postretirement benefit obligation at December 31	$ 85.4	$ 83.9

At December 31, 2016 and 2015, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 4.07 percent and 4.31 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. The System Plan discount rate assumption setting convention uses an unrounded rate.

Following is a reconciliation of the beginning and ending balance of the plan assets, and the unfunded postretirement benefit obligation and accrued postretirement benefit costs for the years ended December 31, 2016 and 2015 (in millions):

	2016	2015
Fair value of plan assets at January 1	$ -	$ -
Contributions by the employer	4.0	3.7
Contributions by plan participants	1.7	1.5
Benefits paid	(6.0)	(5.5)
Medicare Part D subsidies	0.3	0.3
Fair value of plan assets at December 31	$ -	$ -
Unfunded obligation and accrued postretirement benefit cost	$ 85.4	$ 83.9
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service cost	$ 17.9	$ 4.9
Net actuarial (loss)	(18.2)	(6.1)
Total accumulated other comprehensive loss	$ (0.3)	$ (1.2)

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

For measurement purposes, the assumed health-care cost trend rates at December 31, 2016 and 2015 are provided in the table below. The current health-care cost trend rate for next year is expected to decline ratably each year until achieving the ultimate trend rate in 2022:

	2016	2015
Health-care cost trend rate assumed for next year	6.60%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.75%	4.75%
Year that the rate reaches the ultimate trend rate	2022	2022

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, 2016 (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	$ 1.6	$ (1.3)
Effect on accumulated postretirement benefit obligation	12.9	(10.5)

The following is a summary of the components of net periodic postretirement benefit expense for the years ended December 31, 2016 and 2015 (in millions):

	2016	2015
Service cost-benefits earned during the period	$ 3.9	$ 3.6
Interest cost on accumulated benefit obligation	3.6	3.3
Amortization of prior service cost	(1.1)	(1.1)
Net periodic postretirement benefit expense	$ 6.4	$ 5.8

Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic postretirement benefit expense in 2017 are shown below:

Prior service cost	$ (3.5)
Net actuarial loss	1.1
Total	$ (2.4)

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2016 and 2015, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 4.31 percent and 3.96 percent, respectively.

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

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 gain in the accumulated postretirement benefit obligation and net periodic postretirement benefit expense.

During 2016, the Reserve Banks adopted an amendment to their health benefits program that added a Medicare Advantage and Prescription Drug (MAPD) plan to the program effective January 1, 2017. The MAPD plan is a fully insured product that combines into one integrated benefit Medicare and Medicare Supplement coverages, as well as prescription drug coverage. The plan amendment resulted in a change in the Bank's accumulated postretirement benefit obligation in the amount of $14 million as of December 31, 2016, with an equivalent change in the prior service component of accumulated other comprehensive income.

Federal Medicare Part D subsidy receipts were $357 thousand and $273 thousand in the years ended December 31, 2016 and 2015, respectively. Expected receipts in 2017, related to benefits paid in the years ended December 31, 2016 and 2015, are $60 thousand and $9 thousand, respectively.

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

	Without subsidy		With subsidy	
2017	$	3.5	$	3.5
2018		3.9		3.9
2019		4.2		4.2
2020		4.5		4.5
2021		4.7		4.7
2022 - 2026		26.5		26.5
Total	$	47.3	$	47.3

Postemployment Benefits

The Bank offers benefits to former qualifying or inactive employees. Postemployment benefit costs are actuarially determined using a December 31 measurement date and include the cost of medical, dental, and vision insurance; survivor income; disability benefits; and self-insured workers' compensation expenses. The accrued postemployment benefit costs recognized by the Bank at December 31, 2016 and 2015 were $7 million and $8 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 2016 and 2015 operating expenses were $1 million and $468 thousand, respectively, and are recorded as a component of "Operating expenses: Salaries and benefits" in the Statements of Operations.

(10) ACCUMULATED OTHER COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME

Following is a reconciliation of beginning and ending balances of accumulated other comprehensive income (loss) as of December 31, 2016 and 2015 (in millions):

	2016		2015	
	Amount related to postretirement benefits other than retirement plans		Amount related to postretirement benefits other than retirement plans	
Balance at January 1	$	(1.2)	$	(0.9)
Change in funded status of benefit plans:				
Prior service costs arising during the year		14.1		-
Amortization of prior service cost		(1.1) [1]		(1.1) [1]
Change in prior service costs related to benefit plans		13.0		(1.1)
Net actuarial (loss) gain arising during the year		(12.1)		0.8
Change in actuarial (losses) gains related to benefit plans		(12.1)		0.8
Change in funded status of benefit plans - other comprehensive income (loss)		0.9		(0.3)
Balance at December 31	$	(0.3)	$	(1.2)

[1] Reclassification is reported as a component of "Operating expenses: Salaries and benefits" in the Statement of Operations.

Additional detail regarding the classification of accumulated other comprehensive loss is included in Note 9.

(11) BUSINESS RESTRUCTURING CHARGES

The Bank had no business restructuring charges in 2016 and 2015.

(12) DISTRIBUTION OF COMPREHENSIVE INCOME

The following table presents the distribution of the Bank's comprehensive income for the years ended December 31, 2016 and 2015 (in millions):

	2016	2015
Dividends on capital stock	$ 14	$ 17
Transfer to (from) surplus	6	(163)
Earnings remittances to the Treasury:		
Interest on Federal Reserve notes	-	919
Required by the Federal Reserve Act	1,058	258
Total distribution	$ 1,078	$ 1,031

Before the enactment of the FAST Act, the amount reported as transfer to (from) surplus represented the amount necessary to equate surplus with capital paid-in, in accordance with the Board of Governor's policy. Subsequent to the enactment of the FAST Act, the amount reported as transfer to (from) surplus represents the amount necessary to maintain surplus at an amount equal to the Bank's allocated portion of the aggregate surplus limitation.

On December 28, 2015, the Reserve Banks reduced the aggregate surplus to the $10 billion limit in the FAST Act by remitting $19.3 billion to the Treasury. The Bank's share of this remittance was $202 million, which is reported as a component of "Earnings remittances to the Treasury: Required by the Federal Reserve Act" in the Bank's Statements of Operations, and in the table above.

(13) SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2016. Subsequent events were evaluated through March 8, 2017, which is the date that the financial statements were available to be issued.