Federal Reserve Banks Combined Quarterly Financial Report

Unaudited

September 30, 2012

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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Board of Governors of the Federal Reserve System

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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, 2012	December 31, 2011
Assets		
Gold certificates	$ 11,037	$ 11,037
Special drawing rights certificates	5,200	5,200
Coin	2,190	2,306
Loans:		
Depository institutions	126	196
Term Asset-Backed Securities Loan Facility (measured at fair value)	1,474	9,059
System Open Market Account:		
Treasury securities, net	1,778,878	1,750,277
Government-sponsored enterprise debt securities, net	86,353	107,828
Federal agency and government-sponsored enterprise mortgage-backed securities, net	851,092	848,258
Foreign currency denominated assets, net	25,788	25,950
Central bank liquidity swaps	12,551	99,823
Other investments	52	—
Investments held by consolidated variable interest entities (of which $3,089 and $35,593 is measured at fair value as of September 30, 2012, and December 31, 2011, respectively)	3,168	35,693
Accrued interest receivable	18,963	19,710
Bank premises and equipment, net	2,707	2,549
Items in process of collection	203	273
Other assets	678	711
Total assets	$2,800,460	$2,918,870
Liabilities and capital		
Federal Reserve notes outstanding, net	$1,086,086	$1,034,052
System Open Market Account:		
Securities sold under agreements to repurchase	92,743	99,900
Other liabilities	3,072	1,368
Consolidated variable interest entities:		
Beneficial interest in consolidated variable interest entities (measured at fair value)	1,111	9,845
Other liabilities (of which $86 and $106 is measured at fair value as of September 30, 2012, and December 31, 2011, respectively)	512	690
Deposits:		
Depository institutions	1,437,324	1,562,253
Term Deposit Facility	3,040	—
Treasury, general account	85,446	85,737
Other deposits	28,532	65,034
Interest payable to depository institutions	252	178
Accrued benefit costs	3,610	3,952
Deferred credit items	810	904
Accrued interest on Federal Reserve notes	2,490	900
Other liabilities	700	259
Total liabilities	2,745,728	2,865,072
Capital paid-in	27,366	26,899
Surplus	27,366	26,899
Total capital	54,732	53,798
Total liabilities and capital	$2,800,460	$2,918,870

Combined statements of income and comprehensive income
(in millions)

	Three months ended		Nine months ended	
	Sept. 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Interest income				
Loans:				
Depository institutions	$ —	$ —	$ —	$ —
Term Asset-Backed Securities Loan Facility	14	54	76	218
American International Group, Inc., net	—	—	—	409
System Open Market Account:				
Treasury securities, net	10,912	11,100	34,280	31,179
Government-sponsored enterprise debt securities, net	646	731	2,015	2,339
Federal agency and government-sponsored enterprise mortgage-backed securities, net	7,615	9,561	24,196	29,590
Foreign currency denominated assets, net	33	67	109	193
Central bank liquidity swaps	42	1	222	1
Other investments	2	—	5	—
Investments held by consolidated variable interest entities	98	839	1,110	2,746
Total interest income	19,362	22,353	62,013	66,675
Interest expense				
System Open Market Account:				
Securities sold under agreements to repurchase	38	8	94	33
Beneficial interest in consolidated variable interest entities	16	72	151	212
Deposits:				
Depository institutions	967	1,031	2,920	2,772
Term Deposit Facility	1	2	3	5
Total interest expense	1,022	1,113	3,168	3,022
Net interest income	18,340	21,240	58,845	63,653
Non-interest income				
Term Asset-Backed Securities Loan Facility, unrealized gains (losses)	(8)	(18)	(31)	(70)
System Open Market Account:				
Treasury securities gains, net	3,215	—	8,713	—
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net	40	—	169	—
Foreign currency gains (losses), net	485	(607)	(271)	652
Consolidated variable interest entities:				
Investments held by consolidated variable interest entities gains (losses), net	987	(3,510)	7,462	(3,958)
Beneficial interest in consolidated variable interest entities (losses), net	(323)	843	(2,347)	671
Dividends on preferred interests	—	—	—	47
Income from services	109	118	338	364
Reimbursable services to government agencies	146	122	384	332
Other	20	17	53	116
Total non-interest income	4,671	(3,035)	14,470	(1,846)

(continued on next page)

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

	Three months ended		Nine months ended	
	Sept. 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Operating expenses				
Salaries and benefits	785	682	2,261	2,070
Occupancy	78	79	230	227
Equipment	47	46	139	135
Assessments:				
Board of Governors operating expenses and currency costs	303	269	875	764
Bureau of Consumer Financial Protection	86	45	249	147
Office of Financial Research	—	—	42	11
Professional fees related to consolidated variable interest entities	4	18	22	57
Other	149	140	420	429
Total operating expenses	1,452	1,279	4,238	3,840
Net income prior to distribution	21,559	16,926	69,077	57,967
Change in funded status of benefit plans	120	71	309	240
Comprehensive income prior to distribution	$21,679	$16,997	$69,386	$58,207
Distribution of comprehensive income:				
Dividends paid to member banks	$ 409	$ 388	$ 1,226	$ 1,180
Transferred to surplus and change in accumulated other comprehensive income (loss)	24	(481)	467	(519)
Payments to Treasury as interest on Federal Reserve notes	21,246	17,090	67,693	57,546
Total distribution	$21,679	$16,997	$69,386	$58,207

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, 2011 (530,481,136 shares)	$26,524	$30,154	$(3,630)	$26,524	$53,048
Net change in capital stock issued (7,503,485 shares)	375	—	—	—	375
Transferred to surplus and change in accumulated other comprehensive loss	—	1,537	(1,162)	375	375
Balance at December 31, 2011 (537,984,621 shares)	$26,899	$31,691	$(4,792)	$26,899	$53,798
Net change in capital stock issued (9,337,553 shares)	467	—	—	—	467
Transferred to surplus and change in accumulated other comprehensive loss	—	158	309	467	467
Balance at September 30, 2012 (547,322,174 shares)	$27,366	$31,849	$(4,483)	$27,366	$54,732

Supplemental Financial Information

(1) Loans

Loans to Depository Institutions

The remaining maturity distribution of loans to depository institutions outstanding as of September 30, 2012, and December 31, 2011, was as follows:

Table 1. Loans to depository institutions
(in millions)

	Within 15 days	16 to 90 days	Total
As of September 30, 2012:			
Primary, secondary, and seasonal credit	$104	$ 22	$126
As of December 31, 2011:			
Primary, secondary, and seasonal credit	$189	$ 7	$196

As of September 30, 2012, and December 31, 2011, 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, 2012, and year ended December 31, 2011.

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 September 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, 2012, and December 31, 2011, respectively:

Table 2. TALF loans by concentration
(in millions)

Collateral type[1]	Remaining maturity			Total
	Within 90 days	91 days to 1 year	Over 1 year to 4 years	
September 30, 2012:				
Auto	$ —	$ —	$ —	$ —
CMBS	77	77	213	367
Credit card	—	—	—	—
Floorplan	87	240	—	327
SBAs	—	—	15	15
Student loan	—	—	718	718
Other [2]	—	47	—	47
Total	$164	$364	$ 946	$1,474
December 31, 2011:				
Auto	$ 1	$374	$ 36	$ 411
CMBS	—	578	1,454	2,032

(continued on next page)

Table 2.—*continued*

Collateral type[1]	Remaining maturity: Within 90 days	91 days to 1 year	Over 1 year to 4 years	Total
Credit card	—	2,326	80	2,406
Floorplan	—	533	430	963
SBAs	—	113	221	334
Student loan	—	23	1,937	1,960
Other[2]	—	426	527	953
Total	**$ 1**	**$4,373**	**$4,685**	**$9,059**

1 All credit ratings are AAA unless otherwise indicated.

2 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, 2012, and December 31, 2011, includes $7 million and $37 million in unrealized gains, respectively.

As of September 30, 2012, and December 31, 2011, 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, 2012, and December 31, 2011, were as follows:

Table 3. Domestic SOMA portfolio holdings
(in millions)

	September 30, 2012		December 31, 2011	
	Amortized cost	Fair value	Amortized cost	Fair value
Bills	$ —	$ —	$ 18,423	$ 18,423
Notes	1,169,964	1,253,150	1,311,917	1,389,429
Bonds	608,914	714,376	419,937	508,694
Subtotal—Treasury securities	**$1,778,878**	**$1,967,526**	**$1,750,277**	**$1,916,546**
GSE debt securities	86,353	92,446	107,828	114,238
Federal agency and GSE MBS	851,092	904,161	848,258	895,495
Other investments	52	52	—	—

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, 2012, and December 31, 2011:

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

	September 30, 2012		December 31, 2011	
Distribution of MBS holdings by coupon rate	Amortized cost	Fair value	Amortized cost	Fair value
2.5%	$6,867	$7,052	$—	$—

(continued on next page)

Table 4.—*continued*

	September 30, 2012		December 31, 2011	
Distribution of MBS holdings by coupon rate	Amortized cost	Fair value	Amortized cost	Fair value
3.0%	36,012	37,036	1,313	1,336
3.5%	159,486	165,887	19,415	19,660
4.0%	157,759	168,079	161,481	169,763
4.5%	298,262	321,383	406,465	431,171
5.0%	139,016	148,014	182,497	192,664
5.5%	46,344	48,934	66,795	70,064
6.0%	6,497	6,853	9,152	9,616
6.5%	849	923	1,140	1,221
Total MBS holdings	$851,092	$904,161	$848,258	$895,495

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS during the nine months ended September 30, 2012, and during the year ended December 31, 2011, is summarized as follows:

Table 5. 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	309,986	200,666	629,538	—	239,204
Sales[1]	-	(389,920)	(7,635)	(397,555)	—	—
Realized gains, net[2]	-	7,888	825	8,713	—	—
Principal payments and maturities	(137,314)	(66,152)	—	(203,466)	(20,589)	(232,831)
Amortization of premiums and discounts	5	(4,115)	(5,413)	(9,523)	(886)	(3,539)
Inflation adjustment on inflation-indexed securities	—	360	534	894	—	—
Balance September 30, 2012	$ —	$1,169,964	$608,914	$1,778,878	$ 86,353	$ 851,092
Supplemental information - par value of transactions for the nine months ended September 30, 2012:						
Purchases	$ 118,892	$ 297,214	$153,858	$ 569,964	$ —	$ 230,136
Sales	—	(379,665)	(5,888)	(385,553)	—	—
Balance December 31, 2010	$ 18,422	$ 786,575	$261,955	$1,066,952	$152,972	$1,004,695
Purchases[1]	239,487	731,252	161,876	1,132,615	—	42,145
Sales[1]	—	(137,733)	—	(137,733)	—	—
Realized gains, net[2]	—	2,258	—	2,258	—	—
Principal payments and maturities	(239,494)	(67,273)	—	(306,767)	(43,466)	(195,413)
Amortization of premiums and discounts	8	(4,445)	(4,985)	(9,422)	(1,678)	(3,169)
Inflation adjustment on inflation-indexed securities	—	1,283	1,091	2,374	—	—
Balance December 31, 2011	$ 18,423	$1,311,917	$419,937	$1,750,277	$107,828	$ 848,258
Supplemental information - par value of transactions for the year ended December 31, 2011:						
Purchases	$ 239,494	$ 713,878	$127,802	$1,081,174	$ —	$ 40,955
Sales	—	(134,829)	—	(134,829)	—	—

Note: Does not include transactions related to other investments, which are all short term in duration.

1 Purchases and sales are reported on a settlement-date basis and include payments and receipts related to principal, premiums, discounts, and inflation compensation included in the basis of inflation-indexed securities. The amount reported as sales also includes realized gains, net.

2 Adjustment for realized gains, net is required because these amounts do not affect the reported amount of the related securities. Excludes realized gains and losses that result from net settled “to be announced” (TBA) MBS transactions.

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, 2012, and December 31, 2011, was as follows:

Table 6. Maturity distribution of domestic SOMA portfolio securities
(in millions)

	Treasury securities (par value)	GSE debt securities (par value)	Federal agency and GSE MBS (par value)[1]	Securities sold under agreements to repurchase (contract amount)
September 30, 2012:				
Within 15 days	$ 825	$ 659	$ —	$92,743
16 days to 90 days	103	5,963	—	—
91 days to 1 year	993	16,131	3	—
Over 1 year to 5 years	456,761	53,895	3	—
Over 5 years to 10 years	809,211	4,410	294	—
Over 10 years	377,392	2,347	834,688	—
Total	$1,645,285	$ 83,405	$834,988	$92,743
December 31, 2011:				
Within 15 days	$ 16,246	$ 2,496	$ —	$99,900
16 days to 90 days	27,107	5,020	—	—
91 days to 1 year	89,899	19,695	—	—
Over 1 year to 5 years	649,698	60,603	13	—
Over 5 years to 10 years	649,913	13,833	34	—
Over 10 years	230,583	2,347	837,636	—
Total	$1,663,446	$103,994	$837,683	$99,900

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

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, 2012, and December 31, 2011, which differs from the stated maturity primarily because it factors in scheduled payments and prepayment assumptions, was approximately 2.1 years and 2.4 years, respectively.

Foreign currency denominated assets are comprised of foreign currency deposits, securities purchased under agreements to resell, and government debt instruments. The foreign currency denominated assets, including accrued interest, valued at amortized cost and foreign currency market exchange rates as of September 30, 2012, and December 31, 2011, was as follows:

Table 7. Foreign currency denominated assets
(in millions)

	September 30, 2012	December 31, 2011
Euro:		
Foreign currency deposits	$ 8,572	$ 9,367
Securities purchased under agreements to resell	771	—
German government debt instruments	1,906	1,885
French government debt instruments	2,603	2,635
Japanese yen:		
Foreign currency deposits	3,943	3,985
Japanese government debt instruments	7,993	8,078
Total	$25,788	$25,950

The remaining maturity distribution of foreign currency denominated assets, by currency, as of September 30, 2012, and December 31, 2011, was as follows:

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

	Euro	Japanese yen	Total
September 30, 2012:			
Within 15 days	$ 5,457	$ 4,367	$ 9,824
16 days to 90 days	2,886	687	3,573
91 days to 1 year	2,033	2,275	4,308
Over 1 year to 5 years	3,476	4,607	8,083
Total	$13,852	$11,936	$25,788
December 31, 2011:			
Within 15 days	$ 5,352	$ 4,180	$ 9,532
16 days to 90 days	2,933	662	3,595
91 days to 1 year	2,115	3,143	5,258
Over 1 year to 5 years	3,487	4,078	7,565
Total	$13,887	$12,063	$25,950

As of September 30, 2012, and December 31, 2011, the fair value of foreign currency denominated assets, including accrued interest, was $25,962 million and $26,116 million, respectively.

In May 2010, U.S. dollar liquidity swap arrangements were re-authorized with the Bank of Canada, the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank through January 2011. Subsequently, these arrangements were extended through February 1, 2013. There is no specified limit to the amount that may be drawn by the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank under these swap arrangements; the Bank of Canada may draw up to $30 billion under the swap arrangement with the Federal Reserve Bank of New York (FRBNY). In addition to the central bank liquidity swap arrangements, the Federal Open Market Committee has authorized reciprocal currency arrangements with the Bank of Canada and the Bank of Mexico.

The remaining maturity distribution of U.S. dollar liquidity swaps as of September 30, 2012, and the total U.S. dollar liquidity swaps outstanding as of December 31, 2011, was as follows:

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

	September 30, 2012			December 31, 2011
	Within 15 days	16 days to 90 days	Total	Total
Euro	$4,376	$8,175	$12,551	$85,437
Japanese yen	—	—	—	13,991
Swiss franc	—	—	—	395
Total	$4,376	$8,175	$12,551	$99,823

(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, 2012, and December 31, 2011, was as follows:

Table 10. Assets and liabilities of consolidated VIEs
(in millions)

	ML	ML II	ML III	TALF LLC	Total
As of September 30, 2012:					
Assets					
CDOs	$ —	$ —	$ —	$ —	$ —
Non-agency RMBS	3	—	—	—	3
Federal agency and GSE MBS	384	—	—	—	384
Commercial mortgage loans	466	—	—	—	466
Swap contracts	457	—	—	—	457
Residential mortgage loans	—	—	—	—	—
Other investments	450	—	—	471	921
Other assets	1	—	—	—	1
Subtotal—investments	**$1,761**	**$ —**	**$ —**	**$471**	**$ 2,232**
Cash, cash equivalents, accrued interest receivable, and other assets	470	61	23	382	936
Total portfolio assets	**$2,231**	**$ 61**	**$ 23**	**$853**	**$ 3,168**
Liabilities	512	—	—	—	512
Net portfolio assets available	**$1,719**	**$ 61**	**$ 23**	**$853**	**$ 2,656**
As of December 31, 2011:					
Assets					
CDOs	$ 380	$ —	$17,474	$ —	$17,854
Non-agency RMBS	1,537	9,105	261	—	10,903
Federal agency and GSE MBS	440	—	—	—	440
Commercial mortgage loans	2,861	—	—	—	2,861
Swap contracts	657	—	—	—	657
Residential mortgage loans	378	—	—	—	378
Other investments	955	—	—	374	1,329
Other assets	29	—	—	—	29
Subtotal—investments	**$7,237**	**$9,105**	**$17,735**	**$374**	**$34,451**
Cash, cash equivalents, and accrued interest receivable	568	152	85	437	1,242
Total portfolio assets	**$7,805**	**$9,257**	**$17,820**	**$811**	**$35,693**
Liabilities	684	3	3	—	690
Net portfolio assets available	**$7,121**	**$9,254**	**$17,817**	**$811**	**$35,003**

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 subordinated loans, a deferred purchase price, and equity for ML, ML II, and ML III, respectively.

The 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, 2012. As compensation for the commitment to purchase assets, the FRBNY pays the 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 the TALF LLC in the form of a subordinated loan.

The TALF LLC invests the fees received from the FRBNY and the funding received from the Treasury in short-term investments.

The following table presents the activity related to the senior and subordinated interests from inception to September 30, 2012, and December 31, 2011:

Table 11. Analysis of senior and subordinated interests in consolidated VIEs
(in millions)

	September 30, 2012				December 31, 2011			
	ML	ML II	ML III	TALF LLC	ML	ML II	ML III	TALF LLC
Net assets available to pay senior and subordinated interests	**$ 1,719**	**$ 61**	**$ 23**	**$853**	**$ 7,121**	**$ 9,254**	**$ 17,817**	**$811**
FRBNY loan:[1]								
Loan extended (par value)	28,820	19,494	24,339	—	28,820	19,494	24,339	—
Plus: interest accrued and capitalized	765	580	738	—	755	569	692	—
Less: repayments of principal and interest	(29,585)	(20,074)	(25,077)	—	(24,716)	(13,271)	(15,205)	—
Total FRBNY loan outstanding	**$ —**	**$ —**	**$ —**	**$ —**	**$ 4,859**	**$ 6,792**	**$ 9,826**	**$ —**
Subordinated interests:								
Loans and equity contributions	$ 1,150	$ 1,000	$ 5,000	$100	$ 1,150	$ 1,000	$ 5,000	$100
Plus: interest accrued and capitalized	279	113	639	12	235	106	542	9
Less: repayments of principal and interest	(1,121)	(1,113)	(5,639)	—	—	—	—	—
Total subordinated interests outstanding	**$ 308**	**$ —**	**$ —**	**$112**	**$ 1,385**	**$ 1,106**	**$ 5,542**	**$109**
Excess of net assets available over loans and subordinated interest outstanding:								
Allocated to FRBNY	1,411	51	15	68	877	1,130	1,641	33
Allocated to other beneficial interests	—	10	8	673	—	226	808	669
Total	**$ 1,411**	**$ 61**	**$ 23**	**$741**	**$ 877**	**$ 1,356**	**$ 2,449**	**$702**

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

On November 15, 2012, the FRBNY announced that net proceeds from additional sales of securities in ML enabled the full repayment of the subordinate loan made by JPMorgan Chase & Co. plus accrued interest. In accordance with the ML agreements, the FRBNY will receive all future cash flows generated from the remaining ML assets.

The following table presents information on the rating composition of specific ML, ML II, and ML III portfolio assets as of September 30, 2012, recorded at fair value, as a percentage of aggregate fair value of each VIE's total portfolio assets.

Table 12. 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
ML:								
Federal agency and GSE MBS	—	—	—	—	—	45.9%	—	45.9%
Non-agency RMBS	—	—	—	—	0.3%	—	—	0.3%
Other	—	3.6%	—	1.0%	3.2%	41.8%	4.2%	53.8%
Total	**—**	**3.6%**	**—**	**1.0%**	**3.5%**	**87.7%**	**4.2%**	**100.0%**
ML II:								
Alt-A ARM	—	—	—	—	—		—	—
Subprime	—	—	—	—	—		—	—

(continued on next page)

Table 12.—*continued*

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Gov't / agency	Not rated	Total
Option ARM	—	—	—	—	—		—	—
Other	—	—	—	—	—		—	—
Total	—	—	—	—	—		—	—
ML III:								
High-grade ABS CDOs:	—	—	—	—	—		—	—
Pre-2005	—	—	—	—	—		—	—
2005	—	—	—	—	—		—	—
2006	—	—	—	—	—		—	—
2007	—	—	—	—	—		—	—
Mezzanine ABS CDOs:	—	—	—	—	—		—	—
Pre-2005	—	—	—	—	—		—	—
2005	—	—	—	—	—		—	—
2006	—	—	—	—	—		—	—
2007	—	—	—	—	—		—	—
Commercial real estate CDOs:	—	—	—	—	—		—	—
Pre-2005	—	—	—	—	—		—	—
2005	—	—	—	—	—		—	—
2006	—	—	—	—	—		—	—
2007	—	—	—	—	—		—	—
RMBS, CMBS, & Other:	—	—	—	—	—		—	—
Pre-2005	—	—	—	—	—		—	—
2005	—	—	—	—	—		—	—
2006	—	—	—	—	—		—	—
2007	—	—	—	—	—		—	—
Total	—	3.6%	—	1.0%	3.5%	87.7%	4.2%	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. The year of issuance with the highest concentration of underlying assets as measured by outstanding principal balance determines the vintage of the CDO. 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, 2012, and December 31, 2011, 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 to Depository Institutions

Interest income on loans includes interest earned on TALF loans and American International Group, Inc. (AIG) credit extensions. 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. Supplemental information on interest income on loans to depository institutions is as follows:

Table 13. Interest income on loans
(in millions)

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Interest income:		
Primary, secondary, and seasonal credit	*	*
AIG	$ —	$ 409
TALF	76	218
Total interest income	$ 76	$ 627
Average daily loan balance:		
Primary, secondary, and seasonal credit	$ 77	$ 56
AIG[1]	—	951
TALF	5,655	16,321
Average interest rate:		
Primary, secondary, and seasonal credit	0.40%	0.37%
AIG[2]	N/A	3.94%
TALF	1.79%	1.78%

* Less than $500 thousand.

1 Average daily loan balance for AIG represents the average from January 1, 2011, to January 14, 2011, when the AIG loan was repaid in full.

2 As a result of the closing of the AIG recapitalization plan on January 14, 2011, $381 million of deferred commitment fees and allowances were recognized as interest income in 2011. The average interest rate calculation for September 30, 2011, excludes these items. There was no interest income recognized during the nine months ended September 30, 2012, related to the AIG loan.

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 14. FRBNY net income from TALF program
(in millions)

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
TALF loans:		
Interest income	$ 76	$218
Gains (losses)	(31)	(70)
Subtotal—TALF loans	**$ 45**	**$148**
TALF LLC	(8)	(39)
Total—TALF	**$ 37**	**$109**

(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 15. Interest income on SOMA portfolio
(in millions)

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Interest income:		
U.S. Treasury securities	$ 34,280	$ 31,179
GSE debt securities	2,015	2,339
Federal agency and GSE MBS	24,196	29,590
Foreign currency denominated assets	109	193
Central bank liquidity swaps	222	1
Other SOMA assets	5	—
Total interest income	**$ 60,827**	**$ 63,302**
Average daily balance:		
U.S. Treasury securities[1]	$1,767,926	$1,495,186
GSE debt securities[1]	97,866	130,737
Federal agency and GSE MBS[2]	863,830	937,801
Foreign currency denominated assets[3]	25,498	26,614
Central bank liquidity swaps[4]	47,742	65
Other SOMA assets[5]	67	—
Average interest rate:		
U.S. Treasury securities	2.59%	2.78%
GSE debt securities	2.75%	2.39%
Federal agency and GSE MBS	3.73%	4.21%
Foreign currency denominated assets	0.57%	0.97%
Central bank liquidity swaps	0.62%	1.12%
Other SOMA assets	9.95%	—

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 underlying mortgages, 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.

5 Cash and short-term investments related to the federal agency and government-sponsored enterprise mortgage-backed securities portfolio.

The average daily balance of securities sold under agreements to repurchase as of September 30, 2012, and September 30, 2011, was $90,004 million and $67,098 million, respectively. The average interest rate on these transactions was 0.1 percent for each of the nine months ended September 30, 2012, and September 30, 2011, 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 $22 million and $57 million for the nine months ended September 30, 2012, and September 30, 2011, 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, 2012, and September 30, 2011:

Table 16. FRBNY net income from consolidated VIEs
(in millions)

	ML	ML II	ML III	TALF LLC	Total
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 gains	564	1,393	5,505	—	7,462
Less: unrealized and realized gains on beneficial interest in consolidated VIEs	—	(238)	(2,104)	(5)[1]	(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)[2]**	**$ 6,052**
Nine months ended September 30, 2011:					
Interest income:					
Portfolio interest income	$ 712	$ 469	$ 1,565	$ —	$ 2,746
Less: interest expense	52	26	131	3	212
Net interest income	660	443	1,434	(3)	2,534
Non-interest income:					
Portfolio holdings (losses) gains	482	(964)	(3,476)	—	(3,958)
Less: unrealized (gains) losses on beneficial interest in consolidated VIEs	(114)	104	717	(36)[1]	671
Net non-interest (loss) income	368	(860)	(2,759)	(36)	(3,287)

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Table 16.—*continued*

	ML	ML II	ML III	TALF LLC	Total
Total net interest income and non-interest income	**1,028**	**(417)**	**(1,325)**	**(39)**	**(753)**
Less: professional fees	34	6	17	—	57
Net income (loss) attributable to consolidated VIEs	**$ 994**	**$(423)**	**$(1,342)**	**$(39)[2]**	**$(810)**

[1] Represents the amount of TALF LLC's income allocated to the Treasury.

[2] Additional information regarding TALF-related income recorded by FRBNY is presented in Table 14.

(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.