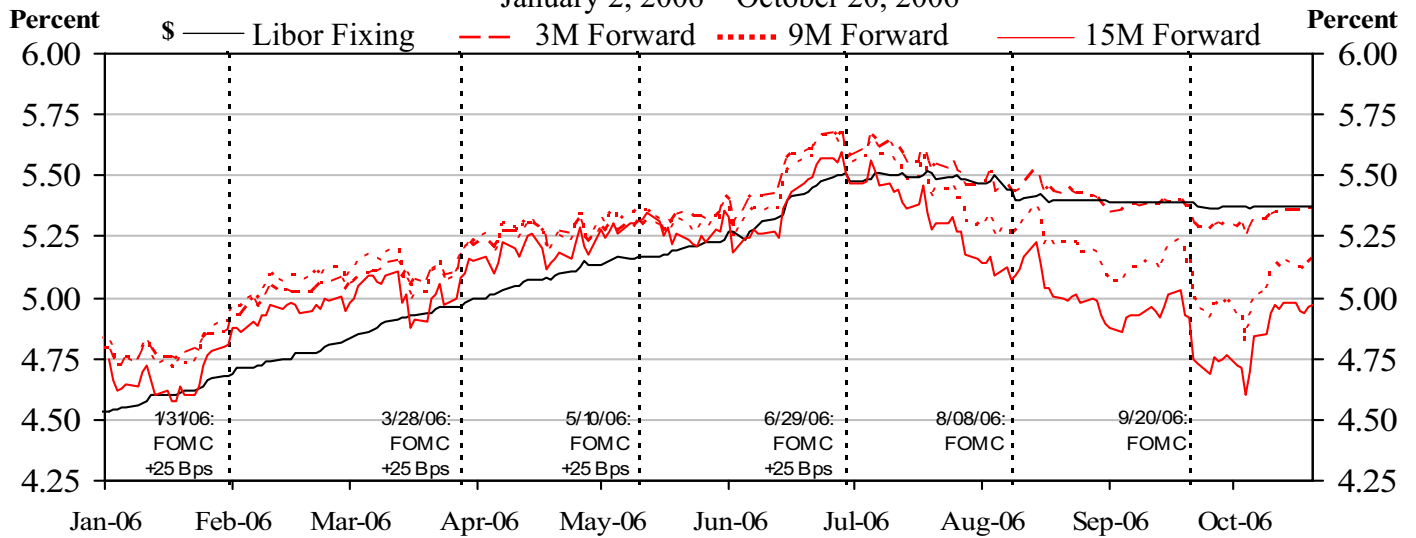


Appendix 1: Materials used by Mr. Kos

Current U.S. 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

January 2, 2006 – October 20, 2006



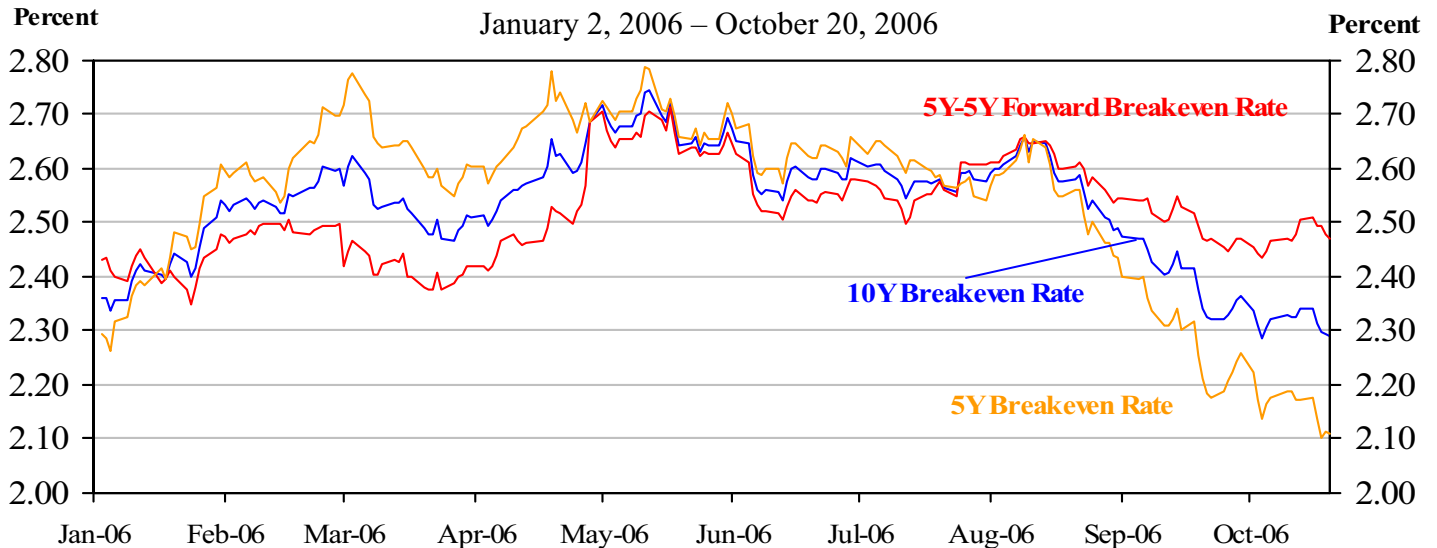
2- and 10-Year Treasury Yields and Target Fed Funds Rate

January 2, 2006 – October 20, 2006



U.S. Breakeven Inflation Rates

January 2, 2006 – October 20, 2006

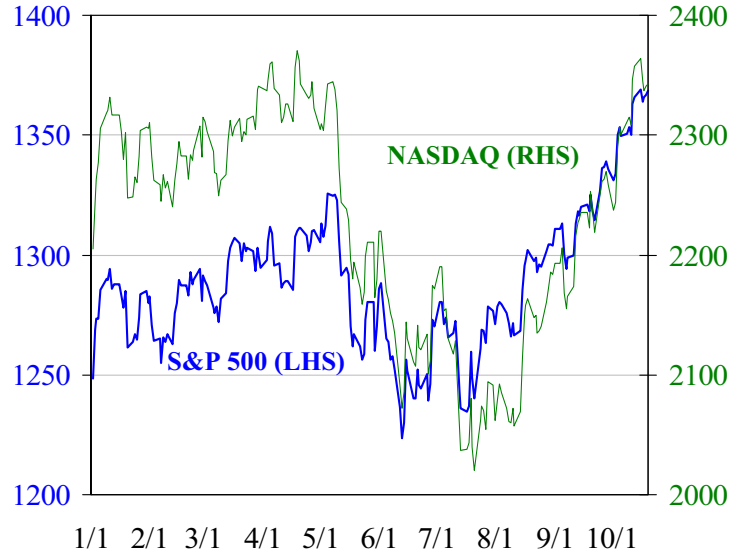
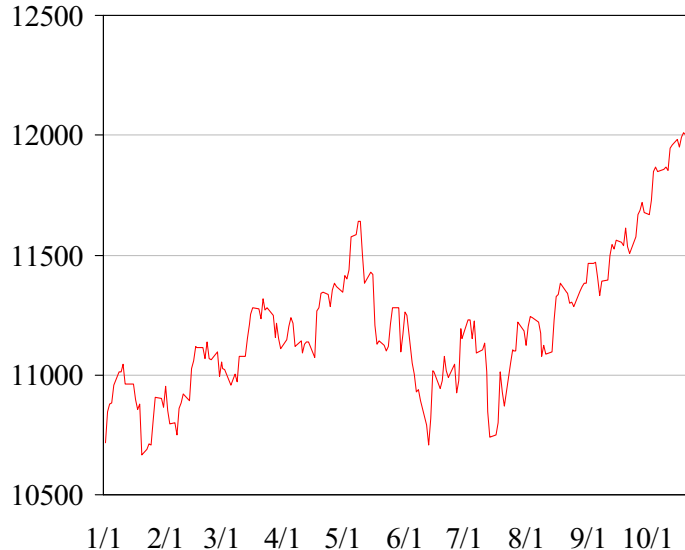


Dow Jones Industrial Average

S&P 500 and NASDAQ

Index January 2, 2006 – October 20, 2006

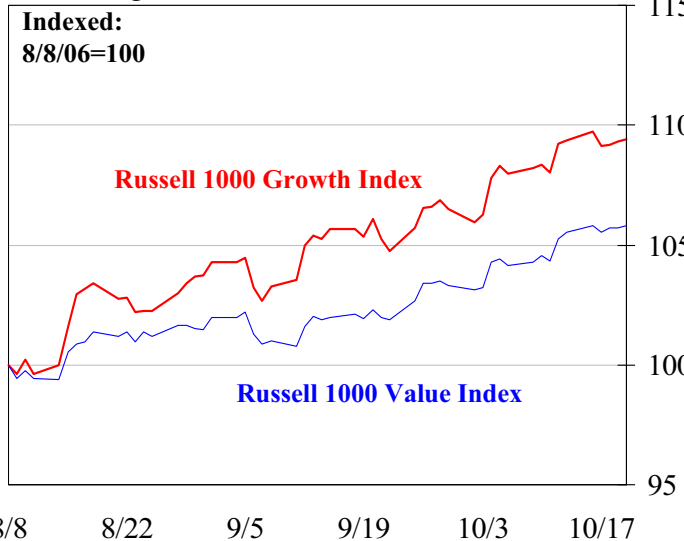
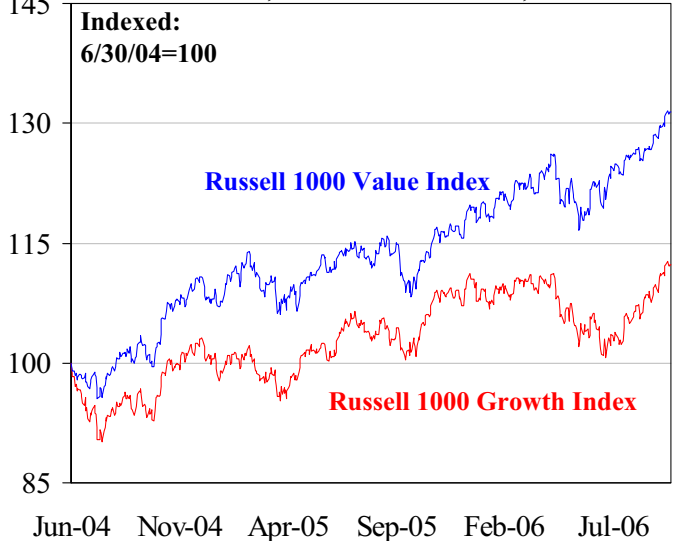
Index January 2, 2006 – October 20, 2006



Performance of Growth vs. Value Stocks
(2 Time Periods)

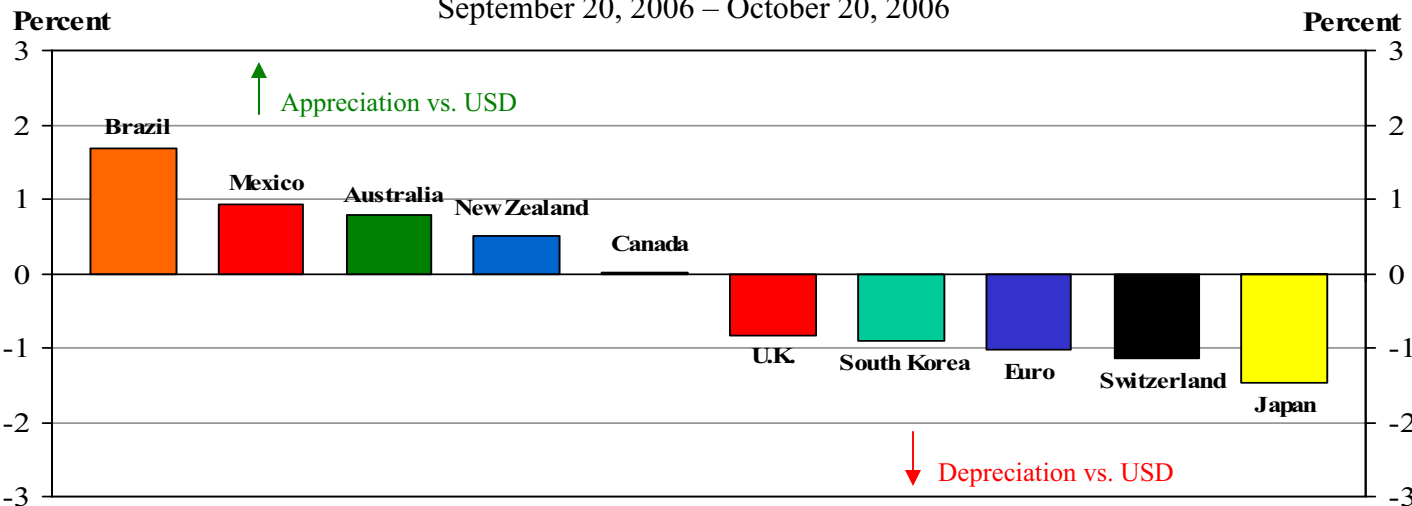
Index June 30, 2004 – October 20, 2006

Index August 8, 2006 – October 20, 2006



Select Foreign Currency Performance Against the Dollar

September 20, 2006 – October 20, 2006



Review of Domestic Portfolio Guidelines:

Investment Principles

Safety • Liquidity • Neutrality • Return

Portfolio Liquidity

- Prompt contraction of portfolio

Liquidity Need Assessment

Scenarios:

- Large-scale discount window borrowing
- FX intervention

Results:

- Refine liquidity guideline
- \$80 billion over 3 months
- \$208 billion over 1 year

Available Liquidity Tools

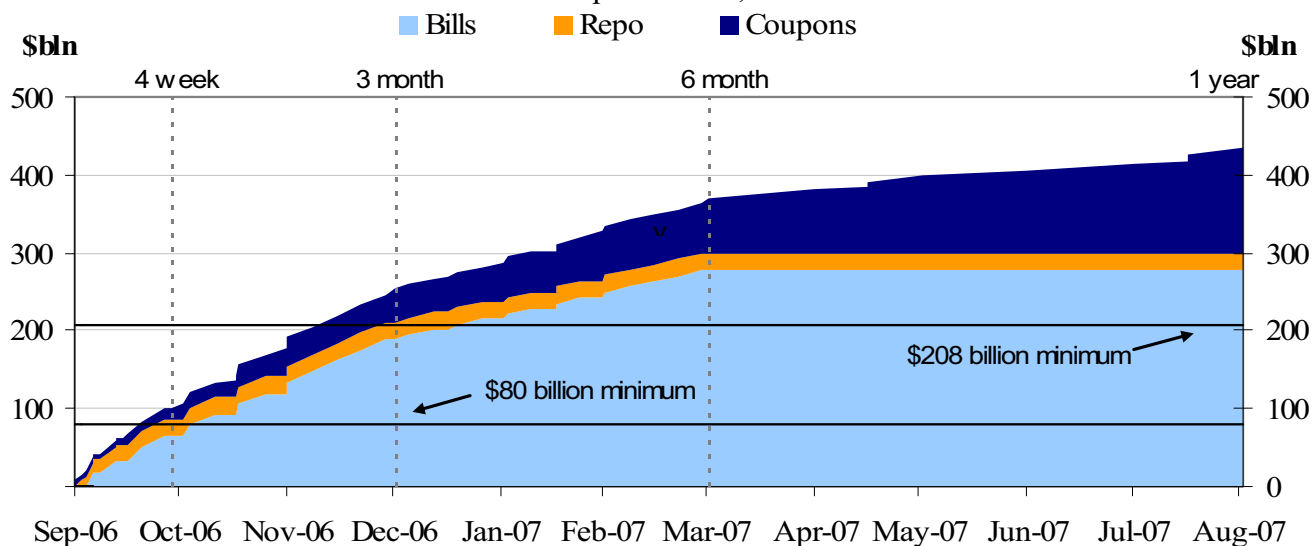
- Maturity liquidity: repo
- Maturity liquidity: securities
- Reverse repos
- Outright sales

Maturity Profile of SOMA

as of 9/29/2006		(\$blns)
Repo	0-1 weeks	18
	1-2 weeks	4
		\$22
Bills	0-3 months	197
	3-6 months	80
		\$277
Coupons	0-1 year	135
	1-2 year	110
	2-5 year	112
	5-10 year	51
	10-30 year	80
		\$488
Total Domestic Portfolio		\$786

Maturity Liquidity Profile

As of September 29, 2006



Market Neutrality

- Avoid distortion of market pricing or liquidity

Limit Structure

Conclusion:

- Revert to flat limit structure

Rationale:

- Treasury securities in ample supply
- Avoid market impact at short-end of curve
- Avoid redemptions

Impact:

- No immediate change in portfolio composition
- Alleviate operational burden

Auction Participation

Observation:

- Auction participation can be highly variable
- Dependent on Treasury auction calendar
- Fed add-on purchases add to floating supply and can impact “specialness” of an issue

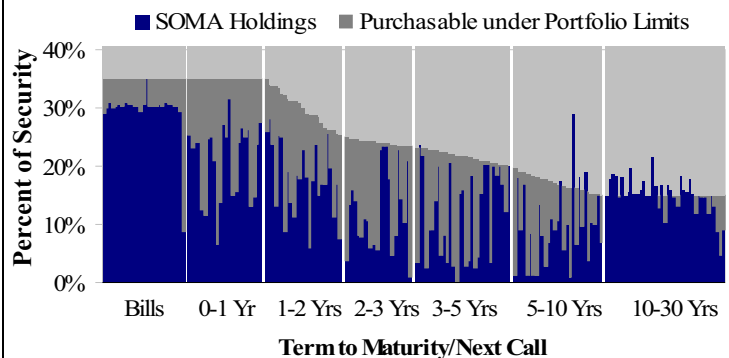
Conclusion:

- Prefer regular, consistent participation

Constraints:

- Restrictions on investment of maturing proceeds

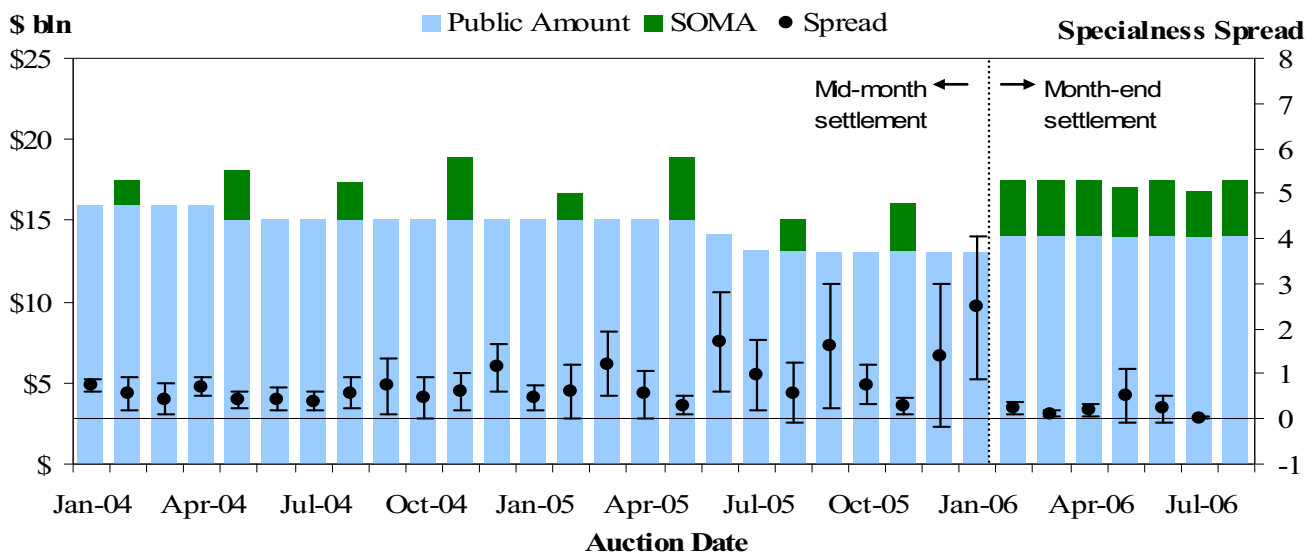
SOMA Holdings and Per Issue Limits by Security



Abbreviated Forecast SOMA Rollover Schedule

Settle Date	Maturing Holdings (\$bln)	(\$bln)		
		3-year	10-year	30-year
11/15/06	8.4	6.1	2.3	-
2/15/07	3.5	1.5	1.0	1.0
5/15/07	11.3	6.0	2.3	3.0
		2-year	5-year	20-yr TIPS
1/31/07	6.1	2.5	2.0	1.5
2/28/07	8.7	5.2	3.5	

SOMA Participation in 5-year Auction Varies Based on Settlement Date



Appendix 2: Materials used by Mr. Reinhart

Class I FOMC – Restricted Controlled (FR)

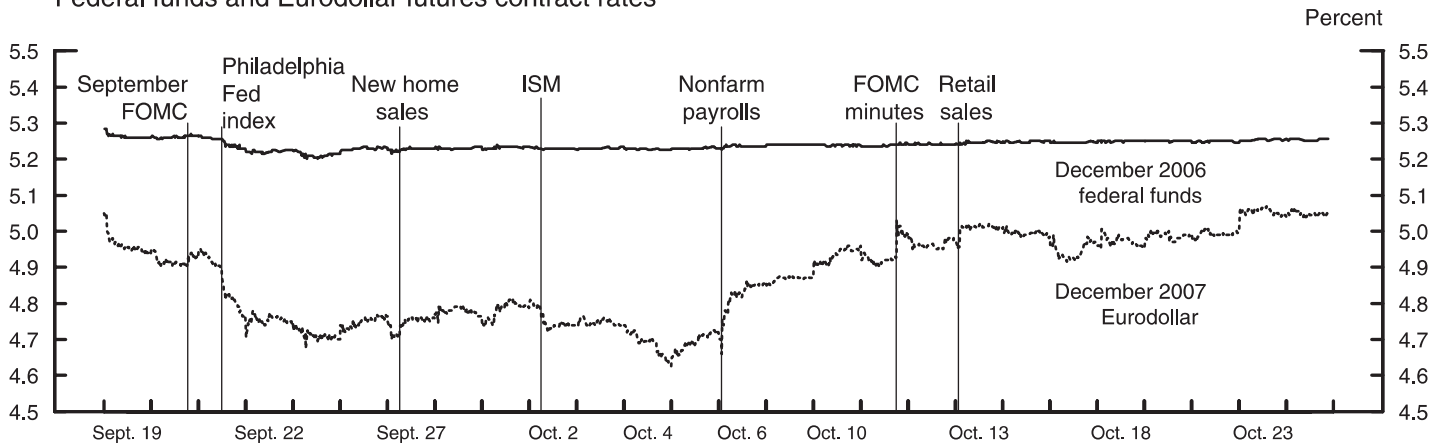
Material for

FOMC Briefing on Monetary Policy Alternatives

Vincent R. Reinhart
October 24-25, 2006

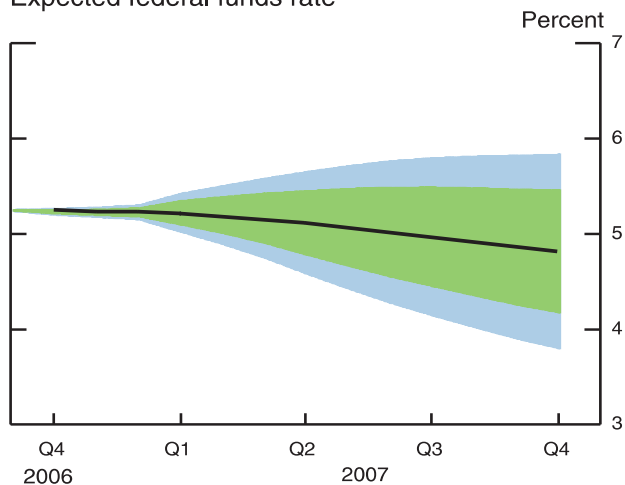
Financial Developments

Federal funds and Eurodollar futures contract rates



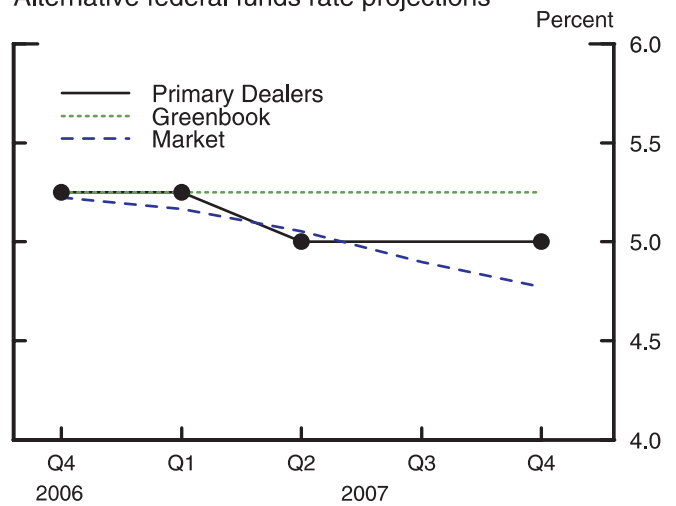
Note. 5-minute intervals. Data through 3:00 pm on October 24, 2006.

Expected federal funds rate*

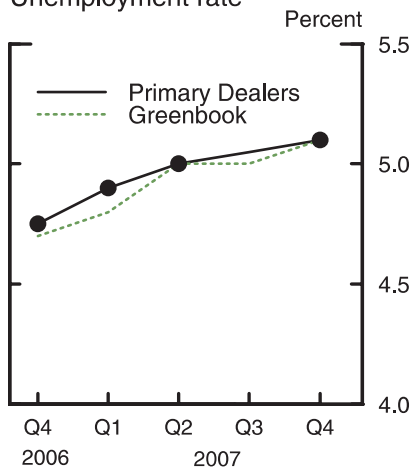


*Estimates from futures quotes. Seventy- and 90-percent confidence intervals estimated from options prices shown in green and blue, respectively. Estimated from quotes on October 23, 2006.

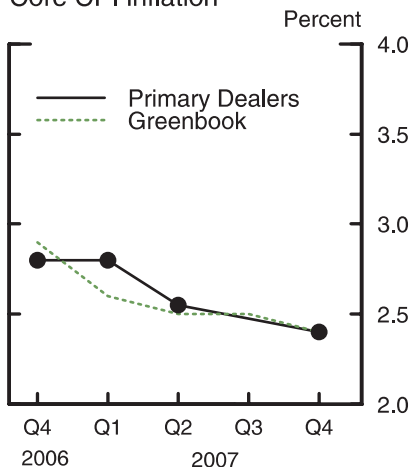
Alternative federal funds rate projections



Unemployment rate



Core CPI inflation



Real GDP growth

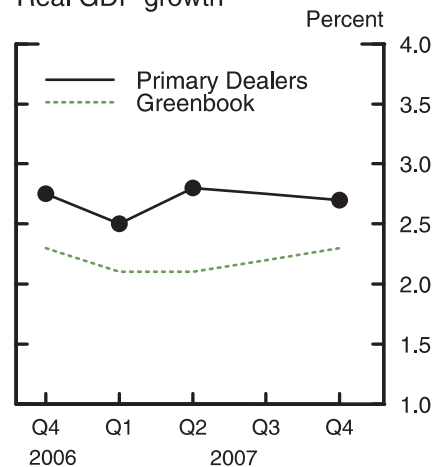
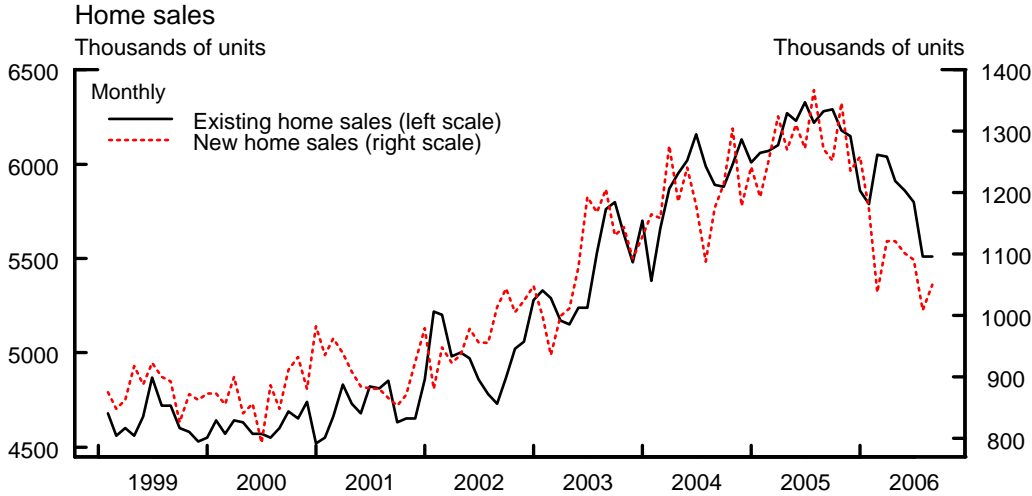
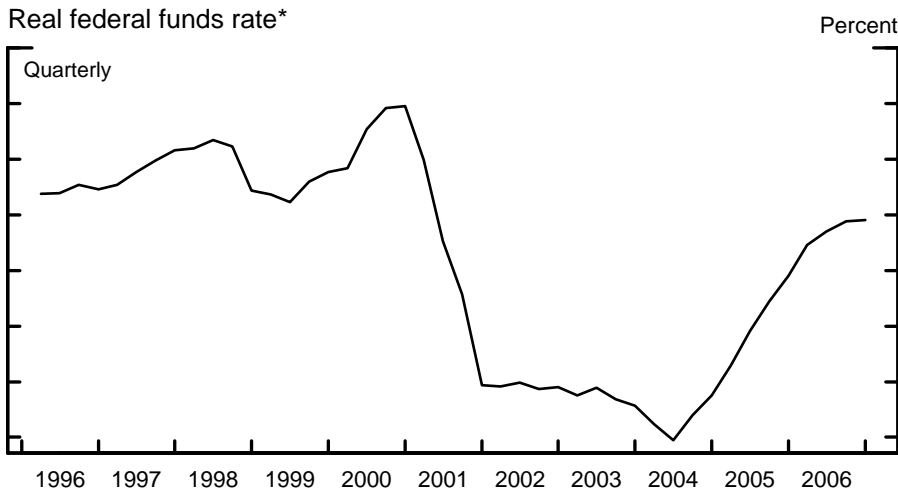


Exhibit 2
A Rorschach Test for Your Assessment of the Economy



Alternative interpretations

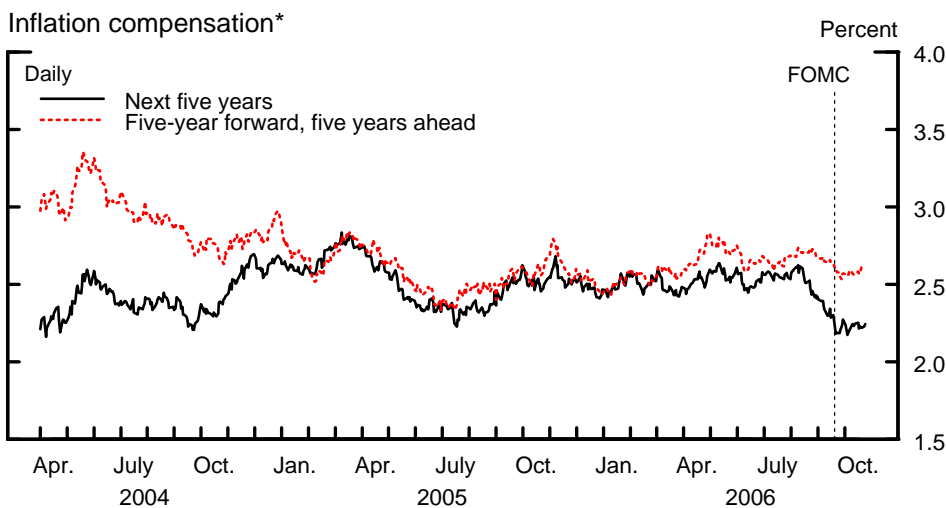
- Home sales have declined sharply and the resulting weakness is a risk to the outlook.
- Home sales appear to be bottoming out amid generally strong fundamentals.



Alternative interpretations

- Policy has tightened considerably and may now be restrictive.
- The real federal funds rate remains below its average level in the late 1990s.

*Nominal federal funds rate less the four-quarter percent change in the core PCE price index.



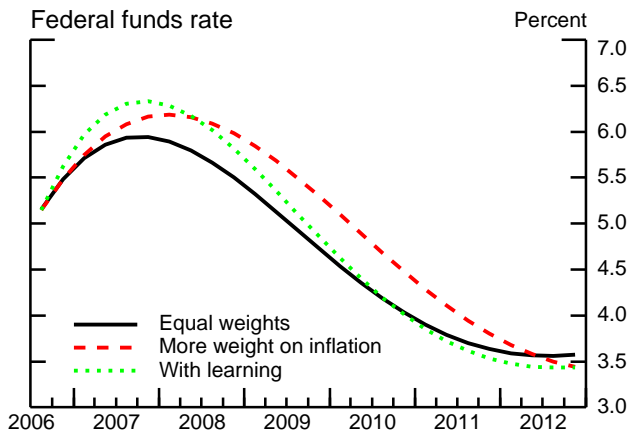
Alternative interpretations

- Inflation compensation remains contained and has declined of late at shorter horizons.
- Inflation compensation is above the range consistent with price stability.

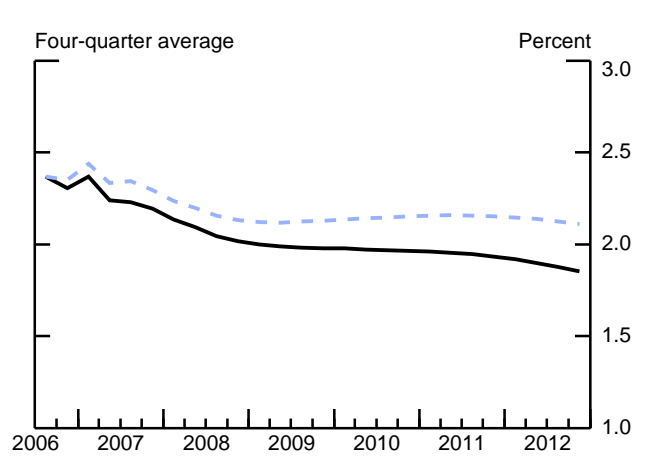
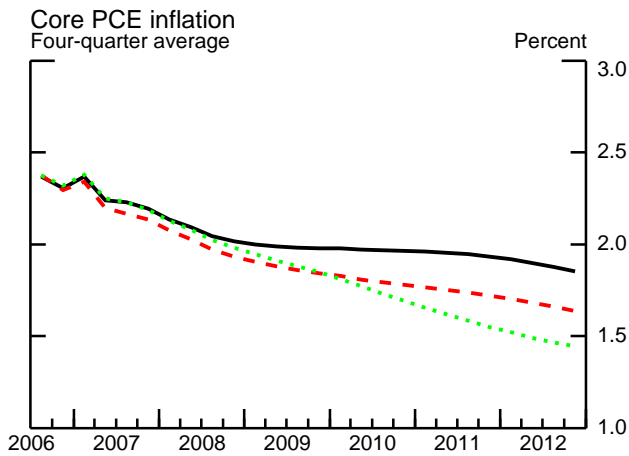
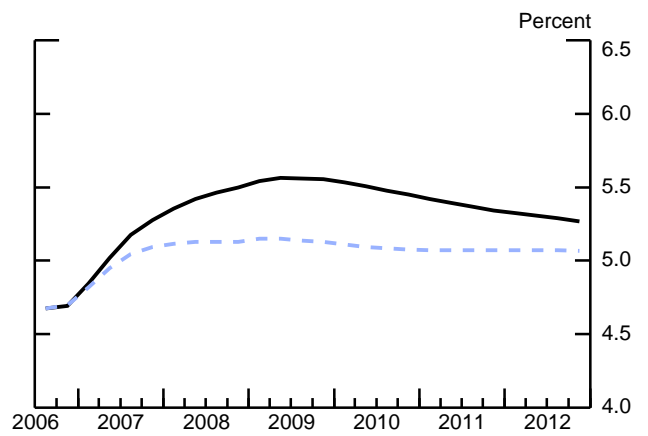
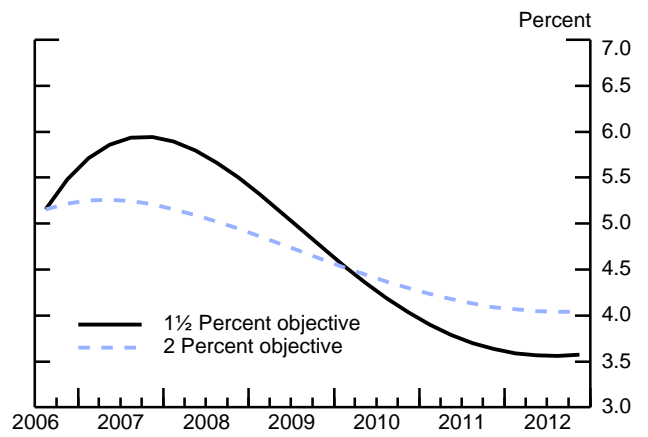
*Estimates based on smoothed nominal and inflation-indexed Treasury yield curves and adjusted for the indexation-lag (carry) effect. Data for October 24, 2006 are preliminary.

Exhibit 3 Where Do You Want to Be?

Optimal Policy with 1½ Percent Inflation Objective



Alternative Inflation Objectives (Equal weights)



**Exhibit 4
Statement Alternatives**

Rationale

<ul style="list-style-type: none"> In every alternative: Economic growth appears to have slowed further in the third quarter, partly reflecting a cooling of the housing market. 	<ul style="list-style-type: none"> In Alternative A: Readings on core inflation have been elevated, and the high levels of resource utilization and of the prices of energy and other commodities have has the potential to sustain inflation pressures.
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Assessment of risk

Alternative	Possible Effect	Target Rate	Assessment of Risk
A	Ratify expectations of easing	Unchanged	In these circumstances, future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.
B	Leave expectations about unchanged	Unchanged	Nonetheless, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.
B+	Emphasize tightening is more likely than easing	Unchanged	Although the Committee both seeks and expects a gradual reduction in inflation, it continues to view the risks to that outcome as remaining to the upside. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.
C	Impose additional restraint	+25 basis points	Although the Committee both seeks and expects a gradual reduction in inflation, it continues to view the risks to that outcome as remaining to the upside. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.

Table 1: Alternative Language for the October FOMC Announcement

	September FOMC	Alternative A	Alternative B	Alternative C
Policy Decision	1. The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 5½ percent.
Rationale	2. The moderation in economic growth appears to be continuing, partly reflecting a cooling of the housing market.	Economic growth appears to have slowed further in the third quarter, partly reflecting a cooling of the housing market. Although there is a risk that the slowdown in economic growth may become more pronounced, the economy seems likely to expand at a moderate pace.	Economic growth appears to have slowed further in the third quarter, partly reflecting a cooling of the housing market. Going forward, the economy seems likely to expand at a moderate pace.	Economic growth appears to have slowed further in the third quarter, partly reflecting a cooling of the housing market. Going forward, the economy seems likely to expand at a moderate pace.
	3. Readings on core inflation have been elevated, and the high levels of resource utilization and of the prices of energy and other commodities have the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.	Readings on core inflation have been elevated, and the high level of resource utilization has the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.	[Unchanged]	Readings on core inflation have been elevated and the high levels of resource utilization and of the prices of energy and other commodities have the potential to sustain inflation pressures. Inflation pressures seem likely to moderate over time, but the extent and speed of that moderation is uncertain. In these circumstances, the Committee believed that an additional firming of policy was appropriate to bolster progress towards achieving price stability.
Assessment of Risk	4. Nonetheless, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.	In these circumstances, future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.	[Unchanged]	Although the Committee both seeks and expects a gradual reduction in inflation, it continues to view the risks to that outcome as remaining to the upside. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.