



Federal Reserve Banks Combined Quarterly Financial Report

Unaudited

September 30, 2015



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Abbreviations

ABS	Asset-backed securities
AIG	American International Group, Inc.
BAC	Committee on Federal Reserve Bank Affairs
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, 2015	December 31, 2014
Assets		
Gold certificates	\$ 11,037	\$ 11,037
Special drawing rights certificates	5,200	5,200
Coin	1,909	1,873
Loans:		
Depository institutions	252	145
System Open Market Account:		
Treasury securities, net (of which \$16,438 and \$11,144 is lent as of September 30, 2015, and December 31, 2014, respectively)	2,585,033	2,596,241
Government-sponsored enterprise debt securities, net (of which \$73 and \$633 is lent as of September 30, 2015, and December 31, 2014, respectively)	36,019	39,990
Federal agency and government-sponsored enterprise mortgage-backed securities, net	1,793,882	1,789,083
Foreign currency denominated investments, net	19,919	20,900
Central bank liquidity swaps	681	1,528
Accrued interest receivable	24,584	25,644
Other assets	32	29
Investments held by consolidated variable interest entities (of which \$1,814 and \$1,808 is measured at fair value as of September 30, 2015, and December 31, 2014, respectively)	1,814	1,811
Bank premises and equipment, net	2,598	2,630
Items in process of collection	396	86
Deferred asset—remittances to the Treasury	—	667
Other assets	849	910
Total assets	<u>\$4,484,205</u>	<u>\$4,497,774</u>
Liabilities and capital		
Federal Reserve notes outstanding, net	\$1,342,390	\$1,298,725
System Open Market Account:		
Securities sold under agreements to repurchase	641,081	509,837
Other liabilities	867	830
Liabilities of consolidated variable interest entities (of which \$22 and \$41 is measured at fair value as of September 30, 2015, and December 31, 2014, respectively)	100	127
Deposits:		
Depository institutions	2,197,657	2,377,996
Treasury, general account	198,716	223,452
Other deposits	38,499	25,560
Interest payable to depository institutions	250	124
Accrued benefit costs	2,961	3,089
Deferred credit items	483	641
Accrued remittances to the Treasury	1,857	—
Other liabilities	782	249
Total liabilities	<u>4,425,643</u>	<u>4,440,630</u>
Capital paid-in	29,281	28,572
Surplus (including accumulated other comprehensive loss of \$3,938 and \$4,168 at September 30, 2015, and December 31, 2014, respectively)	29,281	28,572
Total capital	<u>58,562</u>	<u>57,144</u>
Total liabilities and capital	<u>\$4,484,205</u>	<u>\$4,497,774</u>

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Combined statements of income and comprehensive income				
(in millions)				
	Three months ended		Nine months ended	
	September 30 2015	September 30 2014	September 30 2015	September 30 2014
Interest income				
Loans:				
Term Asset-Backed Securities Loan Facility	\$ —	\$ 1	\$ —	\$ 2
System Open Market Account:				
Treasury securities, net	16,837	16,213	47,899	47,558
Government-sponsored enterprise debt securities, net	329	376	1,013	1,221
Federal agency and government-sponsored enterprise mortgage-backed securities, net	12,244	12,829	36,282	38,203
Foreign currency denominated investments, net	7	18	26	62
Central bank liquidity swaps	—	—	1	1
Investments held by consolidated variable interest entities	3	69	9	74
Total interest income	<u>29,420</u>	<u>29,506</u>	<u>85,230</u>	<u>87,121</u>
Interest expense				
System Open Market Account:				
Securities sold under agreements to repurchase	58	28	154	69
Other	—	—	1	—
Deposits:				
Depository institutions	1,674	1,757	4,959	5,038
Term Deposit Facility	10	18	87	42
Total interest expense	<u>1,742</u>	<u>1,803</u>	<u>5,201</u>	<u>5,149</u>
Net interest income	<u>27,678</u>	<u>27,703</u>	<u>80,029</u>	<u>81,972</u>
Non-interest income				
System Open Market Account:				
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net	—	2	46	73
Foreign currency translation (losses) gains, net	155	(1,860)	(1,021)	(1,610)
Other	4	—	12	10
Consolidated variable interest entities gains, net	11	(50)	23	34
Income from services	107	108	322	326
Reimbursable services to government agencies	161	134	472	416
Other	17	18	46	47
Total non-interest (loss) income	<u>455</u>	<u>(1,648)</u>	<u>(100)</u>	<u>(704)</u>
Operating expenses				
Salaries and benefits	890	751	2,517	2,273
Occupancy	82	76	238	229
Equipment	44	43	131	123
Other	140	173	419	445
Assessments:				
Board of Governors operating expenses and currency costs	368	323	993	921
Bureau of Consumer Financial Protection	85	111	275	353
Total operating expenses	<u>1,609</u>	<u>1,477</u>	<u>4,573</u>	<u>4,344</u>
Net income before providing for remittances to the Treasury	26,524	24,578	75,356	76,924
Earnings remittances to the Treasury	<u>26,041</u>	<u>24,173</u>	<u>73,575</u>	<u>75,130</u>
Net income	<u>483</u>	<u>405</u>	<u>1,781</u>	<u>1,794</u>
Change in prior service costs related to benefit plans	22	22	62	66
Change in actuarial gains related to benefit plans	80	24	168	84
Total other comprehensive income	<u>102</u>	<u>46</u>	<u>230</u>	<u>150</u>
Comprehensive income	<u>\$ 585</u>	<u>\$ 451</u>	<u>\$ 2,011</u>	<u>\$ 1,944</u>

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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, 2014 (550,136,963 shares)	\$27,507	\$30,063	\$(2,556)	\$27,507	\$55,014
Net change in capital stock issued (21,299,030 shares)	1,065	—	—	—	1,065
Comprehensive income:					
Net income	—	4,363	—	4,363	4,363
Other comprehensive loss	—	—	(1,612)	(1,612)	(1,612)
Dividends on capital stock	—	(1,686)	—	(1,686)	(1,686)
Net change in capital	1,065	2,677	(1,612)	1,065	2,130
Balance at December 31, 2014 (571,435,966 shares)	\$28,572	\$32,740	\$(4,168)	\$28,572	\$57,144
Net change in capital stock issued (14,177,229 shares)	709	—	—	—	709
Comprehensive income:					
Net income	—	1,781	—	1,781	1,781
Other comprehensive income	—	—	230	230	230
Dividends on capital stock	—	(1,302)	—	(1,302)	(1,302)
Net change in capital	709	479	230	709	1,418
Balance at September 30, 2015 (585,613,195 shares)	<u>\$29,281</u>	<u>\$33,219</u>	<u>\$(3,938)</u>	<u>\$29,281</u>	<u>\$58,562</u>

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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, 2015, and December 31, 2014, was as follows:

Table 1. Loans to depository institutions (in millions)			
	Within 15 days	16 to 90 days	Total
September 30, 2015:			
Primary, secondary, and seasonal credit	\$191	\$ 61	\$252
December 31, 2014:			
Primary, secondary, and seasonal credit	\$140	\$ 5	\$145

As of September 30, 2015, and December 31, 2014, 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, 2015, and year ended December 31, 2014.

Term Asset-Backed Securities Loan Facility (TALF) Loans

On October 29, 2014, the final outstanding TALF loan was repaid in full. Over the life of the program, all TALF loans were repaid in full at or before their respective maturity dates, and as such, the FRBNY did not incur a loss on any TALF loan.

(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, 2015, and December 31, 2014, were as follows:

Table 2. Domestic SOMA portfolio holdings						
(in millions)						
	September 30, 2015			December 31, 2014		
	Amortized cost	Fair value	Cumulative unrealized gains (losses)	Amortized cost	Fair value	Cumulative unrealized gains (losses)
Treasury Securities						
Notes	\$1,650,470	\$1,692,061	\$ 41,591	\$1,654,901	\$1,683,377	\$ 28,476
Bonds	934,563	1,028,392	93,829	941,340	1,052,916	111,576
Total Treasury securities	\$2,585,033	\$2,720,453	\$135,420	\$2,596,241	\$2,736,293	\$140,052
GSE debt securities	36,019	37,851	1,832	39,990	42,499	2,509
Federal agency and GSE MBS	1,793,882	1,821,863	27,981	1,789,083	1,820,544	31,461
Total domestic SOMA portfolio securities holdings	\$4,414,934	\$4,580,167	\$165,233	\$4,425,314	\$4,599,336	\$174,022
Memorandum—Commitments for:						
Purchases of Treasury securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Purchases of federal agency and GSE MBS	28,070	28,213	143	28,692	28,803	111
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, 2015, and December 31, 2014:

Table 3. Detail of federal agency and GSE MBS holdings				
(in millions)				
Distribution of MBS holdings by coupon rate	September 30, 2015		December 31, 2014	
	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	\$ 11,588	\$ 11,513	\$ 12,788	\$ 12,618
2.5%	117,546	117,490	114,609	113,468
3.0%	552,613	547,652	513,289	506,280
3.5%	554,186	562,373	481,305	489,390
4.0%	368,252	378,689	428,047	441,204
4.5%	123,450	132,883	155,867	167,844
5.0%	52,371	56,309	65,544	70,719
5.5%	11,980	12,898	15,232	16,414
6.0%	1,663	1,799	2,110	2,287
6.5%	233	257	292	320
Total	\$1,793,882	\$1,821,863	\$1,789,083	\$1,820,544

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, 2015, and December 31, 2014, was as follows:

Table 4. 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, 2015:							
Treasury securities (par value)	\$ —	\$ 327	\$173,788	\$1,135,732	\$514,060	\$ 638,041	\$2,461,948
GSE debt securities (par value)	947	1,202	12,452	18,145	—	2,347	35,093
Federal agency and GSE MBS (par value) ¹	—	—	—	146	9,314	1,731,773	1,741,233
Securities sold under agreements to repurchase (contract amount)	641,081	—	—	—	—	—	641,081
December 31, 2014:							
Treasury securities (par value)	\$ —	\$ 4	\$ 3,516	\$1,112,927	\$686,627	\$ 658,289	\$2,461,363
GSE debt securities (par value)	1,089	711	3,933	30,597	—	2,347	38,677
Federal agency and GSE MBS (par value) ¹	—	—	—	13	6,453	1,730,367	1,736,833
Securities sold under agreements to repurchase (contract amount)	509,837	—	—	—	—	—	509,837

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, 2015, and December 31, 2014, which differs from the stated maturity primarily because it factors in scheduled payments and prepayment assumptions, was approximately 5.7 years.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS during the nine months ended September 30, 2015, and during the year ended December 31, 2014, is summarized as follows:

Table 5. Domestic portfolio transactions of SOMA securities					
(in millions)					
	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2013	\$1,495,115	\$864,319	\$2,359,434	\$ 59,122	\$1,533,860
Purchases ¹	165,306	85,826	251,132	—	466,384
Sales ¹	—	—	—	—	(29)
Realized gains, net ²	—	—	—	—	—
Principal payments and maturities	(475)	—	(475)	(18,544)	(203,933)
Amortization of premiums and accretion of discounts, net	(5,545)	(10,132)	(15,677)	(588)	(7,199)
Inflation adjustment on inflation-indexed securities	500	1,327	1,827	—	—
Balance December 31, 2014	\$1,654,901	\$941,340	\$2,596,241	\$ 39,990	\$1,789,083
Purchases ¹	2,493	680	3,173	—	278,662
Sales ¹	—	—	—	—	(464)
Realized gains, net ²	—	—	—	—	16
Principal payments and maturities	(2,975)	(218)	(3,193)	(3,584)	(264,198)
Amortization of premiums and accretion of discounts, net	(4,107)	(7,672)	(11,779)	(387)	(9,217)

(continued on next page)

Table 5.—continued

	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Inflation adjustment on inflation-indexed securities	158	433	591	—	—
Balance September 30, 2015	<u>\$1,650,470</u>	<u>\$934,563</u>	<u>\$2,585,033</u>	<u>\$36,019</u>	<u>\$1,793,882</u>
Year ended December 31, 2014					
Supplemental information—par value of transactions:					
Purchases ³	\$ 167,497	\$ 83,739	\$ 251,236	\$ —	\$ 450,633
Sales	—	—	—	—	(29)
Nine months ended September 30, 2015					
Supplemental information—par value of transactions					
Purchases ³	\$ 2,503	\$ 684	\$ 3,187	\$ —	\$ 269,034
Sales	—	—	—	—	(435)
¹ Purchases and sales may include payments and receipts related to principal, premiums, discounts, and inflation compensation adjustments to the basis of inflation-indexed securities. The amount reported as sales includes the realized gains and losses on such transactions. Purchases and sales 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, 2015, and December 31, 2014, was as follows:

Table 6. Foreign currency denominated investments
(in millions)

	September 30, 2015	December 31, 2014
Euro:		
Foreign currency deposits	\$ 6,395	\$ 6,936
German government debt instruments	2,328	2,494
French government debt instruments	3,406	3,687
Japanese yen:		
Foreign currency deposits	2,578	2,576
Japanese government debt instruments	5,212	5,207
Total	<u>\$19,919</u>	<u>\$20,900</u>

The remaining maturity distribution of foreign currency denominated investments, by currency, as of September 30, 2015, and December 31, 2014, was as follows:

Table 7. Maturity distribution of foreign currency denominated investments
(in millions)

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Total
September 30, 2015:						
Euro	\$2,358	\$4,266	\$1,219	\$3,928	\$358	\$12,129
Japanese yen	2,749	334	1,556	3,151	—	7,790
Total	<u>\$5,107</u>	<u>\$4,600</u>	<u>\$2,775</u>	<u>\$7,079</u>	<u>\$358</u>	<u>\$19,919</u>
December 31, 2014:						
Euro	\$3,635	\$2,809	\$1,644	\$5,029	\$ —	\$13,117
Japanese yen	2,755	392	1,540	3,096	—	7,783
Total	<u>\$6,390</u>	<u>\$3,201</u>	<u>\$3,184</u>	<u>\$8,125</u>	<u>\$ —</u>	<u>\$20,900</u>

As of September 30, 2015, and December 31, 2014, the fair value of foreign currency denominated investments was \$19,980 million and \$20,996 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 U.S. dollar liquidity and reciprocal foreign currency swap lines with the Bank of Canada, the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank. The FRBNY holds amounts outstanding under these swap lines in the SOMA. These swap lines, which were originally established as temporary arrangements, were converted to standing arrangements on October 31, 2013, and will remain in place until further notice.

The remaining maturity distribution of U.S. dollar liquidity swaps as of September 30, 2015, and December 31, 2014, was as follows:

Table 8. Maturity distribution of liquidity swaps
(in millions)

	September 30, 2015 Within 15 days	December 31, 2014 Within 15 days
Euro	\$142	\$ —
Japanese yen	539	1,528
Total	\$681	\$1,528

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, 2015, and September 30, 2014:

Table 9. Realized gains and change in unrealized gain position
(in millions)

	Nine months ended September 30, 2015		Nine months ended September 30, 2014	
	Realized gains ¹	Change in cumulative unrealized gains (losses) ²	Realized gains ¹	Change in cumulative unrealized gains (losses) ²
Treasury securities	\$—	\$(4,632)	\$—	\$ 90,314
GSE debt securities	—	(677)	—	(535)
Federal agency and GSE MBS	46	(3,480)	73	44,171
Total	\$46	\$(8,789)	\$73	\$133,950

¹ Realized gains are reported in “Non-interest income: System Open Market Account: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net” in the Combined Statements of 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.

The classification of significant assets and liabilities of the consolidated VIEs as of September 30, 2015, and December 31, 2014, was as follows:

Table 10. Assets and liabilities of consolidated VIEs		
(in millions)		
	Maiden Lane LLC	
	September 30, 2015	December 31, 2014
Assets		
Short-term investments	\$1,499	\$1,399
Swap contracts	98	124
Other investments	13	11
Subtotal	\$1,610	\$1,534
Cash, cash equivalents, accrued interest receivable, and other receivables	204	277
Total investments held by consolidated VIEs	\$1,814	\$1,811
Liabilities		
Swap contracts	22	41
Cash collateral on swap contracts	77	85
Other liabilities	1	1
Total liabilities held by consolidated VIEs	\$ 100	\$ 127

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 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. Distributions were made in the form of contingent interest to FRBNY totaling \$53 million and to AIG totaling \$11 million during the year ended December 31, 2014. On November 12, 2014, a certificate of cancellation was filed in the office of the Delaware Secretary of State, thereby terminating the legal existence of ML II.

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. Distributions were made in the form of contingent interest to FRBNY totaling \$14 million and to AIG totaling \$7 million during the year ended December 31, 2014. On November 12, 2014, a certificate of cancellation was filed in the office of the Delaware Secretary of State, thereby terminating the legal existence of ML III.

On October 31, 2014, TALF LLC was dissolved and the FRBNY began the process of winding up in accordance with and as required by Delaware law and the agreements governing TALF LLC. As part of that process, during the year ended December 31, 2014, after paying expenses, TALF LLC distributed its remaining

assets to the Treasury and to the FRBNY in accordance with the agreement. Distributions were made in the form of contingent interest to the Treasury totaling \$98 million and to the FRBNY totaling \$11 million during the year ended December 31, 2014. On November 26, 2014, a certificate of cancellation was filed in the office of the Delaware Secretary of State, thereby terminating the legal existence of TALF LLC.

(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, 2015, and December 31, 2014, all Federal Reserve notes were fully collateralized.

(5) Depository Institution Deposits

Depository institution deposits are primarily comprised of required reserve balances and excess reserve balances. Required reserve balances are those that a depository institution must hold to satisfy its reserve requirement. Excess reserves are those held by the depository institutions in excess of their required reserve balances.

(6) Treasury Deposits

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

(7) Capital and Surplus

The Federal Reserve Act 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. This cumulative dividend is paid semiannually. A member bank is liable for Reserve Bank liabilities up to twice the par value of stock subscribed by it.

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 11. Interest income on loans (in millions)		
	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Interest income:		
Primary, secondary, and seasonal credit	*	*
TALF	—	2
Total interest income	\$ —	\$ 2
Average daily loan balance:		
Primary, secondary, and seasonal credit	\$ 119	\$ 108
TALF	—	68
Average interest rate:		
Primary, secondary, and seasonal credit	0.26%	0.21%
TALF	—	2.30%
* Less than \$500 thousand.		

(B) SOMA Holdings

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

Table 12. Interest income on SOMA portfolio (in millions)		
	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Interest income:		
Treasury securities, net	\$ 47,899	\$ 47,558
GSE debt securities, net	1,013	1,221
Federal agency and GSE MBS, net	36,282	38,203
Foreign currency denominated investments, net	26	62
Central bank liquidity swaps	1	1
Total interest income	\$ 85,221	\$ 87,045
Average daily balance:		
Treasury securities, net ¹	\$2,589,864	\$2,494,299
GSE debt securities, net ¹	37,324	47,961
Federal agency and GSE MBS, net ²	1,790,877	1,674,670
Foreign currency denominated investments, net ³	19,906	23,808
Central bank liquidity swaps ⁴	187	237
Average interest rate:		
Treasury securities, net	2.47%	2.54%
GSE debt securities, net	3.62%	3.39%
Federal agency and GSE MBS, net	2.70%	3.04%
Foreign currency denominated investments, net	0.17%	0.35%
Central bank liquidity swaps	0.64%	0.56%
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 13. Interest expense on securities sold under agreement to repurchase (in millions)		
	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Interest expense:		
Overnight and term reverse repurchase agreements ¹	\$ 52	\$ 44
Foreign official and international accounts ²	102	25
Total interest expense	\$ 154	\$ 69
Average daily balance:		
Overnight and term reverse repurchase agreements ¹	\$125,615	\$122,405
Foreign official and international accounts ²	146,285	103,976
Average interest rate:		
Overnight and term reverse repurchase agreements	0.06%	0.05%
Foreign official and international accounts	0.09%	0.03%
¹ Reverse repurchase transactions arranged as open market operations are settled through overnight and term reverse repurchase agreements. 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 Statements of Income and Comprehensive Income, were \$2 million and \$3 million for the nine months ended September 30, 2015, and September 30, 2014, 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, 2015, and September 30, 2014:

Table 14. FRBNY net income from consolidated VIEs (in millions)					
	ML	ML II	ML III	TALF LLC	Total
Nine months ended September 30, 2015:					
Interest income:					
Portfolio interest income ¹	\$ 9	\$—	\$—	\$—	\$ 9
Less: interest expense	—	—	—	—	—
Net interest income	9	—	—	—	9
Non-interest income:					
Portfolio holdings gains	23	—	—	—	23
Less: realized and unrealized gains on beneficial interest in consolidated VIEs	—	—	—	—	—
Net non-interest income	23	—	—	—	23

(continued on next page)

Table 14.—continued

	ML	ML II	ML III	TALF LLC	Total
Total net interest income and non-interest income	32	—	—	—	32
Less: professional fees ²	<u>2</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>
Net income attributable to consolidated VIEs	<u>\$ 30</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$ 30</u>
Nine months ended September 30, 2014:					
Interest income:					
Portfolio interest income	\$ 74	\$—	\$—	\$—	\$ 74
Less: interest expense	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net interest income	74	—	—	—	74
Non-interest income:					
Portfolio holdings gains	34	—	—	—	34
Less: realized and unrealized losses on beneficial interest in consolidated VIEs	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net non-interest income	<u>34</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>34</u>
Total net interest income and non-interest income	108	—	—	—	108
Less: professional fees ²	<u>3</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3</u>
Net income (loss) attributable to consolidated VIEs	<u>\$105</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>105</u>

¹ Interest income includes gains and losses from paydowns and losses resulting from the write off of securities.

² Professional fees are reported as a component of "Operating Expenses: Other" in the "Combined Statements of Income and Comprehensive Income."

(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.

(E) Operating Expenses

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

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

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