FIREMANS ANNUITY & BENEFIT FUND

OF CHICAGO

FIREMEN'S ANNUITY & BENEFIT FUND

20 S. Clark Street, Suite 1400

Chicago, Illinois 60603-1899

® 483 MBE

Firemen's Annuity and Benefit Fund of Chicago, Illinois

Financial Report

For the Years Ended December 31, 2004 and 2003

THE RETIREMENT BOARD
of the
FIREMEN'S ANNUITY AND BENEFIT FUND
OF CHICAGO
Suite 1400
20 South Clark Street Chicago, IL 60603-1899
(312) 726-5823 Fax (312) 726-2316
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REPORT OF THE INVESTMENT COMMITTEE

On behalf of the Retirement Board of the Firemen's Annuity & Benefit Fund of Chicago, we hereby submit the investment report for the year 2004.

An old investment adage is "the financial markets hate uncertainty." That certainly was the case for much of 2004. The financial markets were listless, trading in a very narrow range as the 2004 Presidential election approached. Sustaining any gains or positive momentum was difficult throughout most of the year. However, once the financial markets anticipated a George W. Bush re-election, most financial asset values rapidly rose.

Your Fund was well positioned for this upturn in the financial markets. By steadfastly maintaining our patience, discipline and confidence in our asset allocation, we were able to fully participate in the post-election rally. At the end of 2004, the Fund earned strong investment returns across all asset classes, finishing with the year with a gain of 14.8%.

Our 14.8% return placed the Fund in the top 10 % of the Northern Trust's Public Fund Universe. The Fund's cumulative performance, spanning virtually every time period reported, ranks in the top third as measured against its peers. The following table shows the 1, 3, 5, 10 and 15 year annualized returns for the Fund and its peers as of December 31, 2004.

	1 Year	3 Year	5 Year	10 Year	15 Year
Firemen's Annuity & Benefit Fund of Chicago	14.8%	9.3%	4.1%	11.4%	10.8%
The Northern Trust Co. Public Fund Median	12.4%	8.6%	4.3%	10.6%	9.2%

The improved investment conditions leading to the rally of late last year abruptly shifted as we entered 2005. Equity markets have been mired in a choppy trading range between slightly positive and slightly negative. For the first six months of 2005 the broad stock market indices remain relatively unchanged.

One bright spot in the financial markets has been the performance of bonds. Contrary to the consensus outlook of falling bond values due to the Federal Reserve's continuing interest rate increases, intermediate and long-term bonds have gone up in value during the first half of this year. While encouraging, it is quite possible that bonds may give up some of their early year gains during the second half of 2005.

While the Fund's performance of 2004 was welcome, we are not content. Given the current funding status of the Fund, continued strong performance is a necessity. Your Board's commitment to act prudently in the investment management of your Fund is resolute. As always, we and the Board welcome your questions regarding your Fund and its investment portfolio. Thank you.

Sincerely,

Tariq P. Malhance

Tariq Malhance
City Comptroller, City of Chicago
and Fund Investment Committee Chairman

Anthony R Martin

Anthony Martin
Elected Trustee and
Fund Investment Committee Co-Chairman

THE RETIREMENT BOARD
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June 2005

To the Participants of the Firemen's Annuity and Benefit Fund of Chicago

The Retirement Board and Staff of the Firemen's Annuity & Benefit Fund of Chicago are pleased to submit the Fund's Annual Financial Report for the year ended December 31, 2004. We strongly recommend that you read this report to gain an understanding of the current status of your retirement plan.

As you are aware, 2004 was another significant year for the Fund and its members. In January of 2004, newly elected Governor Rod Blagojevich signed House Bill 600 into law. This bill amended some 20 different sections of the code. Every active member and a significant number of retired members and widows have benefited from this bill. Fund staff has worked tirelessly to implement the changes in a timely manner.

The Fund successfully negotiated a lease for the Fund office at 20 S. Clark Street at the expiration of the lease at our former location.

The Fund had yet another strong investment year, earning 14.8% on its invested assets. The Fund continues to adhere to its adopted Investment Objectives and Asset Allocation plan, resulting in broad gains in all asset classes. The Fund finished the year in the top quartile in the Northern Trust Public Fund Universe. Please review the Investment Committee report on page 28 of this report.

In December 2004, at the end of his term in office, long standing Active Trustee Norman Holland decided to step down. We wish to take this opportunity to thank Norm for his committed service to our entire membership. Norm's leadership has been evident in every program and improvement made at the Fund in the last twenty years. I'm sure I speak for all members as we wish Norman every success in all of his future endeavors and as we welcome former Union President Dan Fabrizio as the Board's newest member.

The Board's primary commitment is to you, our members. We dedicate all our efforts to the prudent oversight of your Fund. We always welcome your questions and suggestions. Please feel free to contact any of us at the Fund office. To each of you, all the best during 2005.

James J. Laski

James Laski
Fund President

George M. Korda

George Korda
Fund Secretary

FIREMEN'S ANNUITY and BENEFIT FUND of CHICAGO

ADDITIONAL INFORMATION

ADDITIONS BY SOURCE

Year Ended December 31,	Employer Contributions	Employer Contributions as a Percentage of Payroll	Plan Member Contributions	Net Investment and Net Securities Lending Income *	Other	Total Additions
1999	$53,410,352	19.68%	$28,330,861	$224,900,269	$55,725	$306,697,207
2000	65,928,675	23.96	27,710,762	(12,647,108)	292,227	81,284,556
2001	60,399,909	21.73	27,615,475	(73,525,241)	62,437	14,552,580
2002	59,452,787	21.46	27,622,476	(143,540,961)	77,722	(56,387,976)
2003	60,234,206	17.97	42,665,388	249,995,138	83,850	352,978,582
2004	55,532,454	16.61	37,734,425	139,496,742	24,322,475	257,086,096

*Net investment and securities lending income includes net appreciation in fair value of investments, which includes unrealized gains and (losses) on investments held as well as realized gains and (losses) on investments sold.

DEDUCTIONS BY TYPE

Year Ended December 31,	Benefits	Health Insurance	Refunds	Administrative Expenses	Total Deductions
1999	$117,558,988	$ 1,754,618	$ 1,697,139	$ 1,758,586	$ 122,769,331
2000	122,824,033	1,769,408	2,318,618	1,866,362	128,778,421
2001	131,458,451	1,820,378	1,184,014	1,975,988	136,438,831
2002	135,866,359	1,843,850	1,080,393	1,959,054	140,749,656
2003	145,811,829	2,001,403	1,360,018	2,046,754	151,220,004
2004	154,171,122	2,184,105	2,017,047	2,096,598	160,468,872

LEGACY
PROFESSIONALS LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

Firemen's Annuity and Benefit
Fund of Chicago

We have audited the accompanying statements of plan net assets of Firemen's Annuity and Benefit Fund of Chicago (the Plan) as of December 31, 2004 and 2003 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of Firemen's Annuity and Benefit Fund of Chicago at December 31, 2004 and 2003 and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 6 through 9 and the Schedule of Funding Progress, the Schedule of Employer Contributions and Notes to the Schedules on page 23 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information presented on pages 24 through 27 is presented for purposes of additional analysis and is not a required part of the financial statements of Firemen's Annuity and Benefit Fund of Chicago. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion for, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We also have previously audited, in accordance with generally accepted auditing standards, the financial statements for the year ended December 31, 2002 (which are not presented herein), and we expressed an unqualified opinion on those financial statements. Our report on additional information related to those financial statements stated that such information presented on pages 24 and 27 was fairly stated in all material respects in relations to the basic financial statements taken as a whole. The basic financial statements for the years ended 2001, 2000 and 1999 (none of which are presented herein) were audited by other auditors, whose reports expressed an unqualified opinion on those financial statements. Their reports on additional information related to those financial statements stated that, in their opinion, such information was fairly presented in relation to the basic financial statements, taken as a whole. No opinion was expressed on the required supplementary information on page 23.

The additional information presented on pages 24 through 27 has not been subjected to the auditing procedures applied in the audits of the financial statements. Accordingly, we express no opinion on whether this information has been fairly stated.

Legacy Professionals LLP

April 29, 2005

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GABRIEL, ROEDER, SMITH & COMPANY
CONSULTANTS & ACTUARIES

20 North Clark Street • Suite 2400 • Chicago, IL 60602 • 312-456-9800 • Fax 312-456-9801

May 3, 2005

Retirement Board of the
Firemen's Annuity and Benefit Fund of Chicago
20 South Clark, Suite 1400
Chicago, IL 60603

Actuarial Certification

At your request, we have performed an actuarial valuation for the Firemen's Annuity and Benefit Fund of Chicago ("the Fund") as of December 31, 2004. This valuation has been performed to measure the funding status of the Fund and determine the contribution levels for 2005. In addition, it includes disclosure information required under GASB Statement No. 25 and Statement No. 27. The assumptions and methods used were selected by the actuary and meet the parameters set for the disclosure presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25. These actuarial valuations of the Fund are performed annually.

We have provided supporting schedules for the actuarial section of the comprehensive annual financial report, including:

- Schedule of Active Member Data
- Retirements and Beneficiaries Added to and Removed from Rolls
- Solvency (Termination) Test
- Analysis of Financial Experience

We have also provided the following schedules in the financial sections of the report. We relied on information from the prior actuary for years before 1999.

- Schedule of Funding Progress
- Schedule of Employer Contributions

This valuation is based upon:

a) **Data relative to the members of the Fund** — Data for active members and persons receiving benefits from the fund was provided by the Fund's staff. We have tested this data for reasonableness.

b) **Asset Values** — The values of assets of the Fund were provided by the Fund's staff. Actuarial value of assets was used to develop actuarial results for the State-reporting basis, as well as for GASB Statement No. 25 and Statement No. 27.

c) **Actuarial Method** — The actuarial method utilized by the Fund is the Entry-Age Actuarial Cost Method. The objective of this method is to amortize the costs of Fund benefits over the entire career of each member as a level percentage of compensation. Any Unfunded Actuarial Accrued Liability (UAAL) under this method is separately financed. All actuarial gains and losses under this method are reflected in the UAAL.

d) **Actuarial Assumptions** — The actuarial assumptions have not changed since the last report. The assumptions used are set forth in Appendix 4: Actuarial Methods and Assumptions of the Valuation Report.

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of the Fund when due. The provision of State Law establishing the Fund constrains employer contributions to be 2.26 times the employee contribution level in the second prior fiscal year. Thus, with an administrative lag, the employer contribution is designed to match the employee contribution in a 2.26:1 relationship. The most recent actuarial valuation of the Fund on the State reporting basis shows that a ratio of 5.19:1 is needed to adequately finance the Fund.

The valuation results set forth in this report are based on the data and actuarial techniques described above, and upon the provisions of the Fund as of the valuation date. Based on these items, we certify these results to be true and correct.

To the best of our knowledge this report is complete and accurate and was conducted in accordance with standards of practice promulgated by the Actuarial Standards Board and in compliance with the City Ordinance. The actuarial assumptions used for the valuation produce results which, in the aggregate, are reasonable. This valuation was produced under the supervision of a member of the Academy of Actuaries with significant experience in valuing public employee retirement systems.

Gabriel, Roeder, Smith and Company

Michael R. Kivi, FSA
Senior Consultant

Alex Rivera, ASA
Senior Consultant

Plan Net Assets

A summary of the Plan net assets is provided below:

Plan Net Assets
(in millions)
As of December 31,

	2004	2003	Increase/(Decrease) in Dollars	Percent
Cash and cash equivalents	$ 41.4	$ 23.7	$ 17.7	74.8 %
Receivables	69.7	71.0	(1.3)	(1.8)
Investments, at fair value	1,102.8	1,021.4	81.4	8.0
Invested securities lending cash collateral	170.6	151.2	19.4	12.8
Total assets	1,384.5	1,267.3	117.2	9.3
Payables	7.7	6.5	1.2	19.3
Securities lending cash collateral	170.6	151.2	19.4	12.8
Total liabilities	178.3	157.7	20.6	13.1
Net plan assets	$ 1,206.2	$1,109.6	$ 96.6	8.7 %

Changes in Plan Net Assets

A summary of the changes in Plan net assets, reflecting the changes in resources available to pay benefits to members, retirees and beneficiaries, is provided below:

Changes in Plan Net Assets
(in millions)
For the Years Ended December 31,

	2004	2003	Increase/(Decrease) in Dollars	Percent
Additions				
Employer contributions	$ 55.5	$ 60.2	$ (4.7)	(7.8)%
Member contributions	37.7	42.7	(5.0)	(11.6)
Net investment and securities lending income	139.5	250.0	(110.5)	(44.2)
Other	24.3	.1	24.3	N/A
Total additions	257.1	353.0	(95.9)	(27.2)
Deductions				
Benefits	154.2	145.8	8.4	5.7
Annuitant health care	2.2	2.0	0.2	9.1
Refunds of contributions	2.0	1.4	0.6	48.3
Administrative expenses	2.1	2.0	0.1	2.4
Total deductions	160.5	151.2	9.3	6.1
Net increase (decrease) in plan net assets	$ 96.6	$ 201.8	$ (105.2)	(52.1)

NOTE 8. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

Investment rate of return:

8% per year, net of investment expenses. This assumption contains a 3% inflation assumption and a 5% real rate of return assumption.

Salary increase:

4% per year, plus an additional percentage related to service and promotion.

A Schedule of Funding Progress is located in the Required Supplementary Information on page 19. This schedule provides information about progress made in accumulating sufficient assets to pay benefits when due.

NOTE 9. EMPLOYER (TAXES) RECEIVABLE - NET

	2004	2003
Property taxes	$ 58,093,525	$ 56,973,537
Personal property replacement taxes	8,597,000	8,660,000
Less allowance for uncollectible accounts	(6,145,443)	(5,746,364)
Total	$ 60,545,082	$ 59,887,173

NOTE 10. LEASE AGREEMENTS

During 2003, the Plan entered into a fifteen year and nine month noncancellable lease for office facilities at a new location effective July 12, 2004. Monthly lease payments are subject to an escalation clause for increases in real estate taxes and maintenance charges. The new lease provides free rent for the first nine months of the lease.

Rental expense for 2004 and 2003 was $ 90,071 and $172,122 respectively.

Future minimum rental payments required under the noncancellable operating leases are as follows:

Year ending December 31,	
2005	$ 54,803
2006	76,333
2007	80,247
2008	84,162
2009	90,036
2010 through 2014	518,670
2015 through 2019	616,533
Remainder	33,273
Total	$ 1,554,057

Management's Discussion and Analysis (continued)

Funding Status (continued)

The **funded ratio** is one indicator of the financial strength of the Plan, measuring the ratio of net assets available to meet the actuarially determined future liabilities of the Plan. The decrease in the funded ratio from 47.4% in 2003 to 42.3% in 2004 was due primarily to the increased actuarial liabilities resulting from law changes and costs in excess of employer contributions.

Investments

The performance of the Plan's investments, as shown by major asset class, is provided below:

Investment Results
For the Years Ended December 31,

	2004	2003
Equities	16.5%	36.9%
S & P 500 - benchmark	10.9%	28.7%
Fixed income	8.4%	14.4%
Lehman Bros. Aggregate - benchmark	4.2%	4.1%
Total Fund	14.8%	31.5%

The value of the Plan's investment portfolio increased from $1,021.4 million in 2003 to $1,102.8 in 2004, an increase of $81.4 million (+8.0%). Strong performance across all asset classes contributed to the increase in value. Total return for the entire investment portfolio in 2004 was 14.8%, compared with 31.5% in 2003.

Contact Information

This financial report is designed to provide plan participants, retirees, beneficiaries, the employer and all other interested users with a complete, detailed, easy to understand financial portrait of the Plan at December 31, 2004. Questions, concerns or comments regarding this report or requests for additional information should be addressed to:

Kenneth E. Kaczmarz
Executive Director
Firemen's Annuity & Benefit Fund of Chicago
20 S. Clark
Suite 1400
Chicago, IL 60603

NOTE 8. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

	2004	2003
Prior Service Annuity Reserve	$ 1,043,519,902	$ 950,817,070
City Contribution Reserve	524,209,444	513,547,004
Annuity Payment Reserve	516,068,486	470,888,286
Salary Deduction Reserve	434,873,222	424,954,937
Death Benefit Reserve	(7,266,357)	(6,492,966)
Ordinary Disability Reserve	(1,897)	152,158
Supplementary Payment Reserve	1,236,805	1,469,622
Gift Reserve	2,026,672	1,746,352
Reserve (deficit)	(1,308,488,518)	(1,247,521,928)
Total net assets held in trust for pension benefits	$ 1,206,177,759	$ 1,109,560,535

The Prior Service Annuity Reserve is a reserve account for the accumulation of City contributions to provide for: a) employee and spouse annuities that are based on service performed before the Plan's effective date of July 1, 1931 and b) any excess in minimum annuity formula requirements over the amounts required for age and service annuities, and for spouse annuities.

The City Contribution Reserve is used to accumulate amounts contributed by the City to provide for annuities based on age and service of each employee and spouse. An individual account is maintained for each employee and spouse until the employee retires, at which time the individual account balances are transferred to the Annuity Payment Reserve.

The Salary Deduction Reserve is similarly used to accumulate deductions made from employee salaries for age and service annuities for the employee and spouse. Individual accounts are maintained until the employee retires or withdraws from service before qualifying for an annuity. At retirement, account balances are transferred to the Annuity Payment Reserve. In case an eligible employee elects to take a refund of contributions instead of an annuity, the contribution refund is charged to this reserve. The Annuity Payment Reserve receives the amounts transferred from the individual accounts in the City Contribution Reserve and the Salary Deduction Reserve when an employee retires and qualifies for an annuity. All age and service annuity payments are charged to this reserve.

The Death Benefit Reserve accumulates contributions from employees and the City for ordinary death benefits. All ordinary death benefits paid are charged to this reserve.

The Ordinary Disability Reserve accumulates contributions from employees and the City for ordinary disability benefits. All ordinary disability benefits paid are charged to this reserve.

The Supplementary Payment Reserve accumulates amounts to provide automatic annual postretirement increases to employee annuitants who retired before September 1, 1959 and amounts in excess of the original annuity grant due to increases in the minimum annuity.

The Gift Reserve accumulates donations to be used to provide an extra benefit to widowed spouse annuitants and orphaned child annuitants.

The Reserve surplus (deficit) represents the difference between the actuarially determined present value of all future pension payments and the value of the Plan's present assets plus the present value of future

Firemen's Annuity and Benefit Fund of Chicago

Statements of Changes in Plan Net Assets

Years Ended December 31, 2004 and 2003

	2004	2003
ADDITIONS		
Contributions		
Employer		
Property taxes - net	$ 51,135,454	$ 51,574,206
Personal property replacement taxes	4,397,000	8,660,000
Total employer contributions	55,532,454	60,234,206
Plan member		
Annuities	37,589,655	42,518,762
Death benefits	144,770	146,626
Total plan member contributions	37,734,425	42,665,388
Investment income		
Net appreciation (depreciation) in fair value of investments	118,865,865	229,830,280
Interest	12,278,088	13,017,059
Dividends	13,132,361	10,995,301
Other	197,799	287,224
	144,474,113	254,129,864
Less investment expenses	(5,353,001)	(4,528,358)
Net investment income (loss)	139,121,112	249,601,506
Securities lending		
Income	2,050,409	1,924,569
Expenses		
Borrower rebates	(1,513,944)	(1,362,260)
Management fees	(160,835)	(168,677)
Net securities lending income	375,630	393,632
Gift fund donations	65,499	83,850
Municipal Employees' Annuity and Benefit Fund of Chicago Payment	24,201,945	--
Miscellaneous income	55,031	--
Total additions	257,086,096	352,978,582
DEDUCTIONS		
Age and service benefits		
Employees	110,437,967	99,129,894
Spouses	23,448,011	22,738,727
Dependents	934,890	1,178,936
Total age and service benefits	134,820,868	123,047,557
Disability benefits		
Duty	11,855,200	13,785,685
Occupational	6,007,793	7,404,373
Ordinary	192,296	113,415
Total disability benefits	18,055,289	21,303,473
Gift fund payments	440,165	495,999
Death benefits	854,800	964,800
Total benefits	154,171,122	145,811,829
Annuitant health care	2,184,105	2,001,403
Refunds of contributions	2,017,047	1,360,018
Administrative expenses	2,096,598	2,046,754
Total deductions	160,468,872	151,220,004
NET INCREASE (DECREASE)	96,617,224	201,758,578
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	1,109,560,535	907,801,957
End of year	$ 1,206,177,759	$ 1,109,560,535

See accompanying notes to financial statements.