Federal Reserve Banks
Combined Quarterly Financial Report

Unaudited

March 31, 2014

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.
CMBS	Commercial mortgage-backed securities
FOMC	Federal Open Market Committee
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
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)

	March 31, 2014	December 31, 2013
Assets		
Gold certificates	$ 11,037	$ 11,037
Special drawing rights certificates	5,200	5,200
Coin	1,946	1,955
Loans:		
Depository institutions	35	74
Term Asset-Backed Securities Loan Facility (measured at fair value)	82	98
System Open Market Account:		
Treasury securities, net (of which $14,444, and $17,153 is lent as of March 31, 2014, and December 31, 2013, respectively)	2,463,480	2,359,434
Government-sponsored enterprise debt securities, net (of which $1,441 and $1,099 is lent as of March 31, 2014, and December 31, 2013, respectively)	49,090	59,122
Federal agency and government-sponsored enterprise mortgage-backed securities, net	1,650,137	1,533,860
Foreign currency denominated investments, net	23,951	23,724
Central bank liquidity swaps	407	272
Accrued interest receivable	23,516	23,493
Other investments	8	2
Investments held by consolidated variable interest entities (of which $1,864 and $1,774 is measured at fair value as of March 31, 2014, and December 31, 2013, respectively)	1,972	1,926
Bank premises and equipment, net	2,633	2,653
Items in process of collection	86	165
Other assets	1,400	1,134
Total assets	$4,234,980	$4,024,149
Liabilities and capital		
Federal Reserve notes outstanding, net	$1,225,332	$1,197,920
System Open Market Account:		
Securities sold under agreements to repurchase	341,023	315,924
Other liabilities	1,248	1,331
Consolidated variable interest entities:		
Beneficial interest in consolidated variable interest entities (measured at fair value)	113	116
Other liabilities (of which $70 and $73 is measured at fair value as of March 31, 2014, and December 31, 2013, respectively)	133	158
Deposits:		
Depository institutions	2,430,060	2,249,070
Term deposit facility	14,251	—
Treasury, general account	142,189	162,399
Other deposits	18,073	34,150
Interest payable to depository institutions	215	99
Accrued benefit costs	1,855	1,823
Deferred credit items	632	1,127
Accrued remittances to Treasury	3,075	4,791
Other liabilities	679	227
Total liabilities	4,178,878	3,969,135
Capital paid-in	28,051	27,507
Surplus (including accumulated other comprehensive loss of $2,492 and $2,556 at March 31, 2014, and December 31, 2013, respectively)	28,051	27,507
Total capital	56,102	55,014
Total liabilities and capital	$4,234,980	$4,024,149

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Combined statements of income and comprehensive income

(in millions)

	Three months ended and year-to-date	Three months ended and year-to-date
	March 31, 2014	March 31, 2013
Interest income		
Loans:		
Term Asset-Backed Securities Loan Facility	$ 1	$ 2
System Open Market Account:		
Treasury securities, net	14,635	11,139
Government-sponsored enterprise debt securities, net	447	584
Federal agency and government-sponsored enterprise mortgage-backed securities, net	12,425	7,571
Foreign currency denominated investments, net	22	26
Central bank liquidity swaps	1	12
Investments held by consolidated variable interest entities	1	1
Total interest income	27,532	19,335
Interest expense		
System Open Market Account:		
Securities sold under agreements to repurchase	13	25
Other	—	1
Deposits:		
Depository institutions	1,604	1,042
Term Deposit Facility	5	1
Total interest expense	1,622	1,069
Net interest income	25,910	18,266
Non-interest income		
Term Asset-Backed Securities Loan Facility, unrealized (losses)	—	(1)
System Open Market Account:		
Federal agency and government-sponsored enterprise mortgage-backed securities gains (losses), net	21	(75)
Foreign currency translation gains (losses), net	193	(1,258)
Consolidated variable interest entities:		
Investments held by consolidated variable interest entities gains, net	74	27
Income from services	109	112
Reimbursable services to government agencies	133	134
Other	15	20
Total non-interest income	545	(1,041)
Operating expenses		
Salaries and benefits	780	791
Occupancy	76	75
Equipment	39	41
Other	135	142
Assessments:		
Board of Governors operating expenses and currency costs	272	274
Bureau of Consumer Financial Protection	126	108
Total operating expenses	1,428	1,431
Net income before providing for remittances to Treasury	25,027	15,794
Earnings remittances to Treasury	24,130	15,291
Net income	897	503
Change in prior service costs related to benefit plans	22	26
Change in actuarial gains related to benefit plans	42	87
Total other comprehensive income	64	113
Comprehensive income	$ 961	$ 616

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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, 2013 (547,195,145 shares)	$27,360	$32,205	$(4,845)	$27,360	$54,720
Net change in capital stock issued (2,941,791 shares)	147	—	—	—	147
Comprehensive income:					
Net loss	—	(492)	—	(492)	(492)
Other comprehensive income	—	—	2,289	2,289	2,289
Dividends on capital stock	—	(1,650)	—	(1,650)	(1,650)
Net change in capital	147	(2,142)	2,289	147	294
Balance at December 31, 2013 (550,136,936 shares)	$27,507	$30,063	$(2,556)	$27,507	$55,014
Net change in capital stock issued (10,883,545 shares)	544	—	—	—	544
Comprehensive income:					
Net income	—	897	—	897	897
Other comprehensive income	—	—	64	64	64
Dividends on capital stock	—	(417)	—	(417)	(417)
Net change in capital	544	480	64	544	1,088
Balance at March 31, 2014 (561,020,481 shares)	$28,051	$30,543	$(2,492)	$28,051	$56,102

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 March 31, 2014, and December 31, 2013, was as follows:

Table 1. Loans to depository institutions
(in millions)

	Within 15 days	16 to 90 days	Total
March 31, 2014:			
Primary, secondary, and seasonal credit	$34	$ 1	$35
December 31, 2013:			
Primary, secondary, and seasonal credit	$69	$ 5	$74

As of March 31, 2014, and December 31, 2013, 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 March 31, 2014, and year ended December 31, 2013.

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 March 31, 2014, and December 31, 2013, respectively:

Table 2. TALF loans by concentration
(in millions)

Collateral type[1]	Time to maturity			Total
	Within 90 days	91 days to 1 year	Over 1 year to 3 years	
March 31, 2014:				
Student loan	$—	$32	$—	$32
CMBS	—	50	—	50
Total	$—	$82	$—	$82

(continued on next page)

Table 2.—*continued*

Collateral type[1]	Time to maturity: Within 90 days	Time to maturity: 91 days to 1 year	Time to maturity: Over 1 year to 3 years	Total
December 31, 2013:				
Student loan	$—	$14	$33	$47
CMBS	—	51	—	51
Total	**$—**	**$65**	**$33**	**$98**

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

The fair value of TALF loans reported in the Combined statements of condition as of March 31, 2014, and December 31, 2013, includes $0 million and $1 million in unrealized gains, respectively.

As of March 31, 2014, and December 31, 2013, 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 March 31, 2014, and December 31, 2013, were as follows:

Table 3. SOMA portfolio holdings
(in millions)

	March 31, 2014			December 31, 2013		
	Amortized cost	Fair value	Cumulative unrealized gains (losses)	Amortized cost	Fair value	Cumulative unrealized gains (losses)
Treasury Securities						
Notes	$1,566,487	$1,578,797	$ 12,310	$1,495,115	$1,499,000	$ 3,885
Bonds	896,993	915,584	18,591	864,319	842,336	(21,983)
Total Treasury securities	**$2,463,480**	**$2,494,381**	**$ 30,901**	**$2,359,434**	**$2,341,336**	**$(18,098)**
GSE debt securities	49,090	52,090	3,000	59,122	62,236	3,114
Federal agency and GSE MBS	1,650,137	1,629,799	(20,338)	1,533,860	1,495,572	(38,288)
Total domestic SOMA portfolio securities holdings	**$4,162,707**	**$4,176,270**	**$ 13,563**	**$3,952,416**	**$3,899,144**	**$(53,272)**
Memorandum - Commitments for:						
Purchases of Treasury securities	$ —	$ —	$ —	$ —	$ —	$ —
Purchases of Federal agency and GSE MBS	52,766	52,694	(72)	59,350	59,129	(221)
Sales of Federal agency and GSE MBS	—	—	—	—	—	—

The following table provides additional information on the amortized cost and fair values of the federal agency and GSE MBS portfolio as of March 31, 2014, and December 31, 2013:

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

	March 31, 2014		December 31, 2013	
Distribution of MBS holdings by coupon rate	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	$ 13,877	$ 13,376	$ 14,191	$ 13,529
2.5%	122,159	118,138	123,832	118,458
3.0%	526,295	497,302	521,809	484,275
3.5%	384,161	377,247	349,689	338,357
4.0%	318,493	321,614	230,256	231,113
4.5%	183,488	194,134	185,825	195,481
5.0%	78,894	83,796	83,290	87,968
5.5%	19,633	20,854	21,496	22,718
6.0%	2,758	2,931	3,051	3,225
6.5%	379	407	421	448
Total	$1,650,137	$1,629,799	$1,533,860	$1,495,572

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 March 31, 2014, and December 31, 2013, 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
March 31, 2014:							
Treasury securities (par value)	$ —	$ 38	$ 143	$849,900	$853,175	$ 616,349	$2,319,605
GSE debt securities (par value)	749	2,935	6,782	34,530	—	2,347	47,343
Federal agency and GSE MBS (par value)[1]	—	—	—	5	2,902	1,600,201	1,603,108
Securities sold under agreements to repurchase (contract amount)	341,023	—	—	—	—	—	341,023
December 31, 2013:							
Treasury securities (par value)	$ —	$ 298	$ 176	$763,329	$864,700	$ 580,272	$2,208,775
GSE debt securities (par value)	2,310	7,568	8,666	36,268	62	2,347	57,221
Federal agency and GSE MBS (par value)[1]	—	—	—	5	2,549	1,487,608	1,490,162
Securities sold under agreements to repurchase (contract amount)	315,924	—	—	—	—	—	315,924

[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 March 31, 2014, and December 31, 2013, which differs from the stated maturity primarily because it factors in scheduled payments and prepayment assumptions, was approximately 6.0 years and 6.5 years, respectively.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS during the three months ended March 31, 2014, and during the year ended December 31, 2013, 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, 2012	**$1,142,219**	**$666,969**	**$1,809,188**	**$ 79,479**	**$ 950,321**
Purchases[1]	358,656	206,208	564,864	—	864,538
Sales[1]	—	—	—	—	—
Realized gains, net[2]	—	—	—	—	—
Principal payments and maturities	(21)	—	(21)	(19,562)	(273,991)
Amortization of premiums and accretion of discounts, net	(6,024)	(9,503)	(15,527)	(795)	(7,008)
Inflation adjustment on inflation-indexed securities	285	645	930	—	—
Balance December 31, 2013	**$1,495,115**	**$864,319**	**$2,359,434**	**$ 59,122**	**$1,533,860**
Purchases[1]	73,018	35,019	108,037	—	154,475
Sales[1]	—	—	—	—	(29)
Realized gains, net[2]	—	—	—	—	—
Principal payments and maturities	(298)	—	(298)	(9,878)	(36,854)
Amortization of premiums and accretion of discounts, net	(1,395)	(2,474)	(3,869)	(154)	(1,315)
Inflation adjustment on inflation-indexed securities	47	129	176	—	—
Balance March 31, 2014	**$1,566,487**	**$896,993**	**$2,463,480**	**$ 49,090**	**$1,650,137**
Year ended December 31, 2013					
Supplemental information - par value of transactions:					
Purchases[3]	$ 356,766	$184,956	$ 541,722	$ —	$ 837,490
Sales[3]	—	—	—	—	—
Three months ended March 31, 2014					
Supplemental information - par value of transactions					
Purchases[3]	$ 74,848	$ 36,105	$ 110,953	$ —	$ 149,829
Sales[3]	—	—	—	—	(29)

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.

Information about foreign currency denominated investments valued at amortized cost and foreign currency market exchange rates as of March 31, 2014, and December 31, 2013, was as follows:

Table 7. Foreign currency denominated investments
(in millions)

	March 31, 2014	December 31, 2013
Euro:		
Foreign currency deposits	$ 7,482	$ 7,530
Securities purchased under agreements to resell	2,611	2,549
German government debt instruments	2,410	2,397
French government debt instruments	2,400	2,397
Japanese yen:		
Foreign currency deposits	2,994	2,926
Japanese government debt instruments	6,054	5,925
Total	$23,951	$23,724

The remaining maturity distribution of foreign currency denominated investments, by currency, as of March 31, 2014, and December 31, 2013, 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	Total
March 31, 2014:					
Euro	$ 6,730	$2,250	$2,154	$3,769	$14,903
Japanese yen	3,194	427	1,951	3,476	9,048
Total	$ 9,924	$2,677	$4,105	$7,245	$23,951
December 31, 2013:					
Euro	$ 7,037	$1,803	$2,161	$3,872	$14,873
Japanese yen	3,116	380	1,870	3,485	8,851
Total	$10,153	$2,183	$4,031	$7,357	$23,724

As of March 31, 2014, and December 31, 2013, the fair value of foreign currency denominated investments, including accrued interest, was $24,043 million and $23,802 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 Federal Reserve Bank of New York (FRBNY) to establish 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 authorized and directed the FRBNY to establish temporary foreign currency liquidity swap arrangements with these five central banks to allow for the Federal Reserve to access liquidity, if necessary, in any of these foreign central banks' currencies. On October 31, 2013, the Federal Reserve and these five central banks agreed to convert their existing temporary liquidity swap arrangements to standing arrangements which will remain in place until further notice.

The remaining maturity distribution of U.S. dollar liquidity swaps as of March 31, 2014, and the total U.S. dollar liquidity swaps outstanding as of December 31, 2013, was as follows:

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

	March 31, 2014			December 31, 2013		
	Within 15 days	16 days to 90 days	Total	Within 15 days	16 days to 90 days	Total
Euro	$—	$407	$407	$113	$159	$272
Japanese yen	—	—	—	—	—	—
Total	$—	$407	$407	$113	$159	$272

The following table presents the realized gains (losses) and the change in the cumulative unrealized gains (losses), presented as "Fair value changes realized unrealized gains (losses)," of the domestic securities holdings during the periods ended March 31, 2014, and March 31, 2013:

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

	Three months ended March 31, 2014		Three months ended March 31, 2013	
	Total portfolio holdings realized gains[1]	Fair value changes realized unrealized gains (losses)[2]	Total portfolio holdings realized gains (losses)[1]	Fair value changes realized unrealized gains (losses)[2]
Treasury securities	$—	$48,999	$ —	$(17,227)
GSE debt securities	—	(114)	—	(468)
Federal agency and GSE MBS	21	17,950	(75)	(12,128)
Total	**$21**	**$66,835**	**$(75)**	**$(29,823)**

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 March 31, 2014, and December 31, 2013, was as follows:

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

	ML	ML II	ML III	TALF LLC	Total
March 31, 2014:					
Assets					
Short-term investments	$ 730	$—	$—	$ —	$ 730
Commercial mortgage loans	576	—	—	—	576
Swap contracts	130	—	—	—	130
Non-agency residential mortgage-backed securities (RMBS)	9	—	—	—	9
Other investments	2	—	—	—	2
Subtotal—investments	**$1,447**	**$—**	**$—**	**$ —**	**$1,447**
Cash, cash equivalents, accrued interest receivable, and other receivables	335	63	22	105	525
Total portfolio assets	**$1,782**	**$63**	**$22**	**$105**	**$1,972**
Liabilities	133	—	—	—	133
Net portfolio assets available	**$1,649**	**$63**	**$22**	**$105**	**$1,839**
December 31, 2013:					
Assets					
Short-term investments	$ 530	$—	$—	$ —	$ 530
Commercial mortgage loans	507	—	—	—	507
Swap contracts	158	—	—	—	158
Non-agency RMBS	8	—	—	—	8

(continued on next page)

Table 11.—*continued*

	ML	ML II	ML III	TALF LLC	Total
Other investments	2	—	—	—	2
Subtotal—investments	**$1,205**	**$—**	**$—**	**$ —**	**$1,205**
Cash, cash equivalents, accrued interest receivable, and other receivables	527	63	22	109	721
Total portfolio assets	**$1,732**	**$63**	**$22**	**$109**	**$1,926**
Liabilities	158	—	—	—	158
Net portfolio assets available	**$1,574**	**$63**	**$22**	**$109**	**$1,768**

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. Any remaining proceeds will be divided between the Bank, which is entitled to receive five-sixths, and the AIG subsidiaries, which are entitled to receive one-sixth. 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. Any remaining proceeds will be divided between the FRBNY, which is entitled to receive two-thirds, and AIG (or its assignee), which is entitled to receive one-third, in accordance with the agreement. 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 March 31, 2014. 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 and FRBNY eliminated the Treasury's and FRBNY's funding commitments to TALF LLC. These commitments were no longer deemed necessary because the cash equivalents and short-term investments held by the TALF LLC exceeded the amount of TALF loans then 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, on February 6, 2013, TALF LLC repaid in full the outstanding principal and accrued interest on the Treasury loan. During the three months ended March 31, 2014, and during the year ended December 31, 2013, additional distributions were made to the Treasury and FRBNY as contingent interest in the amounts of $3.4 million and $0.4 million and $573 million and $64 million, respectively.

The following table presents the activity related to the senior and subordinated interests from inception to March 31, 2014, and December 31, 2013:

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

	March 31, 2014				December 31, 2013			
	ML	ML II	ML III	TALF LLC	ML	ML II	ML III	TALF LLC
Net assets available to pay senior and subordinated interests	$1,649	$63	$22	$105	$1,575	$63	$22	$109
Total loans and subordinated interests outstanding	—	—	—	—	—	—	—	—
Excess of net assets available over loans and subordinated interest outstanding:								
Allocated to FRBNY	1,649	53	15	10	1,575	53	15	11
Allocated to other beneficial interests	—	10	7	95	—	10	7	98
Total	**$1,649**	**$63**	**$22**	**$105**	**$1,575**	**$63**	**$22**	**$109**

(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 March 31, 2014, and December 31, 2013, 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 13. Interest income on loans
(in millions)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Interest income:		
Primary, secondary, and seasonal credit	*	*
TALF	1	2
Total interest income	$ 1	$ 2
Average daily loan balance:		
Primary, secondary, and seasonal credit	$ 17	$ 11
TALF	94	463
Average interest rate:		
Primary, secondary, and seasonal credit	0.38%	0.69%
TALF	2.63%	1.73%

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
TALF loans:		
Interest income	$ 1	$ 2
Gains (losses)	—	(1)
Subtotal—TALF loans	$ 1	$ 1
TALF LLC	—	—
Total—TALF	$ 1	$ 1

(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)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Interest income:		
U.S. Treasury securities	$ 14,635	$ 11,139
GSE debt securities	447	584
Federal agency and GSE MBS	12,425	7,571
Foreign currency denominated investments	22	26
Central bank liquidity swaps	1	12
Total interest income	$ 27,530	$ 19,332
Average daily balance:		
U.S. Treasury securities[1]	$2,410,233	$1,879,381
GSE debt securities[1]	53,961	77,063
Federal agency and GSE MBS[2]	1,598,968	1,028,431
Foreign currency denominated investments[3]	23,963	24,360
Central bank liquidity swaps[4]	361	7,205
Average interest rate:		
U.S. Treasury securities	2.43%	2.37%
GSE debt securities	3.31%	3.03%
Federal agency and GSE MBS	3.11%	2.94%
Foreign currency denominated investments	0.37%	0.43%
Central bank liquidity swaps	1.11%	0.67%

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 Foreign currency denominated investments 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.

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

Table 16: Interest expense on securities sold under agreement to repurchase
(in millions)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Interest expense:		
Tri-party[1]	$ 8	$ —
Foreign official and international accounts[2]	5	25
Total interest expense	$ 13	$ 25
Average daily balance:		
Tri-party[1]	$ 86,444	$ —
Foreign official and international accounts[2]	102,175	93,646
Average interest rate:		
Tri-party	0.04%	N/A
Foreign official and international accounts	0.02%	0.11%

1 Reverse repurchase transactions arranged as open market operations are settled through tri-party arrangements.
2 Reverse repurchase transactions are executed with foreign official and international account holders as part of a service offering.

(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: Other" in the combined statement of income, were $1 million and $2 million for the three months ended March 31, 2014, and March 31, 2013, 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 March 31, 2014, and March 31, 2013:

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

	ML	ML II	ML III	TALF LLC	Total
Three months ended March 31, 2014:					
Interest income:					
Portfolio interest income	$ 1	$—	$—	$ —	$ 1
Less: interest expense	—	—	—	—	—
Net interest income	1	—	—	—	1
Non-interest income:					
Portfolio holdings gains	74	—	—	—	74
Less: realized and unrealized gains on beneficial interest in consolidated VIEs	—	—	—	—[1]	—
Net non-interest (loss) income	74	—	—	—	74
Total net interest income and non-interest income	**75**	**—**	**—**	**—**	**75**

(continued on next page)

Table 17.—*continued*

	ML	ML II	ML III	TALF LLC	Total
Less: professional fees	1	—	—	—	1
Net income (loss) attributable to consolidated VIEs	$74	$—	$—	$—[2]	$74
Three months ended March 31, 2013:					
Interest income:					
Portfolio interest income	$ (3)[3]	$ 4	$—	$ —	$ 1
Less: interest expense	—	—	—	—	—
Net interest income	(3)	4	—	—	1
Non-interest income:					
Portfolio holdings (losses) gains	27	—	—	—	27
Less: realized and unrealized (gains) losses on beneficial interest in consolidated VIEs	—	—	—	—[1]	—
Net non-interest (loss) income	27	—	—	—	27
Total net interest income and non-interest income	24	4	—	—	28
Less: professional fees	2	—	—	—	2
Net income (loss) attributable to consolidated VIEs	$22	$ 4	$—	$—[2]	$26

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.

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

(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 FOMC-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.