Federal Reserve Bank of Philadelphia

2016
Annual Report

Helping Our Communities Prosper

The Federal Reserve Bank of Philadelphia is one of 12 regional Reserve Banks in the United States that, together with the Board of Governors in Washington, D.C., make up the Federal Reserve System — the nation's central bank. The System's primary role is to ensure a sound financial system and a healthy economy. The Philadelphia Fed serves the Third District, which is composed of eastern and central Pennsylvania, southern New Jersey, and Delaware.

Cover photos (from top to bottom):

Cranberry bog harvest, Browns Mills, NJ
Image: Olivier Le Queinec / Shutterstock.com

Fed Chair Janet Yellen meets with entrepreneurs, Philadelphia, PA

9th Street Italian Market, Philadelphia, PA

Employees at a Supervision, Regulation, and Credit Department Town Hall at the Philadelphia Fed

2016 Annual Report

Letter from the President . . . 2

Conversation with the First Vice President . . . 4

Helping our Communities Prosper

Fed Chair Sees Philadelphia Workforce Development in Action . . . 8

A Core Mission: Safeguarding the Financial System . . . 10

Camden Rising: President Harker Tours a City in Transition . . . 14

The Philadelphia Fed Lands a 'Library for the Digital Age' . . . 16

Field Meetings Allow Fed Leaders to Engage with Local Bankers . . . 18

Conference Explores How Towns Transform Themselves . . . 20

Our Engaged Staff . . . 22

Board of Directors . . . 26

Economic and Community Advisory Council . . . 28

Community Depository Institutions Advisory Council . . . 29

Management Committee . . . 30

Additional Bank Officers . . . 31

Financial Statements . . . 35

Letter from the President

Patrick T. Harker

An annual report is supposed to be a summation of the year gone by, but it's also a chance to look forward. This year, I'm doing exactly that, viewing 2016 as the springboard for the exciting trajectory of our future work.

In 2016, we announced two bold initiatives that will build on the foundation of the Philadelphia Fed's strengths. These could not have been conceived of, much less embarked on, had it not been for the exceptional work that has defined this organization since its inception.

Both the Consumer Finance Institute and the Economic Growth & Mobility Project are rooted in our exceptional research capabilities and talent for putting theory into practice.

Why have we chosen this path? First and foremost, it supports the Federal Reserve System's mission of creating a strong economic foundation for the country. Additionally, it directly relates to our goal of maximum employment. We also have exceptional research capabilities at the Philadelphia Fed — including System expertise in consumer credit issues and an outstanding Community Development team — so tapping those resources just makes sense.

But we are also in a unique position. The Third District is a microcosm of the economic realities facing the United States — a mix of urban, rural, suburban, and post-industrial towns and cities that span our geography. While the economy of the country as a whole has returned more or less to full strength, that is an average of a vast and varied nation, and there are still pockets dotting the landscape, from Scranton to Sacramento, that have not yet reaped the good fortunes of the recovery.

As we work with our partners and find real, practical solutions for some of the most deeply entrenched barriers to economic mobility, we can create roadmaps for communities all over the country. Our approaches can be adopted and adapted by communities across America while concentrating on helping those in our own backyard achieve economic stability and self-sufficiency.

On a personal note, although it's not often an area of commentary for data-driven policymakers, I believe there is a moral imperative to this vein of work. I see it as our obligation to help people have an equal chance of success.

It is, however, also in our economic self-interest to ensure that the playing field is level. We don't live in isolation. We don't exist in siloed economic citadels: Our economic fates are intertwined with that of our neighbors.

> "As we work with our partners and find real, practical solutions for some of the most deeply entrenched barriers to economic mobility, we can create roadmaps for communities all over the country."

Regions do best when all their communities do well. And the investments we make now to give people the tools to find solid footing will come back to us. That's why we call it an investment.

If we are going to succeed as a community, a region, or a country, we have to remember that improving everyone's prospects for growth and mobility is good for all of us. Whether financial literacy or skills development, we're helping to create a stronger workforce and increase the capacity of people to contribute to the economy. That's especially important as the baby boom generation begins its march into retirement. From retraining workers to preparing the next generation for their entry into the labor force, the more value we put in, the more we get out of it.

In the coming pages, you'll read more about how we helped our communities to prosper in 2016. I look forward to building on that work for an even more outstanding report next year.

Patrick T. Harker

A Conversation with the First Vice President

James D. Narron

James D. Narron joined the Federal Reserve Bank of Philadelphia in April 2016. His nearly three decades of experience working in the Federal Reserve System has given him an expert eye on how the Fed safeguards the financial system. He shares his views on this important Fed responsibility.

One of the Federal Reserve's primary goals is to secure a safe and sound financial system. What contribution does the Philadelphia Fed make?

I think of the financial system as the lifeblood of the U.S. economy; if it stops running smoothly, the economy would be unable to function. As consumers, we need to be able to use our purchasing power on demand, whether that's our credit cards, our access to savings and checking accounts, or credit in general. The same goes for businesses: They need to access their deposits, to be sure payments are processed in minimal time, and to know that funds are available when they need them. That's how we pay our bills, buy food, keep roofs over our heads, and run the day-to-day operations of any business. So, the Federal Reserve System as a whole and the Philadelphia Fed in particular work with the financial services industry to ensure a fast, secure payments system.

How does the Federal Reserve think about the costs and benefits of financial regulation?

Regulation by its very nature means different things to different people. In the wake of the financial crisis, the pendulum swung perhaps a little too far in the direction of overcorrection. Most people don't think that's a bad thing when they view it in the context of maintaining the stability of systemically important financial institutions. But that same regulation became too much when looked at through the eyes of small and community banks. There's no disagreement that one-size-fits-all regulation just doesn't work — you can't impose the same strictures on a local bank in Johnstown that you can on a massive national or multinational institution.

How does that play out in the Third District?

Here in the Third District, our banks are disproportionately smaller ones. So, from that perspective, the regulatory burden has been something we've seen firsthand. A lot of work has already been done to ease that burden, and as we move farther away from the point of crisis, the pendulum will start to swing back in its arc — not all the way, but to a more sustainable middle ground. That's not unique to this particular post-crisis environment; it's a pattern we've seen throughout history, which is why we can comfortably predict an eventual realignment. In any event, it's always a good idea to revisit regulation as the economy evolves; the rules we made for yesterday aren't always the best ones for today.

One of the most talked about subjects for bankers these days is cybersecurity. What is the Philadelphia Fed doing to help the banking community and its customers stay safe?

While cybersecurity is an issue for all banks, it can be a particular financial burden for smaller institutions to stay safe because they just don't have the economies of scale that larger organizations do.

But big or small, banks' security is vital, because we're talking about the financial safety of families and businesses across the country. I'm proud to say that we have some of the best cybersecurity experts in the System right here in Philadelphia, and we're out in the District sharing our knowledge.

Expertise is important when it comes to security. How does the Bank get this knowledge out to bankers?

One of the things that sets the Philadelphia Fed apart from the other Banks is our field meetings, where we meet with bankers in their own towns and cities and discuss the realities of businesses on the ground. Our cybersecurity experts often come with us, giving updates and sharing best practices. We also host conferences with specialists from agencies such as the FBI, CIA, Secret Service, and National Security Agency to ensure people are guided to the right resources and understand cost-effective ways to significantly improve their defenses.

Helping Our Communities Prosper

9th Street Italian Market, Philadelphia, PA

The Federal Reserve Bank of Philadelphia is committed to engaging and communicating with the communities of the Third District, which covers central and eastern Pennsylvania, southern New Jersey, and all of Delaware. The Bank engages and supports local communities through field meetings with local bankers, community tours, and outreach programs for community development.

The Bank also champions expert research that identifies best practices to grow local and regional economies and help households move up the income ladder. These essays highlight how the Philadelphia Fed helped Third District communities prosper in 2016.

President Patrick Harker visiting the Cristo Rey High School

Table of Essays

Fed Chair Sees Philadelphia Workforce Development in Action

Fed Chair Janet Yellen visits the Philadelphia Fed and tours the West Philadelphia Skills Initiative and The Enterprise Center to see workforce development in action.

Page 8

A Core Mission: Safeguarding the Financial System

Led by the work of its Information Security and Supervision, Regulation, and Credit teams, the Philadelphia Fed helps to ensure the safety and efficiency of the U.S. financial system.

Page 10

Camden Rising: President Harker Tours a City in Transition

President Harker tours Camden, NJ, to see how local leadership, state and federal support, and private sector investment, helped by the Community Reinvestment Act, are revitalizing the city.

Page 14

The Philadelphia Fed Lands a 'Library for the Digital Age'

The Philadelphia Fed will house a new Federal Statistical Research Data Center. The designation highlights the expert knowledge that makes the Philadelphia Fed an important source of research.

Page 16

Field Meetings Allow Fed Leaders to Engage with Local Bankers

Held in eight cities throughout the District each year, field meetings allow Fed officials to listen to bankers' concerns as the Philadelphia Fed works to ensure a safe and robust financial system.

Page 18

Conference Explores How Towns Transform Themselves

The Community Development Studies & Education Department hosts its Reinventing Our Communities (ROC) symposium, which explores how communities successfully move from poverty to prosperity.

Page 20

Helping Our Communities Prosper

Chair Yellen meets with entrepreneurs, Philadelphia, PA

Fed Chair Sees Philadelphia Workforce Development in Action

The Federal Reserve System has a dual mandate handed down from Congress. The Fed should support circumstances that enable full employment while at the same time work to ensure price stability. The first half of the mandate — full employment — took center stage when Federal Reserve Chair Janet Yellen visited Philadelphia in June 2016.

Indeed, Chair Yellen has long been interested in workforce development, and the idea of jobs — how to create them, how to find them — threaded through her daylong visit.

The Chair began with a speech to the World Affairs Council of Philadelphia, a private, nonpartisan organization that promotes education. In her speech, she noted the vast improvement in U.S. labor markets since the Great Recession. The accommodative policies put in place by the Fed have helped spur business activity such as car sales and homebuilding, which in turn led to better job creation. Still, the Chair noted, "While the general picture of the labor market is largely positive, some people are still struggling," in particular African Americans and Hispanics.

The challenge of workforce development in minority neighborhoods has been a major focus at the Philadelphia Fed. The Bank's Community Development Studies & Education (CDS&E) Department works side-by-side with District outreach groups to research how economic change impacts towns and households and to discover what programs successfully connect workers, particularly disadvantaged workers, with jobs.

President Patrick T. Harker and CDS&E members took Chair Yellen to see some of these successful programs. The group stopped at the West Philadelphia Skills Initiative (WPSI), operated by the University City District (UCD). The work training and placement program helps unemployed West Philadelphia residents learn the skills necessary to land and keep jobs with local employers. Since it began six years ago, the WPSI has trained 610 job seekers, 95 percent of whom landed positions.

It was there that Chair Yellen sat down with students. The seven current and former students described how — despite having the correct credentials — they could not land decent-paying employment. They discussed the discouragement of living and job hunting in the shadows of large, successful businesses in need of good employees.

One of those students was Joyce Bacon, a West Philadelphia single mother of four. She detailed the fruitless, yearlong job search she endured after being laid off. Then, Bacon learned about the WPSI. In addition to training for a career in health care, she received coaching on her resume and interview skills.

Next, the WPSI presented to Bacon an advantage prized by many job seekers: a foot in the door. It arranged for her to interview for a position as a patient sitter at The Children's Hospital of Philadelphia. Access to employers like a major hospital generally isn't available to people like her, she said. "There's a disconnect between the residents (of West Philadelphia) and the premier employers such as Children's Hospital, Drexel University, and such," Bacon said. "The jobs are viewed by locals as out of reach."

The participants' stories highlighted one challenge for the Fed and its 12 District Banks, including the Philadelphia Fed. Residents who need employment and local companies that need workers look past one another. The Chair noted the gap goes beyond Philadelphia, saying "A lot of people have faced challenges — even when there are jobs — in being able to get hired and be successful in those jobs."

WPSI's program shows that connecting workers to employers can be done. Thanks to the media entourage that shadowed the Fed Chair, her presence shone a light on an economic success story in the nation's poorest large city. Several major media outlets featured the visit in their news coverage that day.

The Yellen visit was not the first — or last — time the UCD and the Philadelphia Fed have collaborated. The two institutions regularly share information, research, and experiences in their mutual goal of alleviating poverty through employment.

"You could describe it as a partnership of two different entities trying to accomplish the same thing," said Sheila Ireland, vice president, Workforce Solutions for UCD. She added that Chair Yellen was keenly interested in the specific details of the ways in which UCD accomplishes its mission. Nearly a year later, Ireland said Chair Yellen's visit continues to bolster UCD's stature with business partners and donors. "When we mention Chair Yellen's visit, they are impressed," she said.

Following the WPSI roundtable, the Chair visited other Philadelphia success stories that help residents get jobs and move up the economic ladder. First she stopped at the 52nd Street Commercial Corridor, an emerging business district supported by The Enterprise Center (TEC), which assists minority enterprise. She also tasted a few confections at TEC's Dorrance H. Hamilton Center for Culinary Enterprises, which offers commercial kitchen facilities and technical assistance to entrepreneurs. "Chair Yellen is a big foodie, so we made sure to go there," Harker said.

Chair Yellen's road tour wound up back at the Philadelphia Fed's headquarters, where she held a town hall meeting before a standing-room-only crowd that spilled into overflow rooms with video feeds.

When asked to reflect on the day's events, Chair Yellen emphasized her interest in workforce development issues. "For me, studying economics, this has always been my focus: unemployment and what enables people to find satisfying work," she said.

The Chair also applauded the Bank's "very distinguished" community development efforts to support the maximum-employment mandate through research that identifies what strategies work and then disseminating that knowledge throughout the District and beyond. "We can use the tools we have," she said. "And I really want to encourage the System to promote these successful efforts."

Harker observed that the Chair's visit to the Bank "reminded people that what we do here is important. We are part of the leading central bank in the world." The Philadelphia Fed plans to expand its focus on economic mobility in 2017, and Chair Yellen's visit reinforced for all employees that creating an economic environment that fosters job creation remains a core objective of the Fed System.

Helping Our Communities Prosper

Employees at a Supervision, Regulation, and Credit Department Town Hall at the Philadelphia Fed

A Core Mission: Safeguarding the Financial System

The Philadelphia Fed works to protect the safety and soundness of the U.S. banking system. As with the 11 other District Banks, the Philadelphia Fed aims to fulfill the Federal Reserve System's mission to ensure a robust financial system that promotes economic growth and provides a fair and transparent consumer financial services market.

The Philadelphia Fed's Supervision, Regulation, and Credit (SRC) team supervises 22 state member banks to evaluate whether they are complying with governmental regulations and meeting the needs of the communities in which they operate. Supervision efforts assess whether banks offer safe financial products to consumers and are managing risks effectively. "From a supervisory standpoint, we want to make sure that consumers have confidence that banking organizations are looking out for the interests of their customers and are conducting their business in a safe and sound manner," said William Spaniel, senior vice president, SRC.

The Philadelphia Fed is also responsible for helping its member banks satisfy their obligations under the Community Reinvestment Act (CRA), which requires financial institutions to meet the needs of the geographical areas in which they operate. That includes extending credit opportunities to low- and moderate-income communities — something especially vital in the Third District, which contains many struggling urban, suburban, and rural areas seeking to revitalize. According to Spaniel, CRA's benefits extend beyond guaranteeing access to credit. "The more we can lift up low- and moderate-income households, the more we can lift up the financial sector and the economy in the Third District," he said.

When it comes to helping banks comply with applicable laws and regulations, the Philadelphia Fed has taken on a leadership role by publishing two newsletters for community bankers on behalf of the System. With each issue, the Philadelphia Fed distributes more than 10,000 copies of *Community Banking Connections*, which focuses on safety and soundness, and nearly 25,000 copies of *Consumer Compliance Outlook,* which covers consumer compliance topics.

The Bank also collaborates with other Federal Reserve Banks and the Board of Governors in the Comprehensive Capital Analysis and Review (CCAR) program. Put in place in 2011 in response to the financial crisis, CCAR evaluates whether the largest U.S.-based bank holding companies have enough capital and robust processes in place to survive a severe stress to the economy.

Members of the CCAR team: (seated) Larry Cordell, Chellappan Ramasamy, and Paul Calem; (standing) Andrew Kish and Matthew Frame

CCAR evaluations include both quantitative and qualitative assessments. The former uses models to project what remaining capital banks would have in a stressful environment and whether that capital is sufficient, while the latter attempts to determine whether banks have appropriate risk management, internal controls, and governance to develop an effective capital plan. "The goal is to mitigate the risk of another financial crisis, which occurred when banks were undercapitalized at the peak of the crisis," said Larry Cordell, vice president, SRC.

SRC is responsible for developing supervisory stress test models used in the quantitative assessment for four core retail banking products — credit cards, auto loans, and first- and second-lien mortgages — as well as some securities models. Additionally, the Risk Assessment, Data Analysis, and Research (RADAR)

Chantel Gerardo and Jessica Weber of the Writing Center coach examiners Darren Wolfe and Kevin Clark

Writing Center Improves the Bank's Impact in the District

While opening a writing center may seem like an odd move for a Federal Reserve Bank, the Philadelphia Fed did just that in 2013. The SRC Writing Center was an innovative response to an identified challenge: Bankers could not always understand the detailed reports from bank examiners describing what changes management needed to make to comply with regulations. "We clearly had a need. We needed to communicate better, and we needed to communicate more clearly," said Spaniel.

The center operates much like those usually found in a college or university setting, offering voluntary, one-on-one writing coaching and group sessions conducted by Jessica Weber and Chantel Gerardo, examination report review analysts. The center has proven a success, with Weber and Gerardo conducting more than 400 consultations to date. An evaluation found the reports that had gone through the program showed a 36 percent improvement in overall quality and a 48 percent improvement in clarity.

The SRC Writing Center is just another unique way the Philadelphia Fed serves its member banks and fulfills its mission. According to Spaniel, "Our messages to bankers are much clearer about what our expectations are, so the banking system is stronger."

Group, led by Cordell, provides data management for the stress tests. "Data quality is of critical importance for a model's predictive accuracy," said Paul Calem, vice president, retail risk group in SRC.

In 2016, the Philadelphia Fed assumed a yet larger role in CCAR, contributing leadership to a System oversight group that manages the day-to-day

William Spaniel

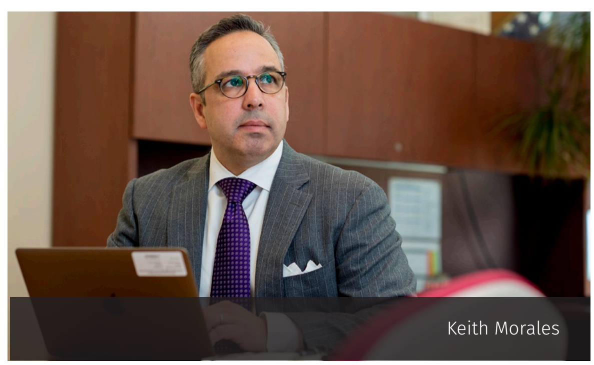
operations of the program and supervises the work of evaluation teams responsible for the qualitative assessment. The Philadelphia Fed contributes to the retail risk evaluation team and provides expertise in assessing risk in banks' securities portfolios. Overall, about 50 Philadelphia Fed staff members contribute to the System-wide CCAR workforce.

Managing cybersecurity risk is another significant factor to ensure the safety of the banking system, and the Philadelphia Fed is at the forefront of these efforts.

At the District level, annual field meetings provide an opportunity for Bank experts to share information on emerging issues in the cybersecurity space with member bankers. In addition, the Bank hosts a series of conferences with member and nonmember financial institutions in an effort to share approaches to and lessons learned from cybersecurity incidents. The events "create a forum to ensure that all financial institutions gain access to knowledge, resources, and relationships that are available but they may not know about," said Keith Morales, the Bank's vice president, information security and data privacy officer.

Within the System, Morales cochairs the Information Security Officers Group, and the Philadelphia Fed leads initiatives that aim to transform how the System provides information security services and how cybersecurity risk is measured and managed. Morales worked with researchers at Carnegie Mellon University who specialize in insider risk, resilience, and risk assessment to create a model to be used by the System. The model helps to prioritize investment in risk-reducing activities, increases the Philadelphia Fed's ability to debate differences of perspective in risk, and anticipates post-investment risk levels. "The model brings structure and discipline to describing cybersecurity risk to enable transparent debate and drive investment decisions," he said. The Bank is also currently working to patent a process for new technology that will increase the security of devices used by employees around the System, and Morales' team leads internal efforts such as the Insider Threat and Privacy programs.

Outside of the System, Morales' group maintains strong and mutually beneficial relationships with federal law enforcement and the intelligence community. The Bank has played a leadership role in critical infrastructure protection initiatives, including the FBI's InfraGard Program and the Secret Service's Electronic Crimes Taskforce. The Bank also partners with universities in the region, including the University of Pennsylvania, Drexel University, and the University of Delaware to drive curricula to ensure that the next generation of cybersecurity experts has the right skills and access to cutting-edge information and research in cybersecurity risk management.



Keith Morales

"We recognize the criticality of cybersecurity to Third District financial institutions and to our national security," said Morales. "We make it our mission to leverage every available relationship, piece of knowledge, and experience to make all of our constituents and our critical infrastructure partners as capable as possible in protecting their organization and our country."

This page was intentionally left blank

Helping Our Communities Prosper

Practice site of Philadelphia 76ers under construction, Camden, NJ

Camden Rising: President Harker Tours a City in Transition

Community tours are a crucial part of the Philadelphia Fed's outreach in the Third District. They allow Fed leadership and staff to engage directly with local residents and leaders and witness economic conditions on the ground firsthand. In the view of President Patrick T. Harker, "Understanding the barriers to economic prosperity is important for the Philadelphia Fed in our community development work, our economic education outreach, and in understanding the role of financial institutions in lifting our communities well into the middle class."

In the past few years, Camden, NJ, has become a prime example of how collaborative efforts can take down those barriers to prosperity and help a community lift itself up. Camden was the poorest large municipality in the U.S. as recently as 2012, according to the U.S. Census Bureau. But thanks to the combined work of municipal and civic leadership, state and federal support, and private sector investment, the city appears to be on an upswing after years of disinvestment and decline.

In April 2016, Harker took a community tour through the post-industrial city of 77,000 residents. In the morning, Harker delivered opening remarks at a conference cosponsored by the Bank's Community Development Studies & Education Department, the Federal Deposit Insurance Corporation, and the City of Camden. The event focused on Camden's progress with respect to the Community Reinvestment Act (CRA), which requires financial institutions to meet the needs of communities — including low- and moderate-income communities — in which they operate. Speaking to representatives from the banking and nonprofit sectors as well as city, state, and federal government, Harker emphasized how important CRA capital was to local entrepreneurs who could take care of their families and create jobs, and to young couples who, through an affordable mortgage, could fulfill their dream of becoming homeowners, build equity, and make an investment in their city.

Afterward, Camden Mayor Dana Redd spoke, highlighting data on Camden's progress. Camden has seen business investment blossom since state legislation passed in 2013 committed more than $1 billion in tax incentives to firms with plans to relocate to the area. In 2014, the city received its first Standard & Poor's investment grade rating in more than 15 years, recognizing the fiscal controls it has instituted to improve and stabilize the city's finances. In 2015, Camden was named a Promise Zone. The federal designation guarantees priority funding and support for high-poverty areas.

Mayor Dana Redd (right) talks to (left to right) Maria T. Maio-Messano, director, New Jersey State Office, U.S. Department of Housing and Urban Development; Patrick T. Harker, Philadelphia Fed President; and Novella Hinson, chief of staff to Mayor Redd

After the mayor presented Harker with the key to the city, representatives from local grassroots organizations took Harker, Redd, and others on a tour of revitalizing areas.

There are new schools, parks, public housing developments, and future corporate sites in various stages of completion. The Philadelphia 76ers recently finished a training facility on a complex that will include front office space and an entrepreneur incubator. Subaru America will relocate its headquarters to Camden, consolidating facilities and moving 600 regional employees into the area. The energy technology firm Holtec International is constructing a 50-acre campus that will include two manufacturing facilities and an engineering center. In addition, Liberty Property Trust — a multibillion-dollar real estate investment firm — has plans for an $800 million waterfront project that will include a hotel, homes, offices, shops, and restaurants.

The "eds and meds" sector also continues to grow and create jobs in the city. Health care and education account for nearly 40 percent of all employment in Camden, a trend that shows no sign of reversing. The planned Joint Health Sciences Center in downtown Camden, slated to open in 2018, is anticipated to add approximately 580 jobs. In a recent speech, Redd credited the industry in helping to drive the unemployment rate down. Average annual unemployment in Camden fell from 19 percent in 2010 to just below 10 percent in 2016, according to the Bureau of Labor Statistics.

While Camden has made attempts to reinvent itself in the past, it has never seen quite the same concerted push from the public, private, nonprofit, and civic sectors. "It's a team effort," said Harker. "It's the city, it's the business community, it's a lot of organizations and people working together, and that makes a difference."

Redd is a vocal advocate of collaboration. When she appeared at the Philadelphia Fed's Reinventing Our Communities conference in September 2016, she stressed the imperative of approaching revitalization in a "holistic manner" and "taking the next step" to communicate with stakeholders. To ensure community buy-in, Camden has set up a special congress with representatives from each neighborhood. The representatives meet regularly with city staff to hear new plans and report back to their neighbors.

"We are beginning to see unprecedented change and exciting outcomes throughout our city," said Redd. "I believe that Camden's Promise Zone designation points to a smart and more cooperative approach to revitalizing a distressed community. It demonstrates how the federal government is making a strong effort to take a 'bottom-up' approach by engaging with local government and communities."

The Philadelphia Fed will continue to closely monitor Camden's progress and remain an active partner as the city grows and finds solutions to its most pressing challenges. "The Philadelphia Fed looks forward to working with the community and supporting the leaders of Camden in their efforts to foster a strong, vibrant, and inclusive economy," said Harker.

Helping Our Communities Prosper

Iourii Manovskii, Jeffrey Lin, and Keith Sill look over blueprints for the new data center

The Philadelphia Fed Lands a 'Library for the Digital Age'

For economists, demographers, and policymakers, the Federal Reserve System is a key source for unbiased data and expert knowledge. The primacy of the Philadelphia Fed's research expertise was corroborated in July 2016 when the U.S. Census Bureau named the Bank as a new site for a Federal Statistical Research Data Center (FSRDC).

"Being selected to house a Census data center builds on the Philadelphia Fed's reputation for high-quality social science research," said Jeffrey Lin, an economist at the Bank who will be codirector of the center, with Iourii Manovskii, an economics professor at the University of Pennsylvania.

The Philadelphia Fed facility will be run as a branch of the center based at Pennsylvania State University in State College, PA. Mark Roberts, economics professor at Penn State, heads up the university's center and said another center in the Third District is a definite positive in advancing the understanding of the local economy and the national economy.

The data center housed at the Philadelphia Fed will benefit the Third District in two ways. First and foremost, good research leads to good policies within the District and beyond. Policymakers must understand what programs work and how the economy is evolving in order to guide policy in the most effective direction. "The purpose of the data center is to connect us to the best social science research on individuals, businesses, neighborhoods, cities, and the nation as a whole to make better choices and contribute to the working of the economy," said Lin.

Industry data also give insight into why some companies prosper and hire, while others do not. "What we know about the life cycle of firms comes from studying businesses at the micro level — the data available in the data center," said Roberts. That's important for

District households because past research has shown job creation comes mostly from young firms. Communities that are reinventing themselves will want solid research that identifies the policies and infrastructure that these towns can put in place to support start-ups and fledging enterprises.

Second, the ability to attract and retain researchers will keep the Philadelphia area at the forefront as an educational and knowledge hub. Education along with health care have been job generators for the area and the nation. "A local research center will make Philadelphia more attractive to researchers doing empirical work," said Roberts.

The process begins with formulating a research proposal. A Census Bureau administrator on site can help with the proposal, but the idea must benefit the bureau and ensure the data remain anonymous. The Census Bureau then reviews each application. When a proposal is approved, the researcher receives an access card for entry into the facility. The researcher then has a five-year window in which to conduct and complete the project. The results must be reviewed and approved by the bureau to make sure they meet the bureau's requirements on confidentiality before the results can be presented to the public in research articles or conference presentations.

The data centers are a way for researchers to access millions of data points the Census Bureau collects

The data centers are a way for researchers to access millions of data points the Census Bureau collects through the decennial census of the population and surveys of households and firms for economic reports. The center will also include data from the National Center for Health Statistics and eventually the Bureau of Labor Statistics. Published data are aggregated from the individual responses, and economists use publications such as the monthly retail sales report and the durable goods report to gauge economic activity. Census officials wanted to make the individual information available to researchers to do deeper dives into economic trends but only after the data had been scrubbed of any detail that would allow a person to be identified.

The Census Bureau decided on creating data centers in which the anonymized information would be available down to a level as specific as a city block. Each data center gives researchers access to an estimated 60–70 data sets, each containing thousands of observations. The data centers are unique in that the information cannot be taken off site. But researchers in different centers can collaborate. Roberts, for instance, has worked at the Penn State site with an economist at the Federal Reserve Bank of Atlanta.

The granular nature of the data allows researchers to look at economic, health-care, or demographic trends across various but specific geographic areas. For instance, economists can correlate income growth with households' proximity to mass transit. A health-care expert can try and compare the incidences of a disease with the nearness of certain production sites.

An FSRDC "is a library for the digital age," said Keith Sill, senior vice president and associate director of Research at the Philadelphia Fed, who spearheaded the effort to house the new center.

The process to bring a center to the Philadelphia Fed began when Sill approached Roberts to head the application effort. The Bank then banded with Drexel University and the University of Pennsylvania to assemble the bid and submit the application to the Census Bureau where it was reviewed. The consortium of four institutions — the Philadelphia Fed, Penn State, Drexel, and Penn — will share the cost of the two Pennsylvania facilities.

Construction began in January 2017 to build the facility on the first floor of the Bank. "One advantage Federal Reserve Banks have over other buildings is their security," said Sill, which includes cement floors and security entrances. In addition to the Philadelphia Fed, the Federal Reserve Banks of Atlanta, Kansas City, and Chicago host data centers.

The new center highlights how the Philadelphia Fed works to engage local economies and households and help them prosper. Research done by the Bank's economists furthers that effort, and the new center will allow them to work beyond the published data. "The center gives researchers the ability to further our understanding of the underlying structure of the economy in ways that go beyond what's available from public, aggregated data," Lin said.

Helping Our Communities Prosper

Bill Guinan and Bond Kraemer meet with community bankers

Field Meetings Allow Fed Leaders to Engage with Local Bankers

Field meetings have been a staple of the Philadelphia Fed's relationship building for more than 70 years. The gathering of local bankers and Fed officials started as an event to sell war bonds for the federal government during World War II. Today the field meetings afford the Philadelphia Fed's senior management the opportunity to meet directly with bankers to gain their perspectives on local banking conditions, the local economy, and the bank regulatory environment.

Field meetings are unique to the Philadelphia Fed. The meetings typically involve a reception, presentations by senior Bank officials, and a dinner speech by President Patrick T. Harker. Harker spoke on three topics during the 2016 meetings: his economic outlook, monetary policy, and his role in the Federal Open Market Committee (FOMC), the policy-setting group that meets at the Board in Washington, D.C.

Also in 2016, the field meetings introduced a feature called "Chat with Pat" that was extremely well received. Presentations covered a regulatory update, economic update, and cybersecurity.

More than 700 executives representing a high percentage of community banks attended the eight field meetings, the highest attendance in four years. Over 90 percent of Third District community banks were represented at the meetings. The locations were chosen to accommodate the most banks within a reasonable driving distance. Meetings were held in Hershey, State College, Williamsport, Gladwyne, Scranton, and Allentown, PA; Newark, DE; and Haddonfield, NJ.

Anthony Scafide, assistant vice president, Financial Institutions Relations, and his experienced team of Bond Kraemer, Bill Guinan, Tony White, and Janet

Rizzo, manage the Bank's relationship with financial institutions around the Third District. But the highlights of the year are the eight trips that bring senior executives of the Bank to meet groups of local bankers in central locations. "The field meetings are a culmination of the outreach we do all year," Scafide said.

Scafide, a 38-plus year veteran of the Philadelphia Fed, has throughout his career been engaged with Third District institutions and has spent the last 15 years maintaining and strengthening the Bank's relationships with Third District financial institutions, including credit unions, community banks, banking associations, and others. That experience has allowed him to see how community banks represent the backbone of communities and occupy a critical part of the financial system and local economies: "Community bankers know everything and everybody in their trade area. They see their customers in church, supermarkets, restaurants, and walking down the streets. They sit down at the kitchen table with their customers and provide sound financial service and advice to their customers."

"We understand and emphasize the value of a community bank to the community it serves by making loans; providing access to funds; managing deposits; giving advice; making mortgages, small business loans, and agriculture loans; and by supporting and being active in their communities," said Scafide.

The interaction that takes place with bankers at the field meetings is essential for the Philadelphia Fed as it seeks to gather on-the-ground knowledge about the District's economy. "These are the people who deal with the local community — individuals and commercial enterprises, including small businesses that employ most of the people in the country," said James D. Narron, first vice president, who joined the Philadelphia Fed in April 2016 and used the meetings to introduce himself to the bankers in the District.

Mifflin County Savings (MCS) Bank in Lewistown, PA, is one of those banks. Chartered in 1923, MCS has six locations and $141 million in assets. In 2013, MCS opened its fifth full-service branch in a hardware store in a local, predominantly Amish community after the abrupt departure of a large regional bank left the locals in a lurch.

MCS Bank Chief Executive Terry Foster, along with his colleagues, have been attending the field meetings for 20 years. "We have found the venue to be an invaluable opportunity to interact with the Federal Reserve Bank staff and the incumbent president and to be able to directly share our perspectives on banking and economic conditions and issues within the Third District," Foster said.

The understanding goes both ways, according to Scafide. "The information we glean from the bankers is as important as the information they learn from us," he said. "The field meetings are one of the ways Pat gets insights into the local economies and happenings in the communities. They keep our Research area informed of economic events, as well as pass along information to our Supervision, Regulation, and Credit team and others in various areas of the Bank that interact with bankers."


Anthony Scafide

Harker agreed. "Field meetings are good for me because, in addition to getting out and meeting the community bankers and hearing their concerns, I also get to see the challenges and opportunities our District communities face. The FOMC provides an overall look at the average health of the U.S. economy, but there are communities that aren't reaping the benefits that others are. And seeing this firsthand is valuable."

The anecdotes shared across the dinner table can provide early insight into changes in the economy. For example, talks at the Williamsport, PA, meetings in 2007 and 2008 enabled the Philadelphia Fed to be one of the first to identify the potential economic impact of the Marcellus Shale natural gas drilling project.

The Philadelphia Fed will continue this process of talking to community banks. It is another way the Bank engages with local communities, gaining knowledge that can benefit areas beyond the Third District.

Helping Our Communities Prosper

Theresa Singleton addresses the Reinventing Our Communities conference

Conference Explores How Towns Transform Themselves

The loss of manufacturing industries and boarded-up Main Streets have left many of the nation's aging industrial cities with daunting economic and social prospects, even as the U.S. economy expands and unemployment remains low nationwide.

The dichotomy is clearly visible in the Third District, where areas of extreme wealth bump up against pockets of poverty and despair. The Philadelphia Fed has long been committed to furthering the research needed to better understand how poverty affects the economy and to use those findings to inform policymakers and promote economic mobility. The Bank believes that the best approach to transforming struggling communities is to combine practices that are based on solid research and research informed by proven practices.

Toward that end, every other year, the Community Development Studies & Education Department of the Philadelphia Fed convenes a three-day conference that focuses on developing tools and strategies for revitalizing the nation's struggling communities in the face of growing inequality.

In 2016, the name of the seventh biennial conference was changed from "Reinventing Older Communities" to "Reinventing Our Communities" (ROC) to broaden the conference's focus area, according to Theresa Singleton, vice president and community affairs officer. "'Our' may be a small word, but it signifies the importance of working together so that all have the tools to prosper," she said.

Close to 100 scholars and practitioners came to Philadelphia on September 21–23 to present their research and share their experiences and approaches to creating equitable and inclusive economies.

In his opening remarks to the conference, keynote speaker Xavier de Souza Briggs of the Ford Foundation, stressed the importance of fostering inclusive economic opportunity, amid growing evidence that inequality "saps growth" and "affects us all, not just the disadvantaged."

It is a sentiment that resonates with the Philadelphia Fed and its President Patrick T. Harker, who participated in his first conference as head of the Bank. "Our own economic fates are tied to the well-being of our neighbors," he said.

In between the opening keynote address and the closing remarks was a jam-packed schedule of educational and networking opportunities. Some 430 community developers, planners, policymakers, researchers, and foundation representatives from across the country and Canada attended receptions, workshops, and plenary sessions. For the first time, the ROC conference offered off-site "deep-dive" learning labs that provided an opportunity to explore the topics of resident engagement and the Community Reinvestment Act.

On the first day of the conference, as a way to connect research to practice, there were tours of Schuylkill Banks and Grays Ferry Crescent, as well as the Mt. Airy neighborhood. Participants were able to see how the Schuylkill River Trail, when completed, will link disadvantaged neighborhoods to job and cultural opportunities throughout the city.

Conferees then returned to the ROC site at the Hilton Philadelphia to attend workshops that focused on affordable housing, success stories in the work to address extreme poverty, and the importance of getting revitalizing communities connected with needed capital.

Day 2 featured a global perspective on economic development and community transformation presented by leaders of the Organisation for Economic Co-operation and Development and the World Economic Forum. At lunch, a panel of mayors of major U.S. cities shared stories of what their governments and constituents are doing to revitalize their communities. Attendees could also choose from among 10 different workshops during the day.

The highlight of the third day was a Q&A session moderated by National Public Radio's Michel Martin with three regional Fed presidents: Philadelphia's Harker, Loretta J. Mester from the Cleveland Fed, and Dennis Lockhart from the Atlanta Fed.

"The conference feedback was overwhelmingly positive, and participants underscored the importance of bridging perspectives from research and practice throughout the event," Singleton said.

The key takeaways from the ROC conference emphasized the need for collaboration, patience, and access. Indeed, no single approach can achieve sustainable economic growth on the local level. Progress takes time and is not immediately evident sometimes. Stakeholders need to understand this and commit for the long haul.

Finally, the only way a community will reach its full economic growth is if every resident has access to the tools that allow each to achieve their full potential. These tools include a good education and access to child care, health care, affordable housing, and a dependable transit system.

As it has done with every conference, the Bank partnered with cosponsors and other Reserve Banks, seven of which collaborated in 2016, to plan and execute the conference. Ten cosponsors, including the University of Pennsylvania's Institute for Urban Research, provided supporting research in many of the sessions.

Cosponsors play a key role in shaping the conferences by "providing key insights on emerging topics and leading speakers, which enable us to develop rich content while reaching a broad audience," Singleton said.

In addition to the cosponsors, 66 organizations supported the 2016 conference by promoting it within their own broad networks, helping to spread the word even farther.

"We were able to host a world-class, signature conference because of the dedication and work of our staff, cosponsors, and our network of community development professionals," Singleton said.

The Philadelphia Fed will continue its research into economic mobility with more conferences in the future and a new initiative for 2017 that will build on the work laid out at the 2016 ROC meeting. "I want Philadelphia to be a leader in this work because I see it as a fundamental part of the long-term economic health of the region and the country," Harker said.

Our Engaged Staff

Employees at a Philadelphia Fed Town Hall

At the heart of any organization are its people. The Philadelphia Fed's 900 employees not only make their mark within the four walls of the Bank, they reach out across the Federal Reserve System and the local community to partner on a variety of projects.

Collaboration is key when Bank employees work with colleagues at government agencies or across the 12 Districts of the Fed System. For example, Paul Calem, vice president in the retail risk group of the Supervision, Regulation, and Credit (SRC) Department, began working with the Consumer Financial Protection Bureau (CFPB) and indirectly with the Federal Housing Finance Agency in 2016. The CFPB, a government watchdog for the financial industry, has fielded more than 1 million consumer complaints and has helped more than 27 million consumers to date. Calem is working on applications for the new National Mortgage Database, designed partly to evaluate the impact of the rule that measures a borrower's ability to repay a qualified mortgage and to explore what kind of impact the rule has had on banks that serve certain segments of the mortgage market.

"My work involves bridging the gaps between the raw data," said Calem, "to create a user-friendly database with applications for research and policy." The experience has also reconnected him with System colleagues, which should lead to more collaboration. "We've developed and solidified relationships that I expect to continue in the future," said Calem.

Critical research work was done in 2016 to evaluate the Fed's missions of monetary policy and bank regulation. Roc Armenter, Research vice president and economist, and Benjamin Lester, senior economic advisor and economist, were part of a System-wide initiative to evaluate a host of possible long-run frameworks to implement and conduct monetary policy. They developed a model to investigate the role of interest paid on excess reserves and the overnight reverse repurchase (ON RRP) facility in monetary policy. In early 2017, the *Review of Economic Dynamics* published their ground-breaking work, "Excess Reserves and Monetary Policy Implementation."

Research senior economic advisor and economist Ronel Elul has also been working on System initiatives, most notably the Dodd–Frank Act Stress Tests (DFAST). Elul has been working with the System's central point for retail supervisory modeling, the Philadelphia team led by Chellappan Ramasamy, SRC assistant vice president. Their core work is developing stress testing models for first-lien mortgages, home equity, credit cards, and auto loans.

"What the modeling teams build are generally models of default risk for individual loans or classes of loans," said Elul, who began working with modeling teams at the Chicago and Minneapolis Feds prior to supporting efforts at home base. Potential crises can be simulated, and the teams can determine what kind of potential losses the banks would then bear on these loans. In addition to benefiting from what he learns through interacting with the teams, Elul values his work because it not only strengthens Philadelphia's contribution to the System project but also aligns well with the Bank's initiatives on consumer credit.

The Bank also rolled out innovative new products, such as the Aruoba Term Structure of Inflation Expectations (ATSIX), launched by the Research Department's Real-Time Data Research Center in March 2016. Tom Stark, assistant director of the center, coordinated the efforts in publishing this new measure of inflation expectations that provides forecasts for any point in time between three and 120 months in the future. The ATSIX uses a statistically optimal method that combines several major surveys: the *Survey of Professional Forecasters*, published by the Philadelphia Fed, and the *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*, published by Wolters Kluwer Law & Business.

"The great appeal of the ATSIX is that it is based on rigorous statistical methods designed to extract an optimal signal about inflation expectations, a variable that is central in modern-day macroeconomic models," said Stark, who sees the benefits of the model's broad reach to firms and households in future decision making. "The ATSIX provides additional information to policymakers, researchers, and business analysts for studying how inflation expectations and real interest rates evolve and respond to monetary policy," said Fatima Mboup, a senior research assistant in the center.

For Dan Kutschera, budget manager in the Enterprise Risk Management Department, his foray into a System initiative opened the door to new perspectives. He spent two months working with the Board of Governors' Division of Reserve Bank Operations and Payment Systems, helping to plan the System's annual budget meeting and to analyze proposed cost-accounting changes and budget guidance targets for 2017. Reflecting on the experience, he said it was "eye opening to see the vastness of what the System does."

The Bank's employees work hard to engage communities, especially in the area of financial education. Andrew Hill and Todd Zartman, economic educators in the Community Development Studies & Education Department, work with Third District teachers on economic and personal financial education programs,

Employees of PhillyFedCARES at Philabundance

including Keys to Financial Success and Making Sense of Money and Banking. "Most teachers have little experience teaching about personal finance, economics, and the Federal Reserve," Hill said. "We're here to teach them how best to approach the topic."

Last year, Hill built on the programs' previous successes and created online modules to reach a nationwide audience. Specifically geared to K–12 teachers, the four-module course offered last summer helped more than 80 participants from Florida to Washington state who signed up for "The Case of the Gigantic $100,000 Bill" to learn how fractional reserve banking works and how banks create money when they make loans.

"We expanded into more geographic areas to reach teachers who wouldn't be able to attend the in-house program at the Bank," said Hill, who partnered with the Council of Economic Education's nationwide network and other Reserve Banks to spread the word. "We succeeded in engaging with educators from across the country with one of our best lessons."

Whether it's called corporate or social responsibility, lending a helping hand in the community resonates with employees. The Bank's PhillyFedCARES is an initiative spearheaded by a nine-member Volunteer Advisory Council and carried out by employees who give of their time and talent in select events year-round. On Martin Luther King Jr. Day, Bank employees wearing PhillyFedCARES T-shirts spent the day at the Andrew Jackson Elementary School in Philadelphia, sprucing up the building and the grounds. "The school has come to depend on the Bank to help out with much-needed projects every year," said Bob Mucerino, vice president of Collateral Management and Administrative Services and a member of the Volunteer Advisory Council. "Not everyone can participate in the actual event, but those who still want to help do so by donating school supplies and clothing."

For the third consecutive year, the Bank — along with nearly 100 other companies — partnered with the local Philadelphia high school, giving students a chance to work in a professional environment while they are still in school.

In 2016, PhillyFedCARES' volunteers rolled up their sleeves at many other events. They helped the Philabundance Hunger Relief Center in South Philadelphia process, sort, and package more than 12,000 pounds of food items and 3,400 pounds of apples for local food distribution centers. To commemorate September 11, more than 60 employees and their families signed up for the annual Bank-sponsored 9/11 Heroes Run in Fairmount Park, a portion of the proceeds of which went to the Fraternal Order of Police Survivors Fund and the Philadelphia Firefighters Widows Fund. Bank employees helped first and second graders at the General George A. McCall Elementary and Middle School in Philadelphia better understand money through the Teach Children the Value of Money program, which began last November. And during the holidays, volunteers gathered at the Salvation Army Citadel Corps Community Center in Philadelphia to sort and display toys destined for underprivileged children in the Third District.

President Patrick Harker visiting the Cristo Rey High School

One of the Bank's outreach programs has engaged local youths in a special work-study program with Philadelphia's Cristo Rey High School. For the third consecutive year, the Bank — along with nearly 100 other companies — partnered with the high school, giving students a chance to work in a professional environment while they are still in school. In 2016, eight students worked with mentors in two Bank departments in accordance with their skill sets and interests: Information Technology Services and Supervision, Regulation, and Credit. President Patrick T. Harker understands the value of mentorship programs, noting that the skills he learned in his youth through mentoring could be easily transferred to any job when he started his career years later.

"The program is part of the Bank's community outreach, building a real-life experience for students in the workplace," said Donna Koller, staffing manager in Human Resources. "Students sharpen their communication and computer skills and learn about the importance of collaboration in a corporate setting while helping the Bank," said Koller. "Like all our community involvement, it's a win-win for both of us."

This page was intentionally left blank

2016 Board of Directors

Sitting, from left: Patricia Hasson, William S. Aichele, and Carol J. Johnson; standing, from left: David R. Hunsicker, Edward J. Graham, Jon Evans, Phoebe A. Haddon, and Brian M. McNeill; not pictured: Michael J. Angelakis

BOARD MEMBERS

CHAIRMAN

Michael J. Angelakis (a, d)
Chairman and CEO
Atairos Management, L.P.
Bryn Mawr, PA

DEPUTY CHAIRMAN

Brian M. McNeill (a, c, d)
President and CEO
TouchPoint, Inc
Concordville, PA

William S. Aichele (a, c)
Chairman
Univest Corporation of Pennsylvania
Souderton, PA

Jon Evans (a, b)
President and CEO
Atlantic Community Bankers Bank
Camp Hill, PA

Edward J. Graham (a, b, d)
Former Chairman and CEO
South Jersey Industries
Folsom, NJ

Phoebe A. Haddon (a, b)
Chancellor
Rutgers University–Camden
Camden, NJ

Patricia Hasson (a, c)
President and Executive Director
Clarifi
Philadelphia, PA

David R. Hunsicker (a, b, d)
Chairman, President, and CEO
New Tripoli Bank
New Tripoli, PA

Carol J. Johnson (a, c)
Former President and COO
AlliedBarton Security Services
Conshohocken, PA

(a) Executive Committee
(b) Audit Committee
(c) Management & Budget Committee
(d) Nominating & Governance Committee

"Being chancellor at Rutgers and a director at the Philadelphia Fed gives me a greater ability to share my insights about the impact of student loan debt and other perspectives from our students and graduates in the Third District."

Phoebe A. Haddon

Phoebe A. Haddon serves as a Class C director. She has been the chancellor of Rutgers University–Camden since 2014 and is responsible for the daily administration of more than 6,600 students in 39 undergraduate and 28 graduate programs. Previously, she was dean of the University of Maryland Francis King Carey School of Law. Before that, she was a faculty member at Temple University's Beasley School of Law for nearly 30 years. Haddon has written extensively on equality in education and access to counsel for civil litigants.

Haddon is a member of the American Bar Association's Commission on the Future of Legal Services, the CEO Council for Growth, the board of the Philadelphia Museum of Art, and the board of trustees for the Cooper University Health System. She also served on the board of trustees at Smith College from 1999 to 2009 and as the board's vice chair from 2004 to 2009. Haddon graduated cum laude with a J.D. from Duquesne University School of Law, has an LL.M. (master of laws) from Yale Law School, and has a bachelor's degree from Smith College.

"As a director, I can see the Fed working with its partners and I get to see the great work that is being done at the Bank from a different perspective."

Patricia Hasson

Patricia Hasson serves as a Class B director. She is the president and executive director of Clarifi in Philadelphia. Before joining Clarifi in 1998, she spent more than 12 years as a banking executive.

Hasson was appointed to the inaugural Consumer Advisory Board of the Consumer Financial Protection Bureau in 2012 and serves on the Oversight Board for the Philadelphia Mayor's Office of Community Empowerment & Opportunity. She also was on the Federal Reserve Board Consumer Advisory Council (CAC) and chaired the CAC's Housing & Community Development Committee. Hasson has an M.B.A. from Villanova University and bachelor's degree in finance from the University of Dayton.

"Being a Philadelphia Fed director helps me provide better two-way communication between the Federal Reserve and local bankers for improved collaboration and best practices."

Jon Evans

Jon Evans serves as a Class A director. For 36 years, he has served banks in the mid-Atlantic region, ranging from small community to regional institutions. He worked in operation and credit positions before managing the Financial Institutions Group at Summit Bank in Princeton, NJ, in 1996. Evans became the CEO of Atlantic Community Bankers Bank in 2001. He founded ACBB-BITS in 2005 and continues to chair the subsidiary, a privately owned telecommunications company created to help U.S. financial institutions simplify and enhance their telecommunication needs.

Evans serves on several state and national banking trade associations as well as the national Bankers' Bank Council. He graduated from Rutgers University with a bachelor's degree in economics.

Economic and Community Advisory Council

Sitting, from left: John A. Fry, Madeline Bell, Patrick J. Eiding, Edward L. Dandridge; standing, from left: Staci Berger, Daniel Betancourt, Patrick Magri, Michael K. Pearson, Thomas J. Doll, Ernest Dianastasis; not pictured: Chris Gheysens, Michael A. Nutter, Maria Rodale, Linda Thomson

The Economic Advisory Council, created in 2008, was expanded and renamed the Economic and Community Advisory Council in 2016. It is now composed of up to 15 leaders who represent businesses of different sizes and industry sectors as well as nonprofit and philanthropic organizations, academic institutions, the public sector, and organized labor. The council advises Federal Reserve officials on emerging trends, market conditions, and economic growth opportunities in the Third District and the nation.

Madeline Bell
President and CEO
The Children's Hospital of Philadelphia
Philadelphia, PA

Staci Berger
President and CEO
Housing and Community Development Network of New Jersey
Trenton, NJ

Daniel Betancourt
President and CEO
Community First Fund
Lancaster, PA

Edward L. Dandridge
Chief Marketing and Communications Officer
Marsh & McLennan Companies
New York, NY

Ernest Dianastasis
Founder and CEO
The Precisionists, Inc.
Wilmington, DE

Thomas J. Doll
President and COO
Subaru of America
Cherry Hill, NJ

Patrick J. Eiding
President
Philadelphia Council AFL-CIO
Philadelphia, PA

John A. Fry
President
Drexel University
Philadelphia, PA

Chris Gheysens
President and CEO
Wawa, Inc.
Wawa, PA

Patrick Magri
Senior Vice President
U.S. Hospital and Specialty Business Unit
Merck & Co., Inc.
North Wales, PA

Michael A. Nutter
David N. Dinkins Professor of Professional Practice of Urban and Public Policy, Columbia University, and Former Mayor of the City of Philadelphia
Philadelphia, PA

Michael K. Pearson
President and CEO
Union Packaging
Yeadon, PA

Maria Rodale
Chairman and CEO
Rodale, Inc.
Emmaus, PA

Linda Thomson
President and CEO
JARI
Johnstown, PA

Community Depository Institutions Advisory Council

Sitting, from left: William Wood, Matthew P. Prosseda, J. Bradley Scovill, and Marcie Barber; standing, from left: David J. Hanrahan, Richard Stipa, Jeane M. Coyle, Rory Ritrievi, Christopher D. Maher, and Ed Dietzler; not pictured: Angela M. Snyder, Mark E. Huntley

The Community Depository Institutions Advisory Council, created in 2011, includes representatives from commercial banks, thrift institutions, and credit unions. The council provides information, advice, and recommendations to the Federal Reserve Bank of Philadelphia from the perspective of community depository institutions.

Marcie Barber
President and CEO
Juniata Valley Financial Corporation
and The Juniata Valley Bank
Mifflintown, PA

Jeane M. Coyle
President and CEO
Penn Community Bank
Bristol, PA

Ed Dietzler
President
The Bank of Princeton
Princeton, NJ

David J. Hanrahan
President and CEO
Capital Bank of New Jersey
Vineland, NJ

Mark E. Huntley
President and CEO
Artisans' Bank
Wilmington, DE

Christopher D. Maher
President and CEO
OceanFirst Bank
Toms River, NJ

Matthew P. Prosseda
President and CEO
First Keystone Community Bank
Berwick, PA

Rory Ritrievi
President and CEO
Mid Penn Bancorp and Mid Penn Bank
Millersburg, PA

J. Bradley Scovill
President and CEO
Citizens & Northern Bank
Wellsboro, PA

Angela M. Snyder
Chairwoman and CEO
Fulton Bank of New Jersey
Mount Laurel, NJ

Richard Stipa
CEO
TruMark Financial Credit Union
Fort Washington, PA

William Wood
Chairman
CBT Financial
Chairman
CBT Bank
Clearfield, PA

Management Committee

Sitting, from left: James D. Narron, Patrick T. Harker, Deborah L. Hayes, Mary Ann Hood; standing, from left: Donna L Franco, Michael Dotsey, Jeanne R. Rentezelas, Patricia Wilson, Arun K. Jain, William G. Spaniel, Terry E. Harris

The Management Committee is composed of the Bank's President and CEO, the first vice president and COO, he chief of staff, and senior vice presidents. Members advise the president and first vice president on matters of Bank policy and strategy.

Patrick T. Harker
President and Chief Executive Officer

James D. Narron
First Vice President and Chief Operating Officer

Michael Dotsey
Executive Vice President of Research
Research, Financial Statistics, and Payment Cards Center

Donna L. Franco
Senior Vice President and Chief Financial Officer
Financial Management Services, Enterprise Risk Management, Business Continuity, and Strategic Planning

Terry E. Harris
Senior Vice President and Chief Information Officer
Information Technology Services

Deborah L. Hayes
Senior Vice President
Corporate Affairs

Mary Ann Hood
Senior Vice President and EEO Officer, Human Resources
Director, Office of Diversity and Inclusion

Arun K. Jain
Senior Vice President
Treasury and Financial Services

Jeanne R. Rentezelas
Senior Vice President and General Counsel
Legal

William G. Spaniel
Senior Vice President and Lending Officer
Supervision, Regulation, and Credit

Patricia Wilson
Senior Vice President, Chief of Staff, and Corporate Secretary

Additional Bank Officers

SENIOR VICE PRESIDENTS

Robert Hunt
Senior Vice President and Director
Payment Cards Center

Keith Sill
Senior Vice President and Director
Real-Time Data Research Center
Research

VICE PRESIDENTS

John D. Ackley
Vice President
Cash Services

Roc Armenter
Vice President and Economist
Research

Mitchell S. Berlin
Vice President and Economist
Research

Donna L. Brenner
Vice President
Enterprise Risk Management

Paul S. Calem
Vice President
Supervision, Regulation, and Credit

Jennifer E. Cardy
Vice President
Financial Management Services

Larry Cordell
Vice President
Supervision, Regulation, and Credit

Joseph O. Dietzmann
Vice President and Collaborations
Services Executive
Groupware Leadership Center

Michael T. Doyle
Vice President
Treasury Payments

Gregory Fanelli
Vice President
Information Technology Services

Stephen G. Hart
Vice President
Human Resources

Charles Kirkland
Vice President
Financial Statistics

Keith Morales
Vice President and Information
Security Officer
Information Technology Services

Robert F. Mucerino
Vice President
Treasury Services

Robin P. Myers
Vice President
Supervision, Regulation, and Credit

Leonard Nakamura
Vice President and Economist
Research

A. Reed Raymond III
Vice President and Chief
Administrative Officer
Supervision, Regulation, and Credit

Michelle S. Reardon
Vice President
Public Affairs

Patrick M. Regan
Vice President
Information Technology Services

Perry Santacecilia
Vice President
Supervision, Regulation, and Credit

Michelle Scipione
Vice President and General Auditor
Audit

Stanley J. Sienkiewicz
Vice President
Research Support
Research

Theresa Y. Singleton
Vice President and Community
Affairs Officer
Community Development Studies
& Education

Patrick F. Turner
Vice President and Managing
Officer
Groupware Leadership Center

Vish P. Viswanathan
Vice President and Discount Officer
Supervision, Regulation, and Credit

Constance H. Wallgren
Vice President
Supervision, Regulation, and Credit

James K. Welch
Vice President
Law Enforcement and Facilities
Management

William T. Wisser
Vice President
Supervision, Regulation, and Credit

ASSISTANT VICE PRESIDENTS

Joanne M. Branigan
Assistant Vice President
Supervision, Regulation, and Credit

Brian W. Calderwood
Assistant Vice President
Groupware Leadership Center

Julia Cheney
Assistant Vice President and
Assistant Director
Payment Cards Center

Kori Ann Connelly
Assistant Vice President and
Counsel
Legal

Maryann T. Connelly
Assistant Vice President and
Counsel
Legal

Michael T. Costello
Assistant Vice President
Supervision, Regulation, and Credit

Heather C. Derbyshire
Assistant Vice President
Financial Statistics

Suzanne W. Furr
Assistant Vice President and
General Auditor
Audit

Christopher C. Henderson
Assistant Vice President
Supervision, Regulation, and Credit

Jill Hettinger
Assistant Vice President
Supervision, Regulation, and Credit

Christopher L. Ivanovski
Assistant Vice President
Facilities - Plant Operations

John P. Kelly
Assistant Vice President
Financial Management Services

Andrew A. Kish
Assistant Vice President
Supervision, Regulation, and Credit

James K. Lofton
Assistant Vice President
Cash Services

John J. Munera III
Assistant Vice President
Supervision, Regulation, and Credit

Wanda Preston
Assistant Vice President
Supervision, Regulation, and Credit

Chellappan Ramasamy
Assistant Vice President
Supervision, Regulation, and Credit

Gregory A. Ramick
Assistant Vice President
Cash Services

Anthony T. Scafide Jr.
Assistant Vice President
Financial Institutions Relations

Stephen J. Smith
Assistant Vice President and
Counsel
Legal

Kimberly J. Taylor
Assistant Vice President
Human Resources

H. Robert Tillman
Assistant Vice President
Supervision, Regulation, and Credit

Gail L. Todd
Assistant Vice President and Credit
Officer
Supervision, Regulation, and Credit

Linda Van Valkenburg
Assistant Vice President
Information Technology Services

OFFICERS

Kimberly Caruso
Officer
Collateral Data Administration
Support Group

James W. Corkery Jr.
Officer
Supervision, Regulation, and Credit

Daniel W. Crouthamel
Research Information Technology
Support Officer
Research

Michael O'Brien
Officer
Law Enforcement

Includes promotions through January 2017

Statement of Auditor Independence

The Federal Reserve Board engaged KPMG to audit the 2016 combined and individual financial statements of the Reserve Banks.[1]

In 2016, KPMG also conducted audits of internal controls over financial reporting for each of the Reserve Banks. Fees for KPMG services totaled $6.7 million. To ensure auditor independence, the Board requires that KPMG be independent in all matters relating to the audits. Specifically, KPMG may not perform services for the Reserve Banks or others that would place it in a position of auditing its own work, making management decisions on behalf of the Reserve Banks, or in any other way impairing its audit independence. In 2016, the Bank did not engage KPMG for any non-audit services.

---

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

Financial Statements Contents

Management's Report on Internal Control over Financial Reporting 36

Independent Auditors' Report. 37

Abbreviations 39

Financial Statements:

Statements of Condition as of December 31, 2016 and December 31, 2015 40

Statements of Operations for the years ended December 31, 2016 and December 31, 2015. 41

Statements of Changes in Capital for the years ended December 31, 2016 and December 31, 2015. 42

Notes to Financial Statements. 43

Management's Report on Internal Control over Financial Reporting

FEDERAL RESERVE BANK
OF PHILADELPHIA

March 8, 2017

To the Board of Directors

The management of the Federal Reserve Bank of Philadelphia (Bank) is responsible for the preparation and fair presentation of the Statements of Condition as of December 31, 2016 and 2015, and the Statements of Operations, and Statements of Changes in Capital for the years then ended (the financial statements). The financial statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System as set forth in the Financial Accounting Manual for Federal Reserve Banks (FAM), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the financial statements are, in all material respects, fairly presented in conformity with the accounting principles, policies, and practices documented in the FAM and include all disclosures necessary for such fair presentation.

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

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

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

Patrick T. Harker, President and Chief Executive Officer

James D. Narron, First Vice President and Chief Operating Officer

Donna L. Franco, Senior Vice President and Chief Financial Officer

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

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

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

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

KPMG

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

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

KPMG LLP

Philadelphia, Pennsylvania
March 8, 2017

Abbreviations

ACH	Automated clearinghouse
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BEP	Benefit Equalization Retirement Plan
Bureau	Bureau of Consumer Financial Protection
FAM	Financial Accounting Manual for Federal Reserve Banks
FASB	Financial Accounting Standards Board
FAST Act	Fixing America’s Surface Transportation Act
FOMC	Federal Open Market Committee
FRBNY	Federal Reserve Bank of New York
GAAP	Accounting principles generally accepted in the United States of America
GSE	Government-sponsored enterprise
IMF	International Monetary Fund
MAPD	Medicare Advantage and Prescription Drug
MBS	Mortgage-backed securities
OEB	Office of Employee Benefits of the Federal Reserve System
SDR	Special drawing rights
SERP	Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks
SOMA	System Open Market Account
TBA	To be announced
TDF	Term Deposit Facility

Statements of Condition

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

ASSETS		2016	2015
Gold certificates		$ 359	$ 340
Special drawing rights certificates		210	210
Coin		159	129
System Open Market Account:	Note 5		
Treasury securities, net (of which $684 and $472 is lent as of December 31, 2016 and 2015, respectively)		69,711	64,186
Government-sponsored enterprise debt securities, net (of which $1 and $4 is lent as of December 31, 2016 and 2015, respectively)		452	839
Federal agency and government-sponsored enterprise mortgage-backed securities, net		48,738	44,780
Foreign currency denominated investments, net		1,070	1,093
Central bank liquidity swaps		306	56
Accrued interest receivable		697	634
Bank premises and equipment, net	Note 6	85	89
Interdistrict settlement account		-	17,050
Other assets		31	27
Total assets		$ 121,818	$ 129,433
LIABILITIES AND CAPITAL			
Federal Reserve notes outstanding, net		$ 45,544	$ 43,954
System Open Market Account:	Note 5		
Securities sold under agreements to repurchase		19,691	17,719
Other liabilities		27	13
Deposits:			
Depository institutions		52,334	65,374
Other deposits		2	2
Interest payable to depository institutions and others		11	7
Accrued benefit costs	Notes 8 and 9	121	119
Accrued remittances to the Treasury		75	56
Interdistrict settlement account		1,824	-
Other liabilities		14	15
Total liabilities		119,643	127,259
Capital paid-in		1,637	1,624
Surplus (including accumulated other comprehensive loss of $14 and $16 at December 31, 2016 and 2015, respectively)		538	550
Total capital		2,175	2,174
Total liabilities and capital		$ 121,818	$ 129,433

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

Statements of Operations

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

		2016	2015
INTEREST INCOME			
System Open Market Account:	Note 5		
Treasury securities, net		$ 1,694	$ 1,560
Government-sponsored enterprise debt securities, net		25	33
Federal agency and government-sponsored enterprise mortgage-backed securities, net		1,223	1,203
Foreign currency denominated investments, net		-	2
Total interest income		2,942	2,798
INTEREST EXPENSE			
System Open Market Account:	Note 5		
Securities sold under agreements to repurchase		30	6
Deposits:			
Depository institutions and others		314	160
Term Deposit Facility		6	14
Total interest expense		350	180
Net interest income		2,592	2,618
NON-INTEREST INCOME (LOSS)			
System Open Market Account:	Note 5		
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net		1	1
Foreign currency translation losses, net		(5)	(91)
Other		1	-
Compensation received for service costs provided		2	3
Reimbursable services to government agencies		24	34
Other		3	3
Total non-interest income (loss)		26	(50)
OPERATING EXPENSES			
Salaries and benefits		127	130
Occupancy		15	16
Equipment		5	6
Other		46	48
Assessments:			
Board of Governors operating expenses and currency costs		69	72
Bureau of Consumer Financial Protection		33	27
Total operating expenses		295	299
Net income before providing for remittances to the Treasury		2,323	2,269
Earnings remittances to the Treasury:	Note 12		
Interest on Federal Reserve notes		-	1,994
Required by the Federal Reserve Act	Note 3n	2,300	1,234
Total earnings remittances to the Treasury	Note 12	2,300	3,228
Net income (loss) after providing for remittances to the Treasury		23	(959)
Change in prior service costs related to benefit plans	Note 9	2	-
Change in actuarial gains related to benefit plans	Note 9	-	9
Total other comprehensive income		2	9
Comprehensive income (loss)		$ 25	$ (950)

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

Statements of Changes in Capital

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

		Surplus			
	Capital paid-in	Net income retained	Accumulated other comprehensive income (loss)	Total surplus	Total capital
Balance at December 31, 2014					
(31,932,556 shares)	$ 1,597	$ 1,622	$ (25)	$ 1,597	$ 3,194
Net change in capital stock issued					
(539,655 shares)	27	-	-	-	27
Comprehensive income:					
Net loss	-	(959)	-	(959)	(959)
Other comprehensive income	-	-	9	9	9
Dividends on capital stock	-	(97)	-	(97)	(97)
Net change in capital	27	(1,056)	9	(1,047)	(1,020)
Balance at December 31, 2015					
(32,472,211 shares)	$ 1,624	$ 566	$ (16)	$ 550	$ 2,174
Net change in capital stock issued					
(263,257 shares)	13	-	-	-	13
Comprehensive income:					
Net income	-	23	-	23	23
Other comprehensive income	-	-	2	2	2
Dividends on capital stock	-	(37)	-	(37)	(37)
Net change in capital	13	(14)	2	(12)	1
Balance at December 31, 2016					
(32,735,468 shares)	$ 1,637	$ 552	$ (14)	$ 538	$ 2,175

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

(1) Structure

The Federal Reserve Bank of Philadelphia (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 Third Federal Reserve District, which includes Delaware and portions of New Jersey and Pennsylvania.

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

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

(2) Operations and Services

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

The FOMC, in conducting monetary policy, establishes policy regarding domestic open market operations and oversees these operations. The FOMC has selected the FRBNY to execute open market transactions for the System Open Market Account (SOMA) as provided in its annual authorization. The FOMC authorizes and directs the FRBNY to conduct operations in domestic markets, including the direct purchase and sale of Treasury securities, government-sponsored enterprise (GSE) debt securities, and federal agency and GSE mortgage-backed securities (MBS); the purchase of these securities under agreements to resell; and the sale of these securities under agreements to repurchase. The FRBNY holds the resulting securities and agreements in a portfolio known as the SOMA. The FRBNY is authorized and directed to lend the Treasury securities and GSE debt securities that are held in the SOMA.

To be prepared to meet the needs specified by the FOMC to carry out the System's central bank responsibilities, the FOMC has authorized and directed the FRBNY to execute standalone spot and forward foreign exchange transactions in the resultant foreign currencies, to hold balances in those currencies, and to invest such foreign currency holdings, while maintaining adequate liquidity. The FRBNY holds these securities and agreements in the SOMA. The FOMC has also authorized and directed the FRBNY to maintain reciprocal currency arrangements with the Bank of Canada and the Bank of Mexico in the maximum amounts of $2 billion and $3 billion, respectively, and to warehouse foreign currencies for the Treasury and the Exchange Stabilization Fund in the maximum amount of $5 billion.

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

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

Although the Reserve Banks are separate legal entities, they collaborate on the delivery of certain services to achieve greater efficiency and effectiveness. This collaboration takes the form of centralized operations and product or function offices that have responsibility for the delivery of certain services on behalf of the Reserve Banks. Various operational and management models are used and are supported by service agreements between the Reserve Banks. In some cases, costs incurred by a Reserve Bank for services provided to other Reserve Banks are not shared; in other cases, the Reserve Banks are reimbursed for costs incurred in providing services to other Reserve Banks. Major services provided by the Bank on behalf of the System for which the costs were not reimbursed by the other Reserve Banks include Collateral Management System; Groupware Leadership Center; Retail Credit Risk Center; Risk Assessment, Data Analysis, and Research; Supervision Team Site Support Office; and Video Conferencing Network.

(3) Significant Accounting Policies

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

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

In addition, the Bank does not present a Statement of Cash Flows as required by GAAP because the liquidity and cash position of the Bank are not a primary concern given the Reserve Bank's unique powers and responsibilities as a central bank. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Operations, and Changes in Capital, and the accompanying notes to the financial statements. Other than those described above, the accounting policies described in FAM are generally consistent with those in GAAP and the references to GAAP in the notes to the financial statement highlight those areas where FAM is consistent with GAAP.

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

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

Significant accounts and accounting policies are explained below.

a. Consolidation

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

b. Gold and Special Drawing Rights Certificates

The Secretary of the Treasury is authorized to issue gold certificates to the Reserve Banks. Upon authorization, the Reserve Banks acquire gold certificates by crediting equivalent amounts in dollars to the account established for the Treasury. The gold certificates held by the Reserve Banks are required to be backed by the gold owned by the Treasury. The Treasury may reacquire the gold certificates at any time, and the Reserve Banks must deliver them to the Treasury. At such time, the Treasury's account is charged, and the Reserve Banks' gold certificate accounts are reduced. The value of gold for purposes of backing the gold certificates is set by law at $42 2/9 per fine troy ounce. Gold certificates are recorded by the Reserve Banks at original cost. The Board of Governors allocates the gold certificates among the Reserve Banks once a year based on each Reserve Bank's average Federal Reserve notes outstanding during the preceding 12 months.

Special drawing rights (SDR) are issued by the International Monetary Fund (IMF) to its members in proportion to each member's quota in the IMF at the time of issuance. SDRs serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for U.S. participation in the SDR system, the Secretary of the Treasury is authorized to issue SDR certificates to the Reserve Banks. When SDR certificates are issued to the Reserve Banks, equivalent amounts in U.S. dollars are credited to the account established for the Treasury and the Reserve Banks' SDR certificate accounts are increased. The Reserve Banks are required to purchase SDR certificates, at the direction of the Treasury, for the purpose of financing SDR acquisitions or for financing exchange-stabilization operations. At the time SDR certificate transactions occur, the Board of Governors allocates the SDR certificates among the Reserve Banks based upon each Reserve Bank's Federal Reserve notes outstanding at the end of the preceding calendar year. SDR certificates are recorded by the Reserve Banks at original cost.

c. Coin

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

d. Loans

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

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

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

The FRBNY may engage in purchases of securities under agreements to resell (repurchase agreements) with primary dealers. Transactions under these repurchase agreements are typically settled hrough a tri-party arrangement. In the United States, there are currently two commercial custodial banks that provide these services. In a tri-party arrangement, a commercial custodial bank manages the collateral clearing, settlement, pricing, and pledging, and provides cash and securities custodial services for and on behalf of the FRBNY and counterparty. The collateral pledged must exceed the principal amount of the transaction by a margin determined by the FRBNY for each class and maturity of acceptable collateral. Collateral designated by the FRBNY as acceptable under repurchase agreements primarily includes Treasury securities (including Treasury Inflation-Protected Securities, Separate Trading of Registered Interest and Principal of Securities, Treasury securities, and Treasury Floating Rate Notes); direct obligations of several federal and GSE-related agencies, including Federal National Mortgage

Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Banks; and pass-through federal agency and GSE MBS. The repurchase agreements are accounted for as financing transactions with the associated interest income recognized over the life of the transaction. These repurchase agreements are reported at their contractual amounts as “System Open Market Account: Securities purchased under agreements to resell” and the related accrued interest receivable is reported as a component of “System Open Market Account: Accrued interest receivable” in the Statements of Condition.

The FRBNY may engage in sales of securities under agreements to repurchase (reverse repurchase agreements) with primary dealers and with a set of expanded counterparties that includes banks, savings associations, GSEs, and domestic money market funds. Transactions under these reverse repurchase agreements are designed to have a margin of zero and are settled through a tri-party arrangement, similar to repurchase agreements. Reverse repurchase agreements may also be executed with foreign official and international account holders as part of a service offering. Reverse repurchase agreements are collateralized by a pledge of an amount of Treasury securities, GSE debt securities, or federal agency and GSE MBS that are held in the SOMA. Reverse repurchase agreements are accounted for as financing transactions, and the associated interest expense is recognized over the life of the transaction. These reverse repurchase agreements are reported at their contractual amounts as “System Open Market Account: Securities sold under agreements to repurchase” and the related accrued interest payable is reported as a component of “System Open Market Account: Other liabilities” in the Statements of Condition.

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

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

f. Treasury Securities, Government-Sponsored Enterprise Debt Securities, Federal Agency and Government-Sponsored Enterprise Mortgage-Backed Securities, and Foreign Currency Denominat ed Investments

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

In addition to outright purchases of federal agency and GSE MBS that are held in the SOMA, the FRBNY enters into dollar roll transactions (dollar rolls), which primarily involve an initial transaction to purchase or sell “to be announced” (TBA) MBS for delivery in the current month combined with a simultaneous agreement to sell or purchase TBA MBS on a specified future date. During the years ended December 31, 2016 and 2015, the FRBNY executed dollar rolls to facilitate settlement of outstanding purchases of federal agency and GSE MBS. The FRBNY accounts for dollar rolls as individual purchases and sales, on a settlement-date basis. Accounting for these transactions as purchases and sales, rather than as financing transactions, is appropriate because the purchase or sale component of the MBS TBA dollar roll is paired off or assigned prior to settlement and, as a result, there is no transfer and return of securities. Net gains (losses) resulting from MBS transactions are reported as a component of "Non-interest income (loss): System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net" in the Statements of Operations.

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

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

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

g. Central Bank Liquidity Swaps

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

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

U.S. dollar liquidity swaps

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

The foreign central bank compensates the FRBNY based on the amount outstanding and the rate under the swap agreement. The Bank's allocated portion of the amount of compensation received during the term of the swap transaction is reported as "Interest income: System Open Market Account: Central bank liquidity swaps" in the Statements of Operations.

Foreign currency liquidity swaps

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

h. Bank Premises, Equipment, and Software

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

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

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

i. Interdistrict Settlement Account

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

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

j. Federal Reserve Notes

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

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

"Federal Reserve notes outstanding, net" in the Statements of Condition represents the Bank's Federal Reserve notes outstanding, reduced by the Bank's currency holdings of $6,254 million and $5,357 million at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, all Federal Reserve notes outstanding, net, were fully collateralized. At December 31, 2016, all gold certificates, all SDR certificates, and $1,447 billion of domestic securities held in the SOMA were pledged as collateral. At December 31, 2016, no investments denominated in foreign currencies were pledged as collateral.

k. Deposits

Depository Institutions

Depository institutions' deposits represent the reserve and service-related balances in the accounts that depository institutions hold at the Bank. Required reserve balances are those that a depository institution must hold to satisfy its reserve requirement. Reserve requirements are the amount of funds that a depository institution must hold in reserve against specified deposit liabilities. Excess reserves are those held by the depository institutions in excess of their required reserve balances. The interest rates paid on required reserve balances and excess balances are determined by the Board of Governors, based on an FOMC-established target range for the federal funds rate. Interest expense on depository institutions' deposits is accrued daily at the appropriate rate. Interest payable is reported as a component of "Interest payable to depository institutions and others" in the Statements of Condition.

The Term Deposit Facility (TDF) consists of deposits with specific maturities held by eligible institutions at the Reserve Banks. The Reserve Banks pay interest on these deposits at interest rates determined by auction. Interest expense on depository institutions' deposits is accrued daily at the appropriate rate. Interest payable is reported as a component of "Interest payable to depository institutions and others" in the Statements of Condition. There were no deposits held by the Bank under the TDF at December 31, 2016 and 2015.

Other

Other deposits include the Bank's allocated portion of foreign central bank and foreign government deposits held at the FRBNY.

l. Capital Paid-in

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

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

m. Surplus

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

Accumulated other comprehensive loss is reported as a component of "Surplus" in the Statements of Condition and the Statements of Changes in Capital. Additional information regarding the classifications of accumulated other comprehensive loss is provided in Notes 9 and 10.

n. Earnings Remittances to the Treasury

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

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

o. Income and Costs Related to Treasury Services

When directed by the Secretary of the Treasury, the Bank is required by the Federal Reserve Act to serve as fiscal agent and depositary of the United States Government. By statute, the Treasury has appropriations to pay for these services. During the years ended December 31, 2016 and 2015, the Bank was reimbursed for all services provided to the Treasury as its fiscal agent.

p. Compensation Received for Service Costs Provided

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

q. Assessments

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

The Dodd-Frank Act requires that, after the transfer of its responsibilities to the Bureau on July 21, 2011, the Board of Governors fund the Bureau in an amount not to exceed a fixed percentage of the total operating expenses of the System as reported in the Board of Governor's 2009 annual report, which totaled $4.98 billion. After 2013, the amount will be adjusted annually in accordance with the provisions of the Dodd-Frank Act. The percentage of total operating expenses of the System for the years ended December 31, 2016 and 2015 was 12.68 percent ($631.7 million) and 12.42 percent ($618.7 million), respectively. The Bank's assessment for Bureau funding is reported as "Assessments: Bureau of Consumer Financial Protection" in the Statements of Operations.

r. Taxes

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property. The Bank's real property taxes were $1 million for each of the years ended December 31, 2016 and 2015, and are reported as a component of "Operating expenses: Occupancy" in the Statements of Operations.

s. Restructuring Charges

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

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

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

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

t. Accounting Policy Change and Recently Issued Accounting Standards

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

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

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

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

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

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

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

(4) Loans

Loans to Depository Institutions

The Bank offers primary, secondary, and seasonal loans to eligible borrowers (depository institutions that maintain reservable transaction accounts or nonpersonal time deposits and have established discount window borrowing privileges). Each program has its own interest rate and interest is accrued using the applicable interest rate established at least every 14 days by the Bank's board of directors, subject to review and determination by the Board of Governors. Primary and secondary loans are extended on a short-term basis, typically overnight, whereas seasonal loans may be extended for a period of up to nine months.

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

The Bank had no loans outstanding as of December 31, 2016 and 2015.

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

(5) System Open Market Account

a. Domestic Securities Holdings

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

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

The Bank's allocated share of activity related to domestic open market operations was 2.715 percent and 2.487 percent at December 31, 2016 and 2015, respectively.

The Bank's allocated share of Treasury securities, GSE debt securities, and federal agency and GSE MBS, net, excluding accrued interest, held in the SOMA at December 31, 2016 and 2015 was as follows (in millions):

	2016			
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost
Treasury securities				
Notes	$ 44,480	$ 401	$ (152)	$ 44,729
Bonds	22,413	2,816	(247)	24,982
Total Treasury securities	$ 66,893	$ 3,217	$ (399)	$ 69,711
GSE debt securities	$ 439	$ 13	$ -	$ 452
Federal agency and GSE MBS	$ 47,283	$ 1,466	$ (11)	$ 48,738

	2015			
	Par	Unamortized premiums	Unaccreted discounts	Total amortized cost
Treasury securities				
Notes	$ 40,659	$ 521	$ (161)	$ 41,019
Bonds	20,563	2,836	(232)	23,167
Total Treasury securities	$ 61,222	$ 3,357	$ (393)	$ 64,186
GSE debt securities	$ 819	$ 20	$ -	$ 839
Federal agency and GSE MBS	$ 43,462	$ 1,336	$ (18)	$ 44,780

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

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

	Allocated to the Bank		Total SOMA	
	2016	**2015**	**2016**	**2015**
Primary dealers and expanded counterparties:				
Contract amount outstanding, end of year	$ 12,717	$ 11,804	$ 468,355	$ 474,592
Average daily amount outstanding, during the year	2,817	3,086	105,648	125,656
Maximum balance outstanding, during the year	12,717	11,804	474,592	474,592
Securities pledged (par value), end of year	12,050	10,893	443,799	437,961
Securities pledged (fair value), end of year	12,742	11,825	469,282	475,422
Foreign official and international accounts:				
Contract amount outstanding, end of year	$ 6,974	$ 5,915	$ 256,855	$ 237,809
Average daily amount outstanding, during the year	6,414	3,894	241,848	157,929
Maximum balance outstanding, during the year	7,196	5,915	265,041	237,809
Securities pledged (par value), end of year	6,772	5,729	249,417	230,333
Securities pledged (fair value), end of year	6,975	5,915	256,897	237,825
Total contract amount outstanding, end of year	$ 19,691	$ 17,719	$ 725,210	$ 712,401
Supplemental information - interest expense:				
Primary dealers and expanded counterparties	$ 8	$ 2	$ 303	$ 84
Foreign official and international accounts	22	4	819	164
Total interest expense - securities sold under agreements to repurchase	$ 30	$ 6	$ 1,122	$ 248

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

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and reverse repurchase agreements that were allocated to the Bank at December 31, 2016 and 2015 was as follows (in millions):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Total
December 31, 2016:							
Treasury securities (par value)	$ 402	$ 1,120	$ 4,094	$ 33,244	$ 10,841	$ 17,192	$ 66,893
GSE debt securities (par value)	-	77	243	55	-	64	439
Federal agency and GSE MBS (par value)[1]	-	-	-	2	287	46,994	47,283
Securities sold under agreements to repurchase (contract amount)	19,691	-	-	-	-	-	19,691
December 31, 2015:							
Treasury securities (par value)	$ -	$ 961	$ 4,415	$ 27,815	$ 12,168	$ 15,863	$ 61,222
GSE debt securities (par value)	-	92	325	344	-	58	819
Federal agency and GSE MBS (par value)[1]	-	-	-	12	224	43,226	43,462
Securities sold under agreements to repurchase (contract amount)	17,719	-	-	-	-	-	17,719

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

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

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

	Allocated to the Bank		Total SOMA	
	2016	2015	2016	2015
Treasury securities (amortized cost)	$ 684	$ 472	$ 25,195	$ 18,960
Treasury securities (par value)	671	449	24,698	18,055
GSE debt securities (amortized cost)	1	4	44	146
GSE debt securities (par value)	1	3	44	137

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

The FRBNY enters into commitments to buy and sell Treasury securities and records the related securities on a settlement-date basis. As of December 31, 2016, the total purchase price of the Treasury securities under outstanding commitments was $11,679 million of which $317 million was allocated to the Bank. These commitments had contractual settlement dates extending through January 2017.

The FRBNY enters into commitments to buy and sell federal agency and GSE MBS and records the related securities on a settlement-date basis. As of December 31, 2016, the total purchase price of the federal agency and GSE MBS under outstanding purchase commitments was $35,787 million, none of which was related to dollar rolls. The total purchase price of outstanding purchase commitments allocated to the Bank was $972 million, none of which was related to dollar rolls. These commitments, which had contractual settlement dates extending through January 2017, are for the purchase of TBA MBS for which the number and identity of the pools that will be delivered to fulfill the commitment are unknown at the time of the trade. As of December 31, 2016, there were no outstanding sales commitments for federal agency and GSE MBS. MBS commitments are subject to varying degrees of off-balance-sheet market risk and counterparty credit risk that result from their future settlement. The FRBNY requires the posting of cash collateral for MBS commitments as part of its risk management practices used to mitigate the counterparty credit risk.

Other liabilities, which are primarily related to federal agency and GSE MBS purchases and sales, includes the FRBNY's obligation to return cash margin posted by counterparties as collateral under commitments to purchase and sell federal agency and GSE MBS. In addition, other liabilities includes obligations that arise from the failure of a seller to deliver MBS to the FRBNY on the settlement date. Although the FRBNY has ownership of and records its investments in the MBS as of the contractual settlement date, it is not obligated to make payment until the securities are delivered, and the amount included in other liabilities represents the FRBNY's obligation to pay for the securities when delivered. The amount of other liabilities allocated to the Bank and held in the SOMA at December 31, 2016 and 2015 was as follows (in millions):

	Allocated to the Bank		Total SOMA	
	2016	2015	2016	2015
Other liabilities:				
Cash margin	$ 27	$ 12	$ 983	$ 486
Obligations from MBS transaction fails	-	-	9	16
Other	-	1	20	6
Total other liabilities	$ 27	$ 13	$ 1,012	$ 508

Accrued interest receivable on domestic securities holdings held in the SOMA was $25,517 million and $25,354 million as of December 31, 2016 and 2015, respectively, of which $693 million and $630 million, respectively, was allocated to the Bank. These amounts are reported as a component of "System Open Market Account: Accrued interest receivable" in the Statements of Condition.

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

	Allocated to the Bank				
	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance at December 31, 2014	$ 39,646	$ 22,552	$ 62,198	$ 958	$ 42,861
Purchases[1]	68	19	87	-	8,793
Sales[1]	-	-	-	-	(11)
Realized gains, net[2]	-	-	-	-	-
Principal payments and maturities	(74)	(14)	(88)	(140)	(8,209)
Amortization of premiums and accretion of discounts, net	(135)	(252)	(387)	(13)	(289)
Inflation adjustment on inflation-indexed securities	2	5	7	-	-
Annual reallocation adjustment[3]	1,512	857	2,369	34	1,635
Balance at December 31, 2015	$ 41,019	$ 23,167	$ 64,186	$ 839	$ 44,780
Purchases[1]	5,052	368	5,420	-	10,318
Sales[1]	(15)	(2)	(17)	-	(6)
Realized gains, net[2]	(1)	1	-	-	1
Principal payments and maturities	(4,964)	(445)	(5,409)	(446)	(10,147)
Amortization of premiums and accretion of discounts, net	(133)	(267)	(400)	(9)	(358)
Inflation adjustment on inflation-indexed securities	16	40	56	-	-
Annual reallocation adjustment[3]	3,755	2,120	5,875	68	150
Balance at December 31, 2016	$ 44,729	$ 24,982	$ 69,711	$ 452	$ 48,738
Year-ended December 31, 2015					
Supplemental information - par value of transactions:					
Purchases[4]	$ 68	$ 19	$ 87	$ -	$ 8,486
Sales	-	-	-	-	(10)
Year-ended December 31, 2016					
Supplemental information - par value of transactions:					
Purchases[4]	$ 5,059	$ 368	$ 5,427	$ -	$ 9,945
Sales	(15)	(1)	(16)	-	(6)

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

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

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

[4] Includes inflation compensation.

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

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

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

[3] Includes inflation compensation.

b. Foreign Currency Denominated Investments

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

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

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

The Bank's allocated share of activity related to foreign currency operations was 5.502 percent and 5.588 percent at December 31, 2016 and 2015, respectively.

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

	Allocated to the Bank		Total SOMA	
	2016	**2015**	**2016**	**2015**
Euro:				
Foreign currency deposits	$ 231	$ 347	$ 4,205	$ 6,218
French government debt instruments	214	186	3,892	3,325
German government debt instruments	104	126	1,884	2,261
Dutch government debt instruments	81	-	1,462	-
Japanese yen:				
Foreign currency deposits	257	144	4,668	2,568
Japanese government debt instruments	183	290	3,331	5,195
Total	$ 1,070	$ 1,093	$ 19,442	$ 19,567

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

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

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

Accrued interest receivable on foreign currency denominated investments, net was $79 million and $64 million as of December 31, 2016 and 2015, respectively, of which $4 million was allocated to the Bank. These amounts are reported as a component of "System Open Market Account: Accrued interest receivable" in the Statements of Condition.

The remaining maturity distribution of foreign currency denominated investments that were allocated to the Bank at December 31, 2016 and 2015 was as follows (in millions):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
December 31, 2016:						
Euro	$ 234	$ 18	$ 64	$ 175	$ 139	$ 630
Japanese yen	266	19	74	81	-	440
Total	$ 500	$ 37	$ 138	$ 256	$ 139	$ 1,070
December 31, 2015:						
Euro	$ 119	$ 248	$ 59	$ 214	$ 19	$ 659
Japanese yen	153	20	90	171	-	434
Total	$ 272	$ 268	$ 149	$ 385	$ 19	$ 1,093

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

The FRBNY enters into commitments to buy foreign government debt instruments and records the related securities on a settlement-date basis. As of December 31, 2016, there were no outstanding commitments to purchase foreign government debt instruments. During 2016, there were purchases and maturities of foreign government debt instruments of $3,524 million and $3,767 million, respectively, of which $194 million and $208 million, respectively, were allocated to the Bank. There were no sales of foreign government debt instruments in 2016.

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

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

c. Central Bank Liquidity Swaps

U.S. Dollar Liquidity Swaps

The Bank's allocated share of U.S. dollar liquidity swaps was 5.502 percent and 5.588 percent at December 31, 2016 and 2015, respectively.

The total foreign currency held under U.S. dollar liquidity swaps held in the SOMA at December 31, 2016 and 2015 was $5,563 million and $997 million, respectively, of which $306 million and $56 million, respectively, was allocated to the Bank.

The remaining maturity distribution of U.S. dollar liquidity swaps that were allocated to the Bank at December 31, 2016 and 2015 was as follows (in millions):

	2016	2015
	Within 15 days	**Within 15 days**
Euro	$ 239	$ 52
Japanese yen	67	4
Total	$ 306	$ 56

Foreign Currency Liquidity Swaps

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

d. Fair Value of SOMA Assets and Liabilities

The fair value amounts below are presented solely for informational purposes and are not intended to comply with the fair value disclosures required by FASB Accounting Standards Codification (ASC) Topic 820 (ASC 820), *Fair Value Measurement*. Although the fair value of SOMA security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. Because SOMA securities are recorded at amortized cost, cumulative unrealized gains (losses) are not recognized in the Statements of Condition and the changes in cumulative unrealized gains (losses) are not recognized in the Statements of Operations.

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

Notes to Financial Statements

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

	Allocated to the Bank					
	2016			2015		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains, net
Treasury securities:						
Notes	$ 44,729	$ 44,992	$ 263	$ 41,019	$ 41,521	$ 502
Bonds	24,982	26,709	1,727	23,167	25,034	1,867
Total Treasury securities	69,711	71,701	1,990	64,186	66,555	2,369
GSE debt securities	452	474	22	839	875	36
Federal agency and GSE MBS	48,738	48,533	(205)	44,780	45,024	244
Total domestic SOMA portfolio securities holdings	$ 118,901	$ 120,708	$ 1,807	$ 109,805	$ 112,454	$ 2,649
Memorandum - Commitments for:						
Purchases of Treasury securities	$ 317	$ 318	$ 1	$ -	$ -	$ -
Purchases of Federal agency and GSE MBS	972	977	5	552	551	(1)
Sales of Federal agency and GSE MBS	-	-	-	-	-	-

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

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

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

At December 31, 2016 and 2015, the fair value of foreign currency denominated investments held in the SOMA was $19,510 million and $19,630 million, respectively, of which $1,073 million and $1,097 million, respectively, was allocated to the Bank. The fair value of foreign government debt instruments was determined using pricing services that provide market consensus prices based on indicative quotes from various market participants. The fair value of foreign currency deposits was determined by reference to market interest rates.

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

Distribution of MBS holdings by coupon rate	**2016**		**2015**	
	Amortized cost	**Fair value**	**Amortized cost**	**Fair value**
Allocated to the Bank:				
2.0%	$ 287	$ 278	$ 279	$ 273
2.5%	3,294	3,221	2,898	2,861
3.0%	18,831	18,370	13,790	13,512
3.5%	15,240	15,219	14,411	14,474
4.0%	7,484	7,599	8,982	9,167
4.5%	2,345	2,501	2,883	3,085
5.0%	997	1,063	1,217	1,306
5.5%	225	243	277	298
6.0%	31	34	38	41
6.5%	4	5	5	7
Total	$ 48,738	$ 48,533	$ 44,780	$ 45,024
Total SOMA:				
2.0%	$ 10,556	$ 10,243	$ 11,198	$ 10,993
2.5%	121,326	118,641	116,527	115,018
3.0%	693,524	676,572	554,430	543,270
3.5%	561,271	560,510	579,403	581,940
4.0%	275,650	279,877	361,149	368,576
4.5%	86,351	92,111	115,914	124,043
5.0%	36,708	39,159	48,931	52,523
5.5%	8,298	8,939	11,138	11,989
6.0%	1,155	1,253	1,542	1,666
6.5%	164	179	217	238
Total	$ 1,795,003	$ 1,787,484	$ 1,800,449	$ 1,810,256

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

	Allocated to Bank			
	2016		2015	
	Realized gains, net[1]	Change in cumulative unrealized gains (losses)[2, 3]	Realized gains[1]	Change in cumulative unrealized gains (losses)[2, 3]
Treasury securities	$ -	$ (797)	$ -	$ (1,159)
GSE debt securities	-	(17)	-	(27)
Federal agency and GSE MBS	1	(540)	1	(551)
Total	$ 1	$ (1,354)	$ 1	$ (1,737)

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

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

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

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

[4] Realized losses for Treasury securities are reported in “Non-interest income (loss): System Open Market Account: Treasury securities losses, net” in the Statements of Operations.

The amount of change in cumulative unrealized gains (losses) position, net related to foreign currency denominated investments was a gain of $5 million and a loss of $33 million for the years ended December 31, 2016 and 2015, respectively, of which $277 thousand and $2 million, respectively, were allocated to the Bank.

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

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.

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

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

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

(6) Bank Premises, Equipment, and Software

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

	2016	2015
Bank premises and equipment:		
Land and land improvements	$ 8	$ 8
Buildings	116	120
Building machinery and equipment	29	32
Construction in progress	1	1
Furniture and equipment	47	47
Subtotal	201	208
Accumulated depreciation	(116)	(119)
Bank premises and equipment, net	$ 85	$ 89
Depreciation expense, for the years ended December 31	$ 9	$ 9

The Bank leases space to outside tenants with remaining lease terms ranging from 5 to 9 years. Rental income from such leases was $2 million for each of the years ended December 31, 2016 and 2015, and is reported as a component of "Non-interest income (loss): Other" in the Statements of Operations. Future minimum lease payments that the Bank will receive under non-cancelable lease agreements in existence at December 31, 2016, are as follows (in millions):

2017	$	2
2018		3
2019		3
2020		3
2021		1
Thereafter		1
Total	$	13

The Bank had capitalized software assets, net of amortization, of $15 million and $9 million at December 31, 2016 and 2015, respectively. Amortization expense was $3 million for each of the years ended December 31, 2016 and 2015. Capitalized software assets are reported as a component of "Other assets" in the Statements of Condition and the related amortization is reported as a component of "Operating expenses: Other" in the Statements of Operations.

(7) Commitments and Contingencies

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

At December 31, 2016, the Bank was obligated under non-cancelable leases for premises and equipment with remaining terms ranging from two to approximately three 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 $1 million for each of the years ended December 31, 2016 and 2015. Certain of the Bank's leases have options to renew.

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

		Operating leases
2017	$	492
2018		498
2019		41
Future minimum lease payments	$	1,031

At December 31, 2016, there were no material unrecorded unconditional purchase commitments or obligations in excess of one year.

Under the Insurance Agreement of the Reserve Banks, each of the Reserve Banks has agreed to bear, on a per-incident basis, a share of certain losses in excess of 1 percent of the capital paid-in of the claiming Reserve Bank, up to 50 percent of the total capital paid-in of all Reserve Banks. Losses are borne in the ratio of a Reserve Bank's capital paid-in to the total capital paid-in of all Reserve Banks at the beginning of the calendar year in which the loss is shared. No claims were outstanding under the agreement at December 31, 2016 and 2015.

The Bank is involved in certain legal actions and claims arising in the ordinary course of business. Although it is difficult to predict the ultimate outcome of these actions, in management's opinion, based on discussions with counsel, the legal actions and claims will be resolved without material adverse effect on the financial position or results of operations of the Bank.

(8) Retirement and Thrift Plans

Retirement Plans

The Bank currently offers three defined benefit retirement plans to its employees, based on length of service and level of compensation. Substantially all of the employees of the Reserve Banks, Board of Governors, and Office of Employee Benefits of the Federal Reserve System (OEB) participate in the Retirement Plan for Employees of the Federal Reserve System (System Plan).[1] Under the Dodd-Frank Act, newly hired Bureau employees are eligible to participate in the System Plan and, during the years ended December 31, 2016 and 2015, certain costs associated with the System Plan were reimbursed by the Bureau. In addition, employees at certain compensation levels participate in the Benefit Equalization Retirement Plan (BEP) and certain Reserve Bank officers participate in the Supplemental Retirement Plan for Select Officers of the Federal Reserve Banks (SERP).

The FRBNY, on behalf of the System, recognizes the net asset or net liability and costs associated with the System Plan in its consolidated financial statements. The Bank reports the net cost related to the BEP and SERP as a component of "Operating expenses: Salaries and benefits" in its Statements of Operations and reports the net liability as a component of "Accrued benefit costs" in its Statements of Condition.

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

Thrift Plan

Employees of the Bank participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The Bank matches 100 percent of the first 6 percent of employee contributions from the date of hire and provides an automatic employer contribution of 1 percent of eligible pay. The Bank's Thrift Plan contributions totaled $5 million for each of the years ended December 31, 2016 and 2015, and are reported as a component of "Operating expenses: Salaries and benefits" in the Statements of Operations.

(9) Postretirement Benefits other than Retirement Plans and Postemployment Benefits

Postretirement Benefits Other Than Retirement Plans

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

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

---

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

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

	2016	2015
Accumulated postretirement benefit obligation at January 1	$ 103.8	$ 106.6
Service cost benefits earned during the period	3.2	3.5
Interest cost on accumulated benefit obligation	4.3	4.3
Net actuarial loss (gain)	0.5	(7.2)
Special termination benefits loss	-	0.1
Contributions by plan participants	2.0	1.8
Benefits paid	(6.5)	(5.7)
Medicare Part D subsidies	0.4	0.4
Plan amendments	(2.4)	-
Accumulated postretirement benefit obligation at December 31	$ 105.3	$ 103.8

At December 31, 2016 and 2015, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 4.07 percent and 4.31 percent, respectively.

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

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

	2016	2015
Fair value of plan assets at January 1	$ -	$ -
Contributions by the employer	4.1	3.5
Contributions by plan participants	2.0	1.8
Benefits paid	(6.5)	(5.7)
Medicare Part D subsidies	0.4	0.4
Fair value of plan assets at December 31	$ -	$ -
Unfunded obligation and accrued postretirement benefit cost	$ 105.3	$ 103.8
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service credit (cost)	$ 2.2	$ (0.3)
Net actuarial loss	(15.8)	(15.5)
Total accumulated other comprehensive loss	$ (13.6)	$ (15.8)

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

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

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

Assumed health-care cost trend rates have a significant effect on the amounts reported for health-care plans. A one percentage point change in assumed health-care cost trend rates would have the following effects for the year ended December 31, 2016 (in millions):

	One percentage point increase	One percentage point decrease
Effect on aggregate of service and interest cost components of net periodic postretirement benefit costs	$ 0.3	$ (1.0)
Effect on accumulated postretirement benefit obligation	4.4	(10.9)

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

	2016	2015
Service cost-benefits earned during the period	$ 3.2	$ 3.5
Interest cost on accumulated benefit obligation	4.4	4.3
Amortization of prior service cost	0.1	0.2
Amortization of net actuarial loss	0.2	2.0
Total periodic expense	7.9	10.0
Special termination benefits loss	-	0.1
Net periodic postretirement benefit expense	$ 7.9	$ 10.1

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

Prior service cost	$ (0.4)
Net actuarial loss	0.7
Total	$ 0.3

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

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

The recognition of special termination benefit losses is primarily the result of enhanced retirement benefits provided to employees during the restructuring described in Note 11.

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.

During 2016, the Reserve Banks adopted an amendment to their health benefits program that added a Medicare Advantage and Prescription Drug (MAPD) plan to the program effective January 1, 2017. The MAPD plan is a fully insured product that combines into one integrated benefit Medicare and Medicare Supplement coverages, as well as prescription drug coverage. The plan amendment resulted in a change in the Bank’s accumulated postretirement benefit obligation in the amount of $2.4 million as of December 31, 2016, with an equivalent change in the prior service component of accumulated other comprehensive loss.

Federal Medicare Part D subsidy receipts were $351 thousand and $313 thousand in the years ended December 31, 2016 and 2015, respectively. Expected receipts in 2017, related to benefits paid in the years ended December 31, 2016 and 2015, are $113 thousand and $60 thousand, respectively.

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

	Without subsidy	With subsidy
2017	$ 5.0	$ 4.7
2018	5.4	5.1
2019	5.5	5.2
2020	5.8	5.4
2021	6.0	5.6
2022 - 2026	33.8	31.6
Total	$ 61.5	$ 57.6

Postemployment Benefits

The Bank offers benefits to former qualifying or inactive employees. Postemployment benefit costs are actuarially determined using a December 31 measurement date and include the cost of providing disability; medical, dental, and vision insurance; and survivor income benefits. The accrued postemployment benefit costs recognized by the Bank at December 31, 2016 and 2015 were $5.5 million and $6.8 million, respectively. This cost is included as a component of “Accrued benefit costs” in the Statements of Condition. Net periodic postemployment benefit (credit) expense included in 2016 and 2015 operating expenses were ($469) thousand and $866 thousand, respectively, and are recorded as a component of “Operating expenses: Salaries and benefits” in the Statements of Operations.

(10) Accumulated Other Comprehensive Income and Other Comprehensive Income

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

	2016	2015
	Amount related to postretirement benefits other than retirement plans	**Amount related to postretirement benefits other than retirement plans**
Balance at January 1	$ (15.8)	$ (25.2)
Change in funded status of benefit plans:		
Prior service costs arising during the year	2.4	-
Amortization of prior service cost	0.1 [1]	0.2 [1]
Change in prior service costs related to benefit plans	2.5	0.2
Net actuarial (loss) gain arising during the year	(0.5)	7.2
Amortization of net actuarial loss	0.2 [1]	2.0 [1]
Change in actuarial (losses) gain related to benefit plans	(0.3)	9.2
Change in funded status of benefit plans - other comprehensive income	2.2	9.4
Balance at December 31	$ (13.6)	$ (15.8)

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

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

(11) 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 Government Entity Accounting and Reporting System and Treasury Collection Management and Monitoring operations performed by the Federal Reserve Bank of Philadelphia were transitioned to the Federal Reserve Bank of St. Louis in 2015. In addition, the phased transition of the Treasury Software Quality Assurance functions to Kansas City started in 2015. The Post Payment System and its associated quality assurance function will transition to Kansas City over the next couple of years

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

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

	2014 and prior restructuring plans
Information related to restructuring plans as of December 31, 2016:	
Total expected costs related to restructuring activity	$ 2.5
Estimated future costs related to restructuring activity	-
Expected completion date	2014
Reconciliation of liability balances:	
Balance at December 31, 2014	$ 2.9
Adjustments	(0.2)
Payments	(0.3)
Balance at December 31, 2015	$ 2.4
Adjustments	(0.2)
Payments	(0.2)
Balance at December 31, 2016	$ 2.0

Employee separation costs are primarily severance costs for identified staff reductions associated with the announced restructuring plans. Separation costs that are provided under terms of ongoing benefit arrangements are recorded based on the accumulated benefit earned by the employee. Separation costs that are provided under the terms of one-time benefit arrangements are generally measured based on the expected benefit as of the termination date and recorded ratably over the period to termination. Restructuring costs related to employee separations are reported as a component of “Operating expenses: Salaries and benefits” in the Statements of Operations.

Adjustments to the accrued liability are primarily due to changes in the estimated restructuring costs and are shown as a component of the appropriate expense category in the Statements of Operations.

Costs associated with enhanced pension benefits for all Reserve Banks are recorded on the books of the FRBNY as discussed in Note 8. Costs associated with enhanced postretirement benefits are disclosed in Note 9.

(12) Distribution of Comprehensive Income

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

	2016	2015
Dividends on capital stock	$ 37	$ 97
Transfer from surplus	(12)	(1,047)
Earnings remittances to the Treasury:		
Interest on Federal Reserve notes	-	1,994
Required by the Federal Reserve Act	2,300	1,234
Total distribution	$ 2,325	$ 2,278

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

On December 28, 2015, the Reserve Banks reduced the aggregate surplus to the $10 billion limit in the FAST Act by remitting $19.3 billion to the Treasury. The Bank's share of this remittance was $1,066 million, which is reported as a component of "Earnings remittances to the Treasury: Required by the Federal Reserve Act" in the Bank's Statements of Operations, and in the table above.

(13) Subsequent Events

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

Federal Reserve Bank of Philadelphia

Ten Independence Mall, Philadelphia, PA 19106
www.philadelphiafed.org