



# Federal Reserve Banks Combined Quarterly Financial Report

Unaudited

June 30, 2013





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# Abbreviations

ABS	Asset-backed securities
AIG	American International Group, Inc.
ARM	Adjustable rate mortgage
CDO	Collateralized debt obligation
CMBS	Commercial mortgage-backed securities
FRBNY	Federal Reserve Bank of New York
GSE	Government-sponsored enterprise
MBS	Mortgage-backed securities
ML	Maiden Lane LLC
ML II	Maiden Lane II LLC
ML III	Maiden Lane III LLC
LLC	Limited liability company
RMBS	Residential mortgage-backed securities
SBA	Small Business Administration
SOMA	System Open Market Account
TALF	Term Asset-Backed Securities Loan Facility
VIE	Variable interest entity



# Combined Quarterly Financial Statements

<b>Combined statements of condition</b>		
<b>(in millions)</b>		
	June 30, 2013	December 31, 2012
<b>Assets</b>		
Gold certificates	\$ 11,037	\$ 11,037
Special drawing rights certificates	5,200	5,200
Coin	1,985	2,108
<b>Loans:</b>		
Depository institutions	120	70
Term Asset-Backed Securities Loan Facility (measured at fair value)	260	560
<b>System Open Market Account:</b>		
Treasury securities, net (of which \$21,310 and \$9,139 is lent as of June 30, 2013, and December 31, 2012, respectively)	2,097,243	1,809,188
Government-sponsored enterprise debt securities, net (of which \$1,145 and \$697 is lent as of June 30, 2013, and December 31, 2012, respectively)	71,442	79,479
Federal agency and government-sponsored enterprise mortgage-backed securities, net	1,246,484	950,321
Foreign currency denominated assets, net	23,471	24,972
Central bank liquidity swaps	1,679	8,889
Other investments	69	23
Investments held by consolidated variable interest entities (of which \$1,812 and \$2,266 is measured at fair value as of June 30, 2013, and December 31, 2012, respectively)	2,069	2,750
Accrued interest receivable	22,014	18,932
Bank premises and equipment, net	2,652	2,676
Items in process of collection	105	216
Other assets	792	713
Total assets	<u>\$3,486,622</u>	<u>\$2,917,134</u>
<b>Liabilities and capital</b>		
Federal Reserve notes outstanding, net	\$1,150,751	\$1,126,661
<b>System Open Market Account:</b>		
Securities sold under agreements to repurchase	95,153	107,188
Other liabilities	966	3,177
<b>Consolidated variable interest entities:</b>		
Beneficial interest in consolidated variable interest entities (measured at fair value)	272	803
Other liabilities (of which \$73 and \$71 is measured at fair value as of June 30, 2013, and December 31, 2012, respectively)	224	415
<b>Deposits:</b>		
Depository institutions	2,013,264	1,491,045
Term deposit facility	—	—
Treasury, general account	134,858	92,720
Other deposits	29,799	33,903
Interest payable to depository institutions	248	199
Accrued benefit costs	3,668	3,964
Deferred credit items	819	702
Accrued interest on Federal Reserve notes	1,345	1,407
Other liabilities	269	230
Total liabilities	<u>3,431,636</u>	<u>2,862,414</u>
Capital paid-in	27,493	27,360
Surplus (including accumulated other comprehensive loss of \$4,632 and \$4,845 at June 30, 2013 and December 31, 2012, respectively)	27,493	27,360
Total capital	<u>54,986</u>	<u>54,720</u>
Total liabilities and capital	<u>\$3,486,622</u>	<u>\$2,917,134</u>

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<b>Combined statements of income and comprehensive income</b>				
(in millions)				
	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>Interest income</b>				
<b>Loans:</b>				
Term Asset-Backed Securities Loan Facility	\$ 2	\$ 27	\$ 4	\$ 62
<b>System Open Market Account:</b>				
Treasury securities, net	13,145	12,310	24,284	23,368
Government-sponsored enterprise debt securities, net	568	671	1,152	1,369
Federal agency and government-sponsored enterprise mortgage-backed securities, net	8,417	8,165	15,988	16,581
Foreign currency denominated assets, net	24	36	50	76
Central bank liquidity swaps	8	44	20	180
Investments held by consolidated variable interest entities	—	450	—	1,012
Total interest income	<u>22,164</u>	<u>21,703</u>	<u>41,498</u>	<u>42,648</u>
<b>Interest expense</b>				
<b>System Open Market Account:</b>				
Securities sold under agreements to repurchase	16	33	42	56
Beneficial interest in consolidated variable interest entities	—	64	—	135
<b>Deposits:</b>				
Depository institutions	1,216	957	2,258	1,953
Term Deposit Facility	<u>2</u>	<u>1</u>	<u>3</u>	<u>2</u>
Total interest expense	<u>1,234</u>	<u>1,055</u>	<u>2,303</u>	<u>2,146</u>
Net interest income	<u>20,930</u>	<u>20,648</u>	<u>39,195</u>	<u>40,502</u>
<b>Non-interest income</b>				
Term Asset-Backed Securities Loan Facility, unrealized (losses)	(1)	(11)	(2)	(23)
<b>System Open Market Account:</b>				
Treasury securities gains, net	—	2,651	—	5,498
Federal agency and government-sponsored enterprise mortgage-backed securities gains (losses), net	67	8	(8)	129
Foreign currency translation (losses), net	(293)	(348)	(1,551)	(756)
<b>Consolidated variable interest entities:</b>				
Investments held by consolidated variable interest entities gains, net	61	2,199	88	6,475
Beneficial interest in consolidated variable interest entities (losses), net	—	(816)	—	(2,024)
Income from services	110	113	222	229
Reimbursable services to government agencies	131	149	265	238
Other	<u>21</u>	<u>18</u>	<u>41</u>	<u>36</u>
Total non-interest income	<u>96</u>	<u>3,963</u>	<u>(945)</u>	<u>9,802</u>
<b>Operating expenses</b>				
Salaries and benefits	798	768	1,589	1,476
Occupancy	77	78	152	152
Equipment	40	48	81	92
<b>Assessments:</b>				
Board of Governors operating expenses and currency costs	319	319	593	572
Bureau of Consumer Financial Protection	79	99	187	163
Office of Financial Research	—	42	—	42
Professional fees related to consolidated variable interest entities	2	8	4	18
Other	<u>139</u>	<u>168</u>	<u>279</u>	<u>271</u>
Total operating expenses	<u>1,454</u>	<u>1,530</u>	<u>2,885</u>	<u>2,786</u>
Net income before interest on Federal Reserve notes expense remitted to Treasury	19,570	23,081	35,364	47,518

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

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Interest on Federal Reserve notes - remitted to Treasury	<u>19,328</u>	<u>22,663</u>	<u>34,619</u>	<u>46,447</u>
Net income	<u>242</u>	<u>418</u>	<u>745</u>	<u>1,071</u>
Change in prior service costs related to benefit plans	22	27	48	52
Change in actuarial gains (losses) related to benefit plans	<u>78</u>	<u>90</u>	<u>165</u>	<u>137</u>
Total other comprehensive income	<u>100</u>	<u>117</u>	<u>213</u>	<u>189</u>
Comprehensive income	<u>\$ 342</u>	<u>\$ 535</u>	<u>\$ 958</u>	<u>\$ 1,260</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, 2012 (537,984,621 shares)	\$26,899	\$31,691	\$(4,792)	\$26,899	\$53,798
Net change in capital stock issued (9,210,524 shares)	461	—	—	—	461
Comprehensive income:					
Net income	—	2,151	—	2,151	2,151
Other comprehensive income	—	—	(53)	(53)	(53)
Dividends on capital stock	—	(1,637)	—	(1,637)	(1,637)
Net change in capital	461	514	(53)	461	922
Balance at December 31, 2012 (547,195,145 shares)	\$27,360	\$32,205	\$(4,845)	\$27,360	\$54,720
Net change in capital stock issued (2,658,744 shares)	133	—	—	—	133
Comprehensive income:					
Net income	—	745	—	745	745
Other comprehensive income	—	—	213	213	213
Dividends on capital stock	—	(825)	—	(825)	(825)
Net change in capital	133	(80)	213	133	266
Balance at June 30, 2013 (549,853,889 shares)	<u>\$27,493</u>	<u>\$32,125</u>	<u>\$(4,632)</u>	<u>\$27,493</u>	<u>\$54,986</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 June 30, 2013, and December 31, 2012, was as follows:

**Table 1. Loans to depository institutions**  
(in millions)

	Within 15 days	16 to 90 days	Total
<b>June 30, 2013:</b>			
Primary, secondary, and seasonal credit	\$99	\$ 21	\$120
<b>December 31, 2012:</b>			
Primary, secondary, and seasonal credit	\$67	\$ 3	\$ 70

As of June 30, 2013, and December 31, 2012, the Reserve Banks did not have any impaired loans and no allowance for loan losses was required. There were no impaired loans during the period ended June 30, 2013, and year ended December 31, 2012.

### 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 June 30, 2013, and December 31, 2012, respectively:

**Table 2. TALF loans by concentration**  
(in millions)

Collateral type <sup>1</sup>	Time to maturity <sup>2</sup>			Total
	Within 90 days	91 days to 1 year	Over 1 year to 3 years	
<b>June 30, 2013:</b>				
Student loan	\$—	\$—	\$136	\$136
Credit card	—	—	—	—
CMBS	—	—	124	124
Floorplan	—	—	—	—
Auto	—	—	—	—
SBA's	—	—	—	—
Other <sup>3</sup>	—	—	—	—
<b>Total</b>	<b>\$—</b>	<b>\$—</b>	<b>\$260</b>	<b>\$260</b>

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**Table 2.—continued**

Collateral type <sup>1</sup>	Time to maturity <sup>2</sup>			Total
	Within 90 days	91 days to 1 year	Over 1 year to 3 years	
<b>December 31, 2012:</b>				
Student loan	\$—	\$—	\$382	\$382
Credit card	—	—	—	—
CMBS	3	—	129	132
Floorplan	—	—	—	—
Auto	—	—	—	—
SBAs	—	—	—	—
Other <sup>3</sup>	46	—	—	46
<b>Total</b>	<b>\$49</b>	<b>\$—</b>	<b>\$511</b>	<b>\$560</b>

<sup>1</sup> All credit ratings are AAA unless otherwise indicated.

<sup>2</sup> TALF loans will mature over the next several years, with all loans maturing no later than March 31, 2015.

<sup>3</sup> Includes equipment loans, insurance premium financial loans, and residential mortgage servicing advances.

The fair value of TALF loans reported in the Combined Statements of Condition as of June 30, 2013, and December 31, 2012, includes \$1 million and \$3 million in unrealized gains, respectively.

As of June 30, 2013, and December 31, 2012, 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 June 30, 2013, and December 31, 2012, were as follows:

**Table 3. SOMA portfolio holdings**  
(in millions)

	June 30, 2013			December 31, 2012		
	Amortized cost	Fair value	Fair value greater (less) than amortized cost	Amortized cost	Fair value	Fair value greater (less) than amortized cost
Bills	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Notes	1,326,419	1,349,845	23,426	1,142,219	1,213,177	70,958
Bonds	770,824	794,043	23,219	666,969	761,138	94,169
<b>Subtotal—Treasury securities</b>	<b>\$2,097,243</b>	<b>\$2,143,888</b>	<b>\$46,645</b>	<b>\$1,809,188</b>	<b>\$1,974,315</b>	<b>\$165,127</b>
GSE debt securities	71,442	75,257	3,815	79,479	85,004	5,525
Federal agency and GSE MBS	1,246,484	1,230,867	(15,617)	950,321	993,990	43,669
Foreign currency denominated assets	23,471	23,565	94	24,972	25,141	169
Central bank liquidity swaps	1,679	1,679	—	8,889	8,889	—
<b>Memorandum - Commitments for:</b>						
Purchases of Treasury securities	1,554	1,559	5	—	—	—
Purchases of Federal agency and GSE MBS	83,958	82,914	(1,044)	118,215	118,397	182
Sales of Federal agency and GSE MBS	204	206	2	—	—	—
Purchases of foreign government debt instruments	—	—	—	—	—	—

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The following table provides additional information on the amortized cost and fair values of the federal agency and GSE MBS portfolio as of June 30, 2013, and December 31, 2012:

<b>Table 4. Detail of federal agency and GSE MBS holdings</b>				
<b>(in millions)</b>				
Distribution of MBS holdings by coupon rate	June 30, 2013		December 31, 2012	
	Amortized cost	Fair value	Amortized cost	Fair value
2.0%	\$ 10,767	\$ 10,345	\$ 845	\$ 846
2.5%	109,809	106,085	37,562	37,766
3.0%	467,412	441,776	160,613	161,757
3.5%	217,812	212,008	179,587	184,752
4.0%	106,284	109,423	137,758	145,955
4.5%	201,802	212,334	262,485	282,182
5.0%	99,295	104,141	125,107	132,213
5.5%	28,624	29,883	39,970	41,819
6.0%	4,116	4,271	5,642	5,888
6.5%	563	601	752	812
<b>Total</b>	<b><u>\$1,246,484</u></b>	<b><u>\$1,230,867</u></b>	<b><u>\$950,321</u></b>	<b><u>\$993,990</u></b>

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 June 30, 2013, and December 31, 2012, was as follows:

<b>Table 5. Maturity distribution of domestic SOMA portfolio securities</b>							
<b>(in millions)</b>							
	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
<b>June 30, 2013:</b>							
Treasury securities (par value)	\$ 2	\$ 2	\$ 344	\$567,210	\$867,823	\$ 501,211	\$1,936,592
GSE debt securities (par value)	2,659	5,869	16,993	41,250	62	2,347	69,180
Federal agency and GSE MBS (par value) <sup>1</sup>	—	—	—	1	2,625	1,205,507	1,208,133
Securities sold under agreements to repurchase (contract amount)	95,153	—	—	—	—	—	95,153
<b>December 31, 2012:</b>							
Treasury securities (par value)	\$ —	\$ 5	\$ 16	\$378,476	\$862,410	\$ 425,238	\$1,666,145
GSE debt securities (par value)	1,565	2,795	15,202	52,830	2,044	2,347	76,783
Federal agency and GSE MBS (par value) <sup>1</sup>	—	—	2	1	2,365	924,294	926,662
Securities sold under agreements to repurchase (contract amount)	107,188	—	—	—	—	—	107,188

<sup>1</sup> 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 June 30, 2013, and December 31, 2012, which differs from the stated maturity primarily because it factors in scheduled payments and prepayment assumptions, was approximately 6.4 years and 3.3 years, respectively.

Information about transactions related to Treasury securities, GSE debt securities, and federal agency and GSE MBS during the six months ended June 30, 2013, and during the year ended December 31, 2012, is summarized as follows:

<b>Table 6. Domestic portfolio transactions of SOMA securities</b>						
<b>(in millions)</b>						
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2011	\$ 18,423	\$1,311,917	\$419,937	\$1,750,277	\$107,828	\$ 848,258
Purchases <sup>1</sup>	118,886	397,999	263,991	780,876	—	431,487
Sales <sup>1</sup>	—	(507,420)	(11,727)	(519,147)	—	—
Realized gains, net <sup>2</sup>	—	12,003	1,252	13,255	—	—
Principal payments and maturities	(137,314)	(67,462)	—	(204,776)	(27,211)	(324,181)
Amortization of premiums and discounts	5	(5,461)	(7,531)	(12,987)	(1,138)	(5,243)
Inflation adjustment on inflation-indexed securities	—	643	1,047	1,690	—	—
Balance December 31, 2012	\$ —	\$1,142,219	\$666,969	\$1,809,188	\$ 79,479	\$ 950,321
Purchases <sup>1</sup>	—	187,033	108,021	295,054	—	470,179
Sales <sup>1</sup>	—	—	—	—	—	—
Realized gains, net <sup>2</sup>	—	—	—	—	—	—
Principal payments and maturities	—	(11)	—	(11)	(7,603)	(170,075)
Amortization of premiums and discounts	—	(2,977)	(4,521)	(7,498)	(434)	(3,941)
Inflation adjustment on inflation-indexed securities	—	155	355	510	—	—
Balance June 30, 2013	\$ —	\$1,326,419	\$770,824	\$2,097,243	\$ 71,442	\$1,246,484
Year ended December 31, 2012						
<b>Supplemental information - par value of transactions:</b>						
Purchases <sup>3</sup>	\$ 118,892	\$ 383,106	\$205,115	\$ 707,113	\$ —	\$ 413,160
Sales <sup>3</sup>	—	(492,234)	(9,094)	(501,328)	—	—
Six months ended June 30, 2013						
<b>Supplemental information - par value of transactions</b>						
Purchases <sup>3</sup>	\$ —	\$ 181,074	\$ 88,874	\$ 269,948	\$ —	\$ 451,546
Sales <sup>3</sup>	—	—	—	—	—	—

<sup>1</sup> 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.

<sup>2</sup> Realized gains, net offset the amount of realized gains and losses included in the reported sales amount.

<sup>3</sup> Includes inflation compensation.

Foreign currency denominated assets are comprised of foreign currency deposits, securities purchased under agreements to resell, and government debt instruments. Information about foreign currency denominated assets, including accrued interest, valued at amortized cost and foreign currency market exchange rates as of June 30, 2013, and December 31, 2012, was as follows:

<b>Table 7. Foreign currency denominated assets</b>		
<b>(in millions)</b>		
	June 30, 2013	December 31, 2012
<b>Euro:</b>		
Foreign currency deposits	\$7,587	\$8,925
Securities purchased under agreements to resell	1,919	659
German government debt instruments	2,255	2,178
French government debt instruments	2,324	2,470

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**Table 7.—continued**

	June 30, 2013	December 31, 2012
<b>Japanese yen:</b>		
Foreign currency deposits	3,100	3,553
Japanese government debt instruments	<u>6,286</u>	<u>7,187</u>
<b>Total</b>	<b><u>\$23,471</u></b>	<b><u>\$24,972</u></b>

The remaining maturity distribution of foreign currency denominated assets, by currency, as of June 30, 2013, and December 31, 2012, was as follows:

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

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Total
<b>June 30, 2013:</b>					
Euro	\$ 6,301	\$1,945	\$2,167	\$3,672	\$14,085
Japanese yen	<u>3,307</u>	<u>449</u>	<u>1,836</u>	<u>3,794</u>	<u>9,386</u>
<b>Total</b>	<b><u>\$ 9,608</u></b>	<b><u>\$2,394</u></b>	<b><u>\$4,003</u></b>	<b><u>\$7,466</u></b>	<b><u>\$23,741</u></b>
<b>December 31, 2012:</b>					
Euro	\$ 6,602	\$1,726	\$2,165	\$3,739	\$14,232
Japanese yen	<u>3,801</u>	<u>491</u>	<u>2,139</u>	<u>4,309</u>	<u>10,740</u>
<b>Total</b>	<b><u>\$10,403</u></b>	<b><u>\$2,217</u></b>	<b><u>\$4,304</u></b>	<b><u>\$8,048</u></b>	<b><u>\$24,972</u></b>

As of June 30, 2013, and December 31, 2012, the fair value of foreign currency denominated assets, including accrued interest, was \$23,565 million and \$25,141 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) has established 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 agreed to establish temporary bilateral liquidity swap arrangements with these five central banks to provide liquidity in any of their currencies if necessary. The temporary U.S. dollar liquidity swap lines and the temporary bilateral liquidity swap arrangements have been extended through February 1, 2014.

The remaining maturity distribution of U.S. dollar liquidity swaps as of June 30, 2013, and the total U.S. dollar liquidity swaps outstanding as of December 31, 2012, was as follows:

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

	June 30, 2013			December 31, 2012		
	Within 15 days	16 days to 90 days	Total	Within 15 days	16 days to 90 days	Total
Euro	\$200	\$1,479	\$1,679	\$1,741	\$7,147	\$8,888
Japanese yen	—	—	—	1	—	1
<b>Total</b>	<b><u>\$200</u></b>	<b><u>\$1,479</u></b>	<b><u>\$1,679</u></b>	<b><u>\$1,742</u></b>	<b><u>\$7,147</u></b>	<b><u>\$8,889</u></b>

The following table presents realized gains and the change in the unrealized gain position of the domestic securities holdings during the periods ended June 30, 2012, and June 30, 2013:

<b>Table 10: Realized gains and change in unrealized gain position</b>				
<b>(in millions)</b>				
	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Total portfolio holdings realized gains (losses) <sup>1</sup>				
Treasury Securities	\$ —	\$ 2,651	\$ —	\$ 5,498
GSE debt securities	—	—	—	—
Federal agency and GSE MBS	67	8	(8)	129
<b>Total</b>	<b>\$ 67</b>	<b>\$ 2,659</b>	<b>\$ (8)</b>	<b>\$ 5,627</b>
Fair value changes in unrealized gains (losses) <sup>2</sup>				
Treasury Securities	\$(101,255)	\$57,793	\$(118,482)	\$19,761
GSE debt securities	(1,242)	280	(1,710)	(313)
Federal agency and GSE MBS	(47,158)	4,626	(59,286)	570
<b>Total</b>	<b>\$(149,655)</b>	<b>\$62,699</b>	<b>\$(179,478)</b>	<b>\$20,018</b>

<sup>1</sup> 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.

<sup>2</sup> 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 June 30, 2013, and December 31, 2012, was as follows:

<b>Table 11. Assets and liabilities of consolidated VIEs</b>					
<b>(in millions)</b>					
	ML	ML II	ML III	TALF LLC	Total
<b>June 30, 2013:</b>					
<b>Assets</b>					
Commercial mortgage loans	\$ 515	\$—	\$—	\$ —	\$ 515
Swap contracts	218	—	—	—	218
Short-term investments	380	—	—	—	380
Non-agency RMBS	7	—	—	—	7
CDOs	—	—	—	—	—
Federal agency and GSE MBS	—	—	—	—	—
Residential mortgage loans	—	—	—	—	—
Other investments	42	—	—	—	42
<b>Subtotal—investments</b>	<b>\$1,162</b>	<b>\$—</b>	<b>\$—</b>	<b>\$</b>	<b>\$1,162</b>
Cash, cash equivalents, accrued interest receivable, and other assets	540	64	22	281	907
<b>Total portfolio assets</b>	<b>\$1,702</b>	<b>\$64</b>	<b>\$22</b>	<b>\$281</b>	<b>\$2,069</b>

(continued on next page)

Table 11.—continued

	ML	ML II	ML III	TALF LLC	Total
Liabilities	224	—	—	—	224
Net portfolio assets available	<u>\$1,478</u>	<u>\$64</u>	<u>\$22</u>	<u>\$281</u>	<u>\$1,845</u>
<b>December 31, 2012:</b>					
<b>Assets</b>					
Commercial mortgage loans	\$ 466	\$—	\$—	\$ —	\$ 466
Swap contracts	408	—	—	—	408
Short-term investments	251	—	—	439	690
Non-agency RMBS	2	—	—	—	2
CDOs	—	—	—	—	—
Federal agency and GSE MBS	1	—	—	—	1
Residential mortgage loans	—	—	—	—	—
Other investments	65	—	—	—	65
Subtotal—investments	<u>\$1,193</u>	<u>\$—</u>	<u>\$—</u>	<u>\$439</u>	<u>\$1,632</u>
Cash, cash equivalents, accrued interest receivable, and other assets	617	61	22	418	1,118
Total portfolio assets	<u>\$1,810</u>	<u>\$61</u>	<u>\$22</u>	<u>\$857</u>	<u>\$2,750</u>
Liabilities	415	—	—	—	415
Net portfolio assets available	<u>\$1,395</u>	<u>\$61</u>	<u>\$22</u>	<u>\$857</u>	<u>\$2,335</u>

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 repaid 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 of ML II before distributing its remaining assets. 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 of ML III before distributing its remaining assets. 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.

The TALF LLC, which was formed to purchase from the FRBNY any ABS that might be surrendered by a TALF borrower or claimed by the FRBNY in connection with enforcement rights, has not purchased any ABS collateral from the inception of the program to June 30, 2013. As compensation for the commitment to purchase assets, the FRBNY pays the TALF LLC a put option fee based on the amount of TALF loans extended to eligible borrowers. The Treasury provided initial funding of \$100 million to the TALF LLC in the form of a subordinated loan. The TALF LLC invests the fees received from the FRBNY and the funding received from the Treasury in short-term investments.

On January 15, 2013, the Treasury, FRBNY, and the TALF LLC agreed to eliminate in their entirety the Treasury's subordinate funding commitment to the TALF LLC and the FRBNY's senior funding commitment to the TALF LLC. These commitments were no longer deemed necessary because the accumulated fees collected through the TALF program, and currently held in liquid assets in the TALF LLC, exceed the amount of TALF loans 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, the TALF LLC repaid in full the outstanding principal and accrued interest on the subordinated loan to the Treasury, and additional distributions were made to the Treasury and FRBNY as contingent interest in the amounts of \$417 million and \$46 million, respectively.

The following table presents the activity related to the senior and subordinated interests from inception to June 30, 2013, and December 31, 2012:

<b>Table 12. Analysis of senior and subordinated interests in consolidated VIEs</b>								
<b>(in millions)</b>								
	June 30, 2013				December 31, 2012			
	ML	ML II	ML III	TALF LLC	ML	ML II	ML III	TALF LLC
<b>Net assets available to pay senior and subordinated interests</b>	\$ 1,478	\$ 64	\$ 22	\$ 281	\$ 1,395	\$ 61	\$ 22	\$857
<b>FRBNY loan:<sup>1</sup></b>								
Loan extended (par value)	28,820	19,494	24,339	—	28,820	19,494	24,339	—
Plus: interest accrued and capitalized	765	580	738	—	765	580	738	—
Less: repayments of principal and interest	(29,585)	(20,074)	(25,077)	—	(29,585)	(20,074)	(25,077)	—
<b>Total FRBNY loan outstanding</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Subordinated interests:</b>								
Loans and equity contributions	\$ 1,150	\$ 1,000	\$ 5,000	\$ 100	\$ 1,150	\$ 1,000	\$ 5,000	\$100
Plus: interest accrued and capitalized	280	113	639	13	280	113	639	13
Less: repayments of principal and interest	(1,430)	(1,113)	(5,639)	(113)	(1,430)	(1,113)	(5,639)	—
<b>Total subordinated interests outstanding</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$113</b>

(continued on next page)

**Table 12.—continued**

	June 30, 2013				December 31, 2012			
	ML	ML II	ML III	TALF LLC	ML	ML II	ML III	TALF LLC
<b>Excess of net assets available over loans and subordinated interest outstanding:</b>								
Allocated to FRBNY	1,478	53	15	27	1,395	51	15	71
Allocated to other beneficial interests	—	11	7	254	—	10	7	673
<b>Total</b>	<b>\$1,478</b>	<b>\$64</b>	<b>\$22</b>	<b>\$281</b>	<b>\$1,395</b>	<b>\$61</b>	<b>\$22</b>	<b>\$744</b>

<sup>1</sup> Loans extended by FRBNY to ML, ML II, and ML III are eliminated in consolidation.

The following table presents information on the ratings breakdown of debt securities as of June 30, 2013, which are recorded at fair value in the ML portfolio, as a percentage of aggregate fair value of all securities in the portfolio.

**Table 13. Rating composition of consolidated VIE portfolio assets**

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Gov't / agency	Not rated	Total
Short-term investments	—	—	—	—	—	88.6%	—	88.6%
Non-agency RMBS	—	—	—	—	1.6%	—	—	1.6%
Federal agency and GSE MBS	—	—	—	—	—	—	—	—
Other	—	—	—	—	0.5%	—	9.3%	9.8%
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2.1%</b>	<b>88.6%</b>	<b>9.3%</b>	<b>100.0%</b>

Note: Lowest of all ratings was used for the purpose of this table if rated by two or more nationally recognized statistical rating organizations. Rows and columns may not total due to rounding.

#### (4) Federal Reserve Notes

Federal Reserve notes are the circulating currency of the United States. These notes, which are identified as issued to a specific Reserve Bank, must be fully collateralized. All of the Reserve Banks' assets are eligible to be pledged as collateral. As of June 30, 2013, and December 31, 2012, 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 to 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:

<b>Table 14. Interest income on loans</b>		
<b>(in millions)</b>		
	Six months ended June 30, 2013	Six months ended June 30, 2012
<b>Interest income:</b>		
Primary, secondary, and seasonal credit	*	*
TALF	4	62
<b>Total interest income</b>	<b>\$ 4</b>	<b>\$ 62</b>
<b>Average daily loan balance:</b>		
Primary, secondary, and seasonal credit	\$ 32	\$ 34
TALF	398	6,989
<b>Average interest rate:</b>		
Primary, secondary, and seasonal credit	0.37%	0.51%
TALF	2.01%	1.77%
* 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 15. FRBNY net income from TALF program**

(in millions)

	Six months ended June 30, 2013	Six months ended June 30, 2012
<b>TALF loans:</b>		
Interest income	\$ 4	\$ 62
Gains (losses)	(2)	(23)
Subtotal—TALF loans	\$ 2	\$ 39
TALF LLC	—	(8)
Total—TALF	\$ 2	\$ 31

## (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 16. Interest income on SOMA portfolio**

(in millions)

	Six months ended June 30, 2013	Six months ended June 30, 2012
<b>Interest income:</b>		
U.S. Treasury securities	\$ 24,284	\$ 23,368
GSE debt securities	1,152	1,369
Federal agency and GSE MBS	15,988	16,581
Foreign currency denominated assets	50	76
Central bank liquidity swaps	20	180
Total interest income	\$ 41,494	\$ 41,574
<b>Average daily balance:</b>		
U.S. Treasury securities <sup>1</sup>	\$1,953,049	\$1,764,329
GSE debt securities <sup>1</sup>	75,495	100,880
Federal agency and GSE MBS <sup>2</sup>	1,107,485	861,205
Foreign currency denominated assets <sup>3</sup>	23,961	25,593
Central bank liquidity swaps <sup>4</sup>	6,183	59,329
<b>Average interest rate:</b>		
U.S. Treasury securities	2.49%	2.65%
GSE debt securities	3.05%	2.71%
Federal agency and GSE MBS	2.89%	3.85%
Foreign currency denominated assets	0.42%	0.59%
Central bank liquidity swaps	0.65%	0.61%

<sup>1</sup> Face value, net of unamortized premiums and discounts.

<sup>2</sup> 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.

<sup>3</sup> Includes accrued interest. Foreign currency denominated assets are revalued daily at market exchange rates.

<sup>4</sup> 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.

The average daily balance of securities sold under agreements to repurchase as of June 30, 2013, and June 30, 2012, was \$92,902 million and \$89,573 million, respectively. The interest expense related to securities sold under agreements to repurchase was \$42 million and \$56 million for each of the six-month periods ended June 30, 2013, and June 30, 2012, respectively. The average interest rate on these

transactions was 0.1 percent for each of the six month periods ended June 30, 2013, and June 30, 2012, respectively.

### (C) Consolidated VIEs

The interest income related to the consolidated VIEs is recorded when earned and includes amortization of premiums, accretion of discounts, and paydown gains and losses. Interest expense of the consolidated VIEs is attributable to loans extended by subordinated interest holders; interest expense on loans extended by the FRBNY is eliminated when the VIEs are consolidated in the FRBNY's financial statements. Gains and losses include realized and unrealized gains. Unrealized gains result from the quarterly revaluation of the VIEs portfolio assets. Operating expenses of the consolidated VIEs, which are reported as a component of "Operating expenses" in the Combined Statement of Income, were \$4 million and \$18 million for the six months ended June 30, 2013, and June 30, 2012, 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 June 30, 2013, and June 30, 2012:

<b>Table 17. FRBNY net income from consolidated VIEs</b>					
<b>(in millions)</b>					
	ML	ML II	ML III	TALF LLC	Total
<b>Six months ended June 30, 2013:</b>					
<b>Interest income:</b>					
Portfolio interest income	\$ (3) <sup>1</sup>	\$ 3	\$ —	\$ —	\$ —
Less: interest expense	—	—	—	—	—
Net interest income	(3)	3	—	—	—
<b>Non-interest income:</b>					
Portfolio holdings gains	88	—	—	—	88
Less: unrealized and realized gains on beneficial interest in consolidated VIEs	—	—	—	— <sup>2</sup>	—
Net non-interest (loss) income	88	—	—	—	88
<b>Total net interest income and non-interest income</b>	<b>85</b>	<b>3</b>	<b>—</b>	<b>—</b>	<b>88</b>
Less: professional fees	4	—	—	—	4
<b>Net income (loss) attributable to consolidated VIEs</b>	<b>\$ 81</b>	<b>\$ 3</b>	<b>\$ —</b>	<b>\$ —<sup>3</sup></b>	<b>\$ 84</b>
<b>Six months ended June 30, 2012:</b>					
<b>Interest income:</b>					
Portfolio interest income	\$ 32	\$ 52	\$ 928	\$ —	\$ 1,012
Less: interest expense	36	7	90	2	135
Net interest income	(4)	45	838	(2)	877
<b>Non-interest income:</b>					
Portfolio holdings (losses) gains	491	1,350	4,634	—	6,475
Less: unrealized (gains) losses on beneficial interest in consolidated VIEs	—	(230)	(1,788)	(6) <sup>2</sup>	(2,024)
Net non-interest (loss) income	491	1,120	2,846	(6)	4,451
<b>Total net interest income and non-interest income</b>	<b>487</b>	<b>1,165</b>	<b>3,684</b>	<b>(8)</b>	<b>5,328</b>
Less: professional fees	7	2	9	—	18
<b>Net income (loss) attributable to consolidated VIEs</b>	<b>\$480</b>	<b>\$1,163</b>	<b>\$ 3,675</b>	<b>\$ (8)<sup>3</sup></b>	<b>\$ 5,310</b>
<p><sup>1</sup> Reflects a reduction of \$5.1 million due to the recalculation by the trustee of payments originally received and recorded in previous periods.</p> <p><sup>2</sup> Represents the amount of TALF LLC's income allocated to the Treasury.</p> <p><sup>3</sup> Additional information regarding TALF-related income recorded by FRBNY is presented in Table 15.</p>					

**(D) Depository Institution Deposits**

The Reserve Banks pay interest to depository institutions on qualifying balances held at the Reserve Banks. The interest rates paid on required reserve balances and excess balances are determined by the Board of Governors, based on a Federal Open Market Committee-established target range for the effective federal funds rate.

In May 2010, the Reserve Banks commenced the auction of term deposits to be offered through its Term Deposit Facility. The interest rate paid on these deposits is determined by auction.

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