Federal Reserve Banks Combined Quarterly Financial Report

Unaudited

June 30, 2012

Board of Governors of the Federal Reserve System

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Abbreviations

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

Combined Quarterly Financial Statements

Combined statements of condition
(in millions)

	June 30, 2012	December 31, 2011
Assets		
Gold certificates	$ 11,037	$ 11,037
Special drawing rights certificates	5,200	5,200
Coin	2,133	2,306
Loans:		
Depository institutions	77	196
Term Asset-Backed Securities Loan Facility (measured at fair value)	4,545	9,059
System Open Market Account:		
Treasury securities, net	1,778,745	1,750,277
Government-sponsored enterprise debt securities, net	94,709	107,828
Federal agency and government-sponsored enterprise mortgage-backed securities, net	869,548	848,258
Foreign currency denominated assets, net	25,270	25,950
Central bank liquidity swaps	27,969	99,823
Other investments	70	—
Investments held by consolidated variable interest entities (of which $15,572 and $35,593 is measured at fair value as of June 30, 2012 and December 31, 2011, respectively)	17,281	35,693
Accrued interest receivable	19,834	19,710
Bank premises and equipment, net	2,719	2,549
Items in process of collection	229	273
Other assets	685	711
Total assets	$2,860,051	$2,918,870
Liabilities and capital		
Federal Reserve notes outstanding, net	$1,069,652	$1,034,052
System Open Market Account:		
Securities sold under agreements to repurchase	85,479	99,900
Other liabilities	1,151	1,368
Consolidated variable interest entities:		
Beneficial interest in consolidated variable interest entities (measured at fair value)	10,040	9,845
Other liabilities (of which $75 and $106 is measured at fair value as of June 30, 2012 and December 31, 2011, respectively)	550	690
Deposits:		
Depository institutions	1,506,983	1,562,253
Term deposit facility	—	—
Treasury, general account	91,419	85,737
Other deposits	31,816	65,034
Interest payable to depository institutions	174	178
Accrued benefit costs	3,719	3,952
Deferred credit items	938	904
Accrued interest on Federal Reserve notes	3,191	900
Other liabilities	255	259
Total liabilities	2,805,367	2,865,072
Capital paid-in	27,342	26,899
Surplus	27,342	26,899
Total capital	54,684	53,798
Total liabilities and capital	$2,860,051	$2,918,870

Combined statements of income and comprehensive income
(in millions)

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Interest income				
Loans:				
Depository institutions	$ —	$ —	$ —	$ —
Term Asset-Backed Securities Loan Facility	27	68	62	164
American International Group, Inc., net	—	—	—	409
System Open Market Account:				
Treasury securities, net	12,310	11,433	23,368	20,079
Government-sponsored enterprise debt securities, net	671	773	1,369	1,608
Federal agency and government-sponsored enterprise mortgage-backed securities, net	8,165	10,026	16,581	20,029
Foreign currency denominated assets, net	36	68	76	126
Central bank liquidity swaps	44	—	180	—
Other investments	2	—	3	—
Investments held by consolidated variable interest entities	450	920	1,012	1,907
Total interest income	21,705	23,288	42,651	44,322
Interest expense				
System Open Market Account:				
Securities sold under agreements to repurchase	33	7	56	25
Beneficial interest in consolidated variable interest entities	64	70	135	140
Deposits:				
Depository institutions	957	980	1,953	1,741
Term Deposit Facility	1	2	2	3
Total interest expense	1,055	1,059	2,146	1,909
Net interest income	20,650	22,229	40,505	42,413
Non-Interest Income				
Term Asset-Backed Securities Loan Facility, unrealized gains (losses)	(11)	(36)	(23)	(52)
System Open Market Account:				
Treasury securities gains, net	2,651	—	5,498	—
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net	8	—	129	—
Foreign currency gains (losses), net	(348)	654	(756)	1,259
Consolidated variable interest entities:				
Investments held by consolidated variable interest entities gains (losses), net	2,199	(3,104)	6,475	(448)
Beneficial interest in consolidated variable interest entities (losses), net	(816)	754	(2,024)	(172)
Dividends on preferred interests	—	—	—	47
Income from services	113	118	229	246
Reimbursable services to government agencies	149	122	238	210
Other	16	—	33	99
Total non-interest income	3,961	(1,492)	9,799	1,189

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

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Operating Expenses				
Salaries and benefits	768	668	1,476	1,388
Occupancy	78	75	152	148
Equipment	48	47	92	89
Assessments:				
Board of Governors operating expenses and currency costs	319	295	572	495
Bureau of Consumer Financial Protection	99	74	163	102
Office of Financial Research	42	11	42	11
Professional fees related to consolidated variable interest entities	8	20	18	39
Other	168	103	271	289
Total operating expenses	1,530	1,293	2,786	2,561
Net income prior to distribution	23,081	19,444	47,518	41,041
Change in funded status of benefit plans	117	67	189	169
Comprehensive income prior to distribution	$23,198	$19,511	$47,707	$41,210
Distribution of comprehensive income:				
Dividends paid to member banks	$ 410	$ 395	$ 817	$ 792
Transferred to surplus and change in accumulated other comprehensive income (loss)	125	(82)	443	(38)
Payments to Treasury as interest on Federal Reserve notes	22,663	19,198	46,447	40,456
Total distribution	$23,198	$19,511	$47,707	$41,210

Combined statements of changes in capital
(in millions, except share data)

	Capital paid-in	Surplus			Total capital
		Net income retained	Accumulated other comprehensive loss	Total surplus	
Balance at January 1, 2011 (530,481,136 shares)	$26,524	$30,154	$(3,630)	$26,524	$53,048
Net change in capital stock issued (7,503,485 shares)	375	—	—	—	375
Transferred to surplus and change in accumulated other comprehensive income	—	1,537	(1,162)	375	375
Balance at December 31, 2011 (537,984,621 shares)	$26,899	$31,691	$(4,792)	$26,899	$53,798
Net change in capital stock issued (8,863,658 shares)	443	—	—	—	443
Transferred to surplus and change in accumulated other comprehensive loss	—	254	189	443	443
Balance at June 30, 2012 (546,848,279 shares)	$27,342	$31,945	$(4,603)	$27,342	$54,684

Supplemental Financial Information

(1) Loans

Loans to Depository Institutions

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

Table 1. Loans to depository institutions
(in millions)

	Within 15 days	16 to 90 days	Total
As of June 30, 2012:			
Primary, secondary, and seasonal credit	$ 70	$ 7	$ 77
As of December 31, 2011:			
Primary, secondary, and seasonal credit	$189	$ 7	$196

As of June 30, 2012, and December 31, 2011, the Reserve Banks did not have any impaired loans and no allowance for loan losses was required. There were no impaired loans during the period ended June 30, 2012, and year ended December 31, 2011.

Term Asset-Backed Securities Loan Facility (TALF) Loans

The Board of Governors authorized the offering of TALF loans collateralized by newly-issued asset-backed securities (ABS) and legacy commercial mortgage-backed securities (CMBS) until March 31, 2010, and TALF loans collateralized by newly-issued CMBS until 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, 2012, and December 31, 2011, respectively:

Table 2. TALF loans by concentration
(in millions)

Collateral type[1]	Remaining maturity			Total
	Within 90 days	91 days to 1 year	Over 1 year to 4 years	
June 30, 2012:				
Auto	$ 126	$ 3	$ —	$ 129
CMBS	29	675	381	1,085
Credit card	907	42	—	949
Floorplan	272	393	—	665
SBAs	—	127	47	174
Student loan	—	—	1,156	1,156
Other[2]	165	222	—	387
Total	$1,499	$1,462	$1,584	$4,545
December 31, 2011:				
Auto	$ 1	$ 374	$ 36	$ 411
CMBS	—	578	1,454	2,032
Credit card	—	2,326	80	2,406

(continued on next page)

Table 2.—*continued*

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

1 All credit ratings are AAA unless otherwise indicated.
2 Includes equipment loans, insurance premium financial loans, and residential mortgage servicing advances.

The fair value of TALF loans reported in the Combined Statements of Condition as of June 30, 2012, and December 31, 2011, includes $14 million and $37 million in unrealized gains, respectively.

As of June 30, 2012, and December 31, 2011, no TALF loans were over 90 days past due or on nonaccrual status. Because TALF loans are measured at fair value, an allowance for loan losses was not required.

(2) System Open Market Account (SOMA) Holdings

Treasury securities, government-sponsored entities (GSE) debt securities, and federal agency and GSE mortgage-backed securities (MBS) are reported at amortized cost in the balance sheet. SOMA portfolio holdings as of June 30, 2012, and December 31, 2011, were as follows:

Table 3. Domestic SOMA portfolio holdings
(in millions)

	June 30, 2012		December 31, 2011	
	Amortized cost	Fair value	Amortized cost	Fair value
Bills	$ 18,422	$ 18,422	$ 18,423	$ 18,423
Notes	1,210,396	1,291,141	1,311,917	1,389,429
Bonds	549,927	655,210	419,937	508,694
Subtotal—Treasury securities	**$1,778,745**	**$1,964,773**	**$1,750,277**	**$1,916,546**
GSE debt securities	94,709	100,807	107,828	114,238
Federal agency and GSE MBS	869,548	917,355	848,258	895,495
Other investments	70	70	—	—

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, 2012, and December 31, 2011:

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

	June 30, 2012		December 31, 2011	
Distribution of MBS holdings by coupon rate	Amortized cost	Fair value	Amortized cost	Fair value
2.5%	$ 2,071	$ 2,106	$ —	$ —
3.0%	15,724	16,024	$1,313	$1,336

(continued on next page)

Table 4.—*continued*

	June 30, 2012		December 31, 2011	
Distribution of MBS holdings by coupon rate	Amortized cost	Fair value	Amortized cost	Fair value
3.5%	125,581	128,686	19,415	19,660
4.0%	175,986	185,391	161,481	169,763
4.5%	334,709	357,837	406,465	431,171
5.0%	153,345	162,002	182,497	192,664
5.5%	53,703	56,432	66,795	70,064
6.0%	7,469	7,842	9,152	9,616
6.5%	960	1,035	1,140	1,221
Total MBS holdings	$869,548	$917,355	$848,258	$895,495

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

Table 5. Domestic portfolio transactions of SOMA securities
(in millions)

	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Balance December 31, 2011	$ 18,423	$1,311,917	$419,937	$1,750,277	$107,828	$ 848,258
Purchases[1]	118,886	214,562	137,465	470,913	—	170,440
Sales[1]	—	(270,414)	(5,353)	(275,767)	—	—
Realized gains, net[2]	—	4,935	563	5,498	—	—
Principal payments and maturities	(118,892)	(48,339)	—	(167,231)	(12,511)	(147,045)
Amortization of premiums and discounts	5	(2,753)	(3,433)	(6,181)	(608)	(2,105)
Inflation adjustment on inflation-indexed securities	—	488	748	1,236	—	—
Balance June 30, 2012	$ 18,422	$1,210,396	$549,927	$1,778,745	$ 94,709	$ 869,548
Supplemental information - par value of transactions for the six months ended June 30, 2012:						
Purchases	$ 118,892	$ 204,823	$106,661	$ 430,376	$ —	$ 164,366
Sales	—	(263,802)	(4,118)	(267,920)	—	—
Balance December 31, 2010	$ 18,422	$ 786,575	$261,955	$1,066,952	$152,972	$1,004,695
Purchases[1]	239,487	731,252	161,876	1,132,615	—	42,145
Sales[1]	—	(137,733)	—	(137,733)	—	—
Realized gains, net[2]	—	2,258	—	2,258	—	—
Principal payments and maturities	(239,494)	(67,273)	—	(306,767)	(43,466)	(195,413)
Amortization of premiums and discounts	8	(4,445)	(4,985)	(9,422)	(1,678)	(3,169)
Inflation adjustment on inflation-indexed securities	—	1,283	1,091	2,374	—	—
Balance December 31, 2011	$ 18,423	$1,311,917	$419,937	$1,750,277	$107,828	$ 848,258
Supplemental information - par value of transactions for the year ended December 31, 2011:						
Purchases	$ 239,494	$ 713,878	$127,802	$1,081,174	$ —	$ 40,955
Sales	—	(134,829)	—	(134,829)	—	—

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

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

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

The remaining maturity distribution of Treasury securities, GSE debt securities, federal agency and GSE MBS bought outright, and securities sold under agreements to repurchase as of June 30, 2012, and December 31, 2011, was as follows:

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

	Treasury securities (par value)	GSE debt securities (par value)	Federal agency and GSE MBS (par value)[1]	Securities sold under agreements to repurchase (contract amount)
June 30, 2012:				
Within 15 days	$ 11,272	$ 455	$ —	$85,479
16 days to 90 days	21,758	7,624	—	—
91 days to 1 year	21,355	14,225	2	—
Over 1 year to 5 years	516,005	61,083	6	—
Over 5 years to 10 years	754,629	5,750	118	—
Over 10 years	334,889	2,347	854,878	—
Total	$1,659,908	$ 91,484	$855,004	$85,479
December 31, 2011:				
Within 15 days	$ 16,246	$ 2,496	$ —	$99,900
16 days to 90 days	27,107	5,020	—	—
91 days to 1 year	89,899	19,695	—	—
Over 1 year to 5 years	649,698	60,603	13	—
Over 5 years to 10 years	649,913	13,833	34	—
Over 10 years	230,583	2,347	837,636	—
Total	$1,663,446	$103,994	$837,683	$99,900

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

Federal agency and GSE MBS are reported at stated maturity in the table above. The estimated weighted average remaining life of these securities as of June 30, 2012, and December 31, 2011, which differs from the stated maturity primarily because it factors in scheduled payments and prepayment assumptions, was approximately 2.7 years and 2.4 years, respectively.

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

Table 7. Foreign currency denominated assets
(in millions)

	June 30, 2012	December 31, 2011
Euro:		
Foreign currency deposits	$ 6,783	$ 9,367
Securities purchased under agreements to resell	2,421	—
German government debt instruments	1,870	1,885
French government debt instruments	2,548	2,635
Japanese yen:		
Foreign currency deposits	3,848	3,985
Japanese government debt instruments	7,800	8,078
Total	$25,270	$25,950

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

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

	Euro	Japanese yen	Total
June 30, 2012:			
Within 15 days	$ 5,043	$ 4,155	$ 9,198
16 days to 90 days	2,924	666	3,590
91 days to 1 year	2,241	2,548	4,789
Over 1 year to 5 years	3,414	4,279	7,693
Total	$13,622	$11,648	$25,270
December 31, 2011:			
Within 15 days	$ 5,352	$ 4,180	$ 9,532
16 days to 90 days	2,933	662	3,595
91 days to 1 year	2,115	3,143	5,258
Over 1 year to 5 years	3,487	4,078	7,565
Total	$13,887	$12,063	$25,950

As of June 30, 2012, and December 31, 2011, the fair value of foreign currency denominated assets, including accrued interest, was $25,433 million and $26,116 million, respectively.

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

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

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

	June 30, 2012			December 31, 2011
	Within 15 days	16 days to 90 days	Total	Total
Euro	$2,560	$25,409	$27,969	$85,437
Japanese yen	—	—	—	13,991
Swiss franc	—	—	—	395
Total	$2,560	$25,409	$27,969	$99,823

(3) Consolidated Variable Interest Entities (VIEs)

The combined financial statements include the accounts and results of operations of Maiden Lane LLC (ML), Maiden Lane II LLC (ML II), Maiden Lane III LLC

(ML III), and TALF LLC, which are consolidated by the FRBNY. Intercompany balances and transactions are eliminated in consolidation.

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

The classification of significant assets and liabilities of the consolidated VIEs as of June 30, 2012, and December 31, 2011, was as follows:

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

	ML	ML II	ML III	TALF LLC	Total
As of June 30, 2012:					
Assets					
CDOs	$ 161	$ —	$ 6,355	$ —	$ 6,516
Non-agency RMBS	106	—	253	—	359
Federal agency and GSE MBS	402	—	—	—	402
Commercial mortgage loans	567	—	—	—	567
Swap contracts	533	—	—	—	533
Residential mortgage loans	—	—	—	—	—
Other investments	206	—	—	471	677
Other assets	2	—	—	—	2
Subtotal—Investments	**$1,977**	**$ —**	**$ 6,608**	**$471**	**$ 9,056**
Cash, cash equivalents, accrued interest receivable, and other assets	1,018	18	6,815	374	8,225
Total portfolio assets	**$2,995**	**$ 18**	**$13,423**	**$845**	**$17,281**
Liabilities	548	—	2	—	550
Net portfolio assets available	**$2,447**	**$ 18**	**$13,421**	**$845**	**$16,731**
As of December 31, 2011:					
Assets					
CDOs	$ 380	$ —	$17,474	$ —	$17,854
Non-agency RMBS	1,537	9,105	261	—	10,903
Federal agency and GSE MBS	440	—	—	—	440
Commercial mortgage loans	2,861	—	—	—	2,861
Swap contracts	657	—	—	—	657
Residential mortgage loans	378	—	—	—	378
Other investments	955	—	—	374	1,329
Other assets	29	—	—	—	29
Subtotal—investments	**$7,237**	**$9,105**	**$17,735**	**$374**	**$34,451**
Cash, cash equivalents, and accrued interest receivable	568	152	85	437	1,242
Total portfolio assets	**$7,805**	**$9,257**	**$17,820**	**$811**	**$35,693**
Liabilities	684	3	3	—	690
Net portfolio assets available	**$7,121**	**$9,254**	**$17,817**	**$811**	**$35,003**

To finance the initial acquisition of assets by ML, ML II, and ML III, the FRBNY extended senior loans, and other beneficial interest holders acquired subordinated interests through the contribution of subordinated loans, a deferred purchase price, and equity for ML, ML II, and ML III, respectively.

The TALF LLC, which was formed to purchase from the FRBNY any ABS that might be surrendered by a TALF borrower or claimed by the FRBNY in connection with enforcement rights, has not purchased any ABS collateral from the inception of the program to June 30, 2012. As compensation for the commitment to purchase assets, the FRBNY pays the TALF LLC a put option fee based on the amount of TALF loans extended to eligible borrowers. The Treasury provided initial funding of $100 million to the TALF LLC in the form of a subordinated loan.

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

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

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

	June 30, 2012				December 31, 2011			
	ML	ML II	ML III	TALF LLC	ML	ML II	ML III	TALF LLC
Net assets available to pay senior and subordinated interests	**$ 2,447**	**$ 18**	**$ 13,421**	**$845**	**$ 7,121**	**$ 9,254**	**$ 17,817**	**$811**
FRBNY loan:[1]								
Loan extended (par value)	28,820	19,494	24,339	—	28,820	19,494	24,339	—
Plus: interest accrued and capitalized	765	580	738	—	755	569	692	—
Less: repayments of principal and interest	(29,585)	(20,074)	(25,077)	—	(24,716)	(13,271)	(15,205)	—
Total FRBNY loan outstanding	**$ —**	**$ —**	**$ —**	**$ —**	**$ 4,859**	**$ 6,792**	**$ 9,826**	**—**
Subordinated interests:								
Loans and equity contributions	$ 1,150	$ 1,000	$ 5,000	$111	$ 1,150	$ 1,000	$ 5,000	$100
Plus: interest accrued and capitalized	271	113	632	—	235	106	542	9
Less: repayments of principal and interest	(321)	(1,113)	(77)	—	—	—	—	—
Total subordinated interests outstanding	**$ 1,100**	**$ —**	**$ 5,555**	**$111**	**$ 1,385**	**$ 1,106**	**$ 5,542**	**$109**
Excess of net assets available over loans and subordinated interest outstanding:								
Allocated to FRBNY	1,347	15	5,270	59	877	1,130	1,641	33
Allocated to other beneficial interests	—	3	2,596	675	—	226	808	669
Total	**$ 1,347**	**$ 18**	**$ 7,866**	**$734**	**$ 877**	**$ 1,356**	**$ 2,449**	**$702**

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

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

Table 12. Rating composition of consolidated VIE portfolio assets

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Gov't / agency	Not rated	Total
ML:								
Federal agency and GSE MBS	—	—	—	—	—	45.9%	—	45.9%
Non-agency RMBS	—	—	0.5%	0.4%	11.2%	—	—	12.1%
Other	—	3.4%	—	15.6%	7.6%	11.4%	4.0%	41.9%
Total	**—**	**3.4%**	**0.5%**	**15.9%**	**18.8%**	**57.3%**	**4.0%**	**100.0%**
ML II:								
Alt-A ARM	—	—	—	—	—		—	—
Subprime	—	—	—	—	—		—	—
Option ARM	—	—	—	—	—		—	—
Other	—	—	—	—	—		—	—
Total	**—**	**—**	**—**	**—**	**—**		**—**	**—**
ML III:								
High-grade ABS CDOs:	**—**	**—**	**—**	**—**	**69.0%**		**3.6%**	**72.6%**
Pre-2005	—	—	—	—	27.2%		0.0%	27.2%
2005	—	—	—	—	41.7%		3.6%	45.4%

(continued on next page)

Table 12.—*continued*	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Gov't / agency	Not rated	Total
2006	—	—	—	—	—		—	—
2007	—	—	—	—	—		—	—
Mezzanine ABS CDOs:	**—**	**—**	**—**	**0.9%**	**22.1%**		**0.5%**	**23.5%**
Pre-2005	—	—	—	0.9%	12.4%		0.5%	13.9%
2005	—	—	—	—	8.0%		—	8.0%
2006	—	—	—	—	—		—	—
2007	—	—	—	—	1.6%		—	1.6%
Commercial real estate CDOs:	**—**	**—**	**—**	**—**	**0.1%**		**—**	**0.1%**
Pre-2005	—	—	—	—	—		—	—
2005	—	—	—	—	0.1%		—	0.1%
2006	—	—	—	—	—		—	—
2007	—	—	—	—	—		—	—
RMBS, CMBS, & Other:	**0.4%**	**0.2%**	**0.3%**	**0.4%**	**2.6%**		**—**	**3.8%**
Pre-2005	—	—	—	0.2%	0.4%		—	0.6%
2005	0.3%	0.1%	0.3%	0.3%	2.1%		—	3.0%
2006	—	—	—	—	0.2%		—	0.2%
2007	—	—	—	—	—		—	—
Total	**0.4%**	**0.2%**	**0.3%**	**1.4%**	**93.8%**		**4.1%**	**100.0%**

Note: Lowest of all ratings was used for the purpose of this table if rated by two or more nationally recognized statistical rating organizations. The year of issuance with the highest concentration of underlying assets as measured by outstanding principal balance determines the vintage of the CDO. Rows and columns may not total due to rounding.

(4) Federal Reserve Notes

Federal Reserve notes are the circulating currency of the United States. These notes, which are identified as issued to a specific Reserve Bank, must be fully collateralized. All of the Reserve Banks' assets are eligible to be pledged as collateral. As of June 30, 2012, and December 31, 2011, all Federal Reserve notes were fully collateralized.

(5) Depository Institution Deposits

Depository institution deposits are primarily comprised of required reserve balances, contractual clearing balances, and excess reserve balances. Required reserve balances are those that a depository institution must hold to satisfy its reserve requirement. Contractual clearing balances are those established by a depository institution to provide protection against overdrafts in its account with its Reserve Bank. Excess reserves are those held by the depository institutions in excess of their required reserve balances and contractual clearing balances. The contractual clearing balance program was eliminated on July 12, 2012.

(6) Treasury Deposits

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

(7) Capital and Surplus

The Federal Reserve Act requires that each member bank subscribe to the capital stock of the Reserve Bank in an amount equal to 6 percent of the capital and surplus of the member bank. These shares are nonvoting with a par value of $100, and may not be transferred or hypothecated. Currently, only one-half of the subscription is paid in and the remainder is subject to call. By law, each Reserve Bank is required to pay each member bank an annual dividend of 6 percent on paid-in capital stock.

In addition, the Board of Governors requires the Reserve Banks to maintain a surplus equal to the amount of capital paid-in as of December 31 of each year.

(8) Income and Expense

(A) Loans to Depository Institutions

Interest income on loans includes interest earned on TALF loans and American International Group, Inc. (AIG) credit extensions. Interest income on primary, secondary, and seasonal credit is accrued using the applicable rate established at least every 14 days by the Reserve Banks' boards of directors, subject to review and determination by the Board of Governors. Supplemental information on interest income on loans to depository institutions is as follows:

Table 13. Interest income on loans
(in millions)

	Six months ended June 30, 2012	Six months ended June 30, 2011
Interest income:		
Primary, secondary, and seasonal credit	*	*
AIG	$ —	$ 409
TALF	62	164
Total interest income	$ 62	$ 573
Average daily loan balance:		
Primary, secondary, and seasonal credit	$ 34	$ 38
AIG[1]	—	1,434
TALF	6,989	18,596
Average interest rate:		
Primary, secondary, and seasonal credit	0.51%	0.54%
AIG[2]	N/A	3.94%
TALF	1.77%	1.76%

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

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

* 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)

	Six months ended June 30, 2012	Six months ended June 30, 2011
TALF loans:		
Interest income	$ 62	$164
Gains (losses)	(23)	(52)
Subtotal—TALF loans	**$ 39**	**$112**
TALF LLC	(8)	(30)
Total—TALF	**$ 31**	**$ 82**

(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)

	Six months ended June 30, 2012	Six months ended June 30, 2011
Interest income:		
U.S. Treasury securities[1]	$ 23,368	$ 20,079
GSE debt securities[1]	1,369	1,608
Federal agency and GSE MBS[2]	16,581	20,029
Foreign currency denominated assets[3]	76	126
Central bank liquidity swaps[4]	180	*
Other SOMA assets[5]	3	—
Total interest income	**$ 41,577**	**$ 41,842**
Average daily balance:		
U.S. Treasury securities	$1,764,329	$1,385,398
GSE debt securities	100,880	138,282
Federal agency and GSE MBS	861,205	955,187
Foreign currency denominated assets	25,593	26,415
Central bank liquidity swaps	59,329	24
Other SOMA assets	66	—
Average interest rate:		
U.S. Treasury securities	2.65%	2.90%
GSE debt securities	2.71%	2.33%
Federal agency and GSE MBS	3.85%	4.19%
Foreign currency denominated assets	0.59%	0.95%
Central bank liquidity swaps	0.61%	1.16%
Other SOMA assets	9.09%	—

1 Face value, net of unamortized premiums and discounts.

2 Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the underlying mortgages, net of premiums and discounts.

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

4 Dollar value of foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank. This exchange rate equals the market exchange rate used when the foreign currency was acquired from the foreign central bank.

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

* Less than $500 thousand.

The average daily balance of securities sold under agreements to repurchase as of June 30, 2012, and June 30, 2011, was $89,573 million and $58,475 million, respectively. The average interest rate on these transactions was 0.1% for each of the six months ended June 30, 2012, and June 30, 2011, respectively.

(C) Consolidated VIEs

The interest income related to the consolidated VIEs is recorded when earned and includes amortization of premiums, accretion of discounts, and paydown gains and losses. Interest expense of the consolidated VIEs is attributable to loans extended by subordinated interest holders; interest expense on loans extended by the FRBNY is eliminated when the VIEs are consolidated in the FRBNY's financial statements. Gains and losses include realized and unrealized gains. Unrealized gains result from the quarterly revaluation of the VIEs portfolio assets. Operating expenses of the consolidated VIEs, which are reported as a component of "Operating expenses" in the Combined Statement of Income, were $18 million and $39 million for the six months ended June 30, 2012, and June 30, 2011, respectively.

The following table summarizes the net income and loss recorded by the FRBNY in its consolidated financial statements for each of the VIEs for the periods ended June 30, 2012, and June 30, 2011:

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

	ML	ML II	ML III	TALF LLC	Total
Six months ended June 30, 2012:					
Interest income:					
Portfolio interest income	$ 32	$ 52	$ 928	$ —	$ 1,012
Less: interest expense	36	7	90	2	135
Net interest income	(4)	45	838	(2)	877
Non-interest income:					
Portfolio holdings gains	491	1,350	4,634	—	6,475
Less: unrealized gains on beneficial interest in consolidated VIEs	—	(230)	(1,788)	(6)[1]	(2,024)
Net non-interest (loss) income	491	1,120	2,846	(6)	4,451
Total net interest income and non-interest income	**487**	**1,165**	**3,684**	**(8)**	**5,328**
Less: professional fees	7	2	9	—	18
Net income (loss) attributable to consolidated VIEs	**$ 480**	**$1,163**	**$ 3,675**	**$ (8)[2]**	**$ 5,310**
Six months ended June 30, 2011:					
Interest income:					
Portfolio interest income	$ 509	$ 322	$ 1,076	$ —	$ 1,907
Less: Interest expense	35	18	87	2	142
Net interest income	474	304	989	(2)	1,765
Non-interest income:					
Portfolio holdings (losses) gains	737	(533)	(652)	—	(448)
Less: unrealized (gains) losses on beneficial interest in consolidated VIEs	(114)	51	(81)	(28)[1]	(172)
Net non-interest (loss) income	623	(482)	(733)	(28)	(620)
Total net interest income and non-interest income	**1,097**	**(178)**	**256**	**(30)**	**1,145**
Less: professional fees	23	5	11	—	39
Net income (loss) attributable to consolidated VIEs	**$1,074**	**$ (183)**	**$ 245**	**$(30)[2]**	**$ 1,106**

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

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

(D) Depository Institution Deposits

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

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

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