A Century of SERVICE

A Look Back at the Federal Reserve Bank of Chicago

2013 Federal Reserve Bank of Chicago Annual Report

Table of Contents

Letter from the President	1
The Economy and Monetary Policy in 2013	2
Chicago Fed Highlights of 2013	4
Financial Stability and Monetary Policy	6
A National Payment System	10
A Century of Service: A Look Back at the Federal Reserve Bank of Chicago	12
Directors	22
Executive Committee	26
Executive Officers	28
Executive Changes	29
Advisory Councils	30
Operations Volumes	32
Financial Reports	33

Cover Photo: Kaufmann and Fabry Co. Photo

Former Federal Reserve Chairman Ben S. Bernanke (center) with (left to right) Board of Directors Deputy Chairman Gregory Q. Brown, Chairman and Chief Executive Officer of Schaumburg, Ill.-based Motorola Solutions, Inc.; Board of Directors Chairman Jeffrey A. Joerres, Chairman and Chief Executive Officer of Milwaukee-based ManpowerGroup; Federal Reserve Bank of Chicago President Charles L. Evans, and Federal Reserve Bank of Chicago First Vice President Gordon Werkema.

Letter from the President

At the end of 2013, we celebrated the 100th anniversary of the signing of the Federal Reserve Act. In addition to that, a second important anniversary arrives this year – the centennial on November 16 of the Federal Reserve Bank of Chicago's first day of operation. In recognition of these anniversaries, this annual report is titled "A Century of Service" and features a photo essay of nostalgic bank images.

It's hard to look at these photos on pages 13 through 21 and not think about how much has changed over the years. Our hope, however, is that you will also discover how much remains the same: our sense of purpose, our commitment to a strong and stable economy and payment system, and our dedication to public service. This is a legacy forged over the last 100 years.

The people who have created that legacy are our very talented staff members, both past and present. I salute them for their efforts over the years. Also important are the contributions of our past and present directors, whose guidance has been invaluable.

I would especially like to recognize the directors who left our boards at the end of 2013. One is Detroit board member Carl T. Camden, president and chief executive officer of Kelly Services, Inc., in Troy, Michigan, whose service included two years as chairman. The other is Mark Hewitt, president and chief executive officer of Clear Lake Bank & Trust Company in Clear Lake, Iowa. I would also be remiss if I did not mention the departure earlier this year of Federal Reserve Chairman Ben Bernanke. Ben contributed greatly during his many years of service. His experience and intellect will be missed. I firmly believe he was the right person in the right job at the right time to direct our response to the Financial Crisis. Fortunately, we are in excellent hands with our new chair, Janet Yellen. She also brings a wide range of experience and knowledge to the position, and I look forward to continuing to work with her.

In addition to the photo essay in this report, you will find an excerpt from a speech I gave recently about how as a policymaker I approach the juxtaposition of our monetary policy and financial stability objectives. I hope you find this information useful and interesting as we start a new "century of service" promoting a strong and stable economy.

Charles L. Evans

Charles L. Evans
President and Chief Executive Officer
April 1, 2014

The Economy & Monetary Policy in 2013*

The U.S. economy grew moderately over 2013 as a whole. Real gross domestic product (GDP) rose 2.6 percent, up from a 2 percent increase in 2012. The unemployment rate fell about 1 percentage point; still, at 6.7 percent, the rate in early 2014 remains above its longer-run normal level. Inflation was significantly below the Federal Open Market Committee's (FOMC) target of 2 percent for all of 2013, with the Personal Consumption Expenditures (PCE) price index ending the year 1 percent higher than at the end of 2012 and core PCE inflation (excluding volatile food and energy prices) up 1.2 percent.

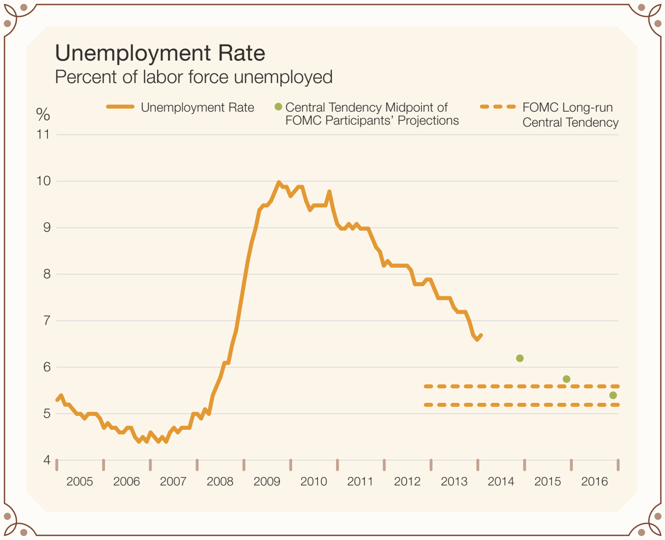
With the improvement in labor markets, the FOMC reduced the pace at which it is buying long-term mortgage-backed and Treasury securities in its large-scale asset purchase program at its December 2013 and January and March 2014 meetings. Nonetheless, with labor markets still not fully recovered from the recession and inflation running significantly below its target, the FOMC has stated that it anticipates highly accommodative monetary policy will remain appropriate for a considerable time after its asset purchase program ends.

A major component of this policy continues to be the forward guidance provided by the Committee on future federal funds rates. The FOMC has stated that it will take a balanced approach in determining appropriate policy consistent with its longer-run goals of maximum employment and inflation of 2 percent and consider a wide range of information in its assessment of progress toward its objectives, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. According to the median expectation of the FOMC members, the first increase in the federal funds rate is not likely to occur until sometime in 2015.

Based on FOMC participants' assessments of appropriate policy, the central tendency midpoint of the FOMC forecasts made in March 2014 looked for real GDP growth to pick up to around 3 percent over the 2014-16 period. The unemployment rate is projected to trend down further, coming within range of its longer-run normal level by the end of 2016. The FOMC also projected that inflation would move up, coming close to its target of 2 percent in 2016.

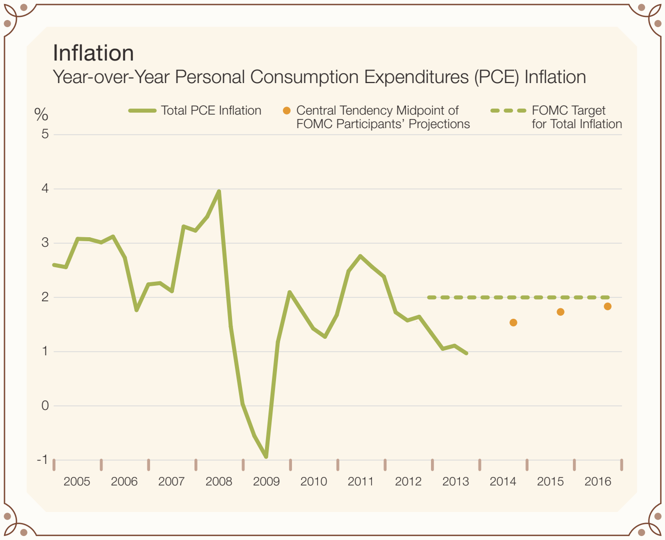
THE ECONOMY

The U.S. economy began 2013 sluggishly. However, an encouraging acceleration in activity took place in the second half of the year. While some of the increase can be attributed to transitory inventory



As of the March 18-19, 2014 meeting, the FOMC expected that the unemployment rate will trend down to a range consistent with the maximum employment mandate of the Fed by 2016.

***Source:** Haver Analytics and the Minutes of the Federal Open Market Committee.*



As of the March 18-19, 2014 meeting, the FOMC expected inflation to be below 2 percent in the near term, rising toward its mandate-consistent level by 2016.

***Source:** Haver Analytics and the Minutes of the Federal Open Market Committee.*

investment, final demand also increased, led by net exports and personal consumption expenditures. Household balance sheets benefited from rising equity and home prices in 2013; and demand for durable goods remained strong, with the pace of light vehicle sales reaching its highest level since 2007. Expenditures on nondurable goods and services also increased in the latter half of the year. Residential investment grew at a healthy rate over the first three quarters of 2013, but fell later in the year as higher mortgage rates dampened activity.

Declining federal government purchases restrained growth throughout the year, reducing real GDP growth by half a percentage point in 2013. Business investment was soft early on, but picked up later in the year. For 2013 as a whole, investment in equipment and intellectual property grew at about the same moderate pace as in 2012, while investment in structures contracted slightly.

The labor market continued to show steady improvement, as total nonfarm payroll gains averaged 194,000 per month in 2013, up from 186,000 in 2012. However, payrolls are still below their cyclical peak reached in January 2008. Long-term unemployment also remains elevated, and labor force attachment continued its long-running decline in 2013, with the labor force participation rate falling eight-tenths of a percentage point over the year.

MONETARY POLICY

With employment and inflation running persistently below their longer-run goals, the FOMC maintained an accommodative stance for policy in 2013. The federal funds rate was unchanged throughout the year, and the large-scale asset purchases initiated in late 2012 continued at a pace of $85 billion per month throughout 2013. However, in light of the substantial improvement in labor markets since the program began in 2012, the FOMC decided to reduce the pace of purchases by $10 billion per month at each of its December 2013 and January and March 2014 meetings.

With the unemployment rate nearing 6-1/2 percent, the Committee at its March 2014 meeting also updated its forward guidance regarding the timing of the first potential increase in the federal funds rate. The FOMC noted that it anticipated it will likely be appropriate continuing the current target range for the federal funds rate for a considerable time after the asset purchase program ends, especially if projected inflation remains below the Committee's 2 percent longer-run goal and longer-term inflation expectations remain well anchored. The Committee also indicated it currently anticipates that even when unemployment and inflation approach mandate-consistent levels, economic conditions likely will warrant keeping rates below their normal long-run levels for some time.

**Data current as of March 28, 2014.*

Chicago Fed Highlights of 2013

Federal Reserve senior leaders take a moment to celebrate their victory in a team-building exercise at a professional development conference.

The Federal Reserve Bank of Chicago commemorates 100 years of service with a window display of nostalgic photos.

FORMULATING MONETARY POLICY

- Participated in meetings of the Federal Open Market Committee, the group headed by Janet Yellen that formulates national monetary policy.

CONDUCTING ECONOMIC RESEARCH

- Researched and analyzed important topics including national and regional economic policy, the dramatic decline in the labor force since 2008, the Fed's role as a liquidity backstop provider, and the insurance and payments industries.
- Studied state and local government policies, including the impact of the city of Detroit's bankruptcy filing on financial markets.
- Provided expertise on high-speed trading risk controls and electronic market infrastructure and analyzed the impact of insurance companies on financial stability.

SUPERVISING AND REGULATING BANKS

- Exceeded all supervisory mandates and expectations for timeliness in conducting examinations and delivering supervisory reports.
- Participated in implementation efforts surrounding recent supervisory guidance on the consolidated supervision of large financial institutions.
- Continued to house the Federal Reserve System's Wholesale Credit Risk Center to support DFA capital stress testing requirements and monitor large financial institutions' wholesale lending activities.
- Contributed to System efforts to implement supervisory programs required by DFA, such as savings and loan holding company oversight.
- Continued to promote the mission of the Financial Markets Utilities group, which works with primary regulators to advance supervision of these designated entities.

PROVIDING CENTRAL BANK SERVICES

- Selected to process the Capital Assessment and Stress Testing data and System Risk Report on behalf of the System.
- Worked with the Board and the Federal Reserve Bank of New York to manage, monitor and create formal procedures for systemically important Financial Market Utilities.

FOSTERING GOOD CUSTOMER RELATIONS AND SUPPORT

- Met critical objectives, exceeded FedLine revenue targets, and

The new $100 bill, released on Oct. 8, 2013, incorporates state-of-the art security features that make it harder to counterfeit and easier to tell if it is real.

Ruben Trujillo (center) discusses money management and financial aid for college with Chicago high school students during a Money Smart Week event in April.

completed the FedLine User Authentication Enhancement project, providing subscribers with a stronger security–authentication process.

- Led the System-wide efforts to gain feedback on the new Federal Reserve Financial Services strategic direction.

FOSTERING COMMUNITY DEVELOPMENT AND STUDYING POLICY

- Studied community and economic development issues, including trends affecting low- to moderate-income communities.
- Conducted a survey of Chicago small business intermediaries to better understand their perceptions of the economic and business climate, as well as surveyed Detroit small business owners about the importance of networks for obtaining financing, sharing information, and getting technical assistance and advice.

CARRYING OUT CURRENCY RESPONSIBILITIES

- Facilitated the release of the new $100 note and provided contingency storage to meet System-wide inventory needs.

PROMOTING DIVERSITY AND INCLUSION

- Continued to provide key leadership to national diversity recruitment and national diversity supplier programs.
- Conducted diversity and inclusion training for all people leaders in the organization.
- Endorsed a Financial Services Industry pipeline initiative designed to increase the representation of Latinos and African-Americans in the financial services industry.

FOSTERING PARTNERSHIPS

- Participated in or led numerous System-level committees and workgroups.

OTHER

- Achieved all operational goals and met budget targets by prioritizing initiatives and investments that maximized resources and operational efficiencies.
- Commemorated the 100th anniversary of the signing of the Federal Reserve Act.
- Continued to coordinate and grow Money Smart Week, with more than 3,200 free financial education classes offered in more than 35 states. Classes were attended by more than 134,000 consumer participants and hosted by partner organizations including financial institutions, universities, government agencies, community groups and libraries.

Charles L. Evans, President and Chief Executive Officer of the Federal Reserve Bank of Chicago.

Financial Stability and Monetary Policy

*The following is an excerpt from a speech given by Federal Reserve Bank of Chicago President and Chief Executive Officer Charles L. Evans to a gathering of the Detroit Economic Club on February 4, 2014.**

It is easy and most natural for a Fed policymaker to talk about inflation. Price stability is one of the explicit goals of monetary policy as mandated by the U.S. Congress. Financial stability risks are more complicated. How does financial stability dovetail with the Fed's dual mandate? There is clearly an interdependent relationship between them. A strong economy with low inflation provides a key stabilizing force for beneficial credit intermediation and robust financial market functioning. At the same time, stable and well-functioning financial markets are essential for achieving maximum employment and price stability. The global experience since 2008 reinforces this critical interplay between monetary and financial conditions.

However, beyond these basic principles, what is the appropriate monetary policy stance for achieving both financial stability and the dual mandate of maximum employment and price stability?

With inflation running well below our 2 percent longer-run target and the unemployment rate still well above its normal long-term level, appropriate monetary policy dictates that low real interest rates should prevail until the economy is further along a sustainable path to its potential level and inflation is closer to target. Nonetheless, it is common to hear the argument that these highly accommodative monetary policies might sow the seeds of financial instability.

The fear is that excessive and persistently low interest rates would lead to excessive risk-taking by some investors. For instance, some firms, such as life insurance companies and pension funds, are under pressure to meet a stream of fixed liabilities incurred when interest rates were higher.[1] (And perhaps these liabilities were offered at somewhat generous terms to begin with.) To meet commitments like these in the current low interest rate environment, some firms have an incentive to reach for yield by investing in excessively risky assets. Furthermore, with the costs of borrowing at historically low levels, other investors might simply decide that this is a good time to cheaply amplify the risk and return in their portfolios by taking on more leverage.

One could reach the conclusion that historically low and stable interest rates pose a threat to financial stability. This creates a seeming paradox for policymakers. On the one hand, the existing large shortfalls in aggregate demand call for highly accommodative

[1] *I should note that increases in interest rates since last spring have increased discount factors and thus lowered the present value of pension fund and other fixed nominal liabilities. For instance, see Fitch Ratings, 2013, "Fitch: U.S. corporate pension plans underfunded status improves," press release, New York, August 15, available at* https://www.fitchratings.com/web/en/dynamic/fitch-home.jsp.

**Text updated to reflect recent monetary policy developments.*

monetary policies and historically low interest rates. On the other hand, such policies have the potential to raise the likelihood of financial instability in the future.

So, the questions that I'm often asked regarding these matters are as follows: Do the regulators and the Fed have adequate safeguards in place to mitigate this potential financial risk? If not, should the FOMC step away from what we thought was the best monetary policy with respect to our dual mandate? Should we discard our nonconventional tools and raise the fed funds rate in order to reduce the possibility of undesirable financial imbalances in the future?

I don't believe that such monetary policy adjustment is the right approach. I think the inference that persistently low interest rates pose a danger to financial stability is based on a narrow view of the economy. This narrow view is unlikely to survive a broader analysis that takes into account all the interactions between financial markets and real economic activity.

If more restrictive monetary policies were pursued to generate higher interest rates, they would likely result in higher unemployment and a sharp decline in asset prices, choking the moderate recovery. Such an adverse economic outcome is unlikely to set a favorable foundation for financial stability. Moreover, our short-term interest rate tools are too blunt to have a significant effect only on those pockets of the financial system that are most prone to inappropriate risk-taking. At the same time, these blunt tools could significantly damage other markets, as well as the growth prospects for the economy as a whole. Therefore, stepping away from otherwise appropriate monetary policy to address potential financial instability risks would degrade progress toward maximum employment and price stability. This approach would be a particularly poor choice when other tools are available, at lower social costs, to address the risk of financial instability.

"…I am saying that the macroprudential tools available to policymakers are better-suited safeguards to addressing financial risks directly."

Let me be clear. I am not saying that financial stability concerns are not relevant for the economy or that policymakers should not take decisive action against developments that threaten financial stability. Rather, I am saying that the macroprudential tools available to policymakers are better-suited safeguards to addressing financial risks directly. These macroprudential actions can be dialed up or down given the appropriate setting of monetary policy tools; so, undesirable macroeconomic outcomes are less likely than if we were to resort to premature monetary tightening. Indeed, any decision to instead rely on more-restrictive interest rate policies to achieve financial stability at the expense of poorer macroeconomic outcomes must pass a cost–benefit test. And such a test would have to clearly illustrate that the adverse economic outcomes from more-restrictive interest rate policies would be better and more acceptable to society than the outcomes that can be achieved by using enhanced supervisory tools alone to address financial stability risks. I have yet to see this argued convincingly.

Let's discuss some of these macroprudential tools.

One simple but important tool is enhanced monitoring. Even before the recent financial crisis, central bankers were well aware of the key role played by stable financial markets in economic activity. Since the crisis, however, the analysis of financial stability issues has been greatly expanded and given a more prominent role in the FOMC's deliberations. We comb through reams of data looking for evidence of incipient risks to financial stability.

The Federal Reserve also has revamped its approach to bank supervision substantially to expand the focus on macrofinancial risks. Traditional bank supervisory tools are being used more intensively, and new tools have been developed. Bank capital stress tests are one well-known addition to our supervisory toolkit. Another is the augmentation of traditional microprudential supervisory work that analyzes individual institutions with efforts that take a wide-angle view of the banking industry. Supervisors look to identify common trends across institutions and emerging concentrations of risks that might pose systemic threats to the financial system. This broad view also allows supervisors to better identify sound practices among firms and incorporate them into supervisory reviews and the feedback provided in them.

The Federal Reserve also has greatly expanded its surveillance efforts to financial markets outside of the traditional banking sector, such as the insurance industry and financial market utilities. These efforts are not confined to financial institutions per se, and reach a range of activities that might pose a potential threat to financial stability. For instance, staff members from the Chicago Fed are actively engaged in assessing the role of high-frequency computerized trading in securities and derivatives markets and associated risks that might arise with it.

These are just a few examples of regulatory tools available to monitor and promote financial stability. And there are a host of other instruments in our toolkit, such as resolution plans, liquidity requirements and single counterparty credit limits. All are examples of improvements in supervisory practices aimed at reducing the likelihood of systemic disruptions and containing the impact should such disruptions occur.

To reiterate, I currently expect that low inflation and still-high unemployment will mean that the short-term policy rate will remain near zero well into 2015. In this environment, some have questioned the ability of our supervisory and regulatory tools to adequately address potential financial instability risks. They argue that a broad tightening of interest rate policy might be more effective in catching incipient risks that might fall through the cracks. It is certainly true that higher interest rates would permeate the entire financial system. But this is just another way of saying that raising interest rates is a blunt tool. Higher interest rates would reduce risk-taking where it is excessive; but they also would result in a pullback in economic activity in sectors where risk-taking might already be overly restrained. That's how a blunt tool works.

If you believe that financial stability can only be achieved through higher interest rates — interest rates that would do immediate damage to meeting our dual mandate goals at a time when unemployment is still unacceptably high — then we ought to at least ask ourselves if the financial system has become too big and too complex.

Think about how problematic the cost-benefit calculus becomes if the only way we can achieve financial stability is to raise interest rates above the level where the forces of demand and supply in the real economy put them. The possible benefit of such a restrictive rate move would be to reduce risks that might be forming in the nooks and crannies of a highly complex financial system. But the costs would be 1) higher unemployment; 2) a risk of choking off the economic recovery; 3) even lower inflation below our objective; and, somewhat paradoxically, 4) the introduction of new financial risks by reducing asset values and credit quality. Given such cost-benefit trade-offs, I would have to question whether the financial system has become too complex — perhaps complex enough to generate negative social value. Rather than degrading our macroeconomic performance through suboptimal monetary policies, I would have to consider whether we should contemplate big changes to the financial system — a lot more rules, substantially higher capital requirements for all institutions and maybe even fewer financial products.

However, I have a more favorable view of the social value of our financial system and the efficacy of supervision and regulation. Since the financial crisis, the Federal Reserve has expanded its macroprudential toolkit and enhanced its microprudential tools. We have also reoriented our approach to supervision to take full advantage of the Federal Reserve System's wide-ranging expertise on macroeconomic and financial developments and risks.

I believe that these regulatory efforts can effectively minimize the risks of another crisis and increase the resiliency of the financial system. We can achieve these objectives without having to resort to wholesale changes to the financial system and without degrading our monetary policy goals. Maintaining the effectiveness of the financial system for generating more-robust economic growth continues to be a crucial objective for public policy.

A National Payment System

Celebrating the Past and Looking Forward to the Next 100 Years

By ***Gordon Werkema****, First Vice President and Chief Operating Officer*

This year marks our 100th anniversary of operating the nation's payment system – one that touches nearly every depository institution in the country. In 1914 the newly established regional Reserve Banks started providing to member banks a national network of check-clearing services where checks would clear at face value. This improved what had been a complex and inefficient payment system, one operated mostly by private-sector parties. This national network formed the foundation for the work we do today.

For more than a century, the Fed has been fulfilling its mission to foster the integrity, efficiency and accessibility of the U.S. payments system. In this role, we act as both a service provider and a leader. We foster the evolution of the payments system by collaborating as a thought leader with industry participants and stakeholders. As we reflect on 100 years of service, what's remarkable is not only the stability and ubiquity of a payment system that began a century ago, but also how time and time again we have addressed its evolving needs.

As an example, in the 1970s, when the number of paper checks grew so rapidly that concerns rose about whether volume might overwhelm processing capability, the Reserve Banks offered depository institutions the computer systems necessary to process routine payments electronically. What resulted was the automated clearing house (ACH), which today is the nation's largest general purpose payment system.* Over the years, Reserve Banks have also collaborated with the industry to improve the efficiency of check collection. This started with improvements to speed up funds availability and then led to innovations such as the development of magnetic character ink recognition as well as high-speed processing equipment. The collaboration continued with what has probably been the most significant improvement to the payment system – the shift from paper check clearing to digital images. Check imaging has reduced processing costs dramatically for both Reserve Banks and depository institutions and has hastened the speed of collection time, to the dramatic benefit of end users.

Looking forward, the need to improve the payment system continues to confront us. Our task is to meet the challenges and opportunities of digital commerce. Traditional payment systems operate effectively and at low cost and may continue to be needed for certain types of payments. However, end users of payments are increasingly demanding real-time transactional and informational features with global commerce capabilities. The problem is that today's payment system is not universally fast or efficient. At best, it currently takes a day to settle a payment made by check or ACH. In a society where many transactions are instantaneous, overnight clearing seems untenable. The challenge for the industry, and for us, is to provide a future payment system that combines the valued attributes of legacy systems with new technology enabling faster processing, enhanced convenience, and the extraction and use of valuable information. At the same time, the public must remain confident about the safety of the system. As a strong industry participant, the Federal Reserve Banks and others must continue to foster innovation while promoting the security of payments from end-to-end amid rapidly changing technology and evolving threats.

To begin to address these issues, the governing body of Federal Reserve Bank payment services issued a public consultation paper in 2013 articulating desired outcomes for the future environment. The paper's goal was to understand key areas where the U.S. payments system could become safer, more accessible, faster and more efficient for end users. It also took into consideration the Fed's role in implementing these changes.

In the course of this work, the Chicago Reserve Bank continued to play a critical role. We worked closely with our many partners, actively led research efforts and collaborated with traditional and non-traditional payment participants regarding changes in the payment environment. The Chicago Fed also hosted another successful Payments Symposium in 2013, in which key industry leaders gathered to offer their perspectives on desired outcomes for the industry. The symposium has gained a reputation in recent years as the leading conference in the country for the payment industry. We look forward to hosting the fourteenth edition of this annual symposium in September of this year.

In summary, 2013 was the year of gaining input on the appropriate next steps for the Federal Reserve Banks and what their role should be in improving the payment system for the digital age. Although we are still in the process of mapping out the future, one thing we are certain about is that the Federal Reserve, including the Federal Reserve Bank of Chicago, will continue to fulfill its century-long mission of improving the efficiency and accessibility of the nation's payment system.

Contributing to the development of this essay were Kirstin Wells, vice president in the Bank's Risk Management group; Mike Hoppe, vice president in the Customer Relations and Support Office (CRSO); and Ellen Bromagen, CRSO Executive President.

**As measured by the dollar value of money that is cleared and settled on ACH networks.*

Kaufmann and Fabry Co. Photo

The Chicago Fed's grand entry stairway in the early days. A gun turret is visible in the background. This stairway was removed in 1988 during a comprehensive renovation of the Bank's interior.

A Century of SERVICE

A Look Back at the Federal Reserve Bank of Chicago

In December of 1913, President Woodrow Wilson signed legislation creating the Federal Reserve System. The new law called for the creation of between eight and 12 regional Reserve Banks that – together with the Board of Governors in Washington – would form the central bank of the United States.

Almost a year later, the Federal Reserve Bank of Chicago – along with the other 11 regional Reserve Banks – opened for business. It was November 16, 1914. One of the Bank's original employees later described the scene: "After less than three weeks of preparation...some place to hang your hat and coat — a few desks and stools...the message from Washington [arrived], 'All ready — get set' and Governor McDougal's happy smile and hearty handshake and then, 'We're off' — the roar of flashlights to the click of the newspaper cameras..."[1]

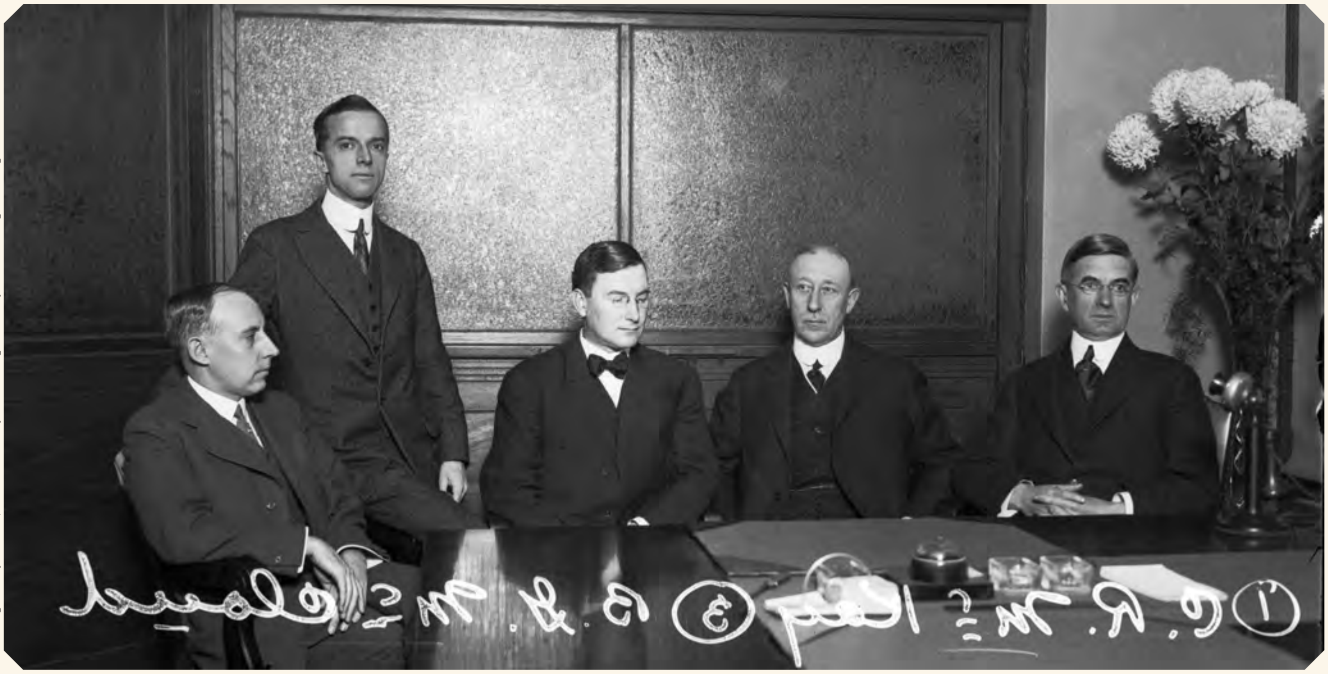
While the Bank and its 41 employees were ready to carry out their appointed duties, exactly what these duties would be was to some extent unclear. Congress passed the Federal Reserve Act to furnish "an elastic currency" and provide for effective banking supervision, among other responsibilities. The Bank's first annual report noted optimistically, if somewhat uncertainly, that the "various departments are now fully organized and equipped and in readiness for increased activities, whatever they may be."

Since that time, Federal Reserve Bank of Chicago staff members have contributed in many ways to the Fed's role as the government's fiscal agent, as a regulator of financial institutions, and as the overseer of the national payment system. The Fed also creates national monetary policy, carrying out an array of important jobs that affect the economy and the overall financial system.

On the pages that follow are a collection of nostalgic images from our past, simple reminders of "a century of service."

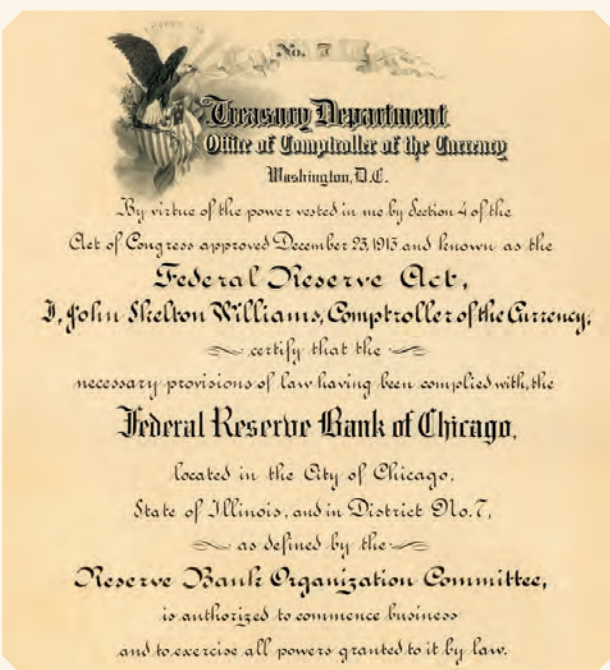
A coin dated 1914 commemorating the establishment of the Reserve Banks, including the Federal Reserve Bank of Chicago, as noted below Woodrow Wilson's image.

[1] *Federal Reserve Bank of Chicago, 1919–1931, Among Ourselves, Chicago, Various Issues.*



Chicago Daily News photo courtesy of Chicago History Museum, glass negative: DN-0063637

Some of the first leaders of the Federal Reserve Bank of Chicago gather to celebrate its opening on November 16, 1914. From left to right are Board of Directors Chairman Charles Henry Bosworth, Federal Reserve Agent and president of Chicago-based First National Bank; Charles R. McKay, Deputy Governor and manager of First National Bank; Board of Directors member W. F. McLallen; B. G. McCloud, Cashier and Assistant Secretary of the Board; and Federal Reserve Bank of Chicago Governor James B. McDougal. McDougal was the first head of the Chicago Fed and served from 1914 to 1934.



No. 7

Treasury Department
Office of Comptroller of the Currency
Washington, D.C.

By virtue of the power vested in me by Section 4 of the Act of Congress approved December 23, 1913 and known as the

Federal Reserve Act,

I, John Skelton Williams, Comptroller of the Currency,

certify that the necessary provisions of law having been complied with, the

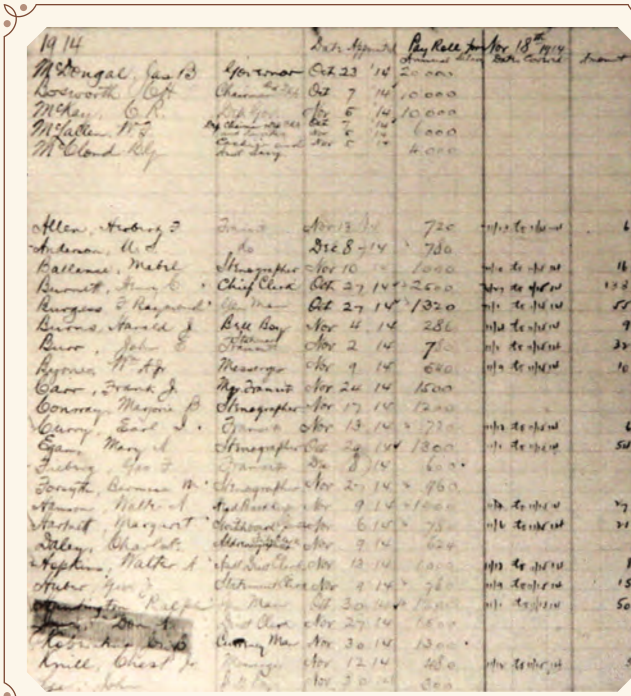
Federal Reserve Bank of Chicago,

located in the City of Chicago, State of Illinois, and in District No. 7, as defined by the

Reserve Bank Organization Committee,

is authorized to commence business and to exercise all powers granted to it by law.

The certification document from the Comptroller of the Currency authorizing the Federal Reserve Bank of Chicago to begin operations. The Chicago Fed opened for business on Monday, November 16, 1914.



1914 — Pay Roll for Nov 18th 1914

		Date Appointed		Annual Salary
McDougal, Jas B	Governor	Oct 23	'14	20 000
Bosworth, C.H.	Chairman	Oct 7	'14	10 000
McKay, C.R.	Dep Gov	Nov 5	'14	10 000
McLallen, W.F.		Oct 7	'14	6000
McCloud, B.G.	Cashier and Asst Secy	Nov 5	'14	4 000

A document listing the annual salaries of some of the original 41 employees, from $20,000 for Governor James McDougal (the first head of the Bank) to $360 for bell boy John Lee.

Federal Reserve notes were first issued in 1914 in $5, $10, $20, $50 and $100 denominations. They were redeemable in gold through 1933. There were also Federal Reserve Bank notes, which were not redeemable in gold. They debuted in 1915. They were backed by U.S. government securities held by individual Federal Reserve Banks. This $5 bill from the 1918 series includes the signature of the first head of the Federal Reserve Bank of Chicago, Governor James B. McDougal.

Clark Family Photography Collection, University of North Texas Special Collections

Currency processing underway in individual work stations.

Kaufmann and Fabry Co. Photo

Security officers stand watch over the loading of a Federal Reserve Bank of Chicago armored truck.

Kaufmann and Fabry Co. Photo

A group of security officers practice in the firing range while a supervisor keeps track of time.

Chicago Daily News photo courtesy of Chicago History Museum, glass negative: DN-0068934

Customers line up to buy Liberty Bonds in 1917 on the second floor of the Federal Reserve Bank of Chicago's Rector Building location on West Monroe Street. Chicago Fed operations were carried out at multiple downtown locations before completion of the Bank's headquarters building in 1922.

Kaufmann and Fabry Co. Photo

Employees in the Bond Department examine and record individual securities.

Kaufmann and Fabry Co. Photo

A worker weighs bags of bonds.

Employees hard at work in the check-processing department in 1987.

Commentator Staff Photographer

Fred Hager works at a book-binding machine in 1947. The machine was located in the Bank's Bindery and Old Records Department.

Kaufmann and Fabry Co. Photo

A staff member types information pertaining to fiscal agency accounts and records into a special heavy-duty typewriter.

Walter W. Peterson Photo

The cast of an employee theatrical production.

George Rentenbach Photo

The Chicago Fed softball team started practice in late March in 1949 to prepare for the May 10 opening game. The team played in the Financial League.

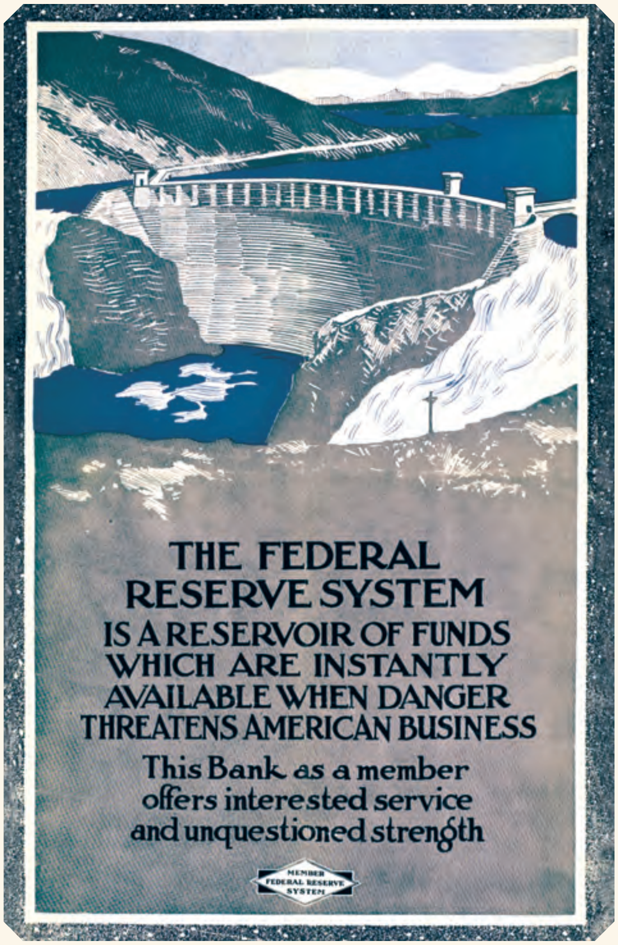
Kaufmann and Fabry Co. Photo

Currency Department staff members and their families pose for a portrait during a picnic in 1920.

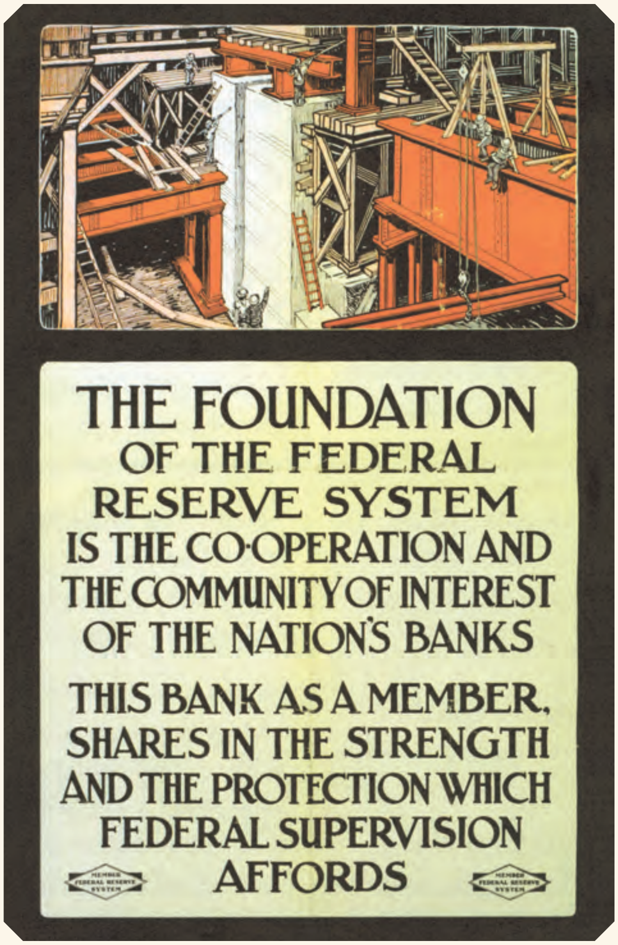
Created during World War I, this poster focuses on Illinois and advocates the purchase of War Savings Stamps, encouraging state residents to invest 10 percent of their income to help finance the war effort. The Chicago Fed was actively involved in war finance efforts.

George R. Dubois Photo

The front of the Chicago Fed festooned in ticker tape during the joyous celebration that spread throughout downtown and lasted until dawn after the announcement of the end of World War II.



Federal Reserve Bank of San Francisco



Federal Reserve Bank of San Francisco

These posters date from the mid-1920s and were intended for display by member banks, possibly including those supervised by the Federal Reserve Bank of Chicago. Low bank membership was a concern for the Federal Reserve System in its early years, and there was even a joint Congressional hearing on the subject in 1926. These posters, with their images of strength and stability, were most likely intended to reassure the public and foster confidence in member banks. By doing that, they also likely fostered confidence in the Federal Reserve System.

More Information on Our History

If you would like to learn more about the history of the Federal Reserve System, a new website has been created at www.federalreservehistory.org. Essays, pictures and videos are available on the first 100 years, as are links to additional educational resources. For more information about the history of the Federal Reserve Bank of Chicago, the site to visit is www.chicagofed.org, which features background about the early days of the bank and its operations over the years.

Board of Directors

Federal Reserve Bank of Chicago

Chairman
Jeffrey A. Joerres
Chairman and Chief Executive Officer
ManpowerGroup
Milwaukee, Wisconsin

Deputy Chairman
Greg Brown
Chairman and Chief Executive Officer
Motorola Solutions, Inc.
Schaumburg, Illinois

Nelda J. Connors
Chairwoman and Chief Executive Officer
Pine Grove Holdings, LLC
Chicago, Illinois

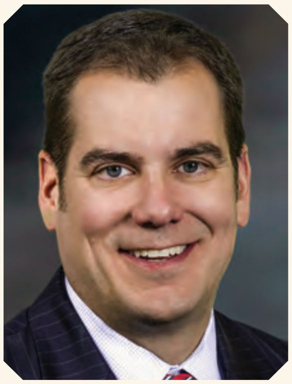
William M. Farrow III
President and Chief Executive Officer
Urban Partnership Bank
Chicago, Illinois

Mark C. Hewitt
President and Chief Executive Officer
Clear Lake Bank & Trust Company
Clear Lake, Iowa

Terry Mazany
President and Chief Executive Officer
The Chicago Community Trust
Chicago, Illinois

Jorge Ramirez
President
Chicago Federation of Labor
Chicago, Illinois

Frederick H. Waddell
Chairman and Chief Executive Officer
Northern Trust Corporation and
The Northern Trust Company
Chicago, Illinois



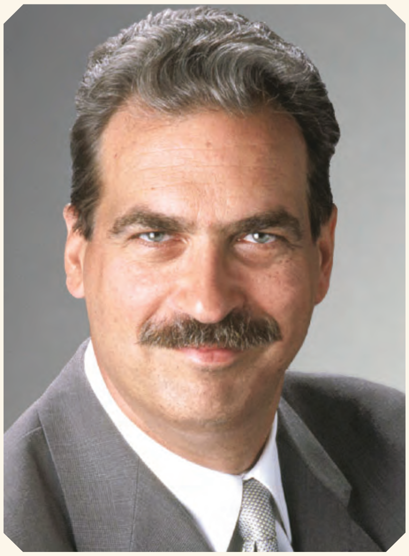
Two new directors joined the Chicago Board in 2014:

Anne Pramaggiore (left), President and Chief Executive Officer of ComEd in Chicago, Illinois, filled a vacancy.

Abram Tubbs, Chairman and Chief Executive Officer of Ohnward Bank and Trust in Cascade, Iowa, replaced **Mark C. Hewitt**.

Board of Directors

Federal Reserve Bank of Chicago – Detroit Branch



Chairman
Carl T. Camden
President and Chief Executive Officer
Kelly Services, Inc.
Troy, Michigan

Michael E. Bannister
Former Chairman and Chief Executive Officer
Ford Motor Credit Company
Dearborn, Michigan

Sheilah P. Clay
President and Chief Executive Officer
Neighborhood Service Organization
Detroit, Michigan

Susan M. Collins
Joan and Sanford Weill Dean of Public Policy
Gerald R. Ford School of Public Policy,
University of Michigan
Ann Arbor, Michigan

Fernando Ruiz
Corporate Vice President and Treasurer
The Dow Chemical Company
Midland, Michigan

Nancy M. Schlichting
Chief Executive Officer
Henry Ford Health System
Detroit, Michigan

Lou Anna K. Simon
President
Michigan State University
East Lansing, Michigan

One new director joined the Detroit Board in 2014:

Douglas W. Stotlar, President and Chief Executive Officer of Con-way Inc. in Ann Arbor, Michigan, replaced **Carl T. Camden**.

Executive Committee

Federal Reserve Bank of Chicago

Charles L. Evans
President and
Chief Executive Officer

Gordon Werkema
First Vice President and
Chief Operating Officer

Ellen Bromagen
Executive Vice President
Customer Relations and Support Office (CRSO)

Elizabeth A. Knospe
Senior Vice President and General Counsel
Legal, Board of Directors, Enterprise Strategy and Risk Management, Business Continuity, Human Resources and Internal Communications

Margaret K. Koenigs
Senior Vice President and
Chief Financial Officer
Finance

Catharine M. Lemieux
Executive Vice President
Supervision and Regulation

Jeffrey B. Marcus
Vice President and General Auditor
Internal Audit

David A. Marshall
Senior Vice President and
Associate Director of Research and
Director of Financial Markets Group

Daniel G. Sullivan
Executive Vice President and
Director of Research
Economic Research and Programs

Valerie J. Van Meter
Senior Vice President,
EEO Officer and Director of OMWI
Central Bank Services, System Leadership
Initiatives, and Office of Diversity and Inclusion

Robert G. Wiley
Senior Vice President and Branch Manager
District Operations, Administrative Services,
Law Enforcement, Detroit Branch and
Information Technology

Executive Officers

Charles L. Evans
President and
Chief Executive Officer

Gordon Werkema
First Vice President and
Chief Operating Officer

ECONOMIC RESEARCH AND PROGRAMS

Daniel G. Sullivan
Executive Vice President and
Director of Research

Spencer D. Krane
Senior Vice President and
Senior Research Advisor

David A. Marshall
Senior Vice President,
Associate Director of Research
and Director of Financial
Markets Group

Regional Economics

William A. Testa
Vice President and
Director of Regional Research

Macroeconomic Policy Research

Jonas D.M. Fisher
Vice President and Director
of Macroeconomic Research

Microeconomic Policy Research

Daniel R. Aaronson
Vice President and Director
of Microeconomic Research

Financial Markets Group

Douglas D. Evanoff
Vice President and
Senior Research Advisor

Edward J. Nosal
Vice President and
Senior Research Advisor

Anna L. Paulson
Vice President and
Director of Financial Research

Richard D. Porter
Vice President and
Senior Research Advisor

Richard A. Heckinger
Vice President and Senior
Policy Advisor

Community Development and Policy Studies

Alicia Williams
Vice President

Public Affairs

G. Douglas Tillett
Vice President

SUPERVISION AND REGULATION

Catharine M. Lemieux
Executive Vice President

Community Bank and Consumer Compliance

Julie Williams
Senior Vice President

Joe Davidson
Vice President
Consumer Compliance

Patrick Wilder
Vice President
Community Banking Organizations

Risk Specialists

Steven M. Durfey
Senior Vice President

Emily Greenwald
Vice President

Paul Huck
Vice President

Large Specialized Institutions

James Nelson
Senior Vice President

Rebecca Chmieleski
Vice President

Wendy Kallery
Vice President

Mark Kawa
Vice President

Andre Reynolds
Vice President

Department Oversight

Pamela S. Rieger
Vice President

CUSTOMER RELATIONS AND SUPPORT OFFICE (CRSO)

Gordon Werkema
Product Director

Ellen J. Bromagen
Executive Vice President
and Product Manager

FedLine

Todd Aadland*
Senior Vice President and
Chief Information Officer

Tracy Harrington
Vice President

Marie Munson*
Vice President

Industry Relations Program

Sean Rodriguez
Senior Vice President

Connie Theien
Vice President

National Sales and Marketing

Shonda Clay*
Senior Vice President and
National Marketing and
Sales Director

Steven E. Jung
Vice President

Ted Kurdes
Vice President

Dan Gonzalez*
Vice President

Korie Miller
Vice President

Erik VanBramer*
Vice President

Strategy, Finance, FedLine Pricing, Market Research and Reporting

Michael J. Hoppe
Vice President

Brian Mantel
Vice President

INFORMATION TECHNOLOGY, DISTRICT OPERATIONS, ADMINISTRATIVE SERVICES, LAW ENFORCEMENT AND DETROIT BRANCH

Robert G. Wiley
Senior Vice President and
Branch Manager

Matt LaRocco
Vice President
Administrative Services

Daniel F. Reimann
Vice President

Guenever Scheuermann*
Vice President

District Cash

Donna M. Dziak
Vice President

Cynthia Pijarowski*
Vice President

CENTRAL BANK SERVICES, SYSTEM LEADERSHIP INITIATIVE AND OFFICE OF DIVERSITY AND INCLUSION

Valerie J. Van Meter
Senior Vice President, EEO Officer,
and Director of OMWI

Jerome E. Julian
Vice President

Craig Marchbanks
Vice President

Katie Wisby
Vice President

LEGAL, BOARD OF DIRECTORS, ENTERPRISE STRATEGY AND RISK MANAGEMENT, BUSINESS CONTINUITY, HUMAN RESOURCES AND INTERNAL COMMUNICATIONS

Elizabeth A. Knospe
Senior Vice President and
General Counsel

Katherine Hilton Schrepfer
Vice President, Associate
General Counsel and Ethics Officer

Nokihomis Willis
Vice President
Human Resources and
Internal Communications

Yurii Skorin
Vice President and
Associate General Counsel

Anna M. Voytovich
Vice President and
Associate General Counsel

Kirstin Wells*
Vice President and Risk Officer

INTERNAL AUDIT

Jeffrey B. Marcus
Vice President and General Auditor

Mary H. Sherburne*
Vice President

FINANCE

Margaret K. Koenigs
Senior Vice President and
Chief Financial Officer

Jeffery S. Anderson
Vice President

Kelly Emery
Vice President

**Effective as of January 1, 2014.*

Executive Changes

DIRECTORS

Members of the Federal Reserve Bank of Chicago's boards of directors are selected to represent a cross section of the Seventh District economy, including consumers, industry, agriculture, the service sector, labor and banks of various sizes.

The Chicago board consists of nine members. Seventh District member banks elect three bankers and three non-bankers. The Board of Governors appoints three additional non-bankers and designates the Reserve Bank chairman and deputy chairman from among its three appointees.

The Detroit Branch has a seven-member board of directors. The Board of Governors appoints three non-bankers, and the Chicago Reserve Bank board appoints four additional directors. The Chicago board designates one of the Board of Governors appointees as chairman of the Detroit Board. Reserve Bank and Branch directors may serve three-year terms, with a maximum of two full terms.

Director appointments and elections at the Chicago Reserve Bank and its Detroit Branch effective in 2013 were:

Greg Brown was appointed to a three-year term as a Chicago director and appointed to a one-year term as Chicago board deputy chair.

Carl T. Camden was re-appointed to a one-year term as Detroit Branch board chair.

Susan M. Collins was appointed to serve an unexpired term as a Detroit Branch director.

William M. Farrow was elected to serve a three-year term as a Chicago director.

Jeffrey A. Joerres was appointed to a one-year term as Chicago board chair.

Terry Mazany was re-elected to a three-year term as a Chicago director.

Jorge Ramirez was elected to serve an unexpired term as a Chicago director.

Lou Anna K. Simon was re-appointed to a three-year term as a Detroit Branch director.

The following appointments and elections for 2014 were announced:

Greg Brown was re-appointed to a one-year term as Chicago deputy chair.

Jeffrey A. Joerres was re-appointed to a one-year term as Chicago board chair.

Anne Pramaggiore was appointed to a three-year term as a Chicago director.

Jorge Ramirez was elected to a three-year term as a Chicago director.

Nancy Schlichting was re-appointed to a three-year term as a Detroit Branch director.

Lou Anna K. Simon was appointed to a one-year term as Detroit Branch board chair.

Douglas W. Stotlar was appointed to a three-year term as a Detroit Branch director.

Abram Tubbs was elected to serve a three-year term as a Chicago director.

FEDERAL ADVISORY COUNCIL REPRESENTATIVE

The Federal Advisory Council, which meets quarterly to discuss business and financial conditions with the Board of Governors in Washington, D.C., is composed of one person from each of the 12 Federal Reserve Districts. Each year the Chicago Reserve Bank's board of directors selects a representative to this group.

David W. Nelms, Chairman and Chief Executive Officer of Discover Financial Services in Riverwoods, Illinois, served one-year terms in 2010, 2011, 2012 and 2013 as the Federal Advisory Council representative for the Seventh Federal Reserve District. He was selected to serve a fifth one-year term in 2014.

EXECUTIVE CHANGES

The Bank's Board of Directors acted on the following promotions during 2013:

Korie Miller to Vice President, Marketing Communications

Katie Wisby to Vice President, Central Bank Services

Kirstin Wells to Vice President and Risk Officer; responsible for Enterprise Risk and Strategy, Business Continuity, Payments Steering Group and Executive Support*

Shonda Clay to Senior Vice President, Marketing and Sales*

Dan Gonzalez to Vice President, National Accounts*

Erik VanBramer to Vice President, National Accounts*

Todd Aadland to Senior Vice President and CRSO Chief Information Officer*

Marie Munson to Vice President, Portfolio Planning and Software Engineering*

Rebecca Chmielewski to Vice President, Financial Markets Utilities

Wendy Kallery to Vice President, International Group

Andre Reynolds to Vice President, Division Line of Business Coordination and Central Analysis

Paul Huck to Vice President, Capital, Credit Analytics, and System Support

Emily Greenwald to Vice President, Capital Markets and Policy Analysis

The following officers took on new responsibilities:

Mary Sherburne transitioned to Vice President and Audit Officer, Internal Audit*

Jenny Scheuermann transitioned to Vice President, District IT Services*

Cyndi Pijarowski transitioned to Vice President, Chicago Cash*

Sean Rodriguez transitioned to Senior Vice President, Federal Reserve Financial Services (FRFS) Industry Relations Program (IRP)*

**Effective as of January 1, 2014.*

Advisory Councils

Community Depository Institutions Advisory Council (CDIAC)

ILLINOIS

Micah R. Bartlett
President and
Chief Executive Officer
Town and Country Bank
Springfield

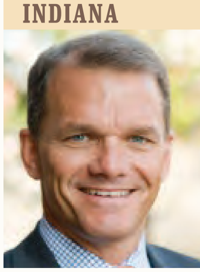
Alan D. Martin
President and
Chief Executive Officer
Iroquois Federal Savings
and Loan Association
Watseka

Frank P. Novel
President
Metropolitan Capital
Bank & Trust
Chicago

INDIANA

Craig M. Dwight
Chief Executive Officer
Horizon Bank
Michigan City

INDIANA



David M. Findlay
President and
Chief Financial Officer
Lake City Bank
Warsaw

IOWA

Barrie G. Christman
Chairman of the Bank
Principal Bank
Des Moines

Jeff L. Plagge
President and
Chief Executive Officer
Northwest Financial
Corp.
Arnolds Park

Jean M. Trainor
President and
Chief Executive Officer
Veridian Credit Union
Waterloo

MICHIGAN

Timothy G. Marshall
President and
Chief Executive Officer
Bank of Ann Arbor
Ann Arbor

Thomas R. Sullivan
President and
Chief Executive Officer
Firstbank Corporation
Alma

WISCONSIN

Steven M. Eldred
President and
Chief Executive Officer
First National Bank and
Trust
Beloit

Catherine J. Tierney
President and
Chief Executive Officer
Community First Credit
Union
Appleton

Advisory Councils

Seventh District Advisory Council on Agriculture, Small Business and Labor

ILLINOIS

Diane Cullinan Oberhelman
Chairman & Founding Partner
Cullinan Properties, Ltd.
Peoria

Steve Erlebacher
Senior Director, Strategy
DeVry Inc.
Downers Grove

Terrence Healy
Special Assistant to the General President/Vice President
Laborers' International Union of North America
Chicago

Kevin Knapp
Chief Financial Officer
CareerBuilder, LLC
Chicago

Curt Lansbery
President & CEO
North American Tool Corp.
South Beloit

Renaye Manley
International Representative
Service Employees International Union
Chicago

Doug Martin
Co-Owner
Martin Family Farms
Mt. Pulaski

ILLINOIS

Andrew Warrington
President
United Conveyor Corporation
Waukegan

INDIANA

Harold Force
President & CEO
Force Construction Company, Inc.
Columbus

IOWA

Dave Nelson
Partner
Nelson Family Farms
Fort Dodge

Scott Peterson
President, Harbor Group
CFO, Interstates Companies
Sioux Center

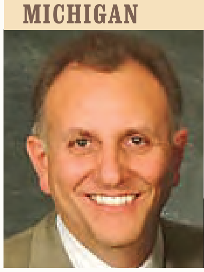
MICHIGAN

Paul Anderson
Chief Credit Officer
GreenStone Farm Credit Services
East Lansing

Jack Kelly
Senior Consultant
DPT Solutions Inc.
Grand Rapids

Birgit Klohs
President & CEO
The Right Place, Inc.
Grand Rapids

MICHIGAN



Sergio Mazza
Chairman & CEO
American Surgical Centers, Inc.
Roseville

Ray Waters
President
Detroit Development Fund
Detroit

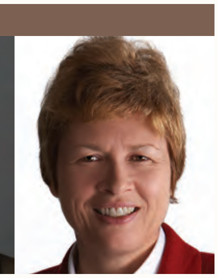
WISCONSIN

George Arida
Managing Director
Venture Investors, LLC
Madison

Rhandi Berth
Vice President
Wisconsin Regional Training Partnership/Big Step
Milwaukee

John Pagel
Owner
Pagel's Ponderosa Dairy, LLC
Kewaunee

David Ward
Chief Executive Officer
NorthStar Consulting Group, LLC
Sturgeon Bay



Lori Weyers
President
Northcentral Technical College
Wausau

Operations Volumes

	Dollar Amount		Number of Items	
	2013	2012	2013	2012
Cash Operations				
Currency Counted	50.1 Billion	44.0 Billion	3.0 Billion	2.9 Billion
Unfit Currency Destroyed	12.6 Billion	3.8 Billion	408.5 Million	294.2 Million
Coin Bags Paid and Received	1.5 Billion	1.5 Billion	3.1 Million	3.2 Million
Number of Notes Paid and Received	119.1 Billion	107.6 Billion	7.0 Billion	6.7 Billion
Loans to Depository Institutions				
Total Loans Made During Year	856.5 Million	502.5 Million	858 Loans	548 Loans

Financial Reports Contents

Auditor Independence	34
Management's Report on Internal Control Over Financial Reporting	35
Independent Auditors' Report	36
Abbreviations	38
Statements of Condition	39
Statements of Income and Comprehensive Income	40
Statements of Changes in Capital	41
Notes to Financial Statements	42

Auditor Independence

The Board of Governors engaged Deloitte & Touche LLP (D&T) to audit the 2013 combined and individual financial statements of the Reserve Banks and those of the consolidated LLC entities.[1] In 2013, D&T also conducted audits of internal controls over financial reporting for each of the Reserve Banks. Fees for D&T's services totaled $7 million, of which $1 million was for the audits of the consolidated LLC entities. To ensure auditor independence, the Board requires that D&T be independent in all matters relating to the audits. Specifically, D&T may not perform services for the Reserve Banks or others that would place it in a position of auditing its own work, making management decisions on behalf of the Reserve Banks, or in any other way impairing its audit independence. In 2013, the Bank did not engage D&T for any non-audit services.

[1] In addition, D&T audited the Office of Employee Benefits of the Federal Reserve System (OEB), the Retirement Plan for Employees of the Federal Reserve System (System Plan), and the Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The System Plan and the Thrift Plan provide retirement benefits to employees of the Board, the Federal Reserve Banks, and the OEB.

Management's Report on Internal Control Over Financial Reporting

March 14, 2014

To the Board of Directors

The management of the Federal Reserve Bank of Chicago (FRBC) is responsible for the preparation and fair presentation of the Statements of Condition as of December 31, 2013 and 2012, and the Statements of Income and Comprehensive Income, and Statements of Changes in Capital for the years then ended (the financial statements). The financial statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System as set forth in the *Financial Accounting Manual for Federal Reserve Banks* (FAM), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the financial statements are, in all material respects, fairly presented in conformity with the accounting principles, policies and practices documented in the FAM and include all disclosures necessary for such fair presentation.

The management of the FRBC is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. The FRBC'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 FRBC assessed its internal control over financial reporting based upon the criteria established in the *"Internal Control – Integrated Framework (1992)"* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the FRBC maintained effective internal control over financial reporting.

Federal Reserve Bank of Chicago

by Charles L. Evans	by Gordon Werkema	by Margaret K. Koenigs
President	First Vice President	Senior Vice President and CFO

Independent Auditors' Report

Deloitte.

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA

Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

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

We have audited the accompanying financial statements of the Federal Reserve Bank of Chicago ("FRB Chicago"), which are comprised of the statements of condition as of December 31, 2013 and 2012, and the related statements of income and comprehensive income, and of changes in capital for the years then ended, and the related notes to the financial statements. We also have audited the FRB Chicago's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility

The FRB Chicago's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles established by the Board of Governors of the Federal Reserve System (the "Board") as described in Note 3 to the financial statements. The Board has determined that this basis of accounting is an acceptable basis for the preparation of the FRB Chicago's financial statements in the circumstances. The FRB Chicago's management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The FRB Chicago's management is also responsible for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the FRB Chicago's internal control over financial reporting based on our audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") and we conducted our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants and in accordance with the auditing standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of the financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the FRB Chicago's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of the financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. An audit of internal control over financial reporting involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Definition of Internal Control Over Financial Reporting

The FRB Chicago's internal control over financial reporting is a process designed by, or under the supervision of, the FRB Chicago's principal executive and principal financial officers, or persons performing similar functions, and effected by the FRB Chicago's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the accounting principles established by the Board. The FRB Chicago's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the FRB Chicago; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the accounting principles established by the Board, and that receipts and expenditures of the FRB Chicago are being made only in accordance with authorizations of management and directors of the FRB Chicago; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the FRB Chicago's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Control Over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FRB Chicago as of December 31, 2013 and 2012, and the results of its operations for the years then ended in accordance with the basis of accounting described in Note 3 to the financial statements. Also, in our opinion, the FRB Chicago maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis of Accounting

We draw attention to Note 3 to the financial statements, which describes the basis of accounting. The FRB Chicago has prepared these financial statements in conformity with accounting principles established by the Board, as set forth in the *Financial Accounting Manual for Federal Reserve Banks,* which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on such financial statements of the differences between the accounting principles established by the Board and accounting principles generally accepted in the United States of America are also described in Note 3 to the financial statements. Our opinion is not modified with respect to this matter.

DELOITTE & TOUCHE LLP

March 14, 2014

Financial Statements

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
FOMC	Federal Open Market Committee
FRBA	Federal Reserve Bank of Atlanta
FRBNY	Federal Reserve Bank of New York
GAAP	Accounting principles generally accepted in the United States of America
GSE	Government-sponsored enterprise
IMF	International Monetary Fund
MBS	Mortgage-backed securities
OFR	Office of Financial Research
SDR	Special drawing rights
SERP	Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks
SOMA	System Open Market Account
TBA	To be announced
TDF	Term Deposit Facility

Financial Statements

Federal Reserve Bank of Chicago Statements of Condition
As of December 31, 2013 and December 31, 2012 (in millions)

	2013	2012
Assets		
Gold certificates	$ 792	$ 839
Special drawing rights certificates	424	424
Coin	285	311
Loans to depository institutions	18	9
System Open Market Account:		
Treasury securities, net (of which $927 and $507 is lent as of December 31, 2013 and 2012, respectively)	127,495	100,366
Government-sponsored enterprise debt securities, net (of which $59 and $39 is lent as of December 31, 2013 and 2012, respectively)	3,195	4,409
Federal agency and government-sponsored enterprise mortgage-backed securities, net	82,884	52,720
Foreign currency denominated investments, net	677	663
Central bank liquidity swaps	8	237
Accrued interest receivable	1,267	1,053
Other investments	-	1
Bank premises and equipment, net	229	231
Other assets	36	30
Total assets	**$ 217,310**	**$ 161,293**
Liabilities and Capital		
Federal Reserve notes outstanding, net	$ 75,778	$ 82,679
System Open Market Account:		
Securities sold under agreements to repurchase	17,071	5,946
Other liabilities	72	176
Deposits:		
Depository institutions	68,547	69,746
Other deposits	14	27
Interest payable to depository institutions	3	9
Accrued benefit costs	155	185
Accrued remittances to Treasury	186	89
Interdistrict settlement account	53,946	856
Other liabilities	20	20
Total liabilities	**215,792**	**159,733**
Capital paid-in	759	780
Surplus (including accumulated other comprehensive loss of $23 and $60 at December 31, 2013 and 2012, respectively)	759	780
Total capital	**1,518**	**1,560**
Total liabilities and capital	**$ 217,310**	**$ 161,293**

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

Financial Statements

Federal Reserve Bank of Chicago Statements of Income and Comprehensive Income

For the years ended December 31, 2013 and December 31, 2012 (in millions)	2013	2012
Interest Income		
System Open Market Account:		
Treasury securities, net	$ 2,807	$ 2,626
Government-sponsored enterprise debt securities, net	118	149
Federal agency and government-sponsored enterprise mortgage-backed securities, net	1,992	1,782
Foreign currency denominated assets, net	3	4
Central bank liquidity swaps	1	6
Other investments	-	1
Total interest income	**4,921**	**4,568**
Interest Expense		
System Open Market Account:		
Securities sold under agreements to repurchase	3	8
Deposits:		
Depository institutions	168	173
Term Deposit Facility	1	-
Total interest expense	**172**	**181**
Net interest income	**4,749**	**4,387**
Non-Interest Income		
System Open Market Account:		
Treasury securities gains, net	-	747
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net	3	14
Foreign currency translation losses, net	(36)	(30)
Income from services	77	77
Compensation received for service costs provided	22	20
Reimbursable services to government agencies	6	6
Other	8	7
Total non-interest income	**80**	**841**
Operating Expenses		
Salaries and benefits	203	191
Occupancy	29	28
Equipment	9	12
Compensation paid for service costs incurred	12	12
Other	84	82
Assessments:		
Board of Governors operating expenses and currency costs	81	80
Bureau of Consumer Financial Protection and Office of Financial Research	16	11
Total operating expenses	**434**	**416**
Net income before providing for remittances to Treasury	4,395	4,812
Earnings remittances to Treasury	4,407	4,690
Net (loss) income	(12)	122
Change in prior service costs related to benefit plans	(1)	(1)
Change in actuarial gains (losses) related to benefit plans	38	(12)
Total other comprehensive income (loss)	**37**	**(13)**
Comprehensive income	**$ 25**	**$ 109**

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

Financial Statements

Federal Reserve Bank of Chicago Statements of Changes in Capital
For the years ended December 31, 2013 and December 31, 2012 (in millions, except share data)

	Capital paid-in	Surplus: Net income retained	Surplus: Accumulated other comprehensive loss	Surplus: Total surplus	Total capital
Balance at December 31, 2011 (14,353,159 shares)	**$ 718**	**$ 765**	**$ (47)**	**$ 718**	**$ 1,436**
Net change in capital stock issued (1,251,396 shares)	62	-	-	-	62
Comprehensive income:					
Net income	-	122	-	122	122
Other comprehensive loss	-	-	(13)	(13)	(13)
Dividends on capital stock	-	(47)	-	(47)	(47)
Net change in capital	62	75	(13)	62	124
Balance at December 31, 2012 (15,604,555 shares)	**$ 780**	**$ 840**	**$ (60)**	**$ 780**	**$ 1,560**
Net change in capital stock redeemed (413,434 shares)	(21)	-	-	-	(21)
Comprehensive income:					
Net loss	-	(12)	-	(12)	(12)
Other comprehensive income	-	-	37	37	37
Dividends on capital stock	-	(46)	-	(46)	(46)
Net change in capital	(21)	(58)	37	(21)	(42)
Balance at December 31, 2013 (15,191,121 shares)	**$ 759**	**$ 782**	**$ (23)**	**$ 759**	**$ 1,518**

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

Notes to Financial Statements

1. Structure

The Federal Reserve Bank of Chicago (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 Seventh Federal Reserve District, which includes Iowa, and portions of Michigan, Illinois, Wisconsin and Indiana.

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

In addition to the 12 Reserve Banks, the System also consists, in part, of the Board of Governors and the Federal Open Market Committee (FOMC). The Board of Governors, an independent federal agency, is charged by the Federal Reserve Act with a number of specific duties, including general supervision over the Reserve Banks. The FOMC is composed of members of the Board of Governors, the president of the Federal Reserve Bank of New York (FRBNY), and, on a rotating basis, four other Reserve Bank presidents.

2. Operations and Services

The Reserve Banks perform a variety of services and operations. These functions include participating in formulating and conducting monetary policy; participating in the payment system, including large-dollar transfers of funds, automated clearinghouse (ACH) operations, and check collection; distributing coin and currency; performing fiscal agency functions for the U.S. Department of the Treasury (Treasury), certain federal agencies, and other entities; serving as the federal government's bank; providing short-term loans to depository institutions; providing loans to participants in programs or facilities with broad-based eligibility in unusual and exigent circumstances; serving consumers and communities by providing educational materials and information regarding financial consumer protection rights and laws and information on community development programs and activities; and supervising bank holding companies, state member banks, savings and loan holding companies, U.S. offices of foreign banking organizations, and designated financial market utilities pursuant to authority delegated by the Board of Governors. Certain services are provided to foreign and international monetary authorities, primarily by the FRBNY.

The FOMC, in conducting monetary policy, establishes policy regarding domestic open market operations, oversees these operations, and issues authorizations and directives to the FRBNY to execute transactions. The FOMC authorizes and directs the FRBNY to conduct operations in domestic markets, including the direct purchase and sale of Treasury securities, government-sponsored enterprise (GSE) debt securities, 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 System Open Market Account (SOMA). The FRBNY is authorized and directed to lend the Treasury securities and GSE debt securities that are held in the SOMA.

To counter disorderly conditions in foreign exchange markets or to meet other needs specified by the FOMC to carry out the System's central bank responsibilities, the FOMC has authorized and directed the FRBNY to execute spot and forward foreign exchange transactions in 14 foreign currencies, to hold balances in those currencies, and to invest such foreign currency holdings, while maintaining adequate liquidity. The FOMC has also authorized 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 establish temporary U.S. dollar liquidity swap lines with the Bank of Canada, the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank. In addition, as a contingency measure, the FOMC authorized and directed the FRBNY to establish temporary foreign currency liquidity swap arrangements with these five central banks to allow for the System to access liquidity, if necessary, in any of the foreign central banks' currencies. On October 31, 2013, the Federal Reserve and five other central banks agreed to convert their existing temporary liquidity swap arrangements to standing agreements which will remain in effect until further notice.

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 national business development and customer support.

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 have been prepared in accordance with the FAM.

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

In addition, the Bank does not present a Statement of Cash Flows as required by GAAP because the liquidity and cash position of the Bank are not a primary concern given the Reserve Banks' unique powers and responsibilities as a central bank. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Income and Comprehensive Income, and Changes in Capital, and the accompanying notes to the financial statements. Other than those described above, there are no significant differences between the policies outlined in the FAM and GAAP.

Preparing the financial statements in conformity with the FAM requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

In 2013, the description of certain line items presented in the Statements of Income and Comprehensive Income and the Statements of Condition have been revised to better reflect the nature of these items. Amounts related to these line items were not changed from the prior year, only the nomenclature for the line item was revised, as further noted below:

- The line item, "Accrued interest on Federal Reserve notes" has been revised in the Statements of Condition to "Accrued remittances to Treasury."
- The line item, "Net income before interest on Federal Reserve notes expense remitted to Treasury" has been revised in the Statements of Income and Comprehensive Income to "Net income before providing for remittances to Treasury."
- The line item, "Interest on Federal Reserve notes expense remitted to Treasury" has been revised in the Statements of Income and Comprehensive Income to "Earnings remittances to Treasury."

Certain amounts relating to the prior year have been reclassified in the Statements of Condition to conform to the current year presentation. The amount reported as "System Open Market Account: Accrued interest receivable" for the year ended December 31, 2012 ($1,053 million) was previously reported as a component of "System Open Market Account: Foreign currency denominated assets, net" ($3 million) and "Accrued interest receivable" ($1,050 million). 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. Section 152 of the Dodd-Frank Act established the Office of Financial Research (OFR) within the Treasury and required the Board of Governors to fund the OFR for the two-year period ended July 21, 2012. The Reserve Banks reviewed the law and evaluated the design of and their relationships to the Bureau and the OFR and determined that neither should be consolidated in the Bank's financial statements.

b. Gold and Special Drawing Rights Certificates

The Secretary of the Treasury is authorized to issue gold 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 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 twelve 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 Banks at original cost. There were no SDR certificate transactions during the years ended December 31, 2013 and 2012.

c. Coin

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

d. Loans

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

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

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

The FRBNY may engage in purchases of securities with primary dealers under agreements to resell (repurchase transactions). These repurchase transactions are settled through a tri-party arrangement. In a tri-party arrangement, two commercial custodial banks manage the collateral clearing, settlement, pricing, and pledging, and provide cash and securities custodial services for and on behalf of the 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 transactions primarily includes Treasury securities (including Treasury Inflation-Protected Securities and Separate Trading of Registered Interest and Principal of Securities Treasury securities); 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 transactions are accounted for as financing transactions with the associated interest income recognized over the life of the transaction. These transactions 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 transactions) with primary dealers and with the set of expanded counterparties which includes banks, savings associations, GSEs, and domestic money market funds. These reverse repurchase transactions, when arranged as open market operations, are settled through a tri-party arrangement, similar to repurchase transactions. Reverse repurchase transactions may also be executed with foreign official and international account holders as part of a service offering. Reverse repurchase agreements are collateralized by a pledge of an amount of Treasury securities, GSE debt securities, and federal agency and GSE MBS that are held in the SOMA. Reverse repurchase transactions are accounted for as financing transactions, and the associated interest expense is recognized over the life of the transaction. These transactions are reported at their contractual amounts as "System Open Market Account: Securities sold under agreements to repurchase" and the related accrued interest payable is reported as a component of "Other liabilities" in the Statements of Condition.

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

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

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

Interest income on Treasury securities, GSE debt securities, and foreign currency denominated assets included in the SOMA is accrued on a straight-line basis. Interest income on federal agency and GSE MBS is accrued using the interest method and includes amortization of premiums, accretion of discounts, and gains or losses associated with principal paydowns. Premiums and discounts related to federal agency and GSE MBS are amortized 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 Income and Comprehensive Income.

In addition to outright purchases of federal agency and GSE MBS that are held in the SOMA, the FRBNY enters into dollar roll transactions (dollar rolls), which primarily involve an initial transaction to purchase or sell "to be announced" (TBA) MBS for delivery in the current month combined with a simultaneous agreement to sell or purchase TBA MBS on a specified future date. During the years ended December 31, 2013 and 2012, the FRBNY executed dollar rolls primarily to facilitate settlement of outstanding purchases of federal agency and GSE MBS. The FRBNY accounts for dollar rolls as purchases or sales on a settlement-date basis. In addition, TBA MBS transactions may be paired off or assigned prior to settlement. Net gains resulting from these MBS transactions are reported as "Non-interest income: System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net" in the Statements of Income and Comprehensive Income.

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

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 assets, including the premiums, discounts, and realized and unrealized gains and losses, is allocated to each Reserve Bank based on the ratio of each Reserve Bank's capital and surplus to the Reserve Banks' aggregate capital and surplus at the preceding December 31.

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

g. Central Bank Liquidity Swaps

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

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

U.S. dollar liquidity swaps

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

The foreign central bank compensates the FRBNY based on the 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 Income and Comprehensive Income.

Foreign currency liquidity swaps

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

h. Bank Premises, Equipment, and Software

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 50 years. Major alterations, renovations, and improvements are capitalized at cost as additions to the asset accounts and are depreciated over the remaining useful life of the asset or, if appropriate, over the unique useful life of the alteration, renovation, or improvement. Maintenance, repairs, and minor replacements are charged to operating expense in the year incurred.

Costs incurred 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 three to five years. Maintenance costs related to software are charged to operating expense in the year incurred.

Capitalized assets, including software, buildings, leasehold improvements, furniture, and equipment, are impaired and an adjustment is recorded when events or changes in circumstances indicate that the carrying amount of assets or asset groups is not recoverable and significantly exceeds the assets' fair value.

i. Interdistrict Settlement Account

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

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 securities sold under agreements to repurchase is deducted from the eligible collateral value.

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

"Federal Reserve notes outstanding, net" in the Statements of Condition represents the Bank's Federal Reserve notes outstanding, reduced by the Bank's currency holdings of $13,399 million and $12,410 million at December 31, 2013 and 2012, respectively.

At December 31, 2013 and 2012, all Federal Reserve notes outstanding, reduced by the Reserve Bank's currency holdings, were fully collateralized. At December 31, 2013, all gold certificates, all special drawing rights certificates, and $1,182 billion of domestic securities held in the SOMA were pledged as collateral. At December 31, 2013, no investments denominated in foreign currencies 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. The interest rates paid on required reserve balances and excess balances are determined by the Board of Governors, based on an FOMC-established target range for the federal funds rate. Interest payable is reported as a component of "Interest payable to depository institutions" in the Statements of Condition.

The Term Deposit Facility (TDF) consists of deposits with specific maturities held by eligible institutions at the Reserve Banks. The Reserve Banks pay interest on these deposits at interest rates determined by auction. Interest payable is reported as a component of "Interest payable to depository institutions" in the Statements of Condition. There were no deposits held by the Bank under the TDF at December 31, 2013 and 2012.

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

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

m. Surplus

The Board of Governors requires the Reserve Banks to maintain a surplus equal to the amount of capital paid-in. On a daily basis, surplus is adjusted to equate the balance to capital paid-in. Accumulated other comprehensive income is reported as a component of "Surplus" in the Statements of Condition and the Statements of Changes in Capital. Additional information regarding the classifications of accumulated other comprehensive income is provided in Notes 9 and 10.

n. Remittances to Treasury

The Board of Governors requires the Reserve Banks to transfer excess earnings to the Treasury as interest on Federal Reserve notes after providing for the costs of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid-in. Currently, remittances to Treasury are made on a weekly basis. This amount is reported as "Earnings remittances to Treasury" in the Statements of Income and Comprehensive Income. The amount due to the Treasury is reported as "Accrued remittances to Treasury" in the Statements of Condition. See Note 12 for additional information on interest on Federal Reserve notes.

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

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, 2013 and 2012, the Bank was reimbursed for all services provided to the Treasury as its fiscal agent.

p. Income from Services, Compensation Received for Service Costs Provided and Compensation Paid for Service Costs Incurred

The Bank has overall responsibility for managing the Reserve Banks' provision of electronic access services to depository institutions and, as a result, reports total System revenue for these services as "Income from services" in its Statements of Income and Comprehensive Income. The Bank compensates the applicable Reserve Banks for the costs incurred to provide these services and reports the resulting compensation paid as "Operating expenses: Compensation paid for service costs incurred" in its Statements of Income and Comprehensive Income.

The Federal Reserve Bank of Atlanta (FRBA) has overall responsibility for managing the Reserve Banks' provision of check and ACH services to depository institutions and the FRBNY has overall responsibility for managing the Reserve Banks' provision of Fedwire funds and securities services. The Reserve Bank that has overall responsibility for managing these services recognizes the related total System revenue in its Statements of Income and Comprehensive Income. 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 Income and Comprehensive Income.

q. Assessments

The Board of Governors assesses the Reserve Banks to fund its operations, the operations of the Bureau and, for a two-year period following the July 21, 2010 effective date of the Dodd-Frank Act, the OFR. These assessments are allocated to each Reserve Bank based on each Reserve Bank's capital and surplus balances. 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 date of 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 Governors' 2009 annual report, which totaled $4.98 billion. The fixed percentage of total operating expenses of the System for the years ended December 31, 2013 and 2012 was 12 percent ($597.6 million) and 11 percent ($547.8 million), respectively. After 2013, the amount will be adjusted in accordance with the provisions of the Dodd-Frank Act. The Bank's assessment for Bureau funding is reported as "Assessments: Bureau of Consumer Financial Protection" in the Statements of Income and Comprehensive Income.

The Board of Governors assessed the Reserve Banks to fund the operations of the OFR for the two-year period ended July 21, 2012, following enactment of the Dodd-Frank Act; thereafter, the OFR is funded by fees assessed on bank holding companies and nonbank financial companies that meet the criteria specified in the Dodd-Frank Act.

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 $3 million for each of the years ended December 31, 2013 and 2012 and are reported as a component of "Operating expenses: Occupancy" in the Statements of Income and Comprehensive Income.

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.

Note 11 describes the Bank's restructuring initiatives and provides information about the costs and liabilities associated with employee separations and contract terminations. Costs and liabilities associated with enhanced pension benefits in connection with the restructuring activities for all of the Reserve Banks are recorded on the books of the FRBNY.

The Bank had no significant restructuring activities in 2013 and 2012.

t. Recently Issued Accounting Standards

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-12, *Comprehensive Income* (Topic 220): *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. This update indefinitely deferred the requirements of ASU 2011-05, which required an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective net income line items. Subsequently, in February 2013, the FASB issued ASU 2013-02, *Comprehensive Income* (Topic 220): *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which established an effective date for the requirements of ASU 2011-05 related to reporting of significant reclassification adjustments from accumulated other comprehensive income. This update improves the transparency of changes in other comprehensive income and items reclassified out of accumulated other comprehensive income in the financial statements. These presentation requirements of ASU 2011-05 and the required disclosures in ASU 2013-02 are effective for the Bank for the year ending December 31, 2013, and are reflected in the Bank's 2013 financial statements and Note 10.

4. Loans

Loans to Depository Institutions

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

Primary, secondary, and seasonal loans are collateralized to the satisfaction of the Bank to reduce credit risk. Assets eligible to collateralize these loans include consumer, business, and real estate loans; Treasury securities; GSE debt securities; foreign sovereign debt; municipal, corporate, and state and local government obligations; asset-backed securities; corporate bonds; commercial paper; and bank-issued assets, such as certificates of deposit, bank notes, and deposit notes. Collateral is assigned a lending value that is deemed appropriate by the Bank, which is typically fair value reduced by a margin. Loans to depository institutions are monitored daily to ensure that borrowers continue to meet eligibility requirements for these programs. 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.

Loans to depository institutions were $18 million and $9 million as of December 31, 2013 and 2012, respectively, with a remaining maturity within 15 days.

At December 31, 2013 and 2012, 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, 2013 and 2012.

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.

During the years ended December 31, 2013 and 2012, the FRBNY continued the purchase of Treasury securities and federal agency and GSE MBS under the large-scale asset purchase programs authorized by the FOMC. In September 2011, the FOMC announced that the Federal Reserve would reinvest principal payments from the SOMA portfolio holdings of GSE debt securities and federal agency and GSE MBS in federal agency and GSE MBS. In June 2012, the FOMC announced that it would continue the existing policy of reinvesting principal payments from the SOMA portfolio holdings of GSE debt securities and federal agency and GSE MBS in federal agency and GSE MBS. In September 2012, the FOMC announced that the Federal Reserve would purchase additional federal agency and GSE MBS at a pace of $40 billion per month. In December 2012, the FOMC announced that the Federal Reserve would purchase longer-term Treasury securities initially at a pace of $45 billion per month after its program to extend the average maturity of its holdings of Treasury securities was completed at the end of 2012. In December 2012, the FOMC announced that the Federal Reserve would continue the policy of rolling over maturing Treasury securities into new issues at auction.

During the year ended December 31, 2012, the FRBNY also continued the purchase and sale of SOMA portfolio holdings under the maturity extension programs authorized by the FOMC. In September 2011, the FOMC announced that the Federal Reserve would extend the average maturity of the SOMA portfolio holdings of securities by purchasing $400 billion par value of Treasury securities with maturities of six to thirty years and selling or redeeming an equal par amount of Treasury securities with remaining maturities of three years or less by the end of June 2012. In June 2012, the FOMC announced that the Federal Reserve would continue through the end of 2012 its program to extend the average maturity of securities by purchasing $267 billion par value of Treasury securities with maturities of six to thirty years and selling or redeeming an equal par amount of Treasury securities with maturities of three and a quarter years or less by the end of 2012.

The Bank's allocated share of activity related to domestic open market operations was 5.404 percent and 5.548 percent at December 31, 2013 and 2012, respectively.

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

	2013			
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost
Notes	$ 79,294	$ 1,804	$ (308)	$ 80,790
Bonds	40,060	6,946	(301)	46,705
Total Treasury securities	$ 119,354	$ 8,750	$ (609)	$ 127,495
GSE debt securities	$ 3,092	$ 103	$ -	$ 3,195
Federal agency and GSE MBS	$ 80,523	$ 2,420	$ (59)	$ 82,884

	2012			
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost
Notes	$ 61,600	$ 1,804	$ (39)	$ 63,365
Bonds	30,830	6,179	(8)	37,001
Total Treasury securities	$ 92,430	$ 7,983	$ (47)	$ 100,366
GSE debt securities	$ 4,260	$ 150	$ (1)	$ 4,409
Federal agency and GSE MBS	$ 51,407	$ 1,352	$ (39)	$ 52,720

The FRBNY enters into transactions for the purchase of securities under agreements to resell and transactions to sell securities under agreements to repurchase as part of its monetary policy activities. In addition, transactions to sell securities under agreements to repurchase are entered into as part of a service offering to foreign official and international account holders.

There were no material transactions related to securities purchased under agreements to resell during the years ended December 31, 2013 and 2012. Financial information related to securities sold under agreements to repurchase for the years ended December 31 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2013	2012	2013	2012
Contract amount outstanding, end of year	$ 17,071	$ 5,946	$ 315,924	$ 107,188
Average daily amount outstanding, during the year	5,425	5,199	99,681	91,898
Maximum balance outstanding, during the year	17,071	6,798	315,924	122,541
Securities pledged (par value), end of year	16,776	5,190	310,452	93,547
Securities pledged (market value), end of year	17,016	5,946	314,901	107,188

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and securities sold under agreements to repurchase that were allocated to the Bank at December 31, 2013 and 2012 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, 2013:							
Treasury securities (par value)	$ -	$ 16	$ 9	$ 41,248	$ 46,725	$ 31,356	$ 119,354
GSE debt securities (par value)	125	409	468	1,960	3	127	3,092
Federal agency and GSE MBS (par value)[1]	-	-	-	-	138	80,385	80,523
Securities sold under agreements to repurchase (contract amount)	17,071	-	-	-	-	-	17,071
December 31, 2012:							
Treasury securities (par value)	$ -	$ -	$ 1	$ 20,996	$ 47,843	$ 23,590	$ 92,430
GSE debt securities (par value)	87	155	844	2,931	113	130	4,260
Federal agency and GSE MBS (par value)[1]	-	-	-	-	131	51,276	51,407
Securities sold under agreements to repurchase (contract amount)	5,946	-	-	-	-	-	5,946

[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 6.5 and 3.3 years as of December 31, 2013 and 2012, respectively.

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

	Allocated to the Bank		Total SOMA	
	2013	2012	2013	2012
Treasury securities (amortized cost)	$ 927	$ 507	$ 17,153	$ 9,139
Treasury securities (par value)	835	469	15,447	8,460
GSE debt securities (amortized cost)	59	39	1,099	697
GSE debt securities (par value)	57	38	1,055	676

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, 2013, there were no outstanding commitments.

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, 2013, the total purchase price of the federal agency and GSE MBS under outstanding purchase commitments was $59,350 million, of which $479 million was related to dollar rolls. The total purchase price of outstanding purchase commitments allocated to the Bank was $3,207 million, of which $26 million was related to dollar rolls. As of December 31, 2013, there were no outstanding sales commitments for federal agency and GSE MBS. These commitments, which had contractual settlement dates extending through February 2014, 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. These commitments are subject to varying degrees of off-balance-sheet market risk and counterparty credit risk that result from their future settlement. The FRBNY requires the posting of cash collateral for commitments as part of the risk management practices used to mitigate the counterparty credit risk.

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

	Allocated to the Bank		Total SOMA	
	2013	2012	2013	2012
Other investments	$ -	$ 1	$ 2	$ 23
Other liabilities:				
Cash margin	$ 71	$ 171	$ 1,320	$ 3,092
Obligations from MBS transaction fails	1	5	11	85
Total other liabilities	$ 72	$ 176	$ 1,331	$ 3,177

Accrued interest receivable on domestic securities holdings was $23,405 million and $18,924 million as of December 31, 2013 and 2012, respectively, of which $1,264 million and $1,050 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 during the years ended December 31, 2013 and 2012, is summarized as follows (in millions):

	Allocated to the Bank					
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance at December 31, 2011	$ 1,094	$ 77,909	$ 24,938	$ 103,941	$ 6,403	$ 50,374
Purchases[1]	6,859	22,597	14,942	44,398	-	24,339
Sales[1]	-	(28,721)	(661)	(29,382)	-	-
Realized gains, net[2]	-	676	71	747	-	-
Principal payments and maturities	(7,881)	(3,849)	-	(11,730)	(1,544)	(18,268)
Amortization of premiums and accretion of discounts, net	-	(309)	(425)	(734)	(64)	(295)
Inflation adjustment on inflation-indexed securities	-	36	59	95	-	-
Annual reallocation adjustment[4]	(72)	(4,974)	(1,923)	(6,969)	(386)	(3,430)
Balance at December 31, 2012	$ -	$ 63,365	$ 37,001	$ 100,366	$ 4,409	$ 52,720
Purchases[1]	-	19,532	11,234	30,766	-	47,142
Sales[1]	-	-	-	-	-	-
Realized gains, net[2]	-	-	-	-	-	-
Principal payments and maturities	-	(1)	-	(1)	(1,064)	(14,934)
Amortization of premiums and accretion of discounts, net	-	(328)	(517)	(845)	(43)	(382)
Inflation adjustment on inflation-indexed securities	-	15	35	50	-	-
Annual reallocation adjustment[4]	-	(1,793)	(1,048)	(2,841)	(107)	(1,662)
Balance at December 31, 2013	$ -	$ 80,790	$ 46,705	$ 127,495	$ 3,195	$ 82,884
Year-ended December 31, 2012						
Supplemental information - par value of transactions:						
Purchases[3]	$ 6,859	$ 21,744	$ 11,613	$ 40,216	$ -	$ 23,309
Sales[3]	-	(27,865)	(512)	(28,377)	-	-
Year-ended December 31, 2013						
Supplemental information - par value of transactions:						
Purchases[3]	$ -	$ 19,422	$ 10,069	$ 29,491	$ -	$ 45,663
Sales[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 offset the amount of realized gains and losses included in the reported sales amount.

[3] Includes inflation compensation

[4] 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.

Total SOMA

	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance at December 31, 2011	$ 18,423	$ 1,311,917	$ 419,937	$ 1,750,277	$ 107,828	$ 848,258
Purchases[1]	118,886	397,999	263,991	780,876	-	431,487
Sales[1]	-	(507,420)	(11,727)	(519,147)	-	-
Realized gains, net[2]	-	12,003	1,252	13,255	-	-
Principal payments and maturities	(137,314)	(67,462)	-	(204,776)	(27,211)	(324,181)
Amortization of premiums and accretion of discounts, net	5	(5,461)	(7,531)	(12,987)	(1,138)	(5,243)
Inflation adjustment on inflation-indexed securities	-	643	1,047	1,690	-	-
Balance at December 31, 2012	$ -	$ 1,142,219	$ 666,969	$ 1,809,188	$ 79,479	$ 950,321
Purchases[1]	-	358,656	206,208	564,864	-	864,538
Sales[1]	-	-	-	-	-	-
Realized gains, net[2]	-	-	-	-	-	-
Principal payments and maturities	-	(21)	-	(21)	(19,562)	(273,990)
Amortization of premiums and accretion of discounts, net	-	(6,024)	(9,503)	(15,527)	(795)	(7,009)
Inflation adjustment on inflation-indexed securities	-	285	645	930	-	-
Balance at December 31, 2013	$ -	$ 1,495,115	$ 864,319	$ 2,359,434	$ 59,122	$ 1,533,860
Year-ended December 31, 2012						
Supplemental information - par value of transactions:						
Purchases[3]	$ 118,892	$ 383,106	$ 205,115	$ 707,113	$ -	$ 413,160
Sales[3]	-	(492,234)	(9,094)	(501,328)	-	-
Year-ended December 31, 2013						
Supplemental information - par value of transactions:						
Purchases[3]	$ -	$ 356,766	$ 184,956	$ 541,722	$ -	$ 837,490
Sales[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 offset 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 assets 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 Germany, France, and Japan. These foreign government debt instruments are guaranteed as to principal and interest by the issuing foreign governments. In addition, the FRBNY enters into transactions to purchase Euro-denominated government debt securities under agreements to resell for which the accepted collateral is the debt instruments issued by the governments of Belgium, France, Germany, Italy, the Netherlands, and Spain.

The Bank's allocated share of activity related to foreign currency operations was 2.852 percent and 2.668 percent at December 31, 2013 and 2012, respectively.

Information about foreign currency denominated investments valued at amortized cost and foreign currency market exchange rates at December 31 was as follows (in millions):

	Allocated to Bank		Total SOMA	
	2013	2012	2013	2012
Euro:				
Foreign currency deposits	$ 215	$ 238	$ 7,530	$ 8,925
Securities purchased under agreements to resell	73	18	2,550	659
German government debt instruments	68	57	2,396	2,133
French government debt instruments	68	64	2,397	2,421
Japanese yen:				
Foreign currency deposits	84	95	2,926	3,553
Japanese government debt instruments	169	191	5,925	7,182
Total	$ 677	$ 663	$ 23,724	$ 24,873

Accrued interest receivable on foreign currency denominated assets was $88 million and $99 million as of December 31, 2013 and 2012, respectively, of which $3 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, 2013 and 2012, was as follows (in millions):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Total
December 31, 2013:					
Euro	$ 201	$ 51	$ 62	$ 110	$ 424
Japanese yen	89	11	53	100	253
Total	$ 290	$ 62	$ 115	$ 210	$ 677
December 31, 2012:					
Euro	$ 176	$ 46	$ 57	$ 98	$ 377
Japanese yen	101	13	57	115	286
Total	$ 277	$ 59	$ 114	$ 213	$ 663

There were no foreign exchange contracts related to open market operations outstanding as of December 31, 2013.

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, 2013, there were no outstanding commitments to purchase foreign government debt instruments. During 2013, there were purchases, sales, and maturities of foreign government debt instruments of $3,539 million, $0, and $3,431 million, respectively, of which $100 million, $0, and $97 million, respectively, were allocated to the Bank.

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

At December 31, 2013 and 2012, there was no balance outstanding under the authorized warehousing facility.

There were no transactions related to the authorized reciprocal currency arrangements with the Bank of Canada and the Bank of Mexico during the years ended December 31, 2013 and 2012.

c. Central Bank Liquidity Swaps

U.S. Dollar Liquidity Swaps

The Bank's allocated share of U.S. dollar liquidity swaps was approximately 2.852 percent and 2.668 percent at December 31, 2013 and 2012, respectively.

The total foreign currency held under U.S. dollar liquidity swaps in the SOMA at December 31, 2013 and 2012, was $272 million and $8,889 million, respectively, of which $8 million and $237 million, respectively, was allocated to the Bank.

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

	2013			2012		
	Within 15 days	16 days to 90 days	Total	Within 15 days	16 days to 90 days	Total
Euro	$ 3	$ 5	$ 8	$ 46	$ 191	$ 237

Foreign Currency Liquidity Swaps

There were no transactions related to the foreign currency liquidity swaps during the years ended December 31, 2013 and 2012.

d. Fair Value of SOMA Assets

The fair value amounts below are presented solely for informational purposes. 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.

The fair value of the Treasury securities, GSE debt securities, federal agency and GSE MBS, and foreign government debt instruments in the SOMA's holdings 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, 2013, there are no credit impairments of SOMA securities holdings.

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

	Allocated to the Bank					
	2013			2012		
	Amortized cost	Fair value	Cumulative unrealized gains (losses)	Amortized cost	Fair value	Cumulative unrealized gains (losses)
Treasury securities:						
Notes	$ 80,790	$ 81,001	$ 211	$ 63,365	$ 67,302	$ 3,937
Bonds	46,705	45,517	(1,188)	37,001	42,224	5,223
Total Treasury securities	$ 127,495	$ 126,518	$ (977)	$ 100,366	$ 109,526	$ 9,160
GSE debt securities	3,195	3,363	168	4,409	4,716	307
Federal agency and GSE MBS	82,884	80,815	(2,069)	52,720	55,142	2,422
Total domestic SOMA portfolio securities holdings	$ 213,574	$ 210,696	$ (2,878)	$ 157,495	$ 169,384	$ 11,889
Memorandum - Commitments for:						
Purchases of Treasury securities	$ -	$ -	$ -	$ -	$ -	$ -
Purchases of Federal agency and GSE MBS	3,207	3,195	(12)	6,558	6,568	10
Sales of Federal agency and GSE MBS	-	-	-	-	-	-

	Total SOMA					
	2013			2012		
	Amortized cost	Fair value	Cumulative unrealized gains (losses)	Amortized cost	Fair value	Cumulative unrealized gains (losses)
Treasury securities:						
Notes	$ 1,495,115	$ 1,499,000	$ 3,885	$ 1,142,219	$ 1,213,177	$ 70,958
Bonds	864,319	842,336	(21,983)	666,969	761,138	94,169
Total Treasury securities	$ 2,359,434	$ 2,341,336	$ (18,098)	$ 1,809,188	$ 1,974,315	$ 165,127
GSE debt securities	59,122	62,236	3,114	79,479	85,004	5,525
Federal agency and GSE MBS	1,533,860	1,495,572	(38,288)	950,321	993,990	43,669
Total domestic SOMA portfolio securities holdings	$ 3,952,416	$ 3,899,144	$ (53,272)	$ 2,838,988	$ 3,053,309	$ 214,321
Memorandum - Commitments for:						
Purchases of Treasury securities	$ -	$ -	$ -	$ -	$ -	$ -
Purchases of Federal agency and GSE MBS	59,350	59,129	(221)	118,215	118,397	182
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.

At December 31, 2013 and 2012, the fair value of foreign currency denominated investments was $23,802 million and $25,042 million, respectively, of which $679 million and $668 million, respectively, was allocated to the Bank. The fair value of 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 and securities purchased under agreements to resell was determined by reference to market interest rates.

The cost basis of securities purchased under agreements to resell, securities sold under agreements to repurchase, and other investments held in the SOMA approximate fair value.

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

	2013		2012	
Distribution of MBS holdings by coupon rate	Amortized cost	Fair value	Amortized cost	Fair value
Allocated to the Bank:				
2.0%	$ 767	$ 731	$ 47	$ 47
2.5%	6,691	6,401	2,084	2,095
3.0%	28,197	26,168	8,910	8,973
3.5%	18,896	18,284	9,963	10,249
4.0%	12,442	12,489	7,642	8,097
4.5%	10,041	10,563	14,562	15,654
5.0%	4,501	4,753	6,940	7,335
5.5%	1,161	1,228	2,217	2,320
6.0%	165	174	313	327
6.5%	23	24	42	45
Total	$ 82,884	$ 80,815	$ 52,720	$ 55,142
Total SOMA:				
2.0%	$ 14,191	$ 13,529	$ 845	$ 846
2.5%	123,832	118,458	37,562	37,766
3.0%	521,809	484,275	160,613	161,757
3.5%	349,689	338,357	179,587	184,752
4.0%	230,256	231,113	137,758	145,955
4.5%	185,825	195,481	262,484	282,181
5.0%	83,290	87,968	125,107	132,214
5.5%	21,496	22,718	39,970	41,819
6.0%	3,051	3,225	5,642	5,888
6.5%	421	448	753	812
Total	$ 1,533,860	$ 1,495,572	$ 950,321	$ 993,990

Because SOMA securities are recorded at amortized cost, the change in the cumulative unrealized gains (losses) is not reported in the Statements of Income and Comprehensive Income. The following tables present the realized gains and the change in the cumulative unrealized gains (losses), presented as "Fair value changes in unrealized losses," of the domestic securities holdings during the years ended December 31, 2013 and 2012 (in millions):

Allocated to Bank

	2013		2012	
	Total portfolio holdings realized gains[1]	Fair value changes unrealized losses	Total portfolio holdings realized gains[1]	Fair value changes unrealized losses
Treasury securities	$ -	$ (9,893)	$ 747	$ (114)
GSE debt securities	-	(131)	-	(50)
Federal agency and GSE MBS	3	(4,436)	14	(192)
Total	$ 3	$ (14,460)	$ 761	$ (356)

Total SOMA

	2013		2012	
	Total portfolio holdings realized gains[1]	Fair value changes unrealized losses	Total portfolio holdings realized gains[1]	Fair value changes unrealized losses
Treasury securities	$ -	$ (183,225)	$ 13,255	$ (1,142)
GSE debt securities	-	(2,411)	-	(885)
Federal agency and GSE MBS	51	(81,957)	241	(3,568)
Total	$ 51	$ (267,593)	$ 13,496	$ (5,595)

[1] Total portfolio holdings realized gains are reported in "Non-interest income (loss): System Open Market Account" in the Statements of Income and Comprehensive Income

The amount of change in unrealized gains position, net, related to foreign currency denominated assets was a decrease of $90 million and an increase of $3 million for the years ended December 31, 2013 and 2012, respectively, of which $2 million was allocated to the Bank for the year ended December 31, 2013. The amount allocated to the Bank in 2012 was immaterial.

Accounting Standards Codification (ASC) Topic 820 (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 were as follows (in millions):

	2013	2012
Bank premises and equipment:		
Land and land improvements	$ 17	$ 17
Buildings	280	276
Building machinery and equipment	40	39
Construction in progress	14	8
Furniture and equipment	57	64
Subtotal	408	404
Accumulated depreciation	(179)	(173)
Bank premises and equipment, net	$ 229	$ 231
Depreciation expense, for the years ended December 31	$ 18	$ 18

The Bank leases space to outside tenants with remaining lease terms ranging from two to seven years. Rental income from such leases was $5 million for each of the years ended December 31, 2013 and 2012 and is reported as a component of "Non-interest income: Other" in the Statements of Income and Comprehensive Income. Future minimum lease payments that the Bank will receive under noncancelable lease agreements in existence at December 31, 2013, are as follows (in millions):

2014	$ 7
2015	4
2016	5
2017	4
2018	2
Thereafter	4
Total	$ 26

The Bank had capitalized software assets, net of amortization, of $8 million at December 31, 2013 and 2012. Amortization expense was $1 million for each of the years ended December 31, 2013 and 2012. Capitalized software assets are reported as a component of "Other assets" in the Statements of Condition and the related amortization is reported as a component of "Operating expenses: Other" in the Statements of Income and Comprehensive Income.

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, 2013, the Bank was obligated under noncancelable leases for premises and equipment with remaining terms ranging from two to approximately seven 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 $2 million for each of the years ended December 31, 2013 and 2012, respectively.

Future minimum lease payments under noncancelable operating leases, net of sublease rentals, with remaining terms of one year or more, at December 31, 2013, are as follows (in thousands):

	Operating leases
2014	$ 370
2015	375
2016	382
2017	236
2018	229
Thereafter	778
Future minimum rental payments	$ 2,370

At December 31, 2013, 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, 2013 and 2012.

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 participate in the Retirement Plan for Employees of the Federal Reserve System (System Plan). Under the Dodd-Frank Act, newly hired Bureau employees are eligible to participate in the System Plan. 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. During the years ended December 31, 2013 and 2012, certain costs associated with the System Plan were reimbursed by the Bureau.

The Bank's projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2013 and 2012, and for the years then ended, were not material.

Thrift Plan

Employees of the Bank participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The Bank matches 100 percent of the first six percent of employee contributions from the date of hire and provides an automatic employer contribution of one percent of eligible pay. The Bank's Thrift Plan contributions totaled $9 million and $8 million for the years ended December 31, 2013 and 2012, respectively, and are reported as a component of "Operating expenses: Salaries and benefits" in the Statements of Income and Comprehensive Income.

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

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

	2013	2012
Accumulated postretirement benefit obligation at January 1	$ 166.1	$ 146.2
Service cost benefits earned during the period	5.3	4.4
Interest cost on accumulated benefit obligation	6.1	6.6
Net actuarial (gain) loss	(32.4)	16.1
Contributions by plan participants	2.4	2.3
Benefits paid	(10.0)	(10.2)
Medicare Part D subsidies	0.6	0.7
Plan amendments	0.2	-
Accumulated postretirement benefit obligation at December 31	$ 138.3	$ 166.1

At December 31, 2013 and 2012, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 4.79 percent and 3.75 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. Beginning in 2013, the System Plan discount rate assumption setting convention changed from rounding the rate to the nearest 25 basis points to using an unrounded rate.

Following is a reconciliation of the beginning and ending balance of the plan assets, the unfunded postretirement benefit obligation, and the accrued postretirement benefit costs (in millions):

	2013	2012
Fair value of plan assets at January 1	$ -	$ -
Contributions by the employer	7.0	7.2
Contributions by plan participants	2.4	2.3
Benefits paid	(10.0)	(10.2)
Medicare Part D subsidies	0.6	0.7
Fair value of plan assets at December 31	$ -	$ -
Unfunded obligation and accrued postretirement benefit cost	$ 138.3	166.1
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service cost	$ 0.3	$ 1.1
Net actuarial loss	(23.0)	(60.6)
Total accumulated other comprehensive loss	$ (22.7)	$ (59.5)

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

For measurement purposes, the assumed health-care cost trend rates at December 31 are as follows:

	2013	2012
Health-care cost trend rate assumed for next year	7.00%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2019	2018

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, 2013 (in millions):

	One percentage point increase	One percentage point decrease
Effect on aggregate of service and interest cost components of net periodic postretirement benefit costs	$ 2.3	$ (1.8)
Effect on accumulated postretirement benefit obligation	18.4	(15.2)

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

	2013	2012
Service cost-benefits earned during the period	$ 5.3	$ 4.4
Interest cost on accumulated benefit obligation	6.1	6.6
Amortization of prior service cost	(0.6)	(0.7)
Amortization of net actuarial loss	5.2	3.9
Net periodic postretirement benefit expense	$ 16.0	$ 14.2

Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic postretirement benefit expense in 2014 are shown below:

Prior service cost	$ (0.5)
Net actuarial loss	1.2
Total	$ 0.7

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2013 and 2012, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 3.75 percent and 4.50 percent, respectively.

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

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

Federal Medicare Part D subsidy receipts were $483 thousand and $522 thousand in the years ended December 31, 2013 and 2012, respectively. Expected receipts in 2014, related to benefits paid in the years ended December 31, 2013 and 2012, are $450 thousand.

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

	Without subsidy	With subsidy
2014	$ 7.9	$ 7.3
2015	8.0	7.4
2016	8.3	7.6
2017	8.4	7.7
2018	8.6	7.8
2019-2023	47.1	42.2
Total	$ 88.3	$ 80.0

Postemployment Benefits

The Bank offers benefits to former or inactive employees. Postemployment benefit costs are actuarially determined using a December 31 measurement date and include the cost of medical, 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, 2013 and 2012, were $9 million and $11 million, respectively. This cost is included as a component of “Accrued benefit costs” in the Statements of Condition. Net periodic postemployment benefit credit included in 2013 and 2012 operating expenses were $1 million and $28 thousand, respectively, and are recorded as a component of “Operating expenses: Salaries and benefits” in the Statements of Income and Comprehensive Income.

10. Accumulated Other Comprehensive Income and Other Comprehensive Income

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

	2013	2012
	Amount related to postretirement benefits other than retirement plans	Amount related to postretirement benefits other than retirement plans
Balance at January 1	$ (59.5)	$ (46.6)
Change in funded status of benefit plans:		
Prior service costs arising during the year	(0.2)	-
Amortization of prior service cost	(0.6)[1]	(0.7)[1]
Change in prior service costs related to benefit plans	(0.8)	(0.7)
Net actuarial gain (loss) arising during the year	32.4	(16.2)
Amortization of net actuarial loss	5.2[1]	4.0[1]
Change in actuarial gain (losses) related to benefit plans	37.6	(12.2)
Change in funded status of benefit plans - other comprehensive income (loss)	36.8	(12.9)
Balance at December 31	$ (22.7)	$ (59.5)

[1] Reclassification is reported as a component of “Operating Expenses: Salaries and benefits” in the Statements of Income and Comprehensive Income.

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 2013 or 2012.

In years prior to 2012, the Reserve Banks announced the acceleration of their check restructuring initiatives to align the check processing infrastructure and operations with declining check processing volumes. The new infrastructure consolidated paper and electronic check processing at FRBA. During the year ended December 31, 2012, payments related to this restructuring program were immaterial, and the Bank had no remaining liability as of December 31 2012.

12. Distribution of Comprehensive Income

In accordance with Board policy, Reserve Banks remit excess earnings, after providing for dividends and the amount necessary to equate surplus with capital paid-in, to the U.S. Treasury as earnings remittances to Treasury. The following table presents the distribution of the Bank's comprehensive income in accordance with the Board's policy for the years ended December 31 (in millions):

	2013	2012
Dividends on capital stock	$ 46	$ 47
Transfer (from) to surplus - amount required to equate surplus with capital paid-in	(21)	62
Earnings remittances to Treasury	4,407	4,690
Total Distribution	$ 4,432	$ 4,799

During the year ended December 31, 2013, the Bank recorded a reduction in the amount of capital paid-in and a corresponding reduction of surplus, which is presented in the above table as "Transfer from surplus – amount required to equate surplus with capital paid-in." The reduction of surplus resulted in an equivalent increase in "Earnings remittances to Treasury" and a reduction in "Comprehensive income" for the year ended December 31, 2013.

13. Subsequent Events

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2013. Subsequent events were evaluated through March 14, 2014, which is the date that the financial statements were available to be issued.

OUR MISSION

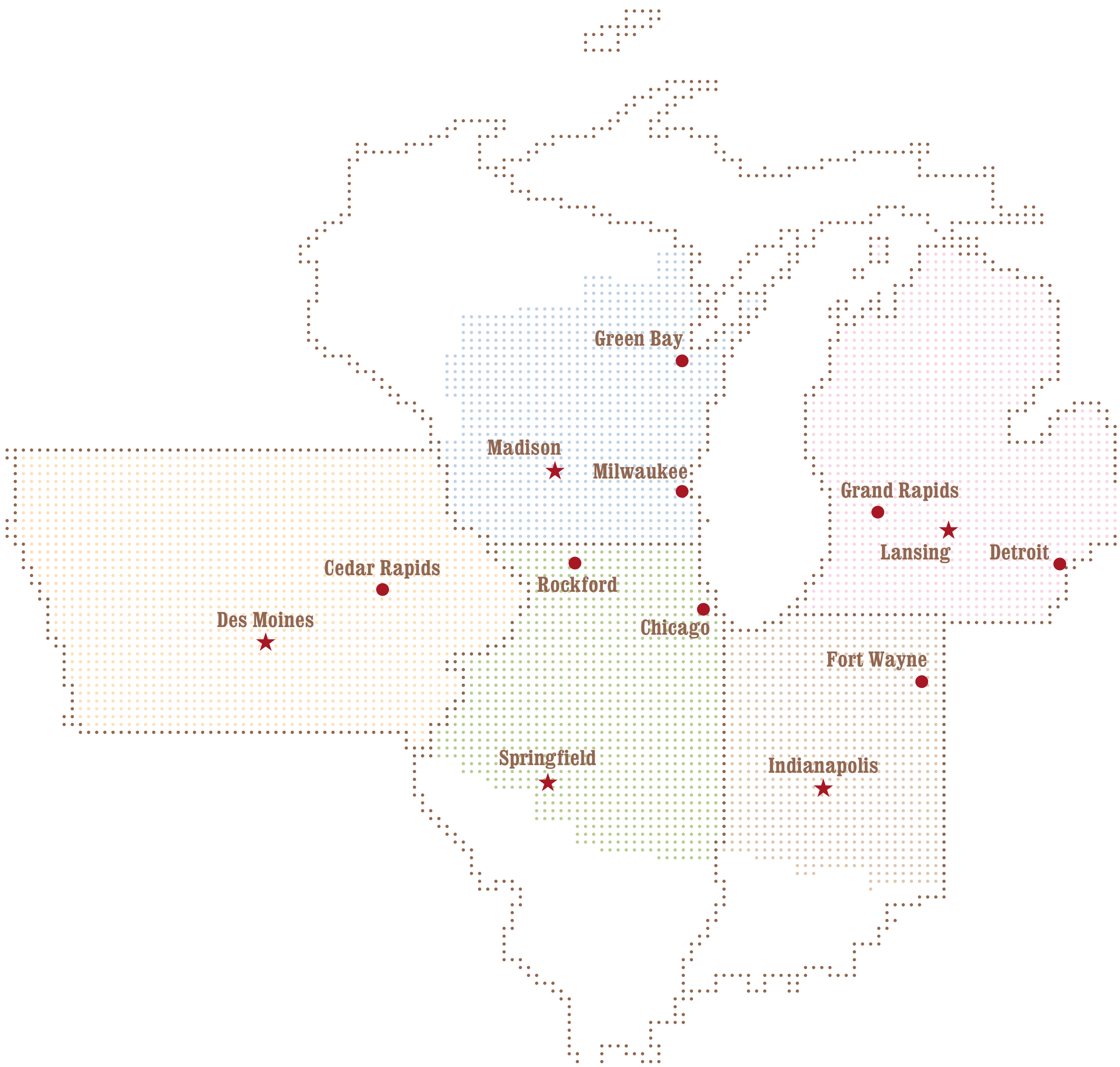
The Federal Reserve Bank of Chicago is one of 12 regional Reserve Banks across the United States that, together with the Board of Governors in Washington, D.C., serve as the nation's central bank. The role of the Federal Reserve System, since its establishment by an act of Congress passed in 1913, has been to foster a strong economy, supported by a stable financial system.

To this end, the Federal Reserve Bank of Chicago participates in the formulation and implementation of national monetary policy; supervises and regulates state-member banks, bank holding companies and foreign bank branches; and provides financial services to depository institutions and the U.S. government. Through its head office in Chicago and branch in Detroit, the Federal Reserve Bank of Chicago serves the Seventh Federal Reserve District, which includes most of Illinois, Indiana, Michigan and Wisconsin, plus all of Iowa.

OUR VISION

We serve the public interest by fostering a strong economy and promoting financial stability. We accomplish this with talented and innovative people working within a collaborative and inclusive culture.

The Seventh Federal Reserve District



FEDERAL RESERVE BANK
OF CHICAGO

Head Office
230 South LaSalle Street
P.O. Box 834
Chicago, Illinois 60690-0834
312-322-5322

Detroit Branch
1600 East Warren Avenue
Detroit, Michigan 48207-1063
313-961-6880

MIX
Paper from
responsible sources
FSC® C003546
www.fsc.org