Federal Reserve Banks Combined Quarterly Financial Report

Unaudited

September 30, 2013

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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Contents

Abbreviations 1

Combined Quarterly Financial Statements 3

Supplemental Financial Information 7

- (1) Loans 7
- (2) System Open Market Account (SOMA) Holdings 8
- (3) Consolidated Variable Interest Entities (VIEs) 12
- (4) Federal Reserve Notes 15
- (5) Depository Institution Deposits 15
- (6) Treasury Deposits 15
- (7) Capital and Surplus 16
- (8) Income and Expense 16

Abbreviations

ABS	Asset-backed securities
AIG	American International Group, Inc.
ARM	Adjustable rate mortgage
CDO	Collateralized debt obligation
CMBS	Commercial mortgage-backed securities
FRBNY	Federal Reserve Bank of New York
GSE	Government-sponsored enterprise
MBS	Mortgage-backed securities
ML	Maiden Lane LLC
ML II	Maiden Lane II LLC
ML III	Maiden Lane III LLC
LLC	Limited liability company
RMBS	Residential mortgage-backed securities
SBA	Small Business Administration
SOMA	System Open Market Account
TALF	Term Asset-Backed Securities Loan Facility
VIE	Variable interest entity

Combined Quarterly Financial Statements

Combined statements of condition
(in millions)

	September 30, 2013	December 31, 2012
Assets		
Gold certificates	$ 11,037	$ 11,037
Special drawing rights certificates	5,200	5,200
Coin	2,010	2,108
Loans:		
Depository institutions	177	70
Term Asset-Backed Securities Loan Facility (measured at fair value)	101	560
System Open Market Account:		
Treasury securities, net (of which $17,709 and $9,139 is lent as of September 30, 2013, and December 31, 2012, respectively)	2,228,453	1,809,188
Government-sponsored enterprise debt securities, net (of which $1,218 and $697 is lent as of September 30, 2013, and December 31, 2012, respectively)	62,719	79,479
Federal agency and government-sponsored enterprise mortgage-backed securities, net	1,380,844	950,321
Foreign currency denominated assets, net	24,151	24,972
Central bank liquidity swaps	511	8,889
Other investments	57	23
Investments held by consolidated variable interest entities (of which $1,682 and $2,266 is measured at fair value as of September 30, 2013, and December 31, 2012, respectively)	1,883	2,750
Accrued interest receivable	21,445	18,932
Bank premises and equipment, net	2,637	2,676
Items in process of collection	108	216
Other assets	796	713
Total assets	$3,742,129	$2,917,134
Liabilities and capital		
Federal Reserve notes outstanding, net	$1,163,902	$1,126,661
System Open Market Account:		
Securities sold under agreements to repurchase	157,405	107,188
Other liabilities	3,446	3,177
Consolidated variable interest entities:		
Beneficial interest in consolidated variable interest entities (measured at fair value)	119	803
Other liabilities (of which $74 and $71 is measured at fair value as of September 30, 2013, and December 31, 2012, respectively)	176	415
Deposits:		
Depository institutions	2,220,743	1,491,045
Term deposit facility	11,662	—
Treasury, general account	88,386	92,720
Other deposits	33,284	33,903
Interest payable to depository institutions	191	199
Accrued benefit costs	3,530	3,964
Deferred credit items	674	702
Accrued interest on Federal Reserve notes	3,020	1,407
Other liabilities	709	230
Total liabilities	3,687,247	2,862,414
Capital paid-in	27,441	27,360
Surplus (including accumulated other comprehensive loss of $4,529 and $4,845 at September 30, 2013 and December 31, 2012, respectively)	27,441	27,360
Total capital	54,882	54,720
Total liabilities and capital	$3,742,129	$2,917,134

Combined statements of income and comprehensive income
(in millions)

	Three months ended		Nine months ended	
	Sept. 30, 2013	Sept. 30, 2012	Sept. 30, 2013	Sept. 30, 2012
Interest income				
Loans:				
Term Asset-Backed Securities Loan Facility	$ 1	$ 14	$ 5	$ 76
System Open Market Account:				
Treasury securities, net	13,454	10,912	37,739	34,280
Government-sponsored enterprise debt securities, net	530	646	1,681	2,015
Federal agency and government-sponsored enterprise mortgage-backed securities, net	9,424	7,615	25,412	24,196
Foreign currency denominated assets, net	23	33	73	109
Central bank liquidity swaps	1	42	21	222
Investments held by consolidated variable interest entities	—	98	1	1,110
Total interest income	23,433	19,360	64,932	62,008
Interest expense				
System Open Market Account:				
Securities sold under agreements to repurchase	4	38	46	94
Beneficial interest in consolidated variable interest entities	—	16	—	151
Deposits:				
Depository institutions	1,397	967	3,655	2,920
Term Deposit Facility	4	1	8	3
Total interest expense	1,405	1,022	3,709	3,168
Net interest income	22,028	18,338	61,223	58,840
Non-interest income				
Term Asset-Backed Securities Loan Facility, unrealized (losses)	(1)	(8)	(3)	(31)
System Open Market Account:				
Treasury securities gains, net	—	3,215	—	8,713
Federal agency and government-sponsored enterprise mortgage-backed securities gains (losses), net	(39)	40	(47)	169
Foreign currency translation gains (losses), net	657	485	(895)	(271)
Consolidated variable interest entities:				
Investments held by consolidated variable interest entities gains, net	34	987	122	7,462
Beneficial interest in consolidated variable interest entities gains (losses), net	1	(323)	—	(2,347)
Income from services	111	109	332	338
Reimbursable services to government agencies	129	146	394	384
Other	19	22	61	58
Total non-interest income	911	4,673	(36)	14,475
Operating expenses				
Salaries and benefits	803	785	2,393	2,261
Occupancy	77	78	229	230
Equipment	40	47	121	139
Assessments:				
Board of Governors operating expenses and currency costs	478	303	1,071	875
Bureau of Consumer Financial Protection	195	86	382	249
Office of Financial Research	—	—	—	42
Professional fees related to consolidated variable interest entities	2	4	6	22
Other	133	149	411	420
Total operating expenses	1,728	1,452	4,613	4,238
Net income before interest on Federal Reserve notes expense remitted to Treasury	21,211	21,559	56,574	69,077

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Combined statements of income and comprehensive income—*continued*
(in millions)

	Three months ended		Nine months ended	
	Sept. 30, 2013	Sept. 30, 2012	Sept. 30, 2013	Sept. 30, 2012
Interest on Federal Reserve notes - remitted to Treasury	20,952	21,246	55,571	67,693
Net income	259	313	1,003	1,384
Change in prior service costs related to benefit plans	22	27	70	79
Change in actuarial gains (losses) related to benefit plans	81	93	246	230
Total other comprehensive income	103	120	316	309
Comprehensive income	$ 362	$ 433	$ 1,319	$ 1,693

Combined statements of changes in capital
(in millions, except share data)

	Capital paid-in	Surplus			Total capital
		Net income retained	Accumulated other comprehensive loss	Total surplus	
Balance at January 1, 2012 (537,984,621 shares)	$26,899	$31,691	$(4,792)	$26,899	$53,798
Net change in capital stock issued (9,210,524 shares)	461	—	—	—	461
Comprehensive income:					
Net income	—	2,151	—	2,151	2,151
Other comprehensive income	—	—	(53)	(53)	(53)
Dividends on capital stock	—	(1,637)	—	(1,637)	(1,637)
Net change in capital	461	514	(53)	461	922
Balance at December 31, 2012 (547,195,145 shares)	$27,360	$32,205	$(4,845)	$27,360	$54,720
Net change in capital stock issued (1,631,908 shares)	81	—	—	—	81
Comprehensive income:					
Net income	—	1,003	—	1,003	1,003
Other comprehensive income	—	—	316	316	316
Dividends on capital stock	—	(1,238)	—	(1,238)	(1,238)
Net change in capital	81	(235)	316	81	162
Balance at September 30, 2013 (548,827,053 shares)	$27,441	$31,970	$(4,529)	$27,441	$54,882

Supplemental Financial Information

(1) Loans

Loans to Depository Institutions

The Reserve Banks offer primary, secondary, and seasonal loans to eligible depository institutions. The remaining maturity distribution of loans to depository institutions outstanding as of September 30, 2013, and December 31, 2012, was as follows:

Table 1. Loans to depository institutions
(in millions)

	Within 15 days	16 to 90 days	Total
September 30, 2013:			
Primary, secondary, and seasonal credit	$136	$ 41	$177
December 31, 2012:			
Primary, secondary, and seasonal credit	$ 67	$ 3	$ 70

As of September 30, 2013, and December 31, 2012, the Reserve Banks did not have any impaired loans and no allowance for loan losses was required. There were no impaired loans during the period ended September 30, 2013, and year ended December 31, 2012.

Term Asset-Backed Securities Loan Facility (TALF) Loans

The Board of Governors authorized the offering of TALF loans collateralized by newly-issued asset-backed securities (ABS) and legacy commercial mortgage-backed securities (CMBS) until March 31, 2010, and TALF loans collateralized by newly-issued CMBS until June 30, 2010. All TALF loans are recorded at fair value.

The table below presents the fair value of TALF loans by concentration as of September 30, 2013, and December 31, 2012, respectively:

Table 2. TALF loans by concentration
(in millions)

Collateral type[1]	Time to maturity[2]			Total
	Within 90 days	91 days to 1 year	Over 1 year to 3 years	
September 30, 2013:				
Student loan	$—	$13	$37	$ 50
Credit card	—	—	—	—
CMBS	—	37	14	51
Floorplan	—	—	—	—
Auto	—	—	—	—
SBAs	—	—	—	
Other[3]	—	—	—	—
Total	$—	$50	$51	$101

(continued on next page)

Table 2.—*continued*

Collateral type[1]	Time to maturity[2] Within 90 days	91 days to 1 year	Over 1 year to 3 years	Total
December 31, 2012:				
Student loan	$—	$—	$382	$382
Credit card	—	—	—	—
CMBS	3	—	129	132
Floorplan	—	—	—	—
Auto	—	—	—	—
SBAs	—	—	—	—
Other[3]	46	—	—	46
Total	**$49**	**$—**	**$511**	**$560**

[1] All credit ratings are AAA unless otherwise indicated.

[2] TALF loans will mature over the next several years, with all loans maturing no later than March 11, 2015.

[3] Includes equipment loans, insurance premium financial loans, and residential mortgage servicing advances.

The fair value of TALF loans reported in the Combined Statements of Condition as of September 30, 2013, and December 31, 2012, includes $1 million and $3 million in unrealized gains, respectively.

As of September 30, 2013, and December 31, 2012, no TALF loans were over 90 days past due or on nonaccrual status. Because TALF loans are measured at fair value, an allowance for loan losses was not required.

(2) System Open Market Account (SOMA) Holdings

Treasury securities, government-sponsored enterprise (GSE) debt securities, and federal agency and GSE mortgage-backed securities (MBS) are reported at amortized cost in the Combined Statements of Condition. SOMA portfolio holdings as of September 30, 2013, and December 31, 2012, were as follows:

Table 3. SOMA portfolio holdings
(in millions)

	September 30, 2013			December 31, 2012		
	Amortized cost	Fair value	Fair value greater (less) than amortized cost	Amortized cost	Fair value	Fair value greater (less) than amortized cost
Bills	$ —	$ —	$ —	$ —	$ —	$ —
Notes	1,410,480	1,435,459	24,979	1,142,219	1,213,177	70,958
Bonds	817,973	826,583	8,610	666,969	761,138	94,169
Subtotal—Treasury securities	**$2,228,453**	**$2,262,042**	**$ 33,589**	**$1,809,188**	**$1,974,315**	**$165,127**
GSE debt securities	62,719	66,289	3,570	79,479	85,004	5,525
Federal agency and GSE MBS	1,380,844	1,368,428	(12,416)	950,321	993,990	43,669
Foreign currency denominated assets	24,151	24,245	94	24,972	25,141	169
Central bank liquidity swaps	511	511	—	8,889	8,889	—
Memorandum - Commitments for:						
Purchases of Treasury securities	1,461	1,459	(2)	—	—	—
Purchases of Federal agency and GSE MBS	83,818	85,195	1,377	118,215	118,397	182
Sales of Federal agency and GSE MBS	—	—	—	—	—	—
Purchases of foreign government debt instruments	—	—	—	—	—	—

The following table provides additional information on the amortized cost and fair values of the federal agency and GSE MBS portfolio as of September 30, 2013, and December 31, 2012:

Table 4. Detail of federal agency and GSE MBS holdings
(in millions)

	September 30, 2013		December 31, 2012	
Distribution of MBS holdings by coupon rate	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	$ 14,500	$ 13,996	$ 845	$ 846
2.5%	124,739	121,110	37,562	37,766
3.0%	518,371	492,653	160,613	161,757
3.5%	292,267	288,138	179,587	184,752
4.0%	132,186	136,180	137,758	145,955
4.5%	181,650	192,962	262,485	282,182
5.0%	89,052	93,991	125,107	132,213
5.5%	24,130	25,274	39,970	41,819
6.0%	3,469	3,615	5,642	5,888
6.5%	480	509	752	812
Total	$1,380,844	$1,368,428	$950,321	$993,990

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and securities sold under agreements to repurchase as of September 30, 2013, and December 31, 2012, was as follows:

Table 5. Maturity distribution of domestic SOMA portfolio securities
(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
September 30, 2013:							
Treasury securities (par value)	$ —	$ 4	$ 385	$659,493	$877,591	$ 534,810	$2,072,283
GSE debt securities (par value)	487	2,944	17,215	37,597	62	2,347	60,652
Federal agency and GSE MBS (par value)[1]	—	—	—	2	2,585	1,339,501	1,342,088
Securities sold under agreements to repurchase (contract amount)	157,405	—	—	—	—	—	157,405
December 31, 2012:							
Treasury securities (par value)	$ —	$ 5	$ 16	$378,476	$862,410	$ 425,238	$1,666,145
GSE debt securities (par value)	1,565	2,795	15,202	52,830	2,044	2,347	76,783
Federal agency and GSE MBS (par value)[1]	—	—	2	1	2,365	924,294	926,662
Securities sold under agreements to repurchase (contract amount)	107,188	—	—	—	—	—	107,188

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 remaining life of these securities as of September 30, 2013, and December 31, 2012, which differs from the stated maturity primarily because it factors in scheduled payments and prepayment assumptions, was approximately 5.9 years and 3.3 years, respectively.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS during the nine months ended September 30, 2013, and during the year ended December 31, 2012, is summarized as follows:

Table 6. Domestic portfolio transactions of SOMA securities
(in millions)

	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2011	**$ 18,423**	**$1,311,917**	**$419,937**	**$1,750,277**	**$107,828**	**$ 848,258**
Purchases[1]	118,886	397,999	263,991	780,876	—	431,487
Sales[1]	—	(507,420)	(11,727)	(519,147)	—	—
Realized gains, net[2]	—	12,003	1,252	13,255	—	—
Principal payments and maturities	(137,314)	(67,462)	—	(204,776)	(27,211)	(324,181)
Amortization of premiums and discounts	5	(5,461)	(7,531)	(12,987)	(1,138)	(5,243)
Inflation adjustment on inflation-indexed securities	—	643	1,047	1,690	—	—
Balance December 31, 2012	**$ —**	**$1,142,219**	**$666,969**	**$1,809,188**	**$ 79,479**	**$ 950,321**
Purchases[1]	—	272,523	157,323	429,846	—	671,040
Sales[1]	—	—	—	—	—	—
Realized gains, net[2]	—	—	—	—	—	—
Principal payments and maturities	—	(16)	—	(16)	(16,131)	(234,813)
Amortization of premiums and discounts	—	(4,537)	(6,985)	(11,522)	(629)	(5,704)
Inflation adjustment on inflation-indexed securities	—	291	666	957	—	—
Balance September 30, 2013	**$ —**	**$1,410,480**	**$817,973**	**$2,228,453**	**$ 62,719**	**$1,380,844**
Year ended December 31, 2012						
Supplemental information - par value of transactions:						
Purchases[3]	$ 118,892	$ 383,106	$205,115	$ 707,113	$ —	$ 413,160
Sales[3]	—	(492,234)	(9,094)	(501,328)	—	—
Nine months ended September 30, 2013						
Supplemental information - par value of transactions						
Purchases[3]	$ —	$ 268,646	$136,552	$ 405,198	$ —	$ 650,239
Sales[3]	—	—	—	—	—	—

1 Purchases and sales are reported on a settlement-date basis and 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 also includes realized gains and losses on such transactions. Purchases and sales exclude MBS TBA transactions that are settled on a net basis.

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

3 Includes inflation compensation.

Foreign currency denominated assets are comprised of foreign currency deposits, securities purchased under agreements to resell, and government debt instruments. Information about foreign currency denominated assets, including accrued interest, valued at amortized cost and foreign currency market exchange rates as of September 30, 2013, and December 31, 2012, was as follows:

Table 7. Foreign currency denominated assets
(in millions)

	September 30, 2013	December 31, 2012
Euro:		
Foreign currency deposits	$7,667	$8,925
Securities purchased under agreements to resell	2,233	659
German government debt instruments	2,391	2,178
French government debt instruments	2,382	2,470

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Table 7.—*continued*

	September 30, 2013	December 31, 2012
Japanese yen:		
Foreign currency deposits	3,133	3,553
Japanese government debt instruments	6,345	7,187
Total	$24,151	$24,972

The remaining maturity distribution of foreign currency denominated assets, by currency, as of September 30, 2013, and December 31, 2012, was as follows:

Table 8. Maturity distribution of foreign currency denominated assets
(in millions)

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Total
September 30, 2013:					
Euro	$ 6,605	$2,082	$2,124	$3,862	$14,673
Japanese yen	3,362	382	1,891	3,843	9,478
Total	$ 9,967	$2,464	$4,015	$7,705	$24,151
December 31, 2012:					
Euro	$ 6,602	$1,726	$2,165	$3,739	$14,232
Japanese yen	3,801	491	2,139	4,309	10,740
Total	$10,403	$2,217	$4,304	$8,048	$24,972

As of September 30, 2013, and December 31, 2012, the fair value of foreign currency denominated assets, including accrued interest, was $24,245 million and $25,141 million, respectively.

Because of the global character of bank funding markets, the Federal Reserve has at times coordinated with other central banks to provide liquidity. The Federal Open Market Committee (FOMC) has established temporary U.S. dollar liquidity swap lines with the Bank of Canada, the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank. In addition, as a contingency measure, the FOMC agreed to establish temporary foreign currency liquidity swap arrangements that would allow for the Federal Reserve to access liquidity, if necessary, in any of these foreign central banks' respective currencies. On October 31, 2013, these central banks announced that their existing temporary liquidity swap arrangements are being converted to standing arrangements that will remain in place until further notice.

The remaining maturity distribution of U.S. dollar liquidity swaps as of September 30, 2013, and the total U.S. dollar liquidity swaps outstanding as of December 31, 2012, was as follows:

Table 9. Maturity distribution of liquidity swaps
(in millions)

	September 30, 2013			December 31, 2012		
	Within 15 days	16 days to 90 days	Total	Within 15 days	16 days to 90 days	Total
Euro	$352	$159	$511	$1,741	$7,147	$8,888
Japanese yen	—	—	—	1	—	1
Total	$352	$159	$511	$1,742	$7,147	$8,889

The following table presents realized gains and the change in the unrealized gain position of the domestic securities holdings during the periods ended September 30, 2013, and September 30, 2012:

Table 10: Realized gains and change in unrealized gain position
(in millions)

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Total portfolio holdings realized gains (losses)[1]				
Treasury Securities	$ —	$3,215	$ —	$ 8,713
GSE debt securities	—	—	—	—
Federal agency and GSE MBS	(39)	40	(47)	169
Total	**$ (39)**	**$3,255**	**$ (47)**	**$ 8,882**
Fair value changes in unrealized gains (losses)[2]				
Treasury Securities	$(13,056)	$2,619	$(131,538)	$22,380
GSE debt securities	(245)	(4)	(1,955)	(317)
Federal agency and GSE MBS	3,201	5,262	(56,085)	5,832
Total	**$(10,100)**	**$7,877**	**$(189,578)**	**$27,895**

1 Total portfolio holdings realized gains (losses) are reported in "Non-interest income: System Open Market Account" in the Combined statements of income and comprehensive income.

2 Because SOMA securities are recorded at amortized cost, unrealized gains (losses) are not reported in the Combined statements of income and comprehensive income.

(3) Consolidated Variable Interest Entities (VIEs)

The combined financial statements include the accounts and results of operations of Maiden Lane LLC (ML), Maiden Lane II LLC (ML II), Maiden Lane III LLC (ML III), and TALF LLC, which are consolidated by the FRBNY. Intercompany balances and transactions are eliminated in consolidation.

Substantially all of the investments held by ML, ML II, ML III, and TALF LLC are recorded at fair value.

The classification of significant assets and liabilities of the consolidated VIEs as of September 30, 2013, and December 31, 2012, was as follows:

Table 11. Assets and liabilities of consolidated VIEs
(in millions)

	ML	ML II	ML III	TALF LLC	Total
September 30, 2013:					
Assets					
Commercial mortgage loans	$ 532	$—	$—	$ —	$ 532
Swap contracts	170	—	—	—	170
Short-term investments	530	—	—	—	530
Non-agency RMBS	8	—	—	—	8
CDOs	—	—	—	—	—
Federal agency and GSE MBS	—	—	—	—	—
Residential mortgage loans	—	—	—	—	—
Other investments	46	—	—	—	46
Subtotal—investments	**$1,286**	**$—**	**$—**	**$ —**	**$1,286**
Cash, cash equivalents, accrued interest receivable, and other assets	399	64	22	112	597
Total portfolio assets	**$1,685**	**$64**	**$22**	**$112**	**$1,883**

(continued on next page)

Table 11.—*continued*

	ML	ML II	ML III	TALF LLC	Total
Liabilities	176	—	—	—	176
Net portfolio assets available	**$1,509**	**$64**	**$22**	**$112**	**$1,707**
December 31, 2012:					
Assets					
Commercial mortgage loans	$ 466	$—	$—	$ —	$ 466
Swap contracts	408	—	—	—	408
Short-term investments	251	—	—	439	690
Non-agency RMBS	2	—	—	—	2
CDOs	—	—	—	—	—
Federal agency and GSE MBS	1	—	—	—	1
Residential mortgage loans	—	—	—	—	—
Other investments	65	—	—	—	65
Subtotal—investments	**$1,193**	**$—**	**$—**	**$439**	**$1,632**
Cash, cash equivalents, accrued interest receivable, and other assets	617	61	22	418	1,118
Total portfolio assets	**$1,810**	**$61**	**$22**	**$857**	**$2,750**
Liabilities	415	—	—	—	415
Net portfolio assets available	**$1,395**	**$61**	**$22**	**$857**	**$2,335**

To finance the initial acquisition of assets by ML, ML II, and ML III, the FRBNY extended senior loans, and other beneficial interest holders acquired subordinated interests through the contribution of a subordinated loan, a deferred purchase price, and equity for ML, ML II, and ML III, respectively.

On June 14, 2012, the remaining outstanding balance of the senior loan from the FRBNY to ML was repaid in full, with interest. On November 15, 2012, the remaining outstanding balance of the subordinated loan from JPMorgan Chase & Co was repaid in full, with interest. The FRBNY will continue to sell the remaining assets from the ML portfolio as market conditions warrant and if the sales represent good value for the public. In accordance with the ML agreements, proceeds from future asset sales will be distributed to the FRBNY as contingent interest after all derivative instruments in ML have been terminated and paid or sold from the portfolio.

On March 1, 2012, the loan from the FRBNY to ML II was repaid in full with interest, in accordance with the terms of the facility. On March 15, 2012, the remaining portion of the fixed deferred purchase price plus interest owed to the American International Group, Inc. (AIG) subsidiaries was paid in full. On March 19, 2012, ML II was dissolved and the FRBNY began the wind up process in accordance with and as required by Delaware law and the agreements governing ML II. Winding up requires ML II to pay or make reasonable provision to pay all claims and obligations of ML II before distributing its remaining assets. While its affairs are being wound up, the ML II is retaining certain assets to meet trailing expenses and other obligations as required by law. Dissolution costs are not expected to be material.

On June 14, 2012, the FRBNY announced that its loan to ML III had been repaid in full, with interest. On July 16, 2012, the FRBNY announced that net proceeds from additional sales of securities in ML III enabled the full repayment of AIG's equity contribution plus accrued interest and provided residual profits to the FRBNY and AIG. On September 10, 2012, ML III was dissolved and the FRBNY began the wind up process in accordance with and as required by Delaware law and the agreements governing ML III. Winding up requires ML III to pay or make reasonable provision to pay all claims and obligations of ML III before distributing its remaining assets. While its affairs are being wound up, the ML III is retaining certain assets to meet trailing expenses and other obligations as required by law. Dissolution costs are not expected to be material.

TALF LLC, which was formed to purchase from the FRBNY any ABS that might be surrendered by a TALF borrower or claimed by the FRBNY in connection with enforcement rights, has not purchased any ABS collateral from the inception of the program to September 30, 2013. As compensation for the commitment to purchase assets, the FRBNY pays TALF LLC a put option fee based on the amount of TALF loans extended to eligible borrowers. The Treasury provided initial funding of $100 million to TALF LLC in the form of a subordinated loan. TALF LLC invests the fees received from the FRBNY and the funding received from the Treasury in short-term investments.

On January 15, 2013, the Treasury, FRBNY, and TALF LLC agreed to eliminate in their entirety the Treasury's and FRBNY's funding commitments to TALF LLC. These commitments were no longer deemed necessary because the accumulated fees collected through the TALF program, and currently held in liquid assets in TALF LLC, exceed the amount of TALF loans outstanding. In addition, the agreement related to distribution of proceeds was amended to limit funding of the cash collateral account to an amount equal to the outstanding principal plus accrued interest of all TALF loans as of the payment determination date; all accumulated funding in excess of that amount would then be distributed according to the distribution priorities described in the agreements governing TALF LLC. Pursuant to this agreement, TALF LLC repaid in full the outstanding principal and accrued interest on the loan to the Treasury, and additional distributions were made to the Treasury and FRBNY as contingent interest in the amounts of $570 million and $63 million, respectively.

The following table presents the activity related to the senior and subordinated interests from inception to September 30, 2013, and December 31, 2012:

Table 12. Analysis of senior and subordinated interests in consolidated VIEs
(in millions)

	September 30, 2013				December 31, 2012			
	ML	ML II	ML III	TALF LLC	ML	ML II	ML III	TALF LLC
Net assets available to pay senior and subordinated interests	**$ 1,510**	**$ 64**	**$ 22**	**$ 112**	**$ 1,395**	**$ 61**	**$ 22**	**$857**
FRBNY loan:[1]								
Loan extended (par value)	28,820	19,494	24,339	—	28,820	19,494	24,339	—
Plus: interest accrued and capitalized	765	580	738	—	765	580	738	—
Less: repayments of principal and interest	(29,585)	(20,074)	(25,077)	—	(29,585)	(20,074)	(25,077)	—
Total FRBNY loan outstanding	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Subordinated interests:								
Loans and equity contributions	$ 1,150	$ 1,000	$ 5,000	$ 100	$ 1,150	$ 1,000	$ 5,000	$100
Plus: interest accrued and capitalized	280	113	639	13	280	113	639	13
Less: repayments of principal and interest	(1,430)	(1,113)	(5,639)	(113)	(1,430)	(1,113)	(5,639)	—
Total subordinated interests outstanding	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$113**

(continued on next page)

Table 12.—*continued*

	September 30, 2013				December 31, 2012			
	ML	ML II	ML III	TALF LLC	ML	ML II	ML III	TALF LLC
Excess of net assets available over loans and subordinated interest outstanding:								
Allocated to FRBNY	1,510	53	15	11	1,395	51	15	71
Allocated to other beneficial interests	—	11	7	101	—	10	7	673
Total	**$1,510**	**$64**	**$22**	**$112**	**$1,395**	**$61**	**$22**	**$744**

[1] Loans extended by FRBNY to ML, ML II, and ML III are eliminated in consolidation.

The following table presents information on the ratings breakdown of debt securities as of September 30, 2013, which are recorded at fair value in the ML portfolio, as a percentage of aggregate fair value of all securities in the portfolio.

Table 13. Rating composition of consolidated VIE portfolio assets

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Gov't / agency	Not rated	Total
Short-term investments	—	—	—	—	—	90.7%	—	90.7%
Non-agency RMBS	—	—	—	—	1.4%	—	—	1.4%
Federal agency and GSE MBS	—	—	—	—	—	—	—	—
Other	—	—	—	—	0.3%	—	7.6%	7.9%
Total	**—**	**—**	**—**	**—**	**1.7%**	**90.7%**	**7.6%**	**100.0%**

Note: Lowest of all ratings was used for the purpose of this table if rated by two or more nationally recognized statistical rating organizations. Rows and columns may not total due to rounding.

(4) 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 Reserve Banks' assets are eligible to be pledged as collateral. As of September 30, 2013, and December 31, 2012, all Federal Reserve notes were fully collateralized.

(5) Depository Institution Deposits

Depository institution deposits are primarily comprised of required reserve balances, contractual clearing balances, and excess reserve balances. Required reserve balances are those that a depository institution must hold to satisfy its reserve requirement. Contractual clearing balances are those established by a depository institution to provide protection against overdrafts in its account with its Reserve Bank. Excess reserves are those held by the depository institutions in excess of their required reserve balances and contractual clearing balances. The contractual clearing balance program was eliminated on July 12, 2012.

(6) Treasury Deposits

The Treasury holds deposits at the Reserve Banks in a general account pursuant the Reserve Banks' role as fiscal agents of the United States.

(7) Capital and Surplus

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. Currently, only one-half of the subscription is paid in and the remainder is subject to call. By law, each Reserve Bank is required to pay each member bank an annual dividend of 6 percent on paid-in capital stock.

In addition, the Board of Governors requires the Reserve Banks to maintain a surplus equal to the amount of capital paid-in as of December 31 of each year.

(8) Income and Expense

(A) Loans

Interest income on primary, secondary, and seasonal credit is accrued using the applicable rate established at least every 14 days by the Reserve Banks' boards of directors, subject to review and determination by the Board of Governors. Interest income on loans includes interest earned on TALF loans. Supplemental information on interest income on loans is as follows:

Table 14. Interest income on loans
(in millions)

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Interest income:		
Primary, secondary, and seasonal credit	*	*
TALF	5	76
Total interest income	$ 5	$ 76
Average daily loan balance:		
Primary, secondary, and seasonal credit	$ 72	$ 77
TALF	320	5,655
Average interest rate:		
Primary, secondary, and seasonal credit	0.26%	0.40%
TALF	2.08%	1.79%

* Less than $500 thousand.

In addition to TALF LLC net income, the FRBNY records income and expense related to TALF loans in its consolidated financial statements. The following table summarizes the earnings of the TALF program, taken as a whole:

Table 15. FRBNY net income from TALF program
(in millions)

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
TALF loans:		
Interest income	$ 5	$ 76
Gains (losses)	(3)	(31)
Subtotal—TALF loans	$ 2	$ 45

(continued on next page)

Table 15.—*continued*	Nine months ended September 30, 2013	Nine months ended September 30, 2012
TALF LLC	—	(8)
Total—TALF	$ 2	$37

(B) SOMA Holdings

The amount reported as interest income on SOMA portfolio holdings includes the amortization of premiums and discounts. Supplemental information on interest income on SOMA portfolio holdings is as follows:

Table 16. Interest income on SOMA portfolio
(in millions)

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Interest income:		
U.S. Treasury securities	$ 37,739	$ 34,280
GSE debt securities	1,681	2,015
Federal agency and GSE MBS	25,412	24,196
Foreign currency denominated assets	73	109
Central bank liquidity swaps	21	222
Total interest income	$ 64,926	$ 60,822
Average daily balance:		
U.S. Treasury securities[1]	$2,023,850	$1,767,926
GSE debt securities[1]	72,957	97,866
Federal agency and GSE MBS[2]	1,177,395	863,830
Foreign currency denominated assets[3]	23,902	25,498
Central bank liquidity swaps[4]	4,401	47,742
Average interest rate:		
U.S. Treasury securities	2.49%	2.59%
GSE debt securities	3.07%	2.75%
Federal agency and GSE MBS	2.88%	3.73%
Foreign currency denominated assets	0.41%	0.57%
Central bank liquidity swaps	0.64%	0.62%

1 Face value, net of unamortized premiums and discounts.

2 Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities, net of premiums and discounts.

3 Includes accrued interest. Foreign currency denominated assets are revalued daily at market exchange rates.

4 Dollar value of foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank. This exchange rate equals the market exchange rate used when the foreign currency was acquired from the foreign central bank.

The average daily balance of securities sold under agreements to repurchase as of September 30, 2013, and September 30, 2012, was $92,795 million and $90,004 million, respectively. The interest expense related to securities sold under agreements to repurchase was $46 million and $94 million for each of the nine-month periods ended September 30, 2013, and September 30, 2012, respectively. The average interest rate on these transactions was 0.1 percent for each of the nine-month periods ended September 30, 2013, and September 30, 2012, respectively.

(C) Consolidated VIEs

The interest income related to the consolidated VIEs is recorded when earned and includes amortization of premiums, accretion of discounts, and paydown gains and losses. Interest expense of the consolidated VIEs is attributable to loans extended by subordinated interest holders; interest expense on loans extended by the FRBNY is eliminated when the VIEs are consolidated in the FRBNY's financial statements. Gains and losses include realized and unrealized gains. Unrealized gains result from the quarterly revaluation of the VIEs portfolio assets. Operating expenses of the consolidated VIEs, which are reported as a component of "Operating expenses" in the Combined Statement of Income, were $6 million and $22 million for the nine months ended September 30, 2013, and September 30, 2012, respectively.

The following table summarizes the net income and loss recorded by the FRBNY in its consolidated financial statements for each of the VIEs for the periods ended September 30, 2013, and September 30, 2012:

Table 17. FRBNY net income from consolidated VIEs
(in millions)

	ML	ML II	ML III	TALF LLC	Total
Nine months ended September 30, 2013:					
Interest income:					
Portfolio interest income	$ (3)[1]	$ 4	$ —	$ —	$ 1
Less: interest expense	—	—	—	—	—
Net interest income	(3)	4	—	—	1
Non-interest income:					
Portfolio holdings gains	122	—	—	—	122
Less: unrealized and realized gains on beneficial interest in consolidated VIEs	—	—	—	—[2]	—
Net non-interest (loss) income	122	—	—	—	122
Total net interest income and non-interest income	**119**	**4**	**—**	**—**	**123**
Less: professional fees	5	1	—		6
Net income (loss) attributable to consolidated VIEs	**$114**	**$ 3**	**$ —**	**$—[3]**	**$ 117**
Nine months ended September 30, 2012:					
Interest income:					
Portfolio interest income	$ 34	$ 52	$ 1,024	$ —	$ 1,110
Less: interest expense	44	7	98	2	151
Net interest income	(10)	45	926	(2)	959
Non-interest income:					
Portfolio holdings (losses) gains	564	1,393	5,505	—	7,462
Less: unrealized (gains) losses on beneficial interest in consolidated VIEs	—	(238)	(2,104)	(5)[2]	(2,347)
Net non-interest (loss) income	564	1,155	3,401	(5)	5,115
Total net interest income and non-interest income	**554**	**1,200**	**4,327**	**(7)**	**6,074**
Less: professional fees	10	1	10	1	22
Net income (loss) attributable to consolidated VIEs	**$544**	**$1,199**	**$ 4,317**	**$ (8)[3]**	**$ 6,052**

1 Reflects a reduction of $5.1 million due to the recalculation by the trustee of payments originally received and recorded in previous periods.

2 Represents the amount of TALF LLC's income allocated to the Treasury.

3 Additional information regarding TALF-related income recorded by FRBNY is presented in Table 15.

(D) Depository Institution Deposits

The Reserve Banks pay interest to depository institutions on qualifying balances held at the Reserve Banks. The interest rates paid on required reserve balances and excess balances are determined by the Board of Governors, based on a Federal

Open Market Committee-established target range for the effective federal funds rate.

In May 2010, the Reserve Banks commenced the auction of term deposits to be offered through its Term Deposit Facility. The interest rate paid on these deposits is determined by auction.