Federal Reserve Banks
Combined Quarterly Financial Report

Unaudited

September 30, 2014

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)

	September 30, 2014	December 31, 2013
Assets		
Gold certificates	$ 11,037	$ 11,037
Special drawing rights certificates	5,200	5,200
Coin	1,931	1,955
Loans:		
Depository institutions	327	74
Term Asset-Backed Securities Loan Facility (measured at fair value)	14	98
System Open Market Account:		
Treasury securities, net (of which $14,384, and $17,153 is lent as of September 30, 2014, and December 31, 2013, respectively)	2,590,162	2,359,434
Government-sponsored enterprise debt securities, net (of which $683 and $1,099 is lent as of September 30, 2014, and December 31, 2013, respectively)	41,458	59,122
Federal agency and government-sponsored enterprise mortgage-backed securities, net	1,747,016	1,533,860
Foreign currency denominated investments, net	22,195	23,724
Central bank liquidity swaps	240	272
Accrued interest receivable	24,573	23,493
Other investments	12	2
Investments held by consolidated variable interest entities (of which $1,721 and $1,774 is measured at fair value as of September 30, 2014, and December 31, 2013, respectively)	1,848	1,926
Bank premises and equipment, net	2,625	2,653
Items in process of collection	149	165
Other assets	1,446	1,134
Total assets	$4,450,233	$4,024,149
Liabilities and capital		
Federal Reserve notes outstanding, net	$1,246,341	$1,197,920
System Open Market Account:		
Securities sold under agreements to repurchase	410,131	315,924
Other liabilities	1,793	1,331
Consolidated variable interest entities:		
Beneficial interest in consolidated variable interest entities (measured at fair value)	39	116
Other liabilities (of which $38 and $73 is measured at fair value as of September 30, 2014, and December 31, 2013, respectively)	125	158
Deposits:		
Depository institutions	2,537,848	2,249,070
Term deposit facility	—	—
Treasury, general account	158,302	162,399
Other deposits	32,310	34,150
Interest payable to depository institutions	244	99
Accrued benefit costs	1,901	1,823
Deferred credit items	1,064	1,127
Accrued remittances to Treasury	2,979	4,791
Other liabilities	776	227
Total liabilities	4,393,853	3,969,135
Capital paid-in	28,190	27,507
Surplus (including accumulated other comprehensive loss of $2,406 and $2,556 at September 30, 2014, and December 31, 2013, respectively)	28,190	27,507
Total capital	56,380	55,014
Total liabilities and capital	$4,450,233	$4,024,149

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Combined statements of income and comprehensive income
(in millions)

	Three months ended		Nine months ended	
	Sept. 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Interest income				
Loans:				
Term Asset-Backed Securities Loan Facility	$ 1	$ 1	$ 2	$ 5
System Open Market Account:				
Treasury securities, net	16,213	13,454	47,558	37,739
Government-sponsored enterprise debt securities, net	376	530	1,221	1,681
Federal agency and government-sponsored enterprise mortgage-backed securities, net	12,829	9,424	38,203	25,412
Foreign currency denominated investments, net	18	23	62	73
Central bank liquidity swaps	—	1	1	21
Investments held by consolidated variable interest entities	69	—	74	1
Total interest income	29,506	23,433	87,121	64,932
Interest expense				
System Open Market Account:				
Securities sold under agreements to repurchase	28	4	69	44
Other	—	—	—	2
Deposits:				
Depository institutions	1,757	1,397	5,038	3,655
Term Deposit Facility	18	4	42	8
Total interest expense	1,803	1,405	5,149	3,709
Net interest income	27,703	22,028	81,972	61,223
Non-interest income				
Term Asset-Backed Securities Loan Facility, unrealized (losses)	—	(1)	—	(3)
System Open Market Account:				
Federal agency and government-sponsored enterprise mortgage-backed securities gains (losses), net	2	(39)	73	(47)
Foreign currency translation gains (losses), net	(1,860)	657	(1,610)	(895)
Consolidated variable interest entities:				
Investments held by consolidated variable interest entities gains, net	(50)	34	34	122
Income from services	108	111	326	332
Reimbursable services to government agencies	134	129	416	394
Other	18	20	57	61
Total non-interest income	(1,648)	911	(704)	(36)
Operating expenses				
Salaries and benefits	751	803	2,273	2,393
Occupancy	76	77	229	229
Equipment	43	40	123	121
Other	173	135	445	417
Assessments:				
Board of Governors operating expenses and currency costs	323	478	921	1,071
Bureau of Consumer Financial Protection	111	195	353	382
Total operating expenses	1,477	1,728	4,344	4,613
Net income before providing for remittances to Treasury	24,578	21,211	76,924	56,574
Earnings remittances to Treasury	24,173	20,952	75,130	55,571
Net income	405	259	1,794	1,003
Change in prior service costs related to benefit plans	22	22	66	70
Change in actuarial gains related to benefit plans	24	81	84	246
Total other comprehensive income	46	103	150	316
Comprehensive income	$ 451	$ 362	$ 1,944	$ 1,319

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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 (13,659,010 shares)	683	—	—	—	683
Comprehensive income:					
Net income	—	1,794	—	1,794	1,794
Other comprehensive income	—	—	150	150	150
Dividends on capital stock	—	(1,261)	—	(1,261)	(1,261)
Net change in capital	683	533	150	683	1,366
Balance at September 30, 2014 (563,795,946 shares)	$28,190	$30,596	$(2,406)	$28,190	$56,380

Supplemental Financial Information

(1) Loans

Loans to Depository Institutions

The Reserve Banks offer primary, secondary, and seasonal loans to eligible depository institutions. The remaining maturity distribution of loans to depository institutions outstanding as of September 30, 2014, and December 31, 2013, was as follows:

Table 1. Loans to depository institutions
(in millions)

	Within 15 days	16 to 90 days	Total
September 30, 2014:			
Primary, secondary, and seasonal credit	$279	$ 48	$327
December 31, 2013:			
Primary, secondary, and seasonal credit	$ 69	$ 5	$ 74

As of September 30, 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 September 30, 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 September 30, 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	
September 30, 2014:				
Student loan	$—	$—	$—	$—
CMBS	14	—	—	14
Total	$14	$—	$—	$14

(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 September 30, 2014, and December 31, 2013, includes $0 million and $1 million in unrealized gains, respectively.

As of September 30, 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 September 30, 2014, and December 31, 2013, were as follows:

Table 3. Domestic SOMA portfolio holdings
(in millions)

	September 30, 2014			December 31, 2013		
	Amortized cost	Fair value	Cumulative unrealized gains (losses)	Amortized cost	Fair value	Cumulative unrealized gains (losses)
Treasury Securities						
Notes	$1,649,802	$1,666,387	$16,585	$1,495,115	$1,499,000	$ 3,885
Bonds	940,360	995,991	55,631	864,319	842,336	(21,983)
Total Treasury securities	**$2,590,162**	**$2,662,378**	**$72,216**	**$2,359,434**	**$2,341,336**	**$(18,098)**
GSE debt securities	41,458	44,037	2,579	59,122	62,236	3,114
Federal agency and GSE MBS	1,747,016	1,752,899	5,883	1,533,860	1,495,572	(38,288)
Total domestic SOMA portfolio securities holdings	**$4,378,636**	**$4,459,314**	**$80,678**	**$3,952,416**	**$3,899,144**	**$(53,272)**
Memorandum - Commitments for:						
Purchases of Treasury securities	$ —	$ —	$ —	$ —	$ —	$ —
Purchases of Federal agency and GSE MBS	66,064	66,167	103	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 September 30, 2014, and December 31, 2013:

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

	September 30, 2014		December 31, 2013	
Distribution of MBS holdings by coupon rate	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	$ 13,144	$ 12,738	$ 14,191	$ 13,529
2.5%	115,933	113,537	123,832	118,458
3.0%	516,318	498,649	521,809	484,275
3.5%	439,136	438,723	349,689	338,357
4.0%	408,508	416,794	230,256	231,113
4.5%	165,030	176,683	185,825	195,481
5.0%	69,821	75,232	83,290	87,968
5.5%	16,512	17,719	21,496	22,718
6.0%	2,296	2,478	3,051	3,225
6.5%	318	346	421	448
Total	$1,747,016	$1,752,899	$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 September 30, 2014, and December 31, 2013, 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
September 30, 2014:							
Treasury securities (par value)	$ —	$ 89	$3,194	$1,047,869	$739,909	$ 660,681	$2,451,742
GSE debt securities (par value)	306	1,023	3,584	32,746	—	2,347	40,006
Federal agency and GSE MBS (par value)[1]	—	—	—	10	4,715	1,691,699	1,696,424
Securities sold under agreements to repurchase (contract amount)	410,131	—	—	—	—	—	410,131
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 September 30, 2014, and December 31, 2013, which differs from the stated maturity primarily because it factors in scheduled payments and prepayment assumptions, was approximately 5.4 years and 6.5 years, respectively.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS during the nine months ended September 30, 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]	158,626	81,971	240,597	—	360,379
Sales[1]	—	—	—	—	(29)
Realized gains, net[2]	—	—	—	—	—
Principal payments and maturities	(385)	—	(385)	(17,215)	(142,197)
Amortization of premiums and accretion of discounts, net	(4,159)	(7,546)	(11,705)	(449)	(4,997)
Inflation adjustment on inflation-indexed securities	605	1,616	2,221	—	—
Balance September 30, 2014	$1,649,802	$940,360	$2,590,162	$ 41,458	$1,747,016
Year ended December 31, 2013					
Supplemental information - par value of transactions:					
Purchases[3]	$ 356,766	$184,956	$ 541,722	$ —	$ 837,490
Sales[3]	—	—	—	—	—
Nine months ended September 30, 2014					
Supplemental information - par value of transactions					
Purchases[3]	$ 160,854	$ 80,276	$ 241,130	$ —	$ 348,488
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 September 30, 2014, and December 31, 2013, was as follows:

Table 7. Foreign currency denominated investments
(in millions)

	September 30, 2014	December 31, 2013
Euro:		
Foreign currency deposits	$ 8,271	$ 7,530
Securities purchased under agreements to resell	—	2,549
German government debt instruments	2,322	2,397
French government debt instruments	3,099	2,397
Japanese yen:		
Foreign currency deposits	2,812	2,926
Japanese government debt instruments	5,691	5,925
Total	$22,195	$23,724

The remaining maturity distribution of foreign currency denominated investments, by currency, as of September 30, 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
September 30, 2014:					
Euro	$ 1,177	$3,798	$4,364	$4,353	$13,692
Japanese yen	3,017	420	1,756	3,310	8,503
Total	$ 4,194	$4,218	$6,120	$7,663	$22,195
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 September 30, 2014, and December 31, 2013, the fair value of foreign currency denominated investments, including accrued interest, was $22,295 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 September 30, 2014, and December 31, 2013, was as follows:

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

	September 30, 2014			December 31, 2013		
	Within 15 days	16 days to 90 days	Total	Within 15 days	16 days to 90 days	Total
Euro	$ —	$—	$ —	$113	$159	$272
Japanese yen	240	—	240	—	—	—
Total	$240	$—	$240	$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 unrealized gains (losses)," of the domestic securities holdings during the periods ended September 30, 2014, and September 30, 2013:

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

	Nine months ended September 30, 2014		Nine months ended September 30, 2013	
	Total portfolio holdings realized gains[1]	Fair value changes unrealized gains (losses)[2]	Total portfolio holdings realized gains (losses)[1]	Fair value changes unrealized gains (losses)[2]
Treasury securities	$—	$ 90,314	$ —	$(131,538)
GSE debt securities	—	(535)	—	(1,955)
Federal agency and GSE MBS	73	44,171	(47)	(56,085)
Total	**$73**	**$133,950**	**$(47)**	**$(189,578)**

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

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

(3) Consolidated Variable Interest Entities (VIEs)

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

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

The classification of significant assets and liabilities of the consolidated VIEs as of September 30, 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
September 30, 2014:					
Assets					
Short-term investments	$1,400	$—	$—	$—	$1,400
Commercial mortgage loans	—	—	—	—	—
Swap contracts	122	—	—	—	122
Non-agency residential mortgage-backed securities (RMBS)	10	—	—	—	10
Other investments	1	—	—	—	1
Subtotal—investments	**$1,533**	**$—**	**$—**	**$—**	**$1,533**
Cash, cash equivalents, accrued interest receivable, and other receivables	272	—	—	43	315
Total portfolio assets	**$1,805**	**$—**	**$—**	**$43**	**$1,848**
Liabilities	125	—	—	—	125
Net portfolio assets available	**$1,680**	**$—**	**$—**	**$43**	**$1,723**

(continued on next page)

Table 11.—*continued*

	ML	ML II	ML III	TALF LLC	Total
December 31, 2013:					
Assets					
Short-term investments	$ 530	$—	$—	$ —	$ 530
Commercial mortgage loans	507	—	—	—	507
Swap contracts	158	—	—	—	158
Non-agency RMBS	8	—	—	—	8
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 September 15, 2014, the remaining proceeds in ML II (apart from a small amount of cash held in reserve for trailing expenses) were paid to FRBNY and AIG in accordance with their respective interests in ML II.

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. On September 15, 2014, the remaining proceeds in ML III (apart from a small amount of cash held in reserve for trailing expenses) were paid to FRBNY and AIG in accordance with their respective interests in ML III.

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, 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 nine months ended September 30, 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 $59 million and $7 million and $573 million and $64 million, respectively.

The following table presents the activity related to the senior and subordinated interests from inception to September 30, 2014, and December 31, 2013:

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

	September 30, 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	$1,680	$—	$—	$43	$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	1,680	—	—	4	1,575	53	15	11
Allocated to other beneficial interests	—	—	—	39	—	10	7	98
Total	**$1,680**	**$—**	**$—**	**$43**	**$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 September 30, 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 agent and depositary 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)

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Interest income:		
Primary, secondary, and seasonal credit	*	*
TALF	2	5
Total interest income	$ 2	$ 5
Average daily loan balance:		
Primary, secondary, and seasonal credit	$ 108	$ 72
TALF	68	320
Average interest rate:		
Primary, secondary, and seasonal credit	0.21%	0.26%
TALF	2.30%	2.08%

* 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)

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
TALF loans:		
Interest income	$ 2	$ 5
Gains (losses)	—	(3)
Subtotal—TALF loans	$ 2	$ 2
TALF LLC	—	—
Total—TALF	$ 2	$ 2

(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, 2014	Nine months ended September 30, 2013
Interest income:		
U.S. Treasury securities	$ 47,558	$ 37,739
GSE debt securities	1,221	1,681
Federal agency and GSE MBS	38,203	25,412
Foreign currency denominated investments	62	73
Central bank liquidity swaps	1	21
Total interest income	$ 87,045	$ 64,926
Average daily balance:		
U.S. Treasury securities[1]	$2,494,299	$2,023,850

(continued on next page)

Table 15.—*continued*

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
GSE debt securities[1]	47,961	72,957
Federal agency and GSE MBS[2]	1,674,670	1,177,395
Foreign currency denominated investments[3]	23,808	23,902
Central bank liquidity swaps[4]	237	4,401
Average interest rate:		
U.S. Treasury securities	2.54%	2.49%
GSE debt securities	3.39%	3.07%
Federal agency and GSE MBS	3.04%	2.88%
Foreign currency denominated investments	0.35%	0.41%
Central bank liquidity swaps	0.56%	0.64%

[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 agreements) is as follows:

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

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Interest expense:		
Tri-party[1]	$ 44	*
Foreign official and international accounts[2]	25	44
Total interest expense	$ 69	$ 44
Average daily balance:		
Tri-party[1]	$122,405	$ 676
Foreign official and international accounts[2]	103,976	92,380
Average interest rate:		
Tri-party	0.05%	0.03%
Foreign official and international accounts	0.03%	0.06%

* Less than $500 thousand.

[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 $3 million and $6 million for the nine months ended September 30, 2014, and September 30, 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 September 30, 2014, and September 30, 2013:

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

	ML	ML II	ML III	TALF LLC[1]	Total
Nine months ended September 30, 2014:					
Interest income:					
Portfolio interest income	$ 74	$—	$—	$—	$ 74
Less: interest expense	—	—	—	—	—
Net interest income	74	—	—	—	74
Non-interest income:					
Portfolio holdings gains	34	—	—	—	34
Less: realized and unrealized gains on beneficial interest in consolidated VIEs	—	—	—	—	—
Net non-interest (loss) income	34	—	—	—	34
Total net interest income and non-interest income	**108**	**—**	**—**	**—**	**108**
Less: professional fees	3	—	—	—	3
Net income (loss) attributable to consolidated VIEs	**$105**	**$—**	**$—**	**$—**	**$105**
Nine months ended September 30, 2013:					
Interest income:					
Portfolio interest income	$ (3)[2]	$ 4	$—	$—	$ 1
Less: interest expense	—	—	—	—	—
Net interest income	(3)	4	—	—	1
Non-interest income:					
Portfolio holdings (losses) gains	122	—	—	—	122
Less: realized and unrealized (gains) losses on beneficial interest in consolidated VIEs	—	—	—	—	—
Net non-interest (loss) income	122	—	—	—	122
Total net interest income and non-interest income	**119**	**4**	**—**	**—**	**123**
Less: professional fees	5	1	—	—	6
Net income (loss) attributable to consolidated VIEs	**$114**	**$ 3**	**$—**	**$—**	**$117**

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

2 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.