The Federal Reserve Bank of New York

Financial Statements as of and for the Years Ended December 31, 2014 and 2013 and Independent Auditors' Report

THE FEDERAL RESERVE BANK OF NEW YORK

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FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Management's Report on Internal Control Over Financial Reporting

March 11, 2015

To the Board of Directors of the
Federal Reserve Bank of New York:

The management of the Federal Reserve Bank of New York is responsible for the preparation and fair presentation of the Statements of Condition as of December 31, 2014 and 2013, 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 Bank is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. The Bank's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with the FAM. The Bank's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Bank's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with FAM, and that the Bank's receipts and expenditures are being made only in accordance with authorizations of its management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its financial statements.

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

The management of the Bank assessed its internal control over financial reporting based upon the criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the Bank maintained effective internal control over financial reporting.

William C. Dudley — Christine M. Cumming — Michael Strine

William C. Dudley	Christine M. Cumming	Michael Strine
President	First Vice President	Principal Financial Officer

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the Federal Reserve Bank of New York and its subsidiaries (collectively "FRB New York"), which are comprised of the consolidated statements of condition as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, and of changes in capital for the years then ended, and the related notes to the consolidated financial statements. We also have audited the FRB New York's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility

The FRB New York's management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements. The Board has determined that this basis of accounting is an acceptable basis for the preparation of the FRB New York's consolidated financial statements in the circumstances. The FRB New York's management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The FRB New York'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 consolidated financial statements and an opinion on the FRB New York's internal control over financial reporting based on our audits. We conducted our audits of the consolidated 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) (the "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 consolidated 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 consolidated financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the FRB New York's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of the consolidated 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 consolidated 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 New York's internal control over financial reporting is a process designed by, or under the supervision of, the FRB New York's principal executive and principal financial officers, or persons performing similar functions, and effected by the FRB New York's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with the accounting principles established by the Board. The FRB New York'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 New York; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with the accounting principles established by the Board, and that receipts and expenditures of the FRB New York are being made only in accordance with authorizations of management and directors of the FRB New York; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the FRB New York's assets that could have a material effect on the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the FRB New York as of December 31, 2014 and 2013, and the results of its operations for the years then ended in accordance with the basis of accounting described in Note 3 to the consolidated financial statements. Also, in our opinion, the FRB New York maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis of Accounting

We draw attention to Note 3 to the consolidated financial statements, which describes the basis of accounting. The FRB New York has prepared these consolidated 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 consolidated 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 consolidated financial statements. Our opinion is not modified with respect to this matter.

Deloitte + Touche LLP

March 11, 2015

FEDERAL RESERVE BANK OF NEW YORK

Abbreviations:

ABS	Asset-backed securities
ACH	Automated clearinghouse
AIG	American International Group, Inc.
AIGFP	American International Group, Inc. Financial Products Corp.
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BEP	Benefit Equalization Retirement Plan
Bureau	Bureau of Consumer Financial Protection
CDO	Collateralized debt obligation
CDS	Credit default swaps
CFE	Collateralized financing entity
CIP	Committee on Investment Performance (related to System Retirement Plan)
CMBS	Commercial mortgage-backed securities
FAM	*Financial Accounting Manual for Federal Reserve Banks*
FASB	Financial Accounting Standards Board
Fannie Mae	Federal National Mortgage Association
Freddie Mac	Federal Home Loan Mortgage Corporation
FOMC	Federal Open Market Committee
FRN	Floating rate notes
GAAP	Accounting principles generally accepted in the United States of America
GSE	Government-sponsored enterprise
IMF	International Monetary Fund
IMI	Investible Markets Index
JPMC	JPMorgan Chase & Co.
LLC	Limited liability company
MBS	Mortgage-backed securities
ML	Maiden Lane LLC
ML II	Maiden Lane II LLC
ML III	Maiden Lane III LLC
MSCI	Morgan Stanley Capital International
MTM	Mark-to-market
RMBS	Residential mortgage-backed securities
SBA	Small Business Administration
SDR	Special drawing rights
SERP	Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks
SOMA	System Open Market Account
STRIPS	Separate Trading of Registered Interest and Principal Securities
TALF	Term Asset-Backed Securities Loan Facility
TBA	To be announced
TDF	Term Deposit Facility
TRS	Total return swap
VIE	Variable interest entity

FEDERAL RESERVE BANK OF NEW YORK
CONSOLIDATED STATEMENTS OF CONDITION
As of December 31, 2014 and December 31, 2013
(in millions)

	2014	2013
ASSETS		
Gold certificates	$ 4,125	$ 3,925
Special drawing rights certificates	1,818	1,818
Coin	79	82
Loans:		
Depository institutions	4	10
Term Asset-Backed Securities Loan Facility (measured at fair value)	-	98
System Open Market Account:		
Treasury securities, net (of which $6,840 and $9,512 is lent as of December 31, 2014 and 2013, respectively)	1,593,478	1,308,403
Government-sponsored enterprise debt securities, net (of which $388 and $609 is lent as of December 31, 2014 and 2013, respectively)	24,544	32,786
Federal agency and government-sponsored enterprise mortgage-backed securities, net	1,098,074	850,588
Foreign currency denominated investments, net	6,720	7,583
Central bank liquidity swaps	491	87
Accrued interest receivable	15,715	13,007
Other assets	18	1
Investments held by consolidated variable interest entities (of which $1,808 and $1,774 is measured at fair value as of December 31, 2014 and 2013, respectively)	1,811	1,926
Prepaid pension benefit costs	-	332
Bank premises and equipment, net	475	466
Deferred asset - remittances to the Treasury	923	-
Interdistrict settlement account	-	166,886
Other assets	304	212
Total assets	$ 2,748,579	$ 2,388,210
LIABILITIES AND CAPITAL		
Federal Reserve notes outstanding, net	$ 418,319	$ 475,077
System Open Market Account:		
Securities sold under agreements to repurchase	312,919	175,193
Other liabilities	509	738
Liabilities of consolidated variable interest entities (of which $41 and $189 is measured at fair value as of December 31, 2014 and 2013, respectively)	127	274
Deposits:		
Depository institutions	1,560,513	1,518,974
Treasury, general account	223,452	162,399
Other deposits	25,392	33,962
Interest payable to depository institutions	86	70
Accrued benefit costs	1,495	444
Deferred credit items	3	-
Accrued remittances to the Treasury	-	3,328
Interdistrict settlement account	187,283	-
Other liabilities	65	61
Total liabilities	2,730,163	2,370,520
Capital paid-in	9,208	8,845
Surplus (including accumulated other comprehensive loss of $3,938 and $2,452 at December 31, 2014 and 2013, respectively)	9,208	8,845
Total capital	18,416	17,690
Total liabilities and capital	$ 2,748,579	$ 2,388,210

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

FEDERAL RESERVE BANK OF NEW YORK
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the years ended December 31, 2014 and December 31, 2013
(in millions)

	2014	2013
INTEREST INCOME		
Loans:		
Term Asset-Backed Securities Loan Facility	$ 2	$ 6
System Open Market Account:		
Treasury securities, net	37,733	28,691
Government-sponsored enterprise debt securities, net	941	1,206
Federal agency and government-sponsored enterprise mortgage-backed securities, net	30,664	20,368
Foreign currency denominated investments, net	25	31
Central bank liquidity swaps	-	7
Investments held by consolidated variable interest entities	77	6
Total interest income	69,442	50,315
INTEREST EXPENSE		
System Open Market Account:		
Securities sold under agreements to repurchase	68	34
Other	1	-
Deposits:		
Depository institutions	4,797	3,713
Term Deposit Facility	117	7
Total interest expense	4,983	3,754
Net interest income	64,459	46,561
NON-INTEREST (LOSS) INCOME		
System Open Market Account:		
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net	48	28
Foreign currency translation losses, net	(935)	(402)
Other	8	12
Consolidated variable interest entities: gains, net	37	183
Income from services	95	90
Compensation received for service costs provided	2	3
Reimbursable services to government agencies	120	120
Other	7	6
Total non-interest (loss) income	(618)	40
OPERATING EXPENSES		
Salaries and benefits	630	607
Occupancy	64	70
Equipment	18	18
Compensation paid for service costs incurred	39	37
Net periodic pension expense	352	619
Other	189	202
Assessments:		
Board of Governors operating expenses and currency costs	343	324
Bureau of Consumer Financial Protection	183	180
Total operating expenses	1,818	2,057
Net income before providing for remittances to the Treasury	62,023	44,544
Earnings remittances to the Treasury	59,625	45,941
Net income (loss)	2,398	(1,397)
Change in prior service costs related to benefit plans	100	104
Change in actuarial (losses) gains related to benefit plans	(1,586)	1,919
Total other comprehensive (loss) income	(1,486)	2,023
Comprehensive income	$ 912	$ 626

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

FEDERAL RESERVE BANK OF NEW YORK
CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL
For the years ended December 31, 2014 and December 31, 2013
(in millions, except share data)

		Surplus			
	Capital paid-in	Net income retained	Accumulated other comprehensive income (loss)	Total surplus	Total capital
Balance at December 31, 2012 (174,908,186 shares)	$ 8,745	$ 13,220	$ (4,475)	$ 8,745	$ 17,490
Net change in capital stock issued (1,991,511 shares)	100	-	-	-	100
Comprehensive income:					
Net loss	-	(1,397)	-	(1,397)	(1,397)
Other comprehensive income	-	-	2,023	2,023	2,023
Dividends on capital stock	-	(526)	-	(526)	(526)
Net change in capital	100	(1,923)	2,023	100	200
Balance at December 31, 2013 (176,899,697 shares)	$ 8,845	$ 11,297	$ (2,452)	$ 8,845	$ 17,690
Net change in capital stock issued (7,252,697 shares)	363	-	-	-	363
Comprehensive income:					
Net income	-	2,398	-	2,398	2,398
Other comprehensive loss	-	-	(1,486)	(1,486)	(1,486)
Dividends on capital stock	-	(549)	-	(549)	(549)
Net change in capital	363	1,849	(1,486)	363	726
Balance at December 31, 2014 (184,152,394 shares)	$ 9,208	$ 13,146	$ (3,938)	$ 9,208	$ 18,416

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

FEDERAL RESERVE BANK OF NEW YORK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. STRUCTURE

The Federal Reserve Bank of New York (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 Second Federal Reserve District, which includes the State of New York, the 12 northern counties of New Jersey, Fairfield County, Connecticut, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands.

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

2. OPERATIONS AND SERVICES

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

The FOMC, in conducting monetary policy, establishes policy regarding domestic open market operations, oversees these operations, and issues authorizations and directives to the Bank to execute transactions. The FOMC authorizes and directs the Bank 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 Bank holds the resulting securities and agreements in a portfolio known as the System Open Market Account (SOMA). The Bank is authorized and directed to lend the Treasury securities and GSE debt securities that are held in the SOMA.

To be prepared 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 Bank 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 Bank holds these securities and obligations in the SOMA. The FOMC has also authorized the Bank 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 Bank to establish U.S. dollar liquidity and reciprocal foreign currency 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. The Bank holds amounts outstanding under these swap lines in the SOMA. These swap lines, which were originally established as temporary arrangements, were converted to standing arrangements on October 31, 2013, and will remain in place until further notice.

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 the management of SOMA, the Wholesale Product Office, the System Credit Risk Technology Support function, the Valuation Support team, centralized business administration functions for wholesale payments services, and three national information technology operations dealing with incident responses, remote access, and enterprise search.

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 consolidated 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, the recording of all SOMA securities on a settlement-date basis, and the use of straight-line amortization for Treasury securities, GSE debt securities, and foreign currency denominated investments. Amortized cost, rather than the fair value presentation, more appropriately reflects the financial position associated with the Bank's securities holdings given the System's unique responsibility to conduct monetary policy. Although the application of fair value measurements to the securities holdings may result in values substantially greater or less than their carrying values, these unrealized changes in value have no direct effect on the quantity of reserves available to the banking system or on the ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. Both the domestic and foreign components of the SOMA portfolio may involve transactions that result in gains or losses when holdings are sold before maturity. Decisions regarding securities and foreign currency transactions, including their purchase and sale, are 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 Consolidated Statement of Cash Flows as required by GAAP because the liquidity and cash position of the Bank are not a primary concern given the Reserve Bank's unique powers and responsibilities as a central bank. Other information regarding the Bank's activities is provided in, or may be derived from, the Consolidated Statements of Condition, Income and Comprehensive Income, and Changes in Capital, and the accompanying notes to the consolidated financial statements. Other than those described above, there are no significant differences between the policies outlined in the FAM and GAAP.

Preparing the consolidated 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 consolidated financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

In 2014, the description of certain line items presented in the Consolidated Statements of Condition and the Consolidated Statements of Income and Comprehensive Income 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 "System Open Market Account: Other investments" has been revised in the Consolidated Statements of Condition to "System Open Market Account: Other assets."

- The line item "System Open Market Account: Foreign currency denominated assets, net" has been revised in the Consolidated Statements of Income and Comprehensive Income to "System Open Market Account: Foreign currency denominated investments, net."

Certain amounts relating to the prior year have been reclassified in the Consolidated Statements of Condition to conform to the current year presentation. $116 million and $158 million previously reported as of December 31, 2013 as "Consolidated variable interest entities: Beneficial interest in consolidated variable interest entities" and "Consolidated variable interest entities: Other liabilities," respectively, have been combined and reported in a new line titled "Liabilities of consolidated variable interest entities."

Certain amounts relating to the prior year have been reclassified in the Consolidated Statements of Income and Comprehensive Income to conform to the current year presentation. $12 million previously reported for the year ended December 31, 2013 as "Non-interest (loss) income: Other" has been reclassified into a new line titled "Non-interest (loss) income: System Open Market Account: Other." $183 million and $0 previously reported for the year ended December 31, 2013 as "Non-interest (loss) income: Consolidated variable interest entities: Investments held by consolidated variable interest entities gains, net" and "Non-interest (loss) income: Consolidated variable interest entities: Beneficial interest in consolidated variable interest entities losses, net," respectively, have been combined and reported in a new line titled "Non-interest (loss) income: Consolidated variable interest entities gains, net."

Significant accounts and accounting policies are explained below.

a. *Consolidation*

The consolidated financial statements include the accounts and results of operations of the Bank as well as several variable interest entities (VIEs), which include Maiden Lane LLC (ML), Maiden Lane II LLC (ML II), Maiden Lane III LLC (ML III), and TALF LLC. The consolidation of the VIEs was assessed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810 (ASC 810) *Consolidation*, which requires a VIE to be consolidated by its controlling financial interest holder. Intercompany balances and transactions have been eliminated in consolidation. See Note 6 for additional information on the VIEs. The consolidated financial statements of the Bank also include accounts and results of operations of Maiden and Nassau LLC, a Delaware limited liability company (LLC) wholly-owned by the Bank, which was formed to own and operate the Bank-owned 33 Maiden Lane building.

The Bank consolidates a VIE if the Bank has a controlling financial interest, which is defined as the power to direct the significant economic activities of the entity and the obligation to absorb losses or the right to receive benefits of the entity that could potentially be significant to the VIE. To determine whether it is the controlling financial interest holder of a VIE, the Bank evaluates the VIE's design, capital structure, and relationships with the variable interest holders. The Bank reconsiders whether it has a controlling financial interest in a VIE, as required by ASC 810, at each reporting date or if there is an event that requires consideration.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) established the Bureau of Consumer Financial Protection (Bureau) as an independent bureau within the System that has supervisory authority over some institutions previously supervised by the Reserve Banks in connection with those institutions' compliance with consumer protection statutes. Section 1017 of the Dodd-Frank Act provides that the financial statements of the Bureau are not to be consolidated with those of the Board of Governors or the System. The Board of Governors funds the Bureau through assessments on the Reserve Banks as required by the Dodd-Frank Act. The Reserve Banks reviewed the law and evaluated the design of and their relationship to the Bureau and determined that it should not be consolidated in the Bank's consolidated 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, 2014 and 2013.

c. ***Coin***

The amount reported as coin in the Consolidated 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.

The Bank has elected the fair value option for all Term Asset-Backed Securities Loan Facility (TALF) loans in accordance with ASC 825. Recording all TALF loans at fair value, rather than at the remaining principal amount outstanding, provides the most appropriate presentation on the financial statements by matching the change in fair value of TALF loans, the related put agreement with TALF LLC, and the valuation of the beneficial interests in TALF LLC. Information regarding the TALF LLC's assets and liabilities is presented in Note 6. Unrealized gains (losses) on TALF loans that are recorded at fair value are reported as a component of "Non-interest (loss) income: Other" in the Consolidated Statements of Income and Comprehensive Income. The interest income on TALF loans is recognized based on the contracted rate and is reported as "Interest Income: Term Asset-Backed Securities Loan Facility" in the Consolidated Statements of Income and Comprehensive Income.

Loans, other than those recorded at fair value, 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.

Impaired loans include loans that have been modified in debt restructurings involving borrowers experiencing financial difficulties. The allowance for loan restructuring is determined by discounting the restructured cash flows using the original effective interest rate for the loan. Unless the borrower can demonstrate that it can meet the restructured terms, the Bank discontinues recognizing interest income. Performance prior to the restructuring, or significant events that coincide with the restructuring, are considered in assessing whether the borrower can meet the new terms.

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

The Bank may engage in purchases of securities with primary dealers under agreements to resell (repurchase transactions). These repurchase transactions are typically 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 Bank and counterparty. The collateral pledged must exceed the principal amount of the transaction by a margin determined by the Bank for each class and maturity of acceptable collateral. Collateral designated by the Bank as acceptable under repurchase transactions primarily includes Treasury securities (including Treasury Inflation-Protected Securities, Separate Trading of Registered Interest and Principal of Securities (STRIPS) Treasury securities, and Treasury Floating Rate Notes (FRN)); direct obligations of several federal and GSE-related agencies, including Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), 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 Consolidated Statements of Condition.

The Bank may engage in sales of securities under agreements to repurchase with primary dealers and with a set of expanded counterparties which includes banks, savings associations, GSEs, and domestic money market funds (Overnight and term reverse repurchase agreements). These reverse repurchase transactions, 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, or 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 "System Open Market Account: Other liabilities" in the Consolidated Statements of Condition.

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

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

In addition to outright purchases of federal agency and GSE MBS that are held in the SOMA, the Bank 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, 2014 and 2013, the Bank executed dollar rolls to facilitate settlement of outstanding purchases of federal agency and GSE MBS. The Bank 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 (losses) resulting from these MBS transactions are reported as "Non-interest (loss) income: System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net" in the Consolidated Statements of Income and Comprehensive Income.

Foreign currency denominated investments, 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 investments are reported as "Non-interest (loss) income: System Open Market Account: Foreign currency translation losses, net" in the Consolidated Statements of Income and Comprehensive Income.

Because the Bank 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 Consolidated Statements of Condition.

Activity related to Treasury securities, GSE debt securities, and federal agency and GSE MBS, including the premiums, discounts, and realized gains and losses, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of the interdistrict settlement account that occurs in the second quarter of each year. Activity related to foreign currency denominated investments, including the premiums, discounts, and realized and unrealized gains and losses, is 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.

The Bank is authorized to hold foreign currency working balances and execute foreign exchange contracts to facilitate international payments and currency transactions it makes on behalf of foreign central bank and U.S. official institution customers. These foreign currency working balances and contracts are not related to the Bank's monetary policy operations. Foreign currency working balances are reported as a component of "Other assets" in the Consolidated Statements of Condition and the related foreign currency translation gains and losses that result from the daily revaluation of the foreign currency working balances and contracts are reported as a component of "Non-interest (loss) income: Other" in the Consolidated Statements of Income and Comprehensive Income.

g. *Central Bank Liquidity Swaps*

Central bank liquidity swaps, which are transacted between the Bank 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 Bank in exchange for U.S. dollars at the prevailing market exchange rate. Concurrent with this transaction, the Bank and the foreign central bank agree to a second transaction that obligates the foreign central bank to return the U.S. dollars and the Bank 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 Bank acquires are reported as "System

Open Market Account: Central bank liquidity swaps" in the Consolidated 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 Bank 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 Consolidated Statements of Income and Comprehensive Income.

Foreign currency liquidity swaps

The structure of foreign currency liquidity swap transactions involves the transfer by the Bank at the prevailing market exchange rate, of a specified amount of U.S. dollars to an account for the foreign central bank in exchange for its currency. The foreign currency amounts that the Bank receives are recorded as a liability.

h. ***Investments Held by Consolidated Variable Interest Entities***

The investments held by consolidated VIEs consist primarily of short-term investments with maturities of greater than three months and less than one year, cash and cash equivalents, commercial mortgage loans, and swap contracts. Swap contracts consist of credit default swaps (CDS). Investments are reported as "Investments held by consolidated variable interest entities" in the Consolidated Statements of Condition. These investments are accounted for and classified as follows:

- ML's investments in debt securities are accounted for in accordance with FASB ASC Topic 320 (ASC 320) *Investments – Debt and Equity Securities*, and ML elected the fair value option for all eligible assets and liabilities in accordance with ASC 825. Other financial instruments, including swap contracts in ML, are recorded at fair value in accordance with FASB ASC Topic 815 (ASC 815) *Derivatives and Hedging*.

- ML II and ML III qualify as nonregistered investment companies under the provisions of FASB ASC Topic 946 (ASC 946) *Financial Services – Investment Companies*, and therefore, all investments are recorded at fair value in accordance with ASC 946.

- TALF LLC follows the guidance in ASC 320 when accounting for any acquired asset-backed securities (ABS) investments and has elected the fair value option for all eligible assets in accordance with ASC 825.

i. ***Bank Premises, Equipment, and Software***

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from 2 to 50 years. Major alterations, renovations, and improvements are capitalized at cost as additions to the asset accounts and are depreciated over the remaining useful life of the asset or, if appropriate, over the unique useful life of the alteration, renovation, or improvement. Maintenance, repairs, and minor replacements are charged to operating expense in the year incurred.

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

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

j. *Interdistrict Settlement Account*

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

k. *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 Consolidated Statements of Condition represents the Bank's Federal Reserve notes outstanding, reduced by the Bank's currency holdings of $56,971 million and $38,515 million at December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, all Federal Reserve notes outstanding, reduced by the Reserve Bank's currency holdings, were fully collateralized. At December 31, 2014, all gold certificates, all special drawing rights certificates, and $1,282 billion of domestic securities held in the SOMA were pledged as collateral. At December 31, 2014, no investments denominated in foreign currencies were pledged as collateral.

l. *Liabilities of Consolidated Variable Interest Entities*

The liabilities of consolidated VIEs consist primarily of swap contracts, cash collateral on swap contracts, and beneficial interests. Swap contracts are recorded at fair value in accordance with ASC 815. The VIEs elected to measure all beneficial interests at fair value in accordance with ASC 825. Liabilities are reported as "Liabilities of consolidated variable interest entities" in the Consolidated Statements of Condition. Changes in fair value of the liabilities are recorded in "Non-interest (loss) income: Consolidated variable interest entities gains, net" in the Consolidated Statements of Income and Comprehensive Income.

m. ***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 Consolidated 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 Consolidated Statements of Condition. There were no deposits held by the Bank under the TDF at December 31, 2014 and 2013.

Treasury

The Treasury general account is the primary operational account of the Treasury and is held at the Bank.

Other

Other deposits include the Bank's allocated portion of foreign central bank and foreign government deposits held at the Bank and those in which the Bank has an undivided interest. Other deposits also include cash collateral and GSE deposits held by the Bank.

n. ***Deferred Credit Items***

Deferred credit items represents the counterpart liability to items in process of collection. The amounts in this account arise from deferring credit for deposited items until the amounts are collected. The balance in this account can fluctuate significantly.

o. ***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.

p. ***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 Consolidated Statements of Condition and the Consolidated Statements of Changes in Capital. Additional information regarding the classifications of accumulated other comprehensive income is provided in Notes 9, 10, and 11.

q. *Remittances to the 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 the Treasury are made on a weekly basis. This amount is reported as "Earnings remittances to the Treasury" in the Consolidated Statements of Income and Comprehensive Income. The amount due to the Treasury is reported as "Accrued remittances to the Treasury" in the Consolidated Statements of Condition. See Note 13 for additional information on earnings remittances to the Treasury.

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. Accounting adjustments, including those recorded as of or near the financial statement date, can also result in suspending remittances to the Treasury and recording a deferred asset. As of December 31, 2014, such adjustments resulted in recording a deferred asset in the amount of $923 million, which is reported as "Deferred asset – remittances to the Treasury" in the Consolidated Statements of Condition. The deferred asset is reviewed for impairment and as of December 31, 2014, no impairment existed.

r. *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, 2014 and 2013, the Bank was reimbursed for substantially all services provided to the Treasury as its fiscal agent.

s. *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 Fedwire funds and securities services and, as a result, reports total System revenue for these services as "Income from services" in its Consolidated 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 Consolidated Statements of Income and Comprehensive Income.

The Federal Reserve Bank of Atlanta has overall responsibility for managing the Reserve Banks' provision of check and ACH services to depository institutions, and the Federal Reserve Bank of Chicago has overall responsibility for managing the Reserve Banks' provision of electronic access services to depository institutions. The Reserve Bank that has overall responsibility for managing these services recognizes the related total System revenue in its Consolidated 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 (loss) income: Compensation received for service costs provided" in its Consolidated Statements of Income and Comprehensive Income.

t. *Assessments*

The Board of Governors assesses the Reserve Banks to fund its operations and the operations of the Bureau. These assessments are allocated to each Reserve Bank based on each Reserve Bank's capital and surplus balances. The Board of Governors also assesses each Reserve Bank for expenses related to producing, issuing, and retiring Federal Reserve notes based on each Reserve Bank's share of the number of notes comprising the System's net liability for Federal Reserve notes on December 31 of the prior year.

The Dodd-Frank Act requires that, after the transfer of its responsibilities to the Bureau on July 21, 2011, the Board of Governors fund the Bureau in an amount not to exceed a fixed percentage of the total operating expenses of the System as reported in the Board of Governors' 2009 annual report, which totaled $4.98 billion. After 2013, the amount will be adjusted annually in accordance with the provisions of the Dodd-Frank Act. The percentage of total operating expenses of the System for the years ended December 31, 2014 and 2013 was 12.22 percent ($608.4 million) and 12 percent ($597.6 million), respectively. The Bank's assessment for Bureau funding is reported as "Assessments: Bureau of Consumer Financial Protection" in the Consolidated Statements of Income and Comprehensive Income.

u. ***Fair Value***

Certain assets and liabilities reported on the Bank's Consolidated Statements of Condition are measured at fair value in accordance with ASC 820, including TALF loans, investments and beneficial interests of the consolidated VIEs, and assets of the Retirement Plan for Employees of the System. 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.

The inputs or methodology used for valuing assets and liabilities are not necessarily an indication of the risk associated with those assets and liabilities.

v. ***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 $15 million and $14 million for the years ended December 31, 2014 and 2013, respectively, and are reported as a component of "Operating expenses: Occupancy" in the Consolidated Statements of Income and Comprehensive Income.

w. ***Restructuring Charges***

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

In 2014, the Treasury announced plans to consolidate the provision of substantially all fiscal agent services for the U.S. Treasury at the Federal Reserve Bank of Cleveland, the Federal Reserve Bank of Kansas City, the

Bank, and the Federal Reserve Bank of St. Louis. The implementation plan associated with this consolidation is expected to be completed in 2018.

Note 12 describes the Bank's restructuring initiatives and provides information about the costs and liabilities associated with employee separations and contract terminations. The costs associated with the impairment of certain Bank assets are discussed in Note 7. 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 Bank and discussed in Note 9. Costs and liabilities associated with enhanced postretirement benefits are discussed in Note 10.

x. *Recently Issued Accounting Standards*

In June 2013, the FASB issued Accounting Standards Update (ASU) 2013-08, *Financial Services – Investment Companies* (Topic 946): *Amendments to the Scope, Measurement, and Disclosure Requirements*. This update changed the assessment of whether an entity is an investment company by developing a new two-tiered approach for that assessment, which requires an entity to possess certain fundamental characteristics while allowing judgment in assessing other typical characteristics. This update, which is applicable to ML II and ML III, was effective for the Bank for the year ended December 31, 2014 and did not have a material effect on the Bank's consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, *Presentation of Financial Statements* (Topic 205) *and Property, Plant, and Equipment* (Topic 360): *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This update changes the requirements for reporting discontinued operations, which may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. This update is effective for the Bank for the year ending December 31, 2015, and is not expected to have a material effect on the Bank's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This update was issued to create common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The guidance is applicable to all contracts for the transfer of goods or services regardless of industry or type of transaction. This update requires recognition of revenue in a manner that reflects the consideration that the entity expects to receive in return for the transfer of goods or services to customers. This update is effective for the Bank for the year ending December 31, 2018, and is not expected to have a material effect on the Bank's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, *Transfer and Servicing* (Topic 860): *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.* This update requires changes in the accounting for repurchase to maturity transactions and repurchase financing transactions. Additionally, this update provides guidance for the disclosures for certain transfers of financial assets accounted for as sales, where the transferor retains substantially all of the exposure to economic return on the transferred financial asset; and repurchase agreements, securities lending transactions, and repurchase to maturity transactions that are accounted for as secured borrowings. This update is effective for the Bank for the year ending December 31, 2015, and is not expected to have a material effect on the Bank's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-13, *Consolidation* (Topic 810): *Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity*. This update provides guidance for the measurement of the financial assets and financial liabilities of a collateralized financing entity (CFE). A reporting entity that consolidates a CFE may elect to measure the financial assets and financial liabilities of that CFE using either the fair value or a measurement alternative as prescribed in the accounting pronouncement. This update is effective for the Bank for the year ending December 31, 2016, and is not expected to have a material effect on the Bank's consolidated financial statements.

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; ABS; 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 $4 million and $10 million as of December 31, 2014 and 2013, respectively, with a remaining maturity within 15 days.

At December 31, 2014 and 2013, 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, 2014 and 2013.

TALF

The TALF assisted financial markets in accommodating the credit needs of consumers and businesses of all sizes by facilitating the issuance of ABS collateralized by a variety of consumer and business loans. Each TALF loan had an original maturity of three years, except loans secured by Small Business Administration (SBA) Pool Certificates, loans secured by SBA Development Company Participation Certificates, or ABS backed by student loans or commercial mortgage loans, which had an original maturity of five years if the borrower so elected. The loans were secured by eligible collateral, with the Bank having lent an amount equal to the value of the collateral, as determined by the Bank, less a margin.

The TALF loans were extended on a nonrecourse basis. If the borrower did not repay the loan, the Bank would have enforced its rights in the collateral and might have sold the collateral to TALF LLC, a Delaware LLC, established for the purpose of purchasing such assets. Pursuant to a put agreement with the Bank, TALF LLC had committed to purchase assets that secure a TALF loan at a price equal to the principal amount outstanding plus accrued but unpaid interest, regardless of the fair value of the collateral.

On October 29, 2014, the final outstanding TALF loan was repaid in full. Over the life of the program, all TALF loans were repaid in full at or before their respective maturity dates, and as such, the Bank did not incur a loss on any TALF loan. Subsequent to the repayment of the final outstanding TALF loan, the Bank terminated the put agreement with TALF LLC. Refer to Note 6 for additional information related to TALF LLC.

At December 31, 2013, the aggregate remaining principal amount outstanding on TALF loans was $97 million. No TALF loans were over 90 days past due or on nonaccrual status and all TALF loans were classified within Level 2 of the valuation hierarchy.

5. SYSTEM OPEN MARKET ACCOUNT

a. *Domestic Securities Holdings*

The Bank 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, 2014 and 2013, the Bank 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 this reinvestment policy. 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 also 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 in 2012. In December 2013, the FOMC announced that it would slow the pace of its additional asset purchases. In October 2014, the FOMC concluded its asset purchase program while maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction.

The Bank's allocated share of activity related to domestic open market operations was 61.376 percent and 55.454 percent at December 31, 2014 and 2013, 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):

	2014			
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost
Notes	$ 1,003,472	$ 16,983	$ (4,738)	$ 1,015,717
Bonds	507,223	76,488	(5,950)	577,761
Total Treasury securities	$ 1,510,695	$ 93,471	$ (10,688)	$ 1,593,478
GSE debt securities	$ 23,739	$ 805	$ -	$ 24,544
Federal agency and GSE MBS	$ 1,066,005	$ 32,671	$ (602)	$ 1,098,074

	2013			
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost
Notes	$ 813,750	$ 18,513	$ (3,160)	$ 829,103
Bonds	411,108	71,281	(3,089)	479,300
Total Treasury securities	$ 1,224,858	$ 89,794	$ (6,249)	$ 1,308,403
GSE debt securities	$ 31,732	$ 1,055	$ (1)	$ 32,786
Federal agency and GSE MBS	$ 826,355	$ 24,833	$ (600)	$ 850,588

The Bank 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. These operations are for the purpose of further assessing the appropriate structure of such operations in supporting the implementation of monetary policy during normalization. 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, 2014 and 2013. 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	
	2014	2013	2014	2013
Overnight and term reverse repurchase agreements:				
Contract amount outstanding, end of year	$ 243,483	$ 109,664	$ 396,705	$ 197,755
Average daily amount outstanding, during the year	78,586	2,308	130,281	4,161
Maximum balance outstanding, during the year	243,483	109,664	396,705	197,755
Securities pledged (par value), end of year	224,168	104,269	365,235	188,028
Securities pledged (market value), end of year	244,609	109,093	398,540	196,726
Foreign official and international accounts:				
Contract amount outstanding, end of year	$ 69,436	$ 65,529	$ 113,132	$ 118,169
Average daily amount outstanding, during the year	61,599	53,133	102,968	95,520
Maximum balance outstanding, during the year	75,022	65,529	122,232	118,169
Securities pledged (par value), end of year	66,504	67,889	108,355	122,424
Securities pledged (market value), end of year	69,436	65,533	113,132	118,175
Total contract amount outstanding, end of year	$ 312,919	$ 175,193	$ 509,837	$ 315,924

Securities pledged as collateral, at December 31, 2014 and 2013, consisted solely of Treasury securities.

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, 2014 and 2013 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, 2014:							
Treasury securities (par value)	$ -	$ 3	$ 2,158	$ 683,073	$ 421,427	$ 404,034	$ 1,510,695
GSE debt securities (par value)	668	436	2,414	18,780	-	1,441	23,739
Federal agency and GSE MBS (par value)[1]	-	-	-	8	3,960	1,062,037	1,066,005
Securities sold under agreements to repurchase (contract amount)	312,919	-	-	-	-	-	312,919
December 31, 2013:							
Treasury securities (par value)	$ -	$ 165	$ 98	$ 423,297	$ 479,513	$ 321,785	$ 1,224,858
GSE debt securities (par value)	1,281	4,197	4,806	20,112	34	1,302	31,732
Federal agency and GSE MBS (par value)[1]	-	-	-	3	1,413	824,939	826,355
Securities sold under agreements to repurchase (contract amount)	175,193	-	-	-	-	-	175,193

[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 5.7 and 6.5 years as of December 31, 2014 and 2013, respectively.

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

	Allocated to the Bank		Total SOMA	
	2014	2013	2014	2013
Treasury securities (amortized cost)	$ 6,840	$ 9,512	$ 11,144	$ 17,153
Treasury securities (par value)	6,202	8,566	10,105	15,447
GSE debt securities (amortized cost)	388	609	633	1,099
GSE debt securities (par value)	378	585	616	1,055

The Bank enters into commitments to buy and sell Treasury securities and records the related securities on a settlement-date basis. As of December 31, 2014, there were no outstanding commitments.

The Bank 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, 2014, the total purchase price of the federal agency and GSE MBS under outstanding purchase commitments was $28,692 million, none of which was related to dollar rolls. The total purchase price of outstanding purchase commitments allocated to the Bank was $17,610 million, none of which was related to dollar rolls. As of December 31, 2014, there were no outstanding sales commitments for federal agency and GSE MBS. These commitments, which had contractual settlement dates extending through January 2015, are principally 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 Bank requires the posting of cash collateral for MBS commitments as part of its risk management practices used to mitigate the counterparty credit risk.

Other assets consist primarily of cash and short-term investments related to the federal agency and GSE MBS portfolio. Other liabilities, which are primarily related to federal agency and GSE MBS purchases and sales, includes the Bank'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 MBS to the Bank on the settlement date. Although the Bank 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 Bank's obligation to pay for the securities when delivered. The amount of other assets and other liabilities allocated to the Bank and held in the SOMA at December 31 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2014	2013	2014	2013
Other assets:				
MBS portfolio related cash and short term investments	$ 18	$ -	$ 28	$ 1
Other	-	1	1	1
Total other assets	$ 18	$ 1	$ 29	$ 2
Other liabilities:				
Cash margin	$ 486	$ 732	$ 793	$ 1,320
Obligations from MBS transaction fails	19	6	30	11
Other	4	-	7	-
Total other liabilities	$ 509	$ 738	$ 830	$ 1,331

Accrued interest receivable on domestic securities holdings was $25,561 million and $23,405 million as of December 31, 2014 and 2013, respectively, of which $15,688 million and $12,979 million, respectively, was allocated to the Bank. These amounts are reported as a component of "System Open Market Account: Accrued interest receivable" in the Consolidated 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, 2014 and 2013, is summarized as follows (in millions):

	Allocated to the Bank				
	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance at December 31, 2012	$ 640,390	$ 373,939	$ 1,014,329	$ 44,560	$ 532,801
Purchases[1]	199,534	114,741	314,275	-	481,230
Sales[1]	-	-	-	-	-
Realized gains, net[2]	-	-	-	-	-
Principal payments and maturities	(12)	-	(12)	(10,877)	(152,484)
Amortization of premiums and accretion of discounts, net	(3,351)	(5,285)	(8,636)	(442)	(3,898)
Inflation adjustment on inflation-indexed securities	158	357	515	-	-
Annual reallocation adjustment[3]	(7,616)	(4,452)	(12,068)	(455)	(7,061)
Balance at December 31, 2013	$ 829,103	$ 479,300	$ 1,308,403	$ 32,786	$ 850,588
Purchases[1]	97,002	50,487	147,489	-	277,101
Sales[1]	-	-	-	-	(16)
Realized gains, net[2]	-	-	-	-	-
Principal payments and maturities	(274)	-	(274)	(10,797)	(122,984)
Amortization of premiums and accretion of discounts, net	(3,315)	(6,060)	(9,375)	(352)	(4,340)
Inflation adjustment on inflation-indexed securities	302	803	1,105	-	-
Annual reallocation adjustment[3]	92,899	53,231	146,130	2,907	97,725
Balance at December 31, 2014	$ 1,015,717	$ 577,761	$ 1,593,478	$ 24,544	$ 1,098,074
Year-ended December 31, 2013					
Supplemental information - par value of transactions:					
Purchases[4]	$ 198,450	$ 102,885	$ 301,335	$ -	$ 466,157
Sales	-	-	-	-	-
Year-ended December 31, 2014					
Supplemental information - par value of transactions:					
Purchases[4]	$ 98,235	$ 49,133	$ 147,368	$ -	$ 267,709
Sales	-	-	-	-	(16)

[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] 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 3j.

[4] Includes inflation compensation.

	Total SOMA				
	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
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	-	864,537
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)	(7,008)
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
Purchases[1]	165,306	85,826	251,132	-	466,384
Sales[1]	-	-	-	-	(29)
Realized gains, net[2]	-	-	-	-	-
Principal payments and maturities	(475)	-	(475)	(18,544)	(203,933)
Amortization of premiums and accretion of discounts, net	(5,545)	(10,132)	(15,677)	(588)	(7,199)
Inflation adjustment on inflation-indexed securities	500	1,327	1,827	-	-
Balance at December 31, 2014	$ 1,654,901	$ 941,340	$ 2,596,241	$ 39,990	$ 1,789,083
Year-ended December 31, 2013					
Supplemental information - par value of transactions:					
Purchases[3]	$ 356,766	$ 184,956	$ 541,722	$ -	$ 837,490
Sales	-	-	-	-	-
Year-ended December 31, 2014					
Supplemental information - par value of transactions:					
Purchases[3]	$ 167,497	$ 83,739	$ 251,236	$ -	$ 450,633
Sales	-	-	-	-	(29)

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

The Bank 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 backed by the full faith and credit of the issuing foreign governments. In addition, the Bank 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, which are backed by the full faith and credit of those issuing governments.

The Bank's allocated share of activity related to foreign currency operations was 32.156 percent and 31.964 percent at December 31, 2014 and 2013, 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	
	2014	2013	2014	2013
Euro:				
Foreign currency deposits	$ 2,231	$ 2,407	$ 6,936	$ 7,530
Securities purchased under agreements to resell	-	815	-	2,549
German government debt instruments	802	766	2,494	2,397
French government debt instruments	1,185	766	3,687	2,397
Japanese yen:				
Foreign currency deposits	828	935	2,576	2,926
Japanese government debt instruments	1,674	1,894	5,207	5,925
Total	$ 6,720	$ 7,583	$ 20,900	$ 23,724

Accrued interest receivable on foreign currency denominated investments was $83 million and $88 million as of December 31, 2014 and 2013, respectively, of which $27 million and $28 million, respectively, was allocated to the Bank. These amounts are reported as a component of "System Open Market Account: Accrued interest receivable" in the Consolidated Statements of Condition.

The remaining maturity distribution of foreign currency denominated investments that were allocated to the Bank at December 31, 2014 and 2013, 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, 2014:					
Euro	$ 1,169	$ 903	$ 529	$ 1,617	$ 4,218
Japanese yen	886	126	495	995	2,502
Total	$ 2,055	$ 1,029	$ 1,024	$ 2,612	$ 6,720
December 31, 2013:					
Euro	$ 2,249	$ 576	$ 691	$ 1,238	$ 4,754
Japanese yen	996	121	598	1,114	2,829
Total	$ 3,245	$ 697	$ 1,289	$ 2,352	$ 7,583

There were no foreign exchange contracts related to open market operations outstanding as of December 31, 2014.

The Bank enters into commitments to buy foreign government debt instruments and records the related securities on a settlement-date basis. As of December 31, 2014, there were $137 million of outstanding commitments to purchase foreign government debt instruments, of which $44 million was allocated to the Bank. These securities settled on January 5, 2015, and replaced Euro-denominated government debt instruments held in the SOMA that matured on that date. During 2014, there were purchases and maturities of foreign government debt instruments of $5,494 million and $3,337 million, respectively, of which $1,766 million and $1,072 million, respectively, were allocated to the Bank. There were no sales of foreign government debt instruments in 2014.

In connection with its foreign currency activities, the Bank 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 Bank controls these risks by obtaining credit approvals, establishing transaction limits, receiving collateral in some cases, and performing monitoring procedures.

At December 31, 2014 and 2013, 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, 2014 and 2013.

Foreign currency working balances held and foreign exchange contracts executed by the Bank to facilitate its international payments and currency transactions it made on behalf of foreign central banks and U.S. official institution customers were not material as of December 31, 2014 and 2013.

c. *Central Bank Liquidity Swaps*

U.S. Dollar Liquidity Swaps

The Bank's allocated share of U.S. dollar liquidity swaps was approximately 32.156 percent and 31.964 percent at December 31, 2014 and 2013, respectively.

The total foreign currency held under U.S. dollar liquidity swaps in the SOMA at December 31, 2014 and 2013, was $1,528 million and $272 million, respectively, of which $491 million and $87 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):

	2014			2013		
	Within 15 days	16 days to 90 days	Total	Within 15 days	16 days to 90 days	Total
Euro	$ -	$ -	$ -	$ 36	$ 51	$ 87
Japanese yen	491	-	491	-	-	-
Total	$ 491	$ -	$ 491	$ 36	$ 51	$ 87

Foreign Currency Liquidity Swaps

At December 31, 2014 and 2013, there was no balance outstanding related to foreign currency liquidity swaps.

d. *Fair Value of SOMA Assets and Liabilities*

The fair value amounts below are presented solely for informational purposes. Although the fair value of SOMA security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. Because SOMA securities are recorded at amortized cost, cumulative unrealized gains (losses) are not recognized in the Consolidated Statements of Condition and the changes in cumulative unrealized gains (losses) are not recognized in the Consolidated Statements of Income and Comprehensive Income.

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, 2014, there are no credit impairments of SOMA securities holdings.

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

	Allocated to the Bank					
	2014			2013		
	Amortized cost	Fair value	Cumulative unrealized gains (losses)	Amortized cost	Fair value	Cumulative unrealized gains (losses)
Treasury securities:						
Notes	$ 1,015,717	$ 1,033,196	$ 17,479	$ 829,103	$ 831,257	$ 2,154
Bonds	577,761	646,241	68,480	479,300	467,110	(12,190)
Total Treasury securities	$ 1,593,478	$ 1,679,437	$ 85,959	$ 1,308,403	$ 1,298,367	$ (10,036)
GSE debt securities	24,544	26,084	1,540	32,786	34,513	1,727
Federal agency and GSE MBS	1,098,074	1,117,384	19,310	850,588	829,356	(21,232)
Total domestic SOMA portfolio securities holdings	$ 2,716,096	$ 2,822,905	$ 106,809	$ 2,191,777	$ 2,162,236	$ (29,541)
Memorandum - Commitments for:						
Purchases of Treasury securities	$ -	$ -	$ -	$ -	$ -	$ -
Purchases of Federal agency and GSE MBS	17,610	17,678	68	32,912	32,789	(123)
Sales of Federal agency and GSE MBS	-	-	-	-	-	-

	Total SOMA					
	2014			2013		
	Amortized cost	Fair value	Cumulative unrealized gains (losses)	Amortized cost	Fair value	Cumulative unrealized gains (losses)
Treasury securities:						
Notes	$ 1,654,901	$ 1,683,377	$ 28,476	$ 1,495,115	$ 1,499,000	$ 3,885
Bonds	941,340	1,052,916	111,576	864,319	842,336	(21,983)
Total Treasury securities	$ 2,596,241	$ 2,736,293	$ 140,052	$ 2,359,434	$ 2,341,336	$ (18,098)
GSE debt securities	39,990	42,499	2,509	59,122	62,236	3,114
Federal agency and GSE MBS	1,789,083	1,820,544	31,461	1,533,860	1,495,572	(38,288)
Total domestic SOMA portfolio securities holdings	$ 4,425,314	$ 4,599,336	$ 174,022	$ 3,952,416	$ 3,899,144	$ (53,272)
Memorandum - Commitments for:						
Purchases of Treasury securities	$ -	$ -	$ -	$ -	$ -	$ -
Purchases of Federal agency and GSE MBS	28,692	28,803	111	59,350	59,129	(221)
Sales of Federal agency and GSE MBS	-	-	-	-	-	-

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

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

At December 31, 2014 and 2013, the fair value of foreign currency denominated investments was $20,996 million and $23,802 million, respectively, of which $6,751 million and $7,608 million, respectively, was allocated to the Bank. The fair value of foreign government debt instruments was determined using pricing services that provide market consensus prices based on indicative quotes from various market participants. The fair value of foreign currency deposits and securities purchased under agreements to resell was determined by reference to market interest rates.

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

Distribution of MBS holdings by coupon rate	2014 Amortized cost	2014 Fair value	2013 Amortized cost	2013 Fair value
Allocated to the Bank:				
2.0%	$ 7,849	$ 7,744	$ 7,869	$ 7,502
2.5%	70,343	69,642	68,670	65,690
3.0%	315,039	310,738	289,364	268,551
3.5%	295,407	300,370	193,917	187,633
4.0%	262,719	270,795	127,686	128,162
4.5%	95,665	103,017	103,048	108,402
5.0%	40,229	43,404	46,188	48,782
5.5%	9,349	10,074	11,921	12,598
6.0%	1,295	1,403	1,692	1,788
6.5%	179	197	233	248
Total	$ 1,098,074	$ 1,117,384	$ 850,588	$ 829,356
Total SOMA:				
2.0%	$ 12,788	$ 12,618	$ 14,191	$ 13,529
2.5%	114,609	113,468	123,832	118,458
3.0%	513,289	506,280	521,809	484,275
3.5%	481,305	489,390	349,689	338,357
4.0%	428,047	441,204	230,256	231,113
4.5%	155,867	167,844	185,825	195,481
5.0%	65,544	70,719	83,290	87,968
5.5%	15,232	16,414	21,496	22,718
6.0%	2,110	2,287	3,051	3,225
6.5%	292	320	421	448
Total	$ 1,789,083	$ 1,820,544	$ 1,533,860	$ 1,495,572

The following tables present the realized gains and the change in the cumulative unrealized gains (losses) related to SOMA domestic securities holdings during the years ended December 31, 2014 and 2013 (in millions):

Allocated to Bank

	2014 Realized gains[1]	2014 Change in cumulative unrealized gains (losses)[2]	2013 Realized gains[1]	2013 Change in cumulative unrealized gains (losses)[2]
Treasury securities	$ -	$ 93,917	$ -	$ (101,571)
GSE debt securities	-	(366)	-	(1,339)
Federal agency and GSE MBS	48	41,329	28	(45,481)
Total	$ 48	$ 134,880	$ 28	$ (148,391)

Total SOMA

	2014 Realized gains[1]	2014 Change in cumulative unrealized gains (losses)[2]	2013 Realized gains[1]	2013 Change in cumulative unrealized gains (losses)[2]
Treasury securities	$ -	$ 158,150	$ -	$ (183,225)
GSE debt securities	-	(605)	-	(2,411)
Federal agency and GSE MBS	81	69,749	51	(81,957)
Total	$ 81	$ 227,294	$ 51	$ (267,593)

[1] Realized gains are reported in "Non-interest (loss) income: System Open Market Account" in the Consolidated Statements of Income and Comprehensive Income.

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

The amount of change in cumulative unrealized gains (losses) position, net, related to foreign currency denominated investments was a gain of $18 million and a loss of $90 million for the years ended December 31, 2014 and 2013, respectively, of which $6 million and $29 million, respectively, were allocated to the Bank.

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. INVESTMENTS HELD BY CONSOLIDATED VARIABLE INTEREST ENTITIES

a. *Summary Information for Consolidated Variable Interest Entities*

The classification of significant assets and liabilities of the consolidated VIEs at December 31, 2014 and 2013 was as follows (in millions):

	2014	2013				
	ML	ML	ML II	ML III	TALF LLC	Total
Assets:						
Short-term investments	$ 1,399	$ 530	$ -	$ -	$ -	$ 530
Commercial mortgage loans	-	507	-	-	-	507
Swap contracts	124	158	-	-	-	158
Other investments[1]	11	10	-	-	-	10
Subtotal	1,534	1,205	-	-	-	1,205
Cash, cash equivalents, accrued interest receivable, and other receivables	277	527	63	22	109	721
Total investments held by consolidated VIEs	$ 1,811	$ 1,732	$ 63	$ 22	$ 109	$ 1,926
Liabilities:						
Beneficial interest in consolidated VIEs	$ -	$ -	$ 11	$ 7	$ 98	$ 116
Swap contracts[2]	41	73	-	-	-	73
Cash collateral on swap contracts[2]	85	82	-	-	-	82
Other liabilities[2]	1	3	-	-	-	3
Total laibilities of consolidated VIEs	$ 127	$ 158	$ 11	$ 7	$ 98	$ 274

[1] Investments with a value of $8 million as of December 31, 2013 were recategorized from "Non-agency RMBS" to "Other investments" to conform to the current year presentation.
[2] Liabilities with a value of $155 million as of December 31, 2013 were recategorized from "Other liabilities" to two new line items labeled "Swap contracts " and "Cash collateral on swap contracts," to conform to the current year presentation.

The Bank's approximate maximum exposure to loss at December 31, 2014 and 2013 was $1,534 million and $1,089 million, respectively. These estimates incorporate potential losses associated with the investments recorded on the Bank's balance sheet, net of the fair value of subordinated interests (beneficial interest in consolidated VIEs). Additionally, information concerning the notional exposure on swap contracts is contained in the ML credit risk section of this Note.

The net income attributable to ML, ML II, ML III, and TALF LLC for the year ended December 31, 2014, was as follows (in millions):

	ML	ML II	ML III	TALF LLC	Total
Interest income: Investments held by consolidated VIEs	$ 77	$ -	$ -	$ -	$ 77
Non-interest income:					
Realized portfolio holdings gains, net	1	-	-	-	1
Unrealized portfolio holdings gains, net	36	-	-	-	36
Realized losses on beneficial interest in consolidated VIEs	-	(11)	(7)	(98)	(116)
Unrealized gains on beneficial interest in consolidated VIEs	-	11	7	98	116
Non-interest income: Consolidated VIEs gains, net	37	-	-	-	37
Total net interest income and non-interest income	114	-	-	-	114
Less: Professional fees	4	-	-	-	4
Net income attributable to consolidated VIEs	$ 110	$ -	$ -	$ -	$ 110

The net income attributable to ML, ML II, ML III, and TALF LLC for the year ended December 31, 2013 was as follows (in millions):

	ML	ML II	ML III	TALF LLC	Total
Interest income: Investments held by consolidated VIEs	$ 2	$ 4	$ -	$ -	$ 6
Non-interest income:					
Realized portfolio holdings gains, net[1]	130	-	-	-	130
Unrealized portfolio holdings gains, net[1]	53	-	-	-	53
Realized losses on beneficial interest in consolidated VIEs	-	-	-	(573)	(573)
Unrealized gains (losses) on beneficial interest in consolidated VIEs	-	(1)	-	574	573
Non-interest income (losses): Consolidated VIEs gains (losses), net	183	(1)	-	1	183
Total net interest income and non-interest income	185	3	-	1	189
Less: Professional fees	6	1	-	1	8
Net income attributable to consolidated VIEs	$ 179	$ 2	$ -	$ -	$ 181

[1] Portfolio holdings gains for ML with a value of $183 million for the year ended December 31, 2013 were recategorized from "Portfolio holdings gains, net" to two new line items labeled "Realized portfolio holding gains, net" and "Unrealized portfolio holding gains, net" to conform to the current year presentation.

Following is a summary of the consolidated VIEs' subordinated financial interest for the years ended December 31, 2014 and 2013 (in millions):

	ML II deferred purchase price	ML III equity contribution	TALF financial interest	Total
Fair value, at December 31, 2012	$ 10	$ 7	$ 786	$ 803
Realized losses	-	-	573	573
Unrealized (gains) / losses	1	-	(574)	(573)
Payments[1]	-	-	(687)	(687)
Fair value, at December 31, 2013	$ 11	$ 7	$ 98	$ 116
Realized losses	11	7	98	116
Unrealized gains	(11)	(7)	(98)	(116)
Payments[2]	(11)	(7)	(98)	(116)
Fair value, at December 31, 2014	$ -	$ -	$ -	$ -

[1] TALF LLC includes payments of $100 million of principal, $13 million of interest, and $574 million of contingent interest.
[2] ML II includes payments of $11 million of variable deferred purchase price. ML III includes payments of $7 million of excess amounts. TALF LLC includes payments of $98 million of contingent interest.

b. *Maiden Lane LLC*

To facilitate the merger of The Bear Stearns Companies, Inc. (Bear Stearns) and JPMorgan Chase & Co. (JPMC), the Bank extended credit to ML in June 2008. ML is a Delaware LLC formed by the Bank to acquire certain assets of Bear Stearns and to manage those assets. The assets acquired by ML were valued at $29.9 billion as of March 14, 2008, the date that the Bank committed to the transaction, and largely consisted of federal agency and GSE MBS, non-agency residential mortgage-back securities (RMBS), commercial and residential mortgage loans, and derivatives and associated hedges.

The Bank extended a senior loan of approximately $28.8 billion and JPMC extended a subordinated loan of $1.15 billion to finance the acquisition of the assets, both of which were repaid in full plus interest in 2012. The Bank has continued and will continue to sell the remaining assets from the ML portfolio as market conditions warrant and if the sales represent good value for the public. In accordance with the ML agreements, proceeds from future asset sales will be distributed to the Bank as contingent interest after all derivative instruments in ML have been terminated and paid or sold from the portfolio.

The following is a description of the significant holdings at December 31, 2014, and the associated risk for each holding:

i. Debt Securities

ML has investments in short-term instruments with maturities of greater than three months and less than one year when acquired. As of December 31, 2014 and 2013, ML's short-term instruments consisted of U.S. Treasury bills.

Other investments are primarily comprised of non-agency RMBS and commercial mortgage-backed securities (CMBS).

ii. Derivative Instruments

Derivative contracts are instruments, such as swap contracts, that derive their value from underlying assets, indexes, reference rates, or a combination of these factors. The ML portfolio is composed of derivative financial instruments included in a total return swap (TRS) agreement with JPMC. ML and JPMC entered into the TRS with reference obligations representing CDS primarily on CMBS and RMBS, with various market participants, including JPMC.

On an ongoing basis, ML pledges collateral for credit or liquidity related shortfalls based on 20 percent of the notional amount of sold CDS protection and 10 percent of the present value of future premiums on purchased CDS protection. Failure to post this collateral constitutes a TRS event of default. Separately, ML and JPMC engage in bilateral posting of collateral to cover the net mark-to-market (MTM) variations in the swap portfolio. ML only nets the collateral received from JPMC from the bilateral MTM posting for the reference obligations for which JPMC is the counterparty.

The values of ML's cash and cash equivalents include cash collateral associated with the TRS of $128 million and $149 million, as of December 31, 2014 and 2013, respectively. In addition, ML has pledged $87 million and $124 million U.S. Treasury bills to JPMC as of December 31, 2014 and 2013, respectively.

The following risks are associated with the derivative instruments held by ML as part of the TRS agreement with JPMC:

Market Risk

CDS are agreements that provide protection for the buyer against the loss of principal and, in some cases, interest on a bond or loan in case of a default by the issuer. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency, or failure to meet payment obligations when due. The buyer of the CDS pays a premium in return for payment protection upon the occurrence, if any, of a credit event. Upon the occurrence of a triggering credit event, the maximum potential amount of future payments the seller could be required to make under a CDS is equal to the notional amount of the contract. Such future payments could be reduced or offset by amounts recovered under recourse or by collateral provisions outlined in the contract, including seizure and liquidation of collateral pledged by the buyer.

ML's derivatives portfolio consists of purchased and sold credit protection with differing underlying referenced names that do not necessarily offset.

Credit Risk

Credit risk is the risk of financial loss resulting from failure by a counterparty to meet its contractual obligations to ML. This can be caused by factors directly related to the counterparty, such as business or management. Taking collateral is the most common way to mitigate credit risk. ML takes financial collateral in the form of cash and marketable securities to cover JPMC counterparty risk as part of the TRS agreement with JPMC. ML remains exposed to credit risk for counterparties, other than JPMC, related to the swaps that underlie the TRS.

ML has entered into an International Swaps and Derivatives Association, Inc. master netting agreement with JPMC in connection with the TRS. This agreement provides ML with the right to liquidate securities held as collateral and to offset receivables and payables with JPMC in the event of default. This agreement also establishes the method for determining the net amount of receivables and payables that ML is entitled to receive from or owes to each counterparty to the swaps that underlie the TRS based upon the fair value of the relevant CDS.

For the derivative balances reported in the Consolidated Statements of Condition, ML offsets its asset and liability positions held with the same counterparty. In addition, ML offsets the cash collateral held with JPMC against any net liabilities of JPMC with ML under the TRS. As of December 31, 2014 and 2013, there were no amounts subject to an enforceable master netting agreement that were not offset in the Consolidated Statements of Condition.

The following table summarizes the fair value and notional amounts of derivative instruments by contract type on a gross basis as of December 31, 2014 and 2013, which is reported as a component of "Investments held by consolidated variable interest entities" in the Consolidated Statements of Condition (in millions, except contract data):

	2014			2013		
	Gross derivative assets	Gross derivative liabilities	Notional amounts[3]	Gross derivative assets	Gross derivative liabilities	Notional amounts[3]
Credit derivatives:						
CDS[1,2]	$ 240	$ (115)	$ 632	$ 345	$ (193)	$ 899
Amounts offset in the Consolidated Statements of Condition						
Counterparty netting	(74)	74		(120)	120	
Cash collateral	(42)	-		(67)	-	
Net amounts in the Consolidated Statements of Condition	$ 124	$ (41)		$ 158	$ (73)	

[1] CDS fair values as of December 31, 2014 for assets and liabilities include interest receivables of $1 million and payables of $4 million. CDS fair values as of December 31, 2013 for assets and liabilities includes interest receivables of $15 million and payables of $2 million.

[2] There were 210 and 269 CDS contracts outstanding as of December 31, 2014 and 2013, respectively.

[3] Represents the sum of gross long and gross short notional derivative contracts. The change in notional amounts is representative of the volume of activity for the year ended December 31, 2014.

The table below summarizes certain information regarding protection bought and protection sold through CDS as of December 31 (in millions):

	Maximum potential recovery (payout) / notional						Fair value	
	2014					2013	2014	2013
	Years to maturity							
Credit ratings of the reference obligation	1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years	Total	Total	Asset / (Liability)	Asset / (Liability)
Credit protection bought:								
Investment grade (AAA to BBB-)	$ -	$ -	$ 5	$ 22	$ 27	$ 56	$ -	$ 2
Non-investment grade (BB+ or lower)	-	8	-	378	386	537	239	327
Total credit protection bought	$ -	$ 8	$ 5	$ 400	$ 413	$ 593	$ 239	$ 329
Credit protection sold:								
Investment grade (AAA to BBB-)	$ -	$ -	$ -	$ (4)	$ (4)	$ (13)	$ -	$ (3)
Non-investment grade (BB+ or lower)	-	-	-	(215)	(215)	(293)	(111)	(188)
Total credit protection sold	$ -	$ -	$ -	$ (219)	$ (219)	$ (306)	$ (111)	$ (191)

Currency Risk

Currency risk is the risk of financial loss resulting from exposure to changes in exchange rates between two currencies. Previously, under the terms of the TRS, JPMC was allowed to post cash collateral in the form of either U.S. dollar or Euro-denominated currencies to cover the net MTM variation in the swap portfolio. When JPMC posted collateral in Euro currency, this risk was mitigated by daily variation margin updates that capture the movement in the value of the swap portfolio in addition to any movement in exchange rates on the swap collateral. In November 2014, the terms of the TRS were amended such that JPMC is no longer allowed to post cash collateral in Euro currency.

Swap collateral received that is denominated in a foreign currency is translated into U.S. dollar amounts using the prevailing exchange rate as of the date of the consolidated financial statements. There is no gain or loss associated with this foreign denominated collateral as the asset and liability positions associated with it are offsetting.

c. *Maiden Lane II LLC*

The Bank extended credit to ML II, a Delaware LLC formed to purchase non-agency RMBS from the reinvestment pool of the securities lending portfolios of several regulated U.S. insurance subsidiaries of American International Group, Inc. (AIG). ML II purchased from the AIG subsidiaries non-agency RMBS with an approximate fair value of $20.8 billion as of October 31, 2008. ML II financed this purchase by borrowing $19.5 billion from the Bank and through the deferral of $1.0 billion of the purchase price payable to the AIG subsidiaries. Both the loan and the fixed deferred purchase price were paid in full plus interest in 2012.

On March 19, 2012, ML II was dissolved and the Bank began the process of winding up in accordance with and as required by Delaware law and the agreements governing ML II. As part of that process, during the year ended December 31, 2014, after paying expenses, ML II distributed its remaining assets to the Bank and to AIG and its subsidiaries in accordance with the agreement. Distributions were made to the Bank in the form of contingent interest totaling $53 million and to AIG and its subsidiaries in the form of variable deferred purchase price totaling $11 million during the year ended December 31, 2014. On November 12, 2014, a certificate of cancellation was filed in the office of the Delaware Secretary of State thereby terminating the legal existence of ML II.

d. *Maiden Lane III LLC*

The Bank extended credit to ML III, a Delaware LLC formed to purchase ABS collateralized debt obligations (CDOs) from certain third-party counterparties of AIG Financial Products Corp (AIGFP). ML III borrowed approximately $24.3 billion from the Bank, and AIG provided an equity contribution of $5.0 billion to ML III. The proceeds were used to purchase ABS CDOs with a fair value of $29.6 billion as of October 31, 2008. The counterparties received $26.8 billion net of principal and interest received and finance charges paid on the ABS CDOs. The LLC also made a payment to AIGFP of $2.5 billion representing the over collateralization previously posted by AIGFP and retained by counterparties in respect of terminated CDS as compared to the LLC's fair value acquisition prices calculated as of October 31, 2008. The aggregate amount of principal and interest proceeds from CDOs received after the announcement date, but prior to the settlement dates, net of financing costs, amounted to approximately $0.3 billion and therefore reduced the amount of funding required at settlement by $0.3 billion, from $29.6 billion to $29.3 billion. Both the loan and the equity contribution were repaid in full plus interest in 2012.

On September 10, 2012, ML III was dissolved, and the Bank began the process of winding up in accordance with and as required by Delaware law and the agreements governing ML III. As part of that process, during the year ended December 31, 2014, after paying expenses, ML III distributed its remaining assets to the Bank and to AIG in accordance with the agreement. Distributions were made to the Bank in the form of contingent interest totaling $14 million and to AIG in the form of excess amounts totaling $7 million during the year ended December 31, 2014. On November 12, 2014, a certificate of cancellation was filed in the office of the Delaware Secretary of State, thereby terminating the legal existence of ML III.

e. *TALF LLC*

As discussed in Note 4, TALF LLC was formed in connection with the implementation of the TALF. TALF LLC was established for the limited purpose of purchasing any ABS that might be surrendered to the Bank by borrowers under the TALF or, in certain limited circumstances, TALF loans. Funding for TALF LLC's purchases of these securities was derived first through the fees received by TALF LLC from the Bank for this commitment and any interest earned on its investments. If that funding had proved insufficient for the purchases TALF LLC had committed to make under the put agreement, the Treasury and the Bank had committed to lend to TALF LLC. On March 25, 2009, the Treasury provided initial funding to TALF LLC of $100 million. On January 15, 2013, the Treasury and the Bank agreed to eliminate their funding commitments to TALF LLC. Pursuant to this agreement on February 6, 2013, TALF LLC repaid in full the outstanding principal and accrued interest on the Treasury loan.

On October 31, 2014, TALF LLC was dissolved and the Bank began the process of winding up in accordance with and as required by Delaware law and the agreements governing TALF LLC. As part of that process, during the year ended December 31, 2014, after paying expenses, TALF LLC distributed its remaining assets to the Treasury and to the Bank in accordance with the agreement. Distributions were made in the form of contingent interest to the Treasury totaling $98 million and $573 million and to the Bank totaling $11 million and $64 million during the years ended December 31, 2014 and 2013, respectively. On November 26, 2014, a certificate of cancellation was filed in the office of the Delaware Secretary of State thereby terminating the legal existence of TALF LLC.

f. *Fair Value Measurement*

The consolidated VIEs have adopted ASC 820 and ASC 825 and have elected the fair value option for all securities and mortgage loans held by ML and TALF LLC. ML II and ML III qualify as nonregistered investment companies under the provisions of ASC 946, and therefore, all investments are recorded at fair value in accordance with ASC 820. In addition, the Bank has elected to record the beneficial interests in ML II, ML III, and TALF LLC at fair value.

The accounting and classification of these investments appropriately reflect the VIEs' and the Bank's intent with respect to the purpose of the investments and most closely reflect the amount of the assets available to liquidate the entities' obligations.

i. Determination of Fair Value

The consolidated VIEs value their investments and cash equivalents on the basis of last available bid prices or current market quotations provided by dealers or pricing services selected under the supervision of the Bank's designated investment manager. To determine the value of a particular investment, pricing services may use certain information with respect to market transactions in such investments or comparable investments, various relationships observed in the market between investments, quotations from dealers, and pricing metrics and calculated yield measures based on valuation methodologies commonly employed in the market for such investments. The fair value of swap contracts is provided by JPMC as calculation agent and is reviewed by the investment manager.

Market quotations may not represent fair value in certain instances in which the investment manager and the VIEs believe that facts and circumstances applicable to an issuer, a seller, a purchaser, or the market for a particular investment cause such market quotations to not reflect the fair value of an investment. In such cases or when market quotations are unavailable, the investment manager applies proprietary valuation models that use collateral performance scenarios and pricing metrics derived from the reported performance of investments with similar characteristics as well as available market data to determine fair value.

Due to the uncertainty inherent in determining the fair value of investments that do not have a readily available fair value, the fair value of these investments may differ from the values that may ultimately be realized and paid.

The fair value of the liability for the beneficial interests of consolidated VIEs is estimated based upon the fair value of the underlying assets held by the VIEs. The holders of these beneficial interests do not have recourse to the general credit of the Bank.

ii. Valuation Methodologies for Level 3 Assets and Liabilities

In certain cases in which there is limited trading activity for particular investments or current market quotations are not available or reflective of the fair value of an instrument, the valuation is based on models that use inputs, estimates, and assumptions that market participants would use in pricing the investments. To the extent that such inputs, estimates, and assumptions are not observable, the investments are classified within Level 3 of the valuation hierarchy. For instance, in valuing certain debt securities and whole mortgage loans, the determination of fair value is based on proprietary valuation models when external price information is not available. Key inputs to the model may include market spreads or yield estimates for comparable instruments, performance data (i.e. prepayment rates, default rates, and loss severity), valuation estimates for underlying property collateral, projected cash flows, and other relevant contractual features.

For the swap contracts, all of which are categorized as Level 3 assets and liabilities, there are various valuation methodologies. In each case, the fair value of the instrument underlying the swap is a significant input used to derive the fair value of the swap. When there are broker or dealer prices available for the underlying instruments, the fair value of the swap is derived based on those prices. When the instrument underlying the swap is a market index (i.e. CMBS index), the closing market index price, which can also be expressed as a credit spread, is used to determine the fair value of the swap. In the remaining cases, the fair value of the underlying instrument is principally based on inputs and assumptions not observable in the market (i.e. discount rates, prepayment rates, default rates, and recovery rates).

iii. *Inputs for Level 3 Assets and Liabilities*

The following table presents the valuation techniques and ranges of significant unobservable inputs generally used to determine the fair values of Level 3 assets and liabilities as of December 31, 2014 (in millions, except for input values):

Investment	Fair value	Principal valuation technique	Unobservable inputs	Range of input values	Weighted average[2]
Swap contracts, net	$ 125	Discounted cash flows	Credit spreads[1]	2,893 bps - 12,683 bps	9,023 bps
			Discount rate	5% - 25%	17%
			Constant prepayment rate	0% - 8%	1%
			Constant default rate	0% - 99%	6%
			Loss severity	40% - 95%	52%

[1] Implied spread on closing market prices for index positions.
[2] Weighted averages are calculated based on the fair value of the respective instruments.

The following table presents the valuation techniques and ranges of significant unobservable inputs generally used to determine the fair values of Level 3 assets and liabilities as of December 31, 2013 (in millions, except for input values):

Investment	Fair value	Principal valuation technique	Unobservable inputs	Range of input values	Weighted average[2]
Commercial mortgage loans	$ 507	Discounted cash flows	Discount rate	4% - 13%	12%
			Property capitalization rate	7%	7%
			Net operating income growth rate	3% - 5%	4%
Swap contracts, net	$ 152	Discounted cash flows	Credit spreads [1]	2,259 bps - 8,870 bps	6,299 bps
			Discount rate	5% - 25%	15%
			Constant prepayment rate	0% - 17%	3%
			Constant default rate	0% - 30%	6%
			Loss severity	40% - 95%	54%

[1] Implied spread on closing market prices for index positions.
[2] Weighted averages are calculated based on the fair value of the respective instruments.

iv. *Sensitivity of Level 3 Fair Value Measurements to Changes in Unobservable Inputs*

The following provides a general description of the impact of a change in an unobservable input on the fair value measurement and the interrelationship of unobservable inputs.

I. Commercial mortgage loans

In general, an increase in isolation in either the discount rate or the property capitalization rate, which is the ratio between the net operating income produced by an asset and its current fair value, would result in a decrease in the fair value measurement; while an increase in net operating income growth rate, in isolation would result in an increase in the fair value measurement. For each of the relationships described above, the inverse would also generally apply.

II. Swap contracts

For CDS with reference obligations on CMBS, an increase in credit spreads would generally result in a higher fair value measurement for protection buyers and a lower fair value measurement for protection sellers. The inverse would also generally apply to this relationship given a decrease in credit spreads.

For CDS with reference obligations on RMBS or other ABS assets, changes in the discount rate, constant prepayment rate, constant default rate, and loss severity would have an uncertain effect on the overall fair value measurement. This is because, in general, changes in these inputs could potentially have a different impact on the fair value measurement of an individual CDS based on the structure, payment status, and other relevant contractual details of its underlying reference obligation. Additionally, changes in the fair value measurement based on variations in the inputs used generally cannot be extrapolated because the relationship between each input is not perfectly correlated.

The following tables present the financial instruments recorded in VIEs at fair value as of December 31, 2014 by ASC 820 hierarchy (in millions):

	Level 1[1]	Level 2[1]	Level 3	Netting[2]	Total fair value
Assets:					
Short-term investments	$ 1,399	$ -	$ -	$ -	$ 1,399
Cash equivalents[3]	274	-	-	-	274
Swap contracts	-	-	240	(116)	124
Other investments	-	6	5	-	11
Total assets	$ 1,673	$ 6	$ 245	$ (116)	$ 1,808
Liabilities:					
Swap contracts	$ -	$ -	$ 115	$ (74)	$ 41

[1] There were no transfers between Level 1 and Level 2 during the year ended December 31, 2014.
[2] Derivative receivables and payables and the related cash collateral received and paid are shown net when a master netting agreement exists.
[3] Cash equivalents consist primarily of money market funds.

The following tables present the financial instruments recorded in VIEs at fair value as of December 31, 2013 by ASC 820 hierarchy (in millions):

	Level 1[1]	Level 2[1]	Level 3	Netting[2]	Total fair value
Assets:					
Short-term investments	$ 530	$ -	$ -	$ -	$ 530
Cash equivalents[3]	569	-	-	-	569
Commercial mortgage loans	-	-	507	-	507
Swap contracts	-	-	345	(187)	158
Other investments[4]	-	2	8	-	10
Total assets	$ 1,099	$ 2	$ 860	$ (187)	$ 1,774
Liabilities:					
Beneficial interest in consolidated VIEs	$ -	$ 116	$ -	$ -	$ 116
Swap contracts	-	-	193	(120)	73
Total liabilities	$ -	$ 116	$ 193	$ (120)	$ 189

[1] There were no transfers between Level 1 and Level 2 during the year ended December 31, 2013.
[2] Derivative receivables and payables and the related cash collateral received and paid are shown net when a master netting agreement exists.
[3] Cash equivalents consist primarily of money market funds.
[4] Investments with a fair value of $2 million and $6 million that were classified as Level 2 and Level 3 instruments respectively, as of December 31, 2013 were recategorized from "Non-agency RMBS" to "Other investments" to conform to the current year presentation.

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2014 (in millions). Unrealized gains and losses related to those assets still held at December 31, 2014 are reported as a component of "Investments held by consolidated variable interest entities, net" in the Consolidated Statements of Condition.

	Fair value December 31, 2013	Purchases, sales, issuances and settlements, net	Net realized/unrealized gains (losses)	Gross transfers in[1]	Gross transfers out[1,2]	Fair value December 31, 2014	Change in unrealized gains (losses) related to financial instruments held at December 31, 2014
Assets:							
Commercial mortgage loans	$ 507	$ (523)	$ 16	$ -	$ -	$ -	$ -
Other investments	8	4	(4)	-	(3)	5	(4)
Total assets	$ 515	$ (519)	$ 12	$ -	$ (3)	$ 5	$ (4)
Swap contracts, net	$ 152	$ (48)	$ 21	$ -	$ -	$ 125	$ 13

[1] The amount of transfers is based on the fair values of the transferred assets at the beginning of the reporting period.
[2] Other investments, with a December 31, 2013 fair value of $3 million, were transferred from Level 3 to Level 2 because they are valued at December 31, 2014 based on non-observable inputs (Level 3). These investments were valued in the prior year based on quoted prices for identical or similar assets in non-active markets or model-based techniques for which all significant inputs are observable (Level 2).

The following table presents the gross components of purchases, sales, issuances, and settlements, net, shown for the year ended December 31, 2014 (in millions):

	Purchases	Sales	Issuances	Settlements[1]	Purchases, sales, issuances, and settlements, net
Assets:					
Commercial mortgage loans	$ -	$ -	$ -	$ (523)	$ (523)
Other investments	1	-	-	3	4
Total assets	$ 1	$ -	$ -	$ (520)	$ (519)
Swap contracts, net	$ -	$ (24)	$ -	$ (24)	$ (48)

[1] Includes paydowns

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2013 (in millions). Unrealized gains and losses related to those assets still held at December 31, 2013 are reported as a component of "Investments held by consolidated variable interest entities, net" in the Consolidated Statements of Condition.

	Fair value December 31, 2012	Purchases, sales, issuances, and settlements, net	Net realized/unrealized gains (losses)	Gross transfers in[1,2]	Gross transfers out[1]	Fair value December 31, 2013	Change in unrealized gains (losses) related to financial instruments held at December 31, 2013
Assets:							
Commercial mortgage loans	$ 466	$ (163)	$ 204	$ -	$ -	$ 507	$ 183
Other investments[3]	55	(69)	18	4	-	8	(4)
Total assets	$ 521	$ (232)	$ 222	$ 4	$ -	$ 515	$ 179
Swap contracts, net	$ 473	$ (268)	$ (53)	$ -	$ -	$ 152	$ (53)

[1] The amount of transfers is based on the fair values of the transferred assets at the beginning of the reporting period.

[2] Other investments, with a December 31, 2012 fair value of $4 million, were transferred from Level 2 to Level 3 because they are valued at December 31, 2013, based on non-observable inputs (Level 3). These investments were valued in the prior year based on quoted prices for identical or similar assets in non-active markets or model-based techniques for which all significant inputs are observable (Level 2).

[3] Investments with a fair value of $6 million and $0 million as of December 31, 2013 were recategorized from "Non-agency RMBS" and "CDOs," respectively, to "Other investments" to conform to the current year presentation. All other associated activity for those same asset classes was also recategorized to the "Other investments" line.

The following table presents the gross components of purchases, sales, issuances, and settlements, net, shown for the year ended December 31, 2013 (in millions):

	Purchases	Sales	Issuances	Settlements[1]	Purchases, sales, issuances, and settlements, net
Assets:					
Commercial mortgage loans	$ -	$ (88)	$ -	$ (75)	$ (163)
Other investments[2]	7	(79)	-	3	(69)
Total assets	$ 7	$ (167)	$ -	$ (72)	$ (232)
Swap contracts	$ -	$ (153)	$ -	$ (115)	$ (268)

[1] Includes paydowns.

[2] Investments with net activity of $4 million and $0 million for the year ended December 31, 2013 were recategorized from "Non-agency RMBS" and "CDOs," respectively, to "Other investments" to conform to the current year presentation. All other activity for those same asset classes was also recategorized to the "Other investments" line.

g. *Professional Fees*

The consolidated VIEs have recorded costs for professional services provided, among others, by several nationally recognized institutions that serve as investment managers, administrators, and custodians for the VIEs' assets. The fees charged by the investment managers, custodians, administrators, auditors, attorneys, and other service providers, are recorded in "Operating Expenses: Other" in the Consolidated Statements of Income and Comprehensive Income.

7. BANK PREMISES, EQUIPMENT, AND SOFTWARE

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

	2014	2013
Bank premises and equipment:		
Land and land improvements	$ 68	$ 68
Buildings	526	502
Building machinery and equipment	104	109
Construction in progress	4	6
Furniture and equipment	95	87
Subtotal	797	772
Accumulated depreciation	(322)	(306)
Bank premises and equipment, net	$ 475	$ 466
Depreciation expense, for the years ended December 31	$ 32	$ 33

The Bank leases space to outside tenants with remaining lease terms ranging from one to nine years. Rental income from such leases was $6.4 million and $4.8 million for the years ended December 31, 2014 and 2013, respectively, and is reported as a component of "Non-interest (loss) income: Other" in the Consolidated Statements of Income and Comprehensive Income. Future minimum lease payments that the Bank will receive under noncancelable lease agreements in existence at December 31, 2014, are as follows (in millions):

2015	$ 5
2016	4
2017	3
2018	3
2019	3
Thereafter	10
Total	$ 28

The Bank had capitalized software assets, net of amortization, of $119 million and $108 million at December 31, 2014 and 2013, respectively. Amortization expense was $20 million and $22 million for the years ended December 31, 2014 and 2013, respectively. Capitalized software assets are reported as a component of "Other assets" in the Consolidated Statements of Condition and the related amortization is reported as a component of "Operating expenses: Other" in the Consolidated Statements of Income and Comprehensive Income.

8. 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, 2014, the Bank was obligated under noncancelable leases for premises and equipment with remaining terms ranging from one to approximately nine 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 $4 million and $9 million for the years ended December 31, 2014 and 2013, respectively.

Future minimum lease payments under noncancelable operating leases, net of sublease rentals, with remaining terms of one year or more, at December 31, 2014, are as follows (in millions):

	Operating leases
2015	$ 3
2016	2
2017	2
2018	1
2019	1
Thereafter	4
Future minimum lease payments	$ 13

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, 2014 and 2013.

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.

Other Commitments

In support of financial market stability activities, the Bank may enter into commitments to provide financial assistance to financial institutions. There were no remaining unfunded contractual commitments related to commercial mortgage loans in ML at December 31, 2014. The Bank had remaining unfunded contractual commitments related to commercial mortgage loans in ML of $40 million at December 31, 2013.

9. 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 Bank, 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, 2014 and 2013, certain costs associated with the System Plan were reimbursed by the Bureau.

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

	2014	2013
Estimated actuarial present value of projected benefit obligation at January 1	$ 10,476	$ 11,468
Service cost-benefits earned during the period	355	407
Interest cost on projected benefit obligation	530	472
Actuarial loss (gain)	2,630	(1,527)
Contributions by plan participants	5	5
Special termination benefits	15	6
Benefits paid	(370)	(355)
Estimated actuarial present value of projected benefit obligation at December 31	$ 13,641	$ 10,476

In October 2014, the Society of Actuaries released new mortality tables (RP-2014) and mortality projection scales (MP-2014) for use in valuations of benefits liabilities. The adoption of these new mortality tables and new mortality projection scales, adjusted for the System's recent mortality experience and the retirement rates of System retirees, resulted in a net increase of the System Plan projected benefit obligation of approximately $935 million.

Following is a reconciliation showing the beginning and ending balance of the System Plan assets, the funded status, and the accrued pension benefit costs (in millions):

	2014	2013
Estimated plan assets at January 1 (of which $10,687 and $9,440 is measured at fair value as of January 1, 2014 and 2013, respectively)	$ 10,808	$ 9,566
Actual return on plan assets	1,734	683
Contributions by the employers	492	909
Contributions by plan participants	5	5
Benefits paid	(370)	(355)
Estimated plan assets at December 31 (of which $12,608 and $10,687 is measured at fair value as of December 31, 2014 and 2013, respectively)	$ 12,669	$ 10,808
Funded status and accrued pension benefit costs	$ (972)	$ 332
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service cost	$ (356)	$ (456)
Net actuarial loss	(3,484)	(1,928)
Total accumulated other comprehensive loss	$ (3,840)	$ (2,384)

The Bank, on behalf of the System, funded $480 million and $900 million during the years ended December 31, 2014 and 2013, respectively. The Bureau is required by the Dodd-Frank Act to fund the System plan for each Bureau employee based on an established formula. During the years ended December 2014 and 2013, the Bureau funded contributions of $12.4 million and $8.9 million, respectively.

Accrued pension benefit costs are reported as a component of "Prepaid pension benefit costs" if the funded status is a net asset or "Accrued benefit costs" if the funded status is a net liability in the Consolidated Statements of Condition.

The accumulated benefit obligation for the System Plan, which differs from the estimated actuarial present value of projected benefit obligation because it is based on current rather than future compensation levels, was $11,985 million and $9,308 million at December 31, 2014 and 2013, respectively.

The weighted-average assumptions used in developing the accumulated pension benefit obligation for the System Plan as of December 31 were as follows:

	2014	2013
Discount rate	4.05%	4.92%
Rate of compensation increase	4.00%	4.50%

Net periodic benefit expenses for the years ended December 31, 2014 and 2013, were actuarially determined using a January 1 measurement date. The weighted-average assumptions used in developing net periodic benefit expenses for the System Plan for the years were as follows:

	2014	2013
Discount rate	4.92%	4.00%
Expected asset return	7.00%	6.50%
Rate of compensation increase	4.50%	4.50%

Discount rates reflect yields available on high-quality corporate bonds that would generate the cash flows necessary to pay the System Plan's benefits when due. The expected long-term rate of return on assets is an estimate that is based on a combination of factors, including the System Plan's asset allocation strategy and historical returns; surveys of expected rates of return for other entities' plans and for various asset classes; a projected return for equities and fixed income investments based on real interest rates, inflation expectations, and equity risk premiums; and surveys of expected returns in equity and fixed income markets.

The components of net periodic pension benefit expense (credit) for the System Plan for the years ended December 31 are shown below (in millions):

	2014	2013
Service cost - benefits earned during the period	$ 355	$ 407
Interest cost on projected benefit obligation	530	472
Amortization of prior service cost	100	103
Amortization of net loss	101	284
Expected return on plan assets	(759)	(638)
Net periodic pension benefit expense	327	628
Special termination benefits	15	6
Bureau of Consumer Financial Protection contributions	(12)	(9)
Total periodic pension benefit expense	$ 330	$ 625

Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic pension benefit expense in 2015 are shown below (in millions):

Prior service cost	$ 93
Net actuarial loss	205
Total	$ 298

Following is a summary of expected benefit payments, excluding enhanced retirement benefits (in millions):

2015	$ 418
2016	442
2017	469
2018	499
2019	530
2020 - 2024	3,126
Total	$ 5,484

The System's Committee on Investment Performance (CIP) is responsible for establishing investment policies, selecting investment managers, and monitoring the investment managers' compliance with its policies. At December 31, 2014, the System Plan's assets were held in ten investment vehicles: three actively-managed long-duration fixed income portfolios, a passively-managed long-duration fixed income portfolio, an indexed

U.S. equity fund, an indexed non-U.S. developed-markets equity fund, an indexed emerging-markets equity fund, a private equity limited partnership, a private equity separate account, and a money market fund.

The diversification of the System Plan's investments is designed to limit concentration of risk and the risk of loss related to an individual asset class. The three actively-managed long-duration fixed income portfolios are separate accounts benchmarked to a custom benchmark of 55 percent Barclays Long Credit Index and 45 percent Citigroup 15+ years U.S. Treasury STRIPS Index. This custom benchmark was selected as a proxy to match the liabilities of the Plan and the guidelines for these portfolios are designed to limit portfolio deviations from the benchmark. The passively-managed long-duration fixed-income portfolio is invested in two commingled funds and is benchmarked to 55 percent Barclays Long Credit Index and 45 percent Barclays 20+ STRIPS Index. The indexed U.S. equity fund is intended to track the overall U.S. equity market across market capitalizations and is benchmarked to the Dow Jones U.S. Total Stock Market Index. The indexed non-U.S. developed-markets equity fund is intended to track the Morgan Stanley Capital International (MSCI) World ex-US Investible Markets Index (IMI), which includes stocks from 23 markets deemed by MSCI to be "developed markets." The indexed emerging-markets equity fund is intended to track the MSCI Emerging Markets IMI Index, which includes stocks from 21 markets deemed by MSCI to be "emerging markets." The three indexed equity funds include stocks from across the market capitalization spectrum (i.e., large-, mid- and small-cap stocks). The private equity limited partnership invests globally across various private equity strategies and the private equity separate account invests in other private equity limited partnerships globally across various strategies. The private equity separate account invests in various private equity funds and coinvestment opportunities globally in private companies and targets returns in excess of public markets over a complete market cycle. Finally, the money market fund, which invests in short term Treasury and agency debt and repurchase agreements backed by Treasury and agency debt, is the repository for cash balances and adheres to a constant dollar methodology.

Permitted and prohibited investments, including the use of derivatives, are defined in either the trust agreement (for the passively-managed long-duration fixed income portfolio) or the investment guidelines (for the remaining investments). The CIP reviews the trust agreement and approves all investment guidelines as part of the selection of each investment to ensure that the trust agreement is consistent with the CIP's investment objectives for the System Plan's assets.

The System Plan's policy weight and actual asset allocations at December 31, by asset category, were as follows:

		Actual asset allocations	
	Policy weight	2014	2013
U.S. equities	26.3%	25.8%	29.7%
International equities	18.5%	17.6%	18.3%
Emerging markets equities	5.2%	4.9%	1.9%
Fixed income	50.0%	51.2%	49.4%
Cash	0.0%	0.5%	0.7%
Total	100.0%	100.0%	100.0%

In June 2013, the CIP approved a change in the allocation and benchmarks for the System Plan's public equity portfolio. The new benchmark is the MSCI All Country World Investible Markets Index. This benchmark change has reduced the System Plan's holdings in U.S. equities, increased the System Plan's holdings of developed markets international equities, and added an investment in emerging market equities. The CIP approved a phased six-month implementation period for these changes, commencing in September 2013 for developed market equities and November 2013 for emerging market equities.

Employer contributions to the System Plan may be determined using different assumptions than those required for financial reporting. The System Plan's anticipated funding level for 2015 is $480 million. In 2015, the Bank plans to make monthly contributions of $40 million and will reevaluate the monthly contributions upon completion of the 2015 actuarial valuation. The Bank's projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2014 and 2013, and for the years then ended, were not material.

Determination of Fair Value

The System Plan's publicly available investments are valued on the basis of the last available bid prices or current market quotations provided by dealers, or pricing services. To determine the value of a particular investment, pricing services may use information on transactions in such investments, quotations from dealers, pricing metrics, market transactions in comparable investments, relationships observed in the market between investments, and calculated yield measures based on valuation methodologies commonly employed in the market for such investments.

Because of the uncertainty inherent in determining the fair value of investments that do not have a readily available fair value, the fair value of these investments may differ significantly from the values that would have been reported if a readily available fair value had existed for these investments and may differ materially from the values that may ultimately be realized.

The following tables present the financial instruments recorded at fair value as of December 31 by ASC 820 hierarchy (in millions):

	2014			
Description	Level 1 [1]	Level 2 [1]	Level 3	Total
Short-term investments [2]	$ 27	$ 94	$ -	$ 121
Treasury and Federal agency securities	111	2,179	-	2,290
Corporate bonds	-	2,109	-	2,109
Other fixed income securities	-	443	-	443
Commingled funds	-	7,598	-	7,598
Private Equity	-	-	47	47
Total	$ 138	$ 12,423	$ 47	$ 12,608

[1] There were no transfers between Level 1 and Level 2 during the year.
[2] Short-term investments includes cash equivalents of $63 million.

	2013			
Description	Level 1 [1]	Level 2 [1]	Level 3	Total
Short-term investments [2]	$ 14	$ 126	$ -	$ 140
Treasury and Federal agency securities	38	1,565	-	1,603
Corporate bonds	-	1,773	-	1,773
Other fixed income securities	-	362	-	362
Commingled funds	-	6,795	-	6,795
Private Equity	-	-	14	14
Total	$ 52	$ 10,621	$ 14	$ 10,687

[1] There were no transfers between Level 1 and Level 2 during the year.
[2] Short-term investments includes cash equivalents of $78 million.

The System Plan enters into futures contracts, traded on regulated exchanges, to manage certain risks and to maintain appropriate market exposure in meeting the investment objectives of the System Plan. The System Plan bears the market risk that arises from any unfavorable changes in the value of the securities or indexes underlying these futures contracts. The use of futures contracts involves, to varying degrees, elements of market risk in excess of the amount recorded in the Consolidated Statements of Condition. The guidelines established by the CIP further reduce risk by limiting the net futures positions, for most fund managers, to 15 percent of the market value of the advisor's portfolio.

At December 31, 2014 and 2013, a portion of short-term investments was available for futures trading. There were $1 million and $8 million of Treasury securities pledged as collateral for the years ended December 31, 2014 and 2013, respectively.

Thrift Plan

Employees of the Bank participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The Bank matches 100 percent of the first 6 percent of employee contributions from the date of hire and provides an automatic employer contribution of 1 percent of eligible pay. The Bank's Thrift Plan contributions totaled $27 million and $26 million for the years ended December 31, 2014 and 2013, respectively, and are reported as a component of "Operating expenses: Salaries and benefits" in the Consolidated Statements of Income and Comprehensive Income.

10. 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):

	2014	2013
Accumulated postretirement benefit obligation at January 1	$ 343	$ 382
Service cost benefits earned during the period	15	16
Interest cost on accumulated benefit obligation	17	14
Net actuarial loss (gain)	35	(53)
Special termination benefits loss	-	1
Contributions by plan participants	3	3
Benefits paid	(20)	(20)
Medicare Part D subsidies	1	1
Plan amendments	-	(1)
Accumulated postretirement benefit obligation at December 31	$ 394	$ 343

At December 31, 2014 and 2013, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 3.96 percent and 4.79 percent, respectively.

Discount rates reflect yields available on high-quality corporate bonds that would generate the cash flows necessary to pay the plan's benefits when due. The System Plan discount rate assumption setting convention uses an unrounded rate.

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

	2014	2013
Fair value of plan assets at January 1	$ -	$ -
Contributions by the employer	16	16
Contributions by plan participants	3	3
Benefits paid	(20)	(20)
Medicare Part D subsidies	1	1
Fair value of plan assets at December 31	$ -	$ -
Unfunded obligation and accrued postretirement benefit cost	$ 394	$ 343

Amounts included in accumulated other comprehensive loss are shown below:

	2014	2013
Prior service cost	$ 1	$ 1
Net actuarial loss	(99)	(69)
Total accumulated other comprehensive loss	$ (98)	$ (68)

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

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

	2014	2013
Health-care cost trend rate assumed for next year	6.60%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.75%	5.00%
Year that the rate reaches the ultimate trend rate	2019	2019

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, 2014 (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	$ 7	$ (5)
Effect on accumulated postretirement benefit obligation	61	(49)

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

	2014	2013
Service cost-benefits earned during the period	$ 15	$ 16
Interest cost on accumulated benefit obligation	17	14
Amortization of net actuarial loss	5	12
Total periodic expense	37	42
Special termination benefits loss	-	1
Net periodic postretirement benefit expense	$ 37	$ 43

Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic postretirement benefit expense in 2015 are shown below:

Prior service cost	$ -
Net actuarial loss	7
Total	$ 7

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2014 and 2013, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 4.79 percent and 3.75 percent, respectively.

Net periodic postretirement benefit expense is reported as a component of "Operating expenses: Salaries and benefits" in the Consolidated 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 $1.0 million and $0.8 million in the years ended December 31, 2014 and 2013, respectively. Expected receipts in 2015, related to benefits paid in the years ended December 31, 2014 and 2013, are $0.6 million and $0.8 million, respectively.

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

	Without subsidy	With subsidy
2015	$ 18	$ 17
2016	18	17
2017	19	18
2018	19	18
2019	20	19
2020 - 2024	116	108
Total	$ 210	$ 197

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, 2014 and 2013, were $41 million and $37 million, respectively. This cost is included as a component of "Accrued benefit costs" in the Consolidated Statements of Condition. Net periodic postemployment benefit expense included in 2014 and 2013 operating expenses were $10 million and $2 million, respectively, and are recorded as a component of "Operating expenses: Salaries and benefits" in the Consolidated Statements of Income and Comprehensive Income.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME

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

	2014			2013		
	Amount related to defined benefit retirement plan	Amount related to postretirement benefits other than retirement plans	Total accumulated other comprehensive income loss	Amount related to defined benefit retirement plan	Amount related to postretirement benefits other than retirement plans	Total accumulated other comprehensive loss
Balance at January 1	$ (2,384)	$ (68)	$ (2,452)	$ (4,343)	$ (132)	$ (4,475)
Change in funded status of benefit plans:						
Prior service costs arising during the year	-	-	-	-	1	1
Amortization of prior service cost	100 [1]	- [2]	100	103 [1]	- [2]	103
Change in prior service costs related to benefit plans	100	-	100	103	1	104
Net actuarial gain (loss) arising during the year	(1,657)	(35)	(1,692)	1,572	53	1,625
Amortization of net actuarial loss	101 [1]	5 [2]	106	284 [1]	10 [2]	294
Change in actuarial gain (losses) related to benefit plans	(1,556)	(30)	(1,586)	1,856	63	1,919
Change in funded status of benefit plans - other comprehensive income (loss)	(1,456)	(30)	(1,486)	1,959	64	2,023
Balance at December 31	$ (3,840)	$ (98)	$ (3,938)	$ (2,384)	$ (68)	$ (2,452)

[1] Reclassification is reported as a component of "Operating Expenses: Net periodic pension expense" in the Consolidated Statements of Income and Comprehensive Income.

[2] Reclassification is reported as a component of "Operating Expenses: Salaries and benefits" in the Consolidated Statements of Income and Comprehensive Income.

Additional detail regarding the classification of accumulated other comprehensive loss is included in Notes 9 and 10.

12. Business Restructuring Charges

In 2014, the Treasury announced a plan to consolidate the number of Reserve Banks providing fiscal agent services to the Treasury from ten to four. As a result of this initiative, the International Treasury Services operations performed by the Bank will be transitioned to the Federal Reserve Bank of Kansas City.

The Bank had no material business restructuring charges in 2014 or 2013.

13. 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 the 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):

	2014	2013
Dividends on capital stock	$ 549	$ 526
Transfer to (from) surplus - amount required to equate surplus with capital paid-in	363	100
Earnings remittances to the Treasury	59,625	45,941
Total distribution	$ 60,537	$ 46,567

14. Subsequent Events

There were no subsequent events that require adjustments to or disclosures in the consolidated financial statements as of December 31, 2014. Subsequent events were evaluated through March 11, 2015, which is the date that the consolidated financial statements were available to be issued.