

Comparative Financial Statements

Statements of Condition

(in millions)

	December 31, 2008	December 31, 2007
ASSETS		
Gold certificates	\$ 423	\$ 428
Special drawing rights certificates	104	104
Coin	136	113
Items in process of collection	164	268
Loans to depository institutions	15,622	853
System Open Market Account:		
Securities purchased under agreements to resell	3,034	1,903
U.S. government, Federal agency, and government-sponsored enterprise securities, net	19,043	30,514
Investments denominated in foreign currencies	1,736	1,625
Central bank liquidity swaps	38,749	1,727
Interdistrict settlement account	16,708	—
Bank premises and equipment, net	168	176
Prepaid interest on Federal Reserve notes due from U.S. Treasury	19	69
Accrued interest receivable	312	262
Other assets	34	59
Total assets	<u>\$ 96,252</u>	<u>\$ 38,101</u>
LIABILITIES AND CAPITAL		
Federal Reserve notes outstanding, net	\$ 39,263	\$ 32,223
System Open Market Account:		
Securities sold under agreements to repurchase	3,350	1,800
Deposits:		
Depository institutions	49,963	446
Other deposits	4	3
Deferred credit items	456	200
Interdistrict settlement account	—	741
Accrued benefit costs	96	90
Other liabilities	16	16
Total liabilities	<u>93,148</u>	<u>35,519</u>
Capital paid-in	1,552	1,291
Surplus (including accumulated other comprehensive loss of \$16 million and \$17 million at December 31, 2008 and 2007, respectively)	1,552	1,291
Total capital	<u>3,104</u>	<u>2,582</u>
Total liabilities and capital	<u>\$ 96,252</u>	<u>\$ 38,101</u>

The accompanying notes are an integral part of these financial statements.

Statements of Income and Comprehensive Income

(in millions)

	For the year ended December 31, 2008	For the year ended December 31, 2007
Interest income:		
Loans to depository institutions	\$ 132	\$ 1
System Open Market Account:		
Securities purchased under agreements to resell	73	59
U.S. government, Federal agency, and government-sponsored enterprise securities	1,000	1,609
Investments denominated in foreign currencies	44	39
Central bank liquidity swaps	252	2
Total interest income	<u>1,501</u>	<u>1,710</u>
Interest expense:		
System Open Market Account:		
Securities sold under agreements to repurchase	29	70
Depository institution deposits	28	—
Total interest expense	<u>57</u>	<u>70</u>
Net interest income	<u>1,444</u>	<u>1,640</u>
Non-interest income:		
System Open Market Account:		
U.S. government, Federal agency, and government-sponsored enterprise securities gains, net	151	—
Foreign currency gains, net	89	132
Compensation received for services provided	68	80
Reimbursable services to government agencies	63	62
Other income	33	6
Total non-interest income	<u>404</u>	<u>280</u>
Operating expenses:		
Salaries and other benefits	129	128
Occupancy expense	20	17
Equipment expense	11	13
Assessments by the Board of Governors	49	47
Other expenses	62	79
Total operating expenses	<u>271</u>	<u>284</u>
Net income prior to distribution	<u>1,577</u>	<u>1,636</u>
Change in funded status of benefit plans	1	5
Comprehensive income prior to distribution	<u>\$ 1,578</u>	<u>\$ 1,641</u>
Distribution of comprehensive income:		
Dividends paid to member banks	\$ 85	\$ 66
Transferred to surplus and change in accumulated other comprehensive loss	261	204
Payments to U.S. Treasury as interest on Federal Reserve notes	1,232	1,371
Total distribution	<u>\$ 1,578</u>	<u>\$ 1,641</u>

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Capital

(in millions, except share data)

For the years ended December 31, 2008 and December 31, 2007

	Surplus				
	Capital Paid-In	Net Income Retained	Accumulated Other Comprehensive Loss	Total Surplus	Total Capital
Balance at January 1, 2007 (21.7 million shares)	\$ 1,087	\$ 1,109	\$ (22)	\$ 1,087	\$ 2,174
Net change in capital stock issued (4.1 million shares)	204	—	—	—	204
Transferred to surplus and change in accumulated other comprehensive loss	—	199	5	204	204
Balance at December 31, 2007 (25.8 million shares)	\$ 1,291	\$ 1,308	\$ (17)	\$ 1,291	\$ 2,582
Net change in capital stock issued (5.2 million shares)	261	—	—	—	261
Transferred to surplus and change in accumulated other comprehensive loss	—	260	1	261	261
Balance at December 31, 2008 (31.0 million shares)	\$ 1,552	\$ 1,568	\$ (16)	\$ 1,552	\$ 3,104

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

1. STRUCTURE

The Federal Reserve Bank of Cleveland (“Bank”) is part of the Federal Reserve System (“System”) and is one of the twelve Reserve Banks (“Reserve Banks”) created by Congress under the Federal Reserve Act of 1913 (“Federal Reserve Act”), which established the central bank of the United States. The Reserve Banks are chartered by the federal government and possess a unique set of governmental, corporate, and central bank characteristics. The Bank serves the Fourth Federal Reserve District, which includes Ohio and portions of Kentucky, Pennsylvania, and West Virginia.

In accordance with the Federal Reserve Act, supervision and control of the Bank is exercised by a board of directors. The Federal Reserve Act specifies the composition of the board of directors for each of the Reserve Banks. Each board is composed of nine members serving three-year terms: three directors, including those designated as chairman and deputy chairman, are appointed by the Board of Governors of the Federal Reserve System (“Board of Governors”) to represent the public, and six directors are elected by member banks. Banks that are members of the System include all national banks and any state-chartered banks that apply and are approved for membership in the System. Member banks are divided into three classes according to size. Member banks in each class elect one director representing member banks and one representing the public. In any election of directors, each member bank receives one vote, regardless of the number of shares of Reserve Bank stock it holds.

The System also consists, in part, of the Board of Governors and the Federal Open Market Committee (“FOMC”). The Board of Governors, an independent federal agency, is charged by the Federal Reserve Act with a number of specific duties, including general supervision over the Reserve Banks. The FOMC is composed of members of the Board of Governors, the president of the Federal Reserve Bank of New York (“FRBNY”), and on a rotating basis four other Reserve Bank presidents.

2. OPERATIONS AND SERVICES

The Reserve Banks perform a variety of services and operations. Functions include participation in formulating and conducting monetary policy; participation in the payments system, including large-dollar transfers of funds, automated clearinghouse (“ACH”) operations, and check collection; distribution of coin and currency; performance of fiscal agency functions for the U.S. Treasury, certain federal agencies, and other entities; serving as the federal government’s bank; provision of short-term loans to depository institutions; provision of loans to individuals, partnerships, and corporations in unusual and exigent circumstances; service to the consumer and the community by providing educational materials and information regarding consumer laws; and supervision of bank holding companies, state member banks, and U.S. offices of foreign banking organizations. Certain services are provided to foreign and international monetary authorities, primarily by the FRBNY.