



Federal Reserve Banks Combined Quarterly Financial Report

Unaudited
June 30, 2018



Federal Reserve Banks Combined Quarterly Financial Report

Unaudited

June 30, 2018

Errata

The Federal Reserve revised this report on August 14, 2019, to reflect corrected data. The revision is listed below.

On p. 14, under “Loans,” the average interest rate for the six months ended June 30, 2018, has been revised from 0.97 percent to 1.95 percent.

This and other Federal Reserve Board reports and publications are available online at <https://www.federalreserve.gov/publications/default.htm>.

To order copies of Federal Reserve Board publications offered in print, see the Board’s Publication Order Form (<https://www.federalreserve.gov/files/orderform.pdf>) or contact:

Printing and Fulfillment
Mail Stop K1-120
Board of Governors of the Federal Reserve System
Washington, DC 20551
(ph) 202-452-3245
(fax) 202-728-5886
(email) Publications-BOG@frb.gov

Contents

Abbreviations	1
Combined Quarterly Financial Statements	3
Supplemental Financial Information	7
(1) Loans	7
(2) System Open Market Account (SOMA) Holdings	7
(3) Consolidated Variable Interest Entity (VIE)	13
(4) Federal Reserve Notes	13
(5) Depository Institution Deposits	13
(6) Treasury Deposits	14
(7) Capital and Surplus	14
(8) Income and Expense	14

Abbreviations

BAC	Committee on Federal Reserve Bank Affairs
FRA	Federal Reserve Act
FOMC	Federal Open Market Committee
FRBNY	Federal Reserve Bank of New York
GSE	Government-sponsored enterprise
MBS	Mortgage-backed securities
ML	Maiden Lane LLC
LLC	Limited liability company
SOMA	System Open Market Account
TBA	To be announced
VIE	Variable interest entity

Combined Quarterly Financial Statements

Combined statements of condition (in millions)			June 30, 2018	December 31, 2017
Assets				
Gold certificates			\$ 11,037	\$ 11,037
Special drawing rights certificates			5,200	5,200
Coin			1,776	1,892
Loans	Note 1		239	134
System Open Market Account:		Note 2		
Treasury securities, net (of which \$23,349 and \$28,053 is lent as of June 30, 2018, and December 31, 2017, respectively)			2,463,721	2,545,733
Government-sponsored enterprise debt securities, net (of which \$0 is lent as of June 30, 2018, and December 31, 2017)			2,752	4,752
Federal agency and government-sponsored enterprise mortgage-backed securities, net			1,771,221	1,817,700
Foreign currency denominated investments, net			21,094	21,316
Central bank liquidity swaps			1,091	12,067
Accrued interest receivable			24,049	24,744
Other assets			11	13
Investments held by consolidated variable interest entity (of which \$1,715 and \$1,720 is measured at fair value as of June 30, 2018, and December 31, 2017, respectively)	Note 3		1,715	1,722
Prepaid pension benefit costs			39	14
Bank premises and equipment, net			2,528	2,571
Items in process of collection			220	81
Other assets			966	1,001
Total assets			<u>\$4,307,659</u>	<u>\$4,449,977</u>
Liabilities and capital				
Federal Reserve notes outstanding, net	Note 4		\$1,619,233	\$1,570,727
System Open Market Account:				
Securities sold under agreements to repurchase	Note 2		341,633	563,958
Other liabilities			332	558
Liabilities of consolidated variable interest entity (of which \$0 and \$8 is measured at fair value as of June 30, 2018 and December 31, 2017, respectively)			—	9
Deposits:				
Depository institutions	Note 5		1,886,919	1,954,431
Treasury, general account	Note 6		332,805	228,933
Other deposits			81,525	83,018
Interest payable to depository institutions and others			1,083	1,006
Accrued benefit costs			2,420	2,332
Deferred credit items			763	1,001
Accrued remittances to the Treasury			1,704	2,337
Other liabilities			341	278
Total liabilities			<u>4,268,758</u>	<u>4,408,588</u>
Capital paid-in	Note 7		32,076	31,389
Surplus (including accumulated other comprehensive loss of \$3,242 and \$3,334 at June 30, 2018 and December 31, 2017, respectively)	Note 7		6,825	10,000
Total capital			<u>38,901</u>	<u>41,389</u>
Total liabilities and capital			<u>\$4,307,659</u>	<u>\$4,449,977</u>

UNAUDITED

Combined statements of operations					
(in millions)					
		Three months ended		Six months ended	
		June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Interest income					
Loans	Note 8(A)	\$ 1	\$ —	\$ 1	\$ —
System Open Market Account:	Note 8(B)				
Treasury securities, net		16,491	16,404	32,107	32,409
Government-sponsored enterprise debt securities, net		51	112	105	264
Federal agency and government-sponsored enterprise mortgage-backed securities, net		12,404	12,478	24,942	24,634
Foreign currency denominated investments, net		(8)	(4)	(14)	(6)
Central bank liquidity swaps		2	2	10	5
Investments held by consolidated variable interest entity	Note 3	7	3	13	6
Total interest income		<u>28,948</u>	<u>28,995</u>	<u>57,164</u>	<u>57,312</u>
Interest expense					
System Open Market Account:	Note 8(B)				
Securities sold under agreements to repurchase		1,105	848	2,019	1,437
Other		2	2	3	3
Deposits:					
Depository institutions and others	Note 8(C)	9,486	6,084	18,173	10,565
Term Deposit Facility		1	4	1	6
Total interest expense		<u>10,594</u>	<u>6,938</u>	<u>20,196</u>	<u>12,011</u>
Net interest income		<u>18,354</u>	<u>22,057</u>	<u>36,968</u>	<u>45,301</u>
Non-interest income					
System Open Market Account:					
Treasury securities gains, net		6	7	6	7
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net		—	12	—	10
Foreign currency translation (losses) gains, net		(1,059)	704	(227)	1,249
Other		4	8	14	12
Investments held by consolidated variable interest entity losses, net	Note 3	(9)	—	(11)	(5)
Income from services		111	112	223	223
Reimbursable services to government agencies		168	166	335	335
Other		17	16	33	33
Total non-interest (loss) income		<u>(762)</u>	<u>1,025</u>	<u>373</u>	<u>1,864</u>
Operating expenses					
	Note 8(D)				
Salaries and benefits		802	766	1,607	1,553
Occupancy		83	73	162	152
Equipment		48	44	92	86
Net periodic pension expense		112	146	246	279
Other		180	166	340	322
Assessments:					
Board of Governors operating expenses and currency costs		376	367	733	685
Bureau of Consumer Financial Protection		99	125	99	271
Total operating expenses		<u>1,700</u>	<u>1,687</u>	<u>3,279</u>	<u>3,348</u>
Net income before providing for remittances to the Treasury		15,892	21,395	34,062	43,817
Earnings remittances to the Treasury		16,321	21,300	36,830	43,587
Net (loss) income after providing for remittances to the Treasury		<u>(429)</u>	<u>95</u>	<u>(2,768)</u>	<u>230</u>
Change in prior service costs related to benefit plans		8	13	15	28
Change in actuarial gains related to benefit plans		38	59	77	117
Total other comprehensive income		<u>46</u>	<u>72</u>	<u>92</u>	<u>145</u>
Comprehensive (loss) income		<u>\$ (383)</u>	<u>\$ 167</u>	<u>\$ (2,676)</u>	<u>\$ 375</u>

UNAUDITED

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 December 31, 2016 (608,848,261 shares)	\$30,442	\$13,985	\$(3,985)	\$10,000	\$40,442
Net change in capital stock issued (18,923,950 shares)	947	—	—	—	947
Comprehensive income:					
Net income	—	133	—	133	133
Other comprehensive loss	—	—	651	651	651
Dividends on capital stock	—	(784)	—	(784)	(784)
Net change in capital	947	(651)	651	—	947
Balance at December 31, 2017 (627,772,211 shares)	\$31,389	\$13,334	\$(3,334)	\$10,000	\$41,389
Net change in capital stock issued (13,745,823 shares)	687	—	—	—	687
Comprehensive income:					
Net loss	—	(2,768)	—	(2,768)	(2,768)
Other comprehensive income	—	—	92	92	92
Dividends on capital stock	—	(499)	—	(499)	(499)
Net change in capital	687	(3,267)	92	(3,175)	(2,488)
Balance at June 30, 2018 (641,518,034 shares)	<u>\$32,076</u>	<u>\$10,067</u>	<u>\$(3,242)</u>	<u>\$ 6,825</u>	<u>\$38,901</u>

UNAUDITED

Supplemental Financial Information

(1) Loans

Loans to Depository Institutions

The Reserve Banks offer 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). The remaining maturity distribution of loans to depository institutions outstanding as of June 30, 2018, and December 31, 2017, was as follows:

Table 1. Loans to depository institutions
(in millions)

	Within 15 days	16 days to 90 days	Total
June 30, 2018	\$196	\$43	\$239
December 31, 2017	133	1	134

At June 30, 2018, and December 31, 2017, the Reserve Banks 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 period ended June 30, 2018, and year ended December 31, 2017.

(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 at June 30, 2018, and December 31, 2017, were as follows:

Table 2. Domestic SOMA portfolio holdings
(in millions)

	June 30, 2018			December 31, 2017		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
Treasury Securities						
Notes	\$1,544,587	\$1,522,472	\$(22,115)	\$1,629,571	\$1,624,540	\$(5,031)
Bonds	919,134	972,568	53,434	916,162	1,008,468	92,306
Total Treasury securities	\$2,463,721	\$2,495,040	\$ 31,319	\$2,545,733	\$2,633,008	\$87,275
GSE debt securities	2,752	3,228	476	4,752	5,383	631
Federal agency and GSE MBS	1,771,221	1,719,873	(51,348)	1,817,700	1,809,918	(7,782)
Total domestic SOMA portfolio securities holdings	\$4,237,694	\$4,218,141	\$(19,553)	\$4,368,185	\$4,448,309	\$80,124
Memorandum—Commitments for:						
Purchases of Treasury securities	\$ 12,417	\$ 12,414	\$ (3)	\$ 11,447	\$ 11,467	\$ 20
Purchases of federal agency and GSE MBS	11,260	11,286	26	19,257	19,285	28
Sales of federal agency and GSE MBS	—	—	—	—	—	—

UNAUDITED

The following table provides additional information on the amortized cost and fair values of the federal agency and GSE MBS portfolio at June 30, 2018, and December 31, 2017:

Table 3. Detail of federal agency and GSE MBS holdings (in millions)				
Distribution of MBS holdings by coupon rate	June 30, 2018		December 31, 2017	
	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	\$ 8,228	\$ 7,834	\$ 8,968	\$ 8,739
2.5%	101,785	97,396	110,452	108,371
3.0%	641,093	611,520	674,138	660,939
3.5%	622,227	605,094	630,590	630,245
4.0%	298,922	295,048	289,819	291,868
4.5%	66,902	69,488	68,069	71,896
5.0%	25,551	26,677	28,352	30,048
5.5%	5,633	5,887	6,318	6,739
6.0%	769	811	870	939
6.5%	111	118	124	134
Total	<u>\$1,771,221</u>	<u>\$1,719,873</u>	<u>\$1,817,700</u>	<u>\$1,809,918</u>

The Federal Reserve Bank of New York (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 (primary dealer and expanded counterparties reverse repurchase agreements). Reverse repurchase agreements may also be executed with foreign official and international account holders as part of a service offering. Financial information related to reverse repurchase agreements at June 30, 2018, and December 31, 2017, was as follows:

Table 4. Reverse Repurchase Agreements (in millions)		
	June 30, 2018	December 31, 2017
Primary dealers and expanded counterparties:		
Contract amount outstanding, end of period	\$ 96,970	\$319,595
Securities pledged (par value), end of period	96,887	302,690
Securities pledged (fair value), end of period	96,964	320,048
Foreign official and international accounts:		
Contract amount outstanding, end of period	\$244,663	\$244,363
Securities pledged (par value), end of period	241,914	240,660
Securities pledged (fair value), end of period	244,701	244,417
Total contract amount outstanding, end of period	\$341,633	\$563,958

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and reverse repurchase agreements at June 30, 2018, and December 31, 2017, was as follows:

Table 5. Maturity distribution of domestic SOMA portfolio securities and securities sold under agreements to repurchase
(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
June 30, 2018:							
Treasury securities (par value)	\$ 31,585	\$ 74,303	\$326,884	\$1,033,811	\$292,230	\$ 619,490	\$2,378,303
GSE debt securities (par value)	—	—	62	—	—	2,347	2,409
Federal agency and GSE MBS (par value) ¹	—	—	—	143	39,174	1,681,955	1,721,272
Securities sold under agreements to repurchase (contract amount)	341,633	—	—	—	—	—	341,633
December 31, 2017:							
Treasury securities (par value)	\$ 20,601	\$107,658	\$315,420	\$1,077,270	\$310,375	\$ 622,884	\$2,454,208
GSE debt securities (par value)	—	—	1,982	62	—	2,347	4,391
Federal agency and GSE MBS (par value) ¹	—	—	1	173	20,013	1,744,742	1,764,929
Securities sold under agreements to repurchase (contract amount)	563,958	—	—	—	—	—	563,958

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 table 5 above. The estimated weighted-average life of these securities, which differs from the stated maturity in table 5 primarily because it factors in scheduled payments and prepayment assumptions, was approximately 8.1 years and 6.9 years as of June 30, 2018, and December 31, 2017, respectively.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS held in the SOMA during the six months ended June 30, 2018, and during the year ended December 31, 2017, is summarized as follows:

Table 6. Domestic portfolio transactions of SOMA securities					
(in millions)					
	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2016	\$1,647,339	\$920,083	\$2,567,422	\$ 16,648	\$1,795,003
Purchases ¹	161,378	15,849	177,227	—	324,524
Sales ¹	(124)	(326)	(450)	—	(331)
Realized gains (losses), net ²	(2)	30	28	—	2
Principal payments and maturities	(175,933)	(13,402)	(189,335)	(11,789)	(290,939)
Amortization of premiums and accretion of discounts, net	(3,796)	(7,917)	(11,713)	(107)	(10,559)
Inflation adjustment on inflation-indexed securities	709	1,845	2,554	—	—
Subtotal of activity	(17,768)	(3,921)	(21,689)	(11,896)	22,697
Balance December 31, 2017	\$1,629,571	\$916,162	\$2,545,733	\$ 4,752	\$1,817,700
Purchases ¹	129,780	9,282	139,062	—	85,708
Sales ¹	(49)	(65)	(114)	—	(119)
Realized gains (losses), net ²	(1)	6	5	—	(1)
Principal payments and maturities	(213,652)	(3,889)	(217,541)	(1,982)	(127,462)
Amortization of premiums and accretion of discounts, net	(1,647)	(3,849)	(5,496)	(18)	(4,605)
Inflation adjustment on inflation-indexed securities	585	1,487	2,072	—	—
Subtotal of activity	(84,984)	2,972	(82,012)	(2,000)	(46,479)
Balance June 30, 2018	<u>\$1,544,587</u>	<u>\$919,134</u>	<u>\$2,463,721</u>	<u>\$ 2,752</u>	<u>\$1,771,221</u>
Year ended December 31, 2017					
Supplemental information—par value of transactions					
Purchases ³	\$ 161,796	\$ 15,976	\$ 177,772	\$ —	\$ 314,797
Sales	(125)	(275)	(400)	—	(320)
Six months ended June 30, 2018					
Supplemental information—par value of transactions					
Purchases ³	\$ 130,310	\$ 9,364	\$ 139,674	\$ —	\$ 83,924
Sales	(51)	(59)	(110)	—	(119)
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 of Treasury securities and federal agency and GSE MBS are recorded on a settlement date basis; unsettled commitments related to those securities are excluded from the reported purchases and sales.					
² Realized gains (losses), net offset the amount of realized gains and losses included in the reported sales amount.					
³ Includes inflation compensation.					

Information about foreign currency denominated investments recorded at amortized cost and valued at foreign currency market exchange rates held in the SOMA at June 30, 2018, and December 31, 2017, was as follows:

Table 7. Foreign currency denominated investments
(in millions)

	June 30, 2018	December 31, 2017
Euro:		
Foreign currency deposits	\$ 6,894	\$ 6,070
French government debt instruments	2,658	3,089
German government debt instruments	1,541	2,239
Dutch government debt instruments	1,560	1,626
Japanese yen:		
Foreign currency deposits	7,059	6,765
Japanese government debt instruments	1,382	1,527
Total	<u>\$21,094</u>	<u>\$21,316</u>

The remaining maturity distribution of foreign currency denominated investments at June 30, 2018, and December 31, 2017, was as follows:

Table 8. Maturity distribution of foreign currency denominated investments
(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
June 30, 2018:						
Euro	\$ 6,894	\$ —	\$ 765	\$2,921	\$2,073	\$12,653
Japanese yen	7,059	86	270	1,026	—	8,441
Total	<u>\$13,953</u>	<u>\$ 86</u>	<u>\$1,035</u>	<u>\$3,947</u>	<u>\$2,073</u>	<u>\$21,094</u>
December 31, 2017:						
Euro	\$ 6,162	\$102	\$1,228	\$3,134	\$2,398	\$13,024
Japanese yen	6,765	62	263	1,202	—	8,292
Total	<u>\$12,927</u>	<u>\$164</u>	<u>\$1,491</u>	<u>\$4,336</u>	<u>\$2,398</u>	<u>\$21,316</u>

At June 30, 2018, and December 31, 2017, the fair value of foreign currency denominated investments held in the SOMA was \$21,149 million and \$21,348 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) 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 remaining maturity distribution of U.S. dollar liquidity swaps that were allocated to the Reserve Banks at June 30, 2018, and December 31, 2017, was as follows:

Table 9. Maturity distribution of liquidity swaps (in millions)		
	June 30, 2018 Within 15 days	December 31, 2017 Within 15 days
Euro	\$1,090	\$11,907
Japanese yen	1	160
Total	<u>\$1,091</u>	<u>\$12,067</u>

The following table presents the realized gains and the change in the cumulative unrealized gains (losses) related to SOMA domestic securities holdings during the periods ended June 30, 2018, and June 30, 2017:

Table 10. Realized gains and change in unrealized gain (loss) position (in millions)				
	Six months ended June 30, 2018		Six months ended June 30, 2017	
	Realized gains, net	Change in cumulative unrealized gains (losses) ¹	Realized gains, net	Change in cumulative unrealized gains (losses) ¹
Treasury securities ²	\$ 6	\$(55,956)	\$ 7	\$21,247
GSE debt securities	—	(155)	—	(67)
Federal agency and GSE MBS ³	—	(43,566)	10	3,148
Total	<u>\$ 6</u>	<u>\$(99,677)</u>	<u>\$17</u>	<u>\$24,328</u>

¹ Because SOMA securities are recorded at amortized cost, the change in the cumulative unrealized gains (losses), net is not reported in the Combined statements of operations.

² Realized gains for Treasury securities are reported in "Non-interest income: System Open Market Account: Treasury securities gains, net" in the Combined statements of operations.

³ Realized gains for federal agency and GSE MBS are reported in "Non-interest income: System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net" in the Combined statements of operations.

(3) Consolidated Variable Interest Entity (VIE)

The combined financial statements include the accounts and results of operations of a limited liability company (LLC), Maiden Lane LLC (ML), which is consolidated by the FRBNY. Intercompany balances and transactions are eliminated in consolidation.

The classification of significant assets and liabilities of ML at June 30, 2018, and December 31, 2017, is summarized in the following table:

Table 11. Assets and liabilities of consolidated VIE		
(in millions)		
	June 30, 2018	December 31, 2017
Assets		
Short-term investments	\$ 524	\$ 998
Swap contracts	—	5
Other investments	1	1
Subtotal	\$ 525	\$1,004
Cash, cash equivalents, accrued interest receivable, and other receivables	1,190	716
Cash collateral on swap contracts	—	2
Total investments held by consolidated VIE	<u>\$1,715</u>	<u>\$1,722</u>
Liabilities		
Swap contracts	\$ —	\$ 8
Cash collateral on swap contracts	—	—
Other liabilities	—	1
Total liabilities held by consolidated VIE	<u>\$ —</u>	<u>\$ 9</u>

ML had net income of \$2 million and less than \$1 million for the six months ended June 30, 2018, and June 30, 2017, respectively.

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.

(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. At June 30, 2018, and December 31, 2017, all Federal Reserve notes, net, were fully collateralized.

(5) Depository Institution Deposits

Depository institution deposits primarily represent required reserve balances and excess reserve balances. 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.

(6) Treasury Deposits

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

(7) Capital and Surplus

The Federal Reserve Act (FRA) 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 FRA requires each Reserve Bank to pay each member bank an annual dividend on paid in capital stock. By law member banks with more than \$10 billion of total consolidated assets, adjusted annually for inflation, receive a dividend on paid in capital stock equal 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. Member banks with \$10 billion or less of total consolidated assets, adjusted annually for inflation, receive a dividend on paid in capital stock equal to 6 percent. The dividend is paid semiannually and is cumulative.

The Bipartisan Budget Act of 2018 (Budget Act), which was enacted on February 9, 2018, amended section 7 of the Federal Reserve Act related to Reserve Bank surplus. The Budget Act reduced the statutory limit on aggregate Reserve Bank surplus from \$10.0 billion to \$7.5 billion, which required the Reserve Banks to make a lump sum payment to the Treasury in the amount of \$2.5 billion. This lump sum payment is reported as a component of "Earnings remittances to the Treasury" in the Combined statements of operations.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (Economic Growth Act), which was enacted on May 24, 2018, amended section 7 of the Federal Reserve Act related to Reserve Bank surplus. The Economic Growth Act reduced the statutory limit on aggregate Reserve Bank surplus from \$7.5 billion to \$6.825 billion, which required the Reserve Banks to make a lump sum payment to the Treasury in the amount of \$675 million. This lump sum payment is reported as a component of "Earnings remittances to the Treasury" in the Combined statements of operations.

(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. For the six months ended June 30, 2018 and 2017, primary, secondary, and seasonal credit average daily balances were \$64 million and \$41 million, respectively, and average interest rates were 1.95 percent and 1.13 percent, respectively.

(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 12. Interest income on SOMA portfolio		
(in millions)		
	Six months ended June 30, 2018	Six months ended June 30, 2017
Interest income:		
Treasury securities, net	\$ 32,107	\$ 32,409
GSE debt securities, net	105	264
Federal agency and GSE MBS, net	24,942	24,634
Foreign currency denominated investments, net ¹	(14)	(6)
Central bank liquidity swaps	10	5
Total interest income	\$ 57,150	\$ 57,306
Average daily balance:		
Treasury securities, net ²	\$2,502,969	\$2,555,495
GSE debt securities, net ³	4,546	12,973
Federal agency and GSE MBS, net ³	1,805,110	1,819,152
Foreign currency denominated investments, net ⁴	21,796	20,146
Central bank liquidity swaps ⁵	971	736
Average interest rate:		
Treasury securities, net	2.57%	2.54%
GSE debt securities, net	4.63%	4.07%
Federal agency and GSE MBS, net	2.76%	2.71%
Foreign currency denominated investments, net	-0.13%	-0.06%
Central bank liquidity swaps	1.98%	1.27%
<p>¹ As a result of negative interest rates on certain foreign currency denominated investments held in the SOMA, interest income on foreign currency denominated investments, net contains negative interest of \$21 million and \$16 million for the six months ended June 30, 2018 and 2017, respectively.</p> <p>² Face value, net of unamortized premiums and discounts.</p> <p>³ 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.</p> <p>⁴ Foreign currency denominated investments are revalued daily at market exchange rates.</p> <p>⁵ 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.</p>		

Supplemental information on interest expense on securities sold under agreement to repurchase (reverse repurchase agreements) is as follows:

Table 13. Interest expense on securities sold under agreement to repurchase (in millions)		
	Six months ended June 30, 2018	Six months ended June 30, 2017
Interest expense:		
Primary dealers and expanded counterparties ¹	\$ 133	\$ 582
Foreign official and international accounts ²	1,886	855
Total interest expense	\$ 2,019	\$ 1,437
Average daily balance:		
Primary dealers and expanded counterparties ¹	\$ 19,815	\$170,502
Foreign official and international accounts ²	239,088	246,632
Average interest rate:		
Primary dealers and expanded counterparties ¹	1.34%	0.68%
Foreign official and international accounts ²	1.58%	0.69%
¹ Overnight and term reverse repurchase agreements arranged as open market operations are settled through a set of expanded counterparties that includes banks, savings associations, GSEs, and domestic money market funds. ² Reverse repurchase agreements are entered into as part of a service offering to foreign official and international account holders.		

(C) 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 FOMC-established target range for the 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.

(D) Operating Expenses

The Federal Reserve Banks have established procedures for budgetary control and monitoring of operating expenses as part of their efforts to ensure appropriate stewardship and accountability. Reserve Bank and Board governance bodies provide budget guidance for major functional areas for the upcoming budget year. The Board's Committee on Federal Reserve Bank Affairs (BAC) reviews the Banks' budgets and the BAC chair submits the budgets to Board members for review and final action. Throughout the year, Reserve Bank and Board staffs monitor actual performance and compare it with approved budgets and forecasts.

Additional information regarding Reserve Bank operating expenses is available each year in the Annual Report of the Board of Governors of the Federal Reserve System at www.federalreserve.gov/publications/annual-report.htm, and on the Audit webpage of the Board's public website at www.federalreserve.gov/regreform/audit.htm.

www.federalreserve.gov

0818

