

Federal Home Loan Banks
Global Debt Program
for issuances of Bonds with maturities of one day or longer



The Federal Housing Finance Board, acting by and through the Office of Finance (together with any successors and assigns acting in a similar capacity with respect to the issuance of securities, the "Issuer") of the Federal Home Loan Banks (the "FHLBanks"), periodically may offer bonds ("Bonds") under the Global Debt Program (the "Program") by means of this Information Memorandum and a Pricing Supplement that will contain the specific terms of, and pricing details for, each particular series of Bonds. The Bonds will constitute joint and several unsecured general obligations of the FHLBanks.

The Bonds shall be denominated in the currencies specified in this Information Memorandum or as may otherwise be specified by the Issuer at the time of issue, as specified in the Pricing Supplement for that series of Bonds (the "Specified Currencies"). There is no specific limit on the aggregate outstanding principal amount of Bonds that may be issued under the Program. The Bonds will have maturities of one day or longer from the date of original issuance thereof and will bear interest as set forth in the applicable Pricing Supplement. The Bonds will either bear interest at fixed or variable rates or not bear interest. Principal payments on the Bonds may be made periodically or at maturity. Any index or formula used to determine the principal or interest payable on Bonds will be identified in the applicable Pricing Supplement. Certain Bonds may be subject to redemption at the option of the FHLBanks or pursuant to one or more indices or formulae identified in the applicable Pricing Supplement, and certain Bonds may be subject to redemption at the option of the registered holders thereof. Certain Bonds may be separated into Interest Components and Principal Components.

Bonds will be sold directly by the Issuer or through Dealers on either a syndicated or non-syndicated basis.

The Bonds will be issued from time to time (i) in accordance with the Global Agency Agreement in definitive registered form or in global registered form through the clearing systems operated by The Depository Trust Company ("DTC"), the Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel"), or (ii) for U.S. dollar denominated Bonds cleared and settled through the book-entry system of the Federal Reserve Banks ("Fed Book-Entry System"), in accordance with the Fed Fiscal Agency Agreement. See "FORM OF BONDS" and "CLEARANCE AND SETTLEMENT."

The Information Memorandum should be read in conjunction with any applicable Pricing Supplement and with the Federal Home Loan Bank System's current Financial Reports (as defined herein), and any supplements thereto. If any adverse change occurs in the financial position or results of operations of the FHLBanks, taken as a whole, which is material in the context of the Program or the issuance or offering of Bonds thereunder since the date as of which the most recent audited financial statements were prepared that is not reflected in this Information Memorandum, then the Office of Finance of the FHLBanks (the "Office of Finance") will update this Information Memorandum. If the terms of the Program are modified or amended in a manner that would make this Information Memorandum materially inaccurate or misleading, then the Office of Finance will prepare a new Information Memorandum reflecting such change or correcting such inaccuracy. See "AVAILABILITY OF INFORMATION AND INCORPORATION BY REFERENCE."

The Bonds may not be suitable investments for all investors, and the Bonds are intended for purchase only by investors capable of understanding the risks entailed in such an investment. No investor should purchase any of the Bonds unless that investor understands and is able to bear the price, market, liquidity, structure, redemption and other risks associated with that Bond. Investors should consult their own financial and legal advisors about the risks entailed by investment in a particular issue of Bonds, the appropriate tools to analyze that investment, and the suitability of that investment in each investor's particular circumstances. See "CERTAIN INVESTMENT CONSIDERATIONS" beginning on page 8 for discussion of certain risks that should be considered in connection with an investment in the Bonds.

THE BONDS ARE NOT OBLIGATIONS OF THE UNITED STATES AND ARE NOT GUARANTEED BY THE UNITED STATES.

Arrangers

ABN AMRO BANK N.V.

GOLDMAN SACHS INTERNATIONAL MORGAN STANLEY DEAN WITTER

Dealers

ABN AMRO BANK N.V.

BARCLAYS CAPITAL, INC.

BEAR, STEARNS & CO. INC.

CREDIT SUISSE FIRST BOSTON CORPORATION

DEUTSCHE BANK SECURITIES, INC.

FIRST TENNESSEE BANK

FUJI SECURITIES, INC.

GOLDMAN SACHS INTERNATIONAL

HSBC MARKETS

LEHMAN BROTHERS

MERRILL LYNCH INTERNATIONAL LIMITED

J.P. MORGAN SECURITIES LTD.

MORGAN STANLEY DEAN WITTER

PARIBAS

SALOMON BROTHERS INTERNATIONAL LIMITED

WARBURG DILLON READ

The date of this Information Memorandum is March 31, 1999.

THIS INFORMATION MEMORANDUM RELATES TO THE BONDS AND NOT TO ANY OTHER SECURITIES OF THE FHLBANKS WHICH HAVE BEEN OR WILL BE ISSUED ON BEHALF OF THE FHLBANKS BY THE ISSUER PURSUANT TO A DIFFERENT DISCLOSURE DOCUMENT.

BONDS ("BONDS") ISSUED UNDER THE PROGRAM ARE NOT REQUIRED TO BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED. ACCORDINGLY, NO REGISTRATION STATEMENT HAS BEEN FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION"). THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS INFORMATION MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

NEITHER THIS INFORMATION MEMORANDUM NOR ANY APPLICABLE PRICING SUPPLEMENT DESCRIBES ALL THE RISKS OF AN INVESTMENT IN BONDS DENOMINATED IN, OR THE PAYMENT OF PRINCIPAL OR INTEREST OF WHICH IS RELATED TO THE VALUE OF, A FOREIGN CURRENCY OR A CURRENCY UNIT, BONDS WITH INTEREST OR PRINCIPAL DETERMINED BY REFERENCE TO ONE OR MORE INTEREST RATE INDICES, CURRENCIES, OTHER INDICES OR FORMULAE, OR BONDS THAT INCLUDE REDEMPTION FEATURES, CAPS, FLOORS OR OTHER RIGHTS OR OPTIONS. THE ISSUER AND THE FHLBANKS DISCLAIM ANY RESPONSIBILITY TO ADVISE INVESTORS OF THOSE RISKS AS THEY EXIST AT THE DATE OF THIS INFORMATION MEMORANDUM OR ANY RELATED PRICING SUPPLEMENT OR AS THEY MAY CHANGE FROM TIME TO TIME.

NO SERIES OF BONDS WILL HAVE AN ESTABLISHED TRADING MARKET WHEN ISSUED. THERE CAN BE NO ASSURANCE THAT BONDS WILL HAVE SECONDARY MARKET LIQUIDITY. SEE "PLAN OF DISTRIBUTION".

The Federal Home Loan Bank System and the Issuer, having made all reasonable inquiries, confirm that all information in this Information Memorandum (as defined under "Availability of Information and Incorporation by Reference") is true and accurate in all material respects and is not misleading, and that there are no other facts the omission of which, in the context of the issue of Bonds, makes this Information Memorandum or any information in it misleading in any material respect. In addition, the Federal Home Loan Bank System and the Issuer confirm that each Pricing Supplement (as defined under "Pricing Supplements"), when read together with this Information Memorandum, will at the date thereof be true and accurate in all material respects and not misleading, and that there will be no other facts the omission of which makes that Pricing Supplement, when read together with this Information Memorandum, or any information therein misleading in any material respect.

No person is authorized to give any information or to make any representation not contained in this Information Memorandum or any applicable Pricing Supplement, and any information or representation not contained herein or in the applicable Pricing Supplement must not be relied on as having been authorized by or on behalf of the Issuer, the FHLBanks or by any of the Dealers (as defined under "Plan of Distribution"). The delivery of this Information Memorandum or the applicable Pricing Supplement at any time does not imply that the information contained in this Information Memorandum or the applicable Pricing Supplement, as the case may be, is correct at any time subsequent to the date of this document or, if later, the date of the documents incorporated by reference herein or to the date of the applicable Pricing Supplement, respectively.

Neither this Information Memorandum nor any Pricing Supplement constitutes an offer of, or an invitation by or on behalf of, the Issuer, the FHLBanks or the Dealers to subscribe or purchase any of the Bonds. The distribution of this Information Memorandum or any part hereof and any Pricing Supplement and the offer, sale and delivery of any of the Bonds may be restricted by law in certain jurisdictions. Persons into whose possession this Information Memorandum or any Pricing Supplement comes are required by the Issuer, the FHLBanks and the Dealers to inform themselves about and to observe any such restrictions. See "Plan of Distribution".

IN CONNECTION WITH ANY SERIES OF BONDS, ANY DEALER DISCLOSED AS STABILIZING MANAGER IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OF SUCH SERIES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Bonds to be issued under the Program may be listed on the Luxembourg Stock Exchange. The Luxembourg Stock Exchange has allocated the number 2306 to the Program for listing purposes. Unlisted Bonds and Bonds listed on other or additional stock exchanges may also be issued under the Program.

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AVAILABILITY OF INFORMATION AND INCORPORATION BY REFERENCE

Availability of Information

The Federal Home Loan Bank System publishes annually a combined financial report (the "Financial Report") which describes the Federal Home Loan Bank System and the FHLBanks and contains financial and other information about the FHLBanks. The Financial Report is updated from time to time to reflect quarterly and annual financial results of the FHLBanks and as the Federal Home Loan Bank System otherwise determines through unaudited combined quarterly financial reports (each a "Quarterly Financial Report"), or supplements, issued subsequent to the Financial Report. Each Quarterly Financial Report will be superseded within one year of its date through the Quarterly Financial Report or Financial Report issued subsequent to such Quarterly Financial Report.

The latest Financial Report and any Quarterly Financial Report and any subsequent Financial Reports or Quarterly Financial Reports (the "System Information") and the Global Agency Agreement, the Fed Fiscal Agency Agreement and every Pricing Supplement (each, as defined below), for every series of Bonds listed on the Luxembourg Stock Exchange, will be available free of charge to registered holders of the Bonds at the following office of the listing agent in Luxembourg so long as any of the Bonds are outstanding:

Kredietbank S.A. Luxembourgeoise
43 Boulevard Royal
L-2955 Luxembourg

The FHLBanks will provide without charge copies of the System Information upon written request at the following office of the FHLBanks:

Office of Finance
Federal Home Loan Banks
11921 Freedom Drive
Suite 1000
Reston, VA 20190

The Office of Finance will prepare, in respect of each particular series of Bonds, a Pricing Supplement (each a "Pricing Supplement") which will contain the terms of, and pricing details for, such series of Bonds and such other information as the FHLBanks consider necessary or appropriate. Each such Pricing Supplement should be read together with this Information Memorandum. Copies of the applicable Pricing Supplement for a series of Bonds may be obtained from the applicable Dealers for that series. A form of Pricing Supplement has been included as Exhibit A hereto.

Incorporation by Reference

This Information Memorandum should be read in conjunction with the Federal Home Loan Bank System's Financial Reports, each of which is incorporated by reference in this Information Memorandum, and the unaudited quarterly reports published since the most recent Financial Report, which are incorporated by reference in this Information Memorandum. References to "this Information Memorandum" shall mean this document, any supplements (other than Pricing Supplements) or amendments to this Information Memorandum and any documents incorporated by reference in this document, except, and to the extent, any such document is superseded or modified by any subsequent document incorporated by reference in this Information Memorandum.

If any adverse change occurs in the financial position or results of operations of the FHLBanks, taken as a whole, which is material in the context of the Program or the issuance or offering of Bonds thereunder since the date as of which the most recent audited financial statements were prepared that is not reflected in this Information Memorandum, then the Office of Finance of the FHLBanks (the "Office of Finance") will update this Information Memorandum. If the terms of the Program are modified or amended in a manner that would make this Information Memorandum materially inaccurate or misleading, then the Office of Finance will prepare a new Information Memorandum reflecting such change or correcting such inaccuracy.

SUMMARY

The following summary does not purport to be complete and is taken from, is qualified in its entirety by, and is subject to modification pursuant to the information in the remainder of this Information Memorandum and, in relation to the terms and conditions of any particular series of Bonds, the applicable Pricing Supplement. Words and expressions defined or used in "Terms and Conditions of the Bonds" shall have the same meaning in this Summary.

Issuer	The Federal Housing Finance Board, acting by and through the Office of Finance on behalf of the twelve FHLBanks, together with any successors and assigns acting in a similar capacity with respect to the issuance of securities.
Arrangers	ABN AMRO Bank N.V., Goldman Sachs International and Morgan Stanley & Co. International Limited.
Dealers	ABN AMRO Bank N.V., Barclays Capital, Inc., Bear, Stearns & Co. Inc., Credit Suisse First Boston Corporation, Deutsche Bank Securities, Inc., First Tennessee Bank, Fuji Securities, Inc., Goldman Sachs International, Lehman Brothers International (Europe), Merrill Lynch International Limited, Midland Bank plc, J.P. Morgan Securities Ltd., Morgan Stanley & Co. International Limited, Paribas Corporation, Salomon Brothers International Limited and UBS AG, acting through its division Warburg Dillon Read.
U.S. Fiscal Agent	Federal Reserve Banks.
Global Agent	Citibank N.A., London Office
Specified Currencies	Bonds may be denominated in any of the following currencies or currency units (each a "Specified Currency"): Australian dollars, British pounds sterling, Canadian dollars, Danish kroner, Euros, Japanese yen, Norwegian kroner, Swedish kronor, Swiss francs, U.S. dollars and such other currencies or currency units as may be agreed among the Issuer, the relevant Dealer(s) and the Global Agent and specified in the applicable Pricing Supplement.
Amount	There is no specific limit on the aggregate outstanding principal amount of Bonds that may be issued under the Program.
Maturities	Unless otherwise agreed, Bonds may be issued with maturities of one day or longer from the date of original issuance, or such minimum or maximum maturity as may be allowed or required from time to time by the relevant regulatory authority or any laws or regulations applicable to the relevant Specified Currency. Each Bond will mature on its Maturity Date as specified in the applicable Pricing Supplement, unless redeemed prior thereto. The principal amount payable on the Maturity Date will either be a specified amount or an amount determined by reference to one or more interest rate or other indices or formulae, in each case as specified in the applicable Pricing Supplement.
Issue Price	Bonds may be issued at par or at a discount to or premium over par.

Method of Issue	Bonds will be purchased for resale by Dealers acting as principal, whether individually or in a syndicate, or on an agency basis. Additional Bonds may be issued as part of an existing series of Bonds. Bonds may also be issued directly by the Issuer to the extent permitted by applicable law or directive in a relevant jurisdiction.
Types of Bonds	The following are some of the general types of Bonds which may be offered by the Issuer.
Fixed Rate Bonds	Bonds that bear interest at a fixed rate or rates as specified in the applicable Pricing Supplement.
Variable Rate Bonds	Bonds that bear interest at a variable rate determined by reference to one or more interest rate or exchange rate indices or otherwise (i) plus or minus a Spread, if any, or (ii) multiplied by a Multiplier, if any, in each case as specified in the applicable Pricing Supplement. The interest rate on a Variable Rate Bond may vary in the same direction as changes in the applicable index or indices or in the opposite direction of those changes. Variable Rate Bonds may have either Maximum Interest Rates, Minimum Interest Rates or both.
Zero Coupon Bonds	Bonds that do not bear interest.
Amortizing Bonds	Bonds on which there are periodic payments of principal in amounts, on dates and at a redemption price all as specified in the applicable Pricing Supplement.
Redemption	Bonds may be subject to redemption prior to maturity at the option of the FHLBanks and/or the registered holders or by reference to one or more interest rate or exchange rate indices on such dates, in such amounts and at such redemption prices as specified in the applicable Pricing Supplement.
Status of Bonds	Bonds will constitute the joint and several obligations of the FHLBanks ranking <i>pari passu</i> , without any preference among themselves, with all other unsecured and unsubordinated obligations of the FHLBanks.
BONDS WILL NOT BE OBLIGATIONS OF THE UNITED STATES AND WILL NOT BE GUARANTEED BY THE UNITED STATES.	
Tax Status	For United States federal income and estate tax purposes the Bonds will be treated as debt obligations issued by United States corporations.

Form of Bonds	Each series of Bonds will be issued in accordance with the Fed Fiscal Agency Agreement ("Fed Book-Entry Bonds") or the Global Agency Agreement ("Global Bonds"). Restrictions on forms of Bonds may apply in certain jurisdictions. Bonds will not be issued in bearer form. See "FORM OF THE BONDS".
Fed Book-Entry Bonds	Bonds which are U.S. dollar denominated Bonds and cleared and settled through the book-entry system of the Federal Reserve Banks ("Fed Book-Entry System").
Global Bonds	Bonds issued in either definitive registered form delivered to the Dealer or in registered global form through the clearing systems of DTC, Euroclear, Cedel or such other additional clearing system as specified in the applicable Pricing Supplement.
Denominations	Bonds will be issued in such minimum denominations as may be agreed between the FHLBanks and the relevant Dealers and specified in the applicable Pricing Supplement, except that Bonds, in any case, will be issued with such minimum denominations as may be allowed or required from time to time by the relevant regulatory authority or any laws or regulations applicable to the relevant Specified Currency.
Listing	The Bonds to be issued under the Program may be listed on the Luxembourg Stock Exchange. The Luxembourg Stock Exchange has allocated the number 2306 to the Program for listing purposes. Unlisted Bonds and Bonds listed on other or additional stock exchanges may also be issued under the Program.
Rating	The Bonds have been rated AAA by Standard & Poor's Ratings Group and Aaa by Moody's Investors Service, Inc.
Governing Law	The Bonds will be governed by the laws of the State of New York (without regard to conflict of law principles).
Selling Restrictions	There may be restrictions on the sale of Bonds and the distribution of offering materials relating to the Bonds.
Clearance and Settlement	A series of Bonds denominated in U.S. dollars and distributed both inside and outside the United States will clear and settle, inside the United States, through the Fed Book-Entry System and, outside the United States, through the clearing systems operated by the Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel"). A series of Bonds not denominated in U.S. dollars and distributed both inside and outside the United States will clear and settle through the clearing systems operated by The Depository Trust Company ("DTC"), Euroclear and/or Cedel. Any series of Bonds, irrespective of currency, that is intended to be distributed solely outside the United States will clear and settle through Euroclear and Cedel, and in certain cases, DTC. Bonds may also clear and settle through other or additional clearing systems, as specified in the applicable Pricing Supplement and, if required, as approved by the Luxembourg Stock Exchange.

CERTAIN INVESTMENT CONSIDERATIONS

The following section does not describe all the risks and other ramifications of an investment in the Bonds. Prospective investors should consult their own financial and legal advisors about the risks in a particular series of Bonds, the appropriate tools to analyze that investment and the suitability of investing in the Bonds in light of their particular circumstances. Words and expressions defined or used in "Terms and Conditions of the Bonds" shall have the same meaning in this section.

Suitability

Investors in any particular series of Bonds should have sufficient knowledge and experience in financial and business matters to evaluate those Bonds, the merits and risks of investing in those Bonds and the information contained and incorporated by reference in this Information Memorandum, the applicable Pricing Supplement and any other supplement or amendment hereto or thereto applicable to those Bonds. In addition, each investor should have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of that investor's financial situation, those Bonds, the merits and risks of investing in those Bonds and the impact those Bonds may have on their overall investment portfolio. Not every Bond is suitable for every investor. No investor should purchase a Bond unless that investor understands and has sufficient financial resources to bear the price, market, liquidity, structure, redemption and other risks associated with that Bond. No investor should purchase any Bond without sufficient experience and financial resources, relative to the potential risks, to manage its investments, including its investment in that Bond. Before purchasing any Bond, investors should understand thoroughly the terms of that Bond, be familiar with the behavior of the relevant financial markets, and consider, possibly with the assistance of a financial advisor, the possible effect that changes in economic, interest rate and other factors may have on their investment and their ability to bear the associated risks under a variety of scenarios. Furthermore, Bonds may be redeemed before their stated maturity at a time when reinvestment opportunities at a similar or higher rate may not be available. No series of Bonds will have an established trading market when issued. There can be no assurance that Bonds will have secondary market liquidity. Each investor also should consider any legal restrictions that may apply to its investment in Bonds.

Legal Investment Considerations

Each investor should consult its own legal advisors to determine whether and to what extent Bonds constitute legal investments for that investor and whether and to what extent Bonds can be used as collateral for various types of borrowings. In addition, financial institutions should consult their legal advisors or regulators in determining the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

Investors whose investment activities are subject to legal investment laws and regulations or to review or regulation by certain authorities may be subject to restrictions on investments in certain types of debt securities, which may include some or all of the Bonds. Investors should review and consider those restrictions prior to investing in Bonds. In addition, any investor that is subject to the regulatory jurisdiction of any government agency should review and consider the applicability of rules, guidelines, regulations and policy statements adopted by its regulators prior to investing in or pledging Bonds.

Structure Risks

An investment in Bonds the interest on or principal or timing of redemption of which is determined by reference to one or more interest rate or other indices, either directly or inversely, may entail significant risks not associated with similar investments in a conventional debt security, including the risks that the resulting interest rate will be less than that payable on a conventional debt security issued on behalf of the FHLBanks at the same time, that the weighted average life of the Bond could be different than that expected by the investor, and/or that the investor could lose all or a substantial portion of its investment principal. The secondary market for such Bonds will be affected by a number of factors independent of the creditworthiness of the FHLBanks and the value of the applicable index or indices, including without limitation the volatility of such

index or indices, the method of calculating the interest rate or the principal amount outstanding on the Bonds, the time remaining to the maturity or possible redemption of the Bonds, the outstanding principal amount of the Bonds and market interest rates. The value of any applicable indices may depend on a number of interrelated factors, including economic and political events over which the FHLBanks have no control. Neither the current nor historical value of any applicable indices should be taken as an indication of the future performance of such indices during the term of any Bond.

Investors should have knowledge of and access to appropriate analytical tools to analyze quantitatively the effect (or value) of any and all redemption, cap or floor, or other terms of a particular issue of Bonds, and the resulting impact upon the value of the Bonds.

Exchange Rate Risks and Exchange Controls

As described in this Information Memorandum, Bonds may be denominated or payable in one or more of a number of currencies. For investors whose financial activities are denominated principally in a currency (the "Investor's Currency") other than the Specified Currency, or where principal of or interest on Bonds is payable by reference to a Specified Currency index other than an index relating to the Investor's Currency, an investment in the Bonds entails significant risks that are not associated with a similar investment in a security denominated in that Investor's Currency. Such risks include, without limitation, the possibility of significant changes in the rate of exchange between the Specified Currency and the Investor's Currency and the possibility of the imposition or modification of exchange controls by the country of the Specified Currency or the Investor's Currency. Such risks generally depend on economic and political events over which the FHLBanks have no control. In recent years, rates of exchange have been highly volatile and such volatility may be expected to continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur in the future. An appreciation in the value of the Investor's Currency relative to the value of the Specified Currency would result in a decrease in the Investor's Currency equivalent yield on a Bond denominated in that Specified Currency, in the Investor's Currency equivalent value of the principal payable at maturity of such Bond and generally in the Investor's Currency equivalent market value of such Bond. A depreciation in the value of the Investor's Currency relative to the value of the Specified Currency would have the opposite effect. In addition, depending on the specific terms of a Bond denominated in, or the payment of which is related to the value of, one or more foreign currencies, changes in exchange rates relating to any of the currencies involved may result in a decrease in such Bond's effective yield and, in certain circumstances, could result in a loss of all or a substantial portion of the principal of a Bond to the investor.

Governmental imposed exchange controls could affect exchange rates as well as the availability of a specified foreign currency at the time of payment of principal of, or premium, if any, or interest on, a Bond. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Bond may not be available when payments on such Bond are due.

Credit Ratings

Any credit rating assigned to the Bonds only reflects a particular rating agency's evaluation of the probability that the FHLBanks will default on the Bonds. However, a credit rating does not reflect the potential impact of all risks associated with investment in the Bonds, including, without limitation, the price, market, liquidity, structure, redemption and other risks associated with the Bonds.

Judgments

Courts in the United States generally would grant judgment relating to an action based on the Bonds only in U.S. dollars, and the date used to determine the rate of conversion of foreign currencies into U.S. dollars will depend on various factors, including which court rendered judgment. Section 27 of the Judiciary Law of the State of New York provides that a New York State court would be required to enter judgment in the Specified Currency; such judgment would then be converted into U.S. dollars at the rate of exchange prevailing on the date judgment was rendered.

FORM OF THE BONDS

Words and expressions defined or used in "Terms and Conditions of the Bonds" shall have the same meaning in this section.

The Office of Finance and the relevant Dealers shall agree on and shall specify in the applicable Pricing Supplement whether the Bonds will be issued (i) in registered form in accordance with the Global Agency Agreement, dated as of July 1, 1994 (as it may be supplemented, amended or replaced from time to time, the "Global Agency Agreement") (such Bonds being referred to as the "Registered Bonds") between the FHLBanks and Citibank, N.A., London Office as Global Agent (and as successor to Morgan Guaranty Trust Company of New York, London Office), or any successor or replacement global agent (the "Global Agent") or (ii) in registered form in accordance with a fiscal agency agreement dated as of September 20, 1973 (as it may be supplemented, amended or replaced from time to time, the "Fed Fiscal Agency Agreement"), between the Office of Finance on its behalf and on behalf of the FHLBanks and the Federal Reserve Banks, as fiscal agent (the "U.S. Fiscal Agent") (such Bonds being referred to herein as the "Fed Book-Entry Bonds").

Fed Book-Entry Bonds

All Fed Book-Entry Bonds of a series must be denominated in U.S. dollars and cleared and settled in the United States through the Federal Reserve Banks. The Bonds will not be exchangeable for definitive securities. The U.S. Fiscal Agent will maintain book-entry accounts with respect to the Fed Book-Entry Bonds and make payments, on behalf of the FHLBanks, of interest on and principal of the Bonds on the applicable payment dates by crediting the accounts of Holding Institutions (as defined below) at the Federal Reserve Banks. Such Fed Book-Entry Bonds will be held by the Holding Institutions designated by the relevant Dealers unless an investor arranges for the transfer of its Fed Book-Entry Bonds to another Holding Institution. Certain Holding Institutions may hold Fed Book-Entry Bonds as depositaries for Euroclear and Cedel. See "CLEARANCE AND SETTLEMENT". A "Holding Institution" is a depositary or other designated institution that has an appropriate book-entry account with a Federal Reserve Bank or Branch.

Registered Bonds

Registered Bonds of a series may be issued in definitive registered form ("Definitive Registered Bonds") or in global registered form through the clearing systems operated by The Depository Trust Company ("DTC"), the Euroclear System ("Euroclear") and Cedel Bank société anonyme ("Cedel") ("Registered Global Bonds"). Registered Global Bonds may be denominated in any Specified Currency and may clear and settle in the United States through DTC (such a Registered Global Bond being referred to herein as a "DTC Global Bond") or outside the United States through Euroclear, Cedel or such other clearing system as agreed and approved, if required, by the Luxembourg Stock Exchange and specified in the applicable Pricing Supplement.

Bonds of a series intended to be sold in primary distribution to investors in the United States, and not denominated in U.S. dollars, shall, unless otherwise specified in the applicable Pricing Supplement, initially be represented by a single Bond in registered global form (a "Registered Global Bond") deposited on its Issue Date (as defined below) with Citibank N.A., London Office, or any successor or replacement custodian (the "Custodian"), as Custodian for, and registered in the name of a nominee of, DTC (such a Registered Global Bond being referred to herein as a "DTC Global Bond").

Registered Bonds of a series of Bonds intended to be sold in primary distribution to investors outside the United States shall, unless otherwise specified in the applicable Pricing Supplement, initially be represented by one or more Registered Global Bonds deposited on its or their Issue Date with the Custodian as depositary for, and registered in the name of a nominee of, Euroclear and Cedel or such other clearing system, as agreed and approved, if required, by the Luxembourg Stock Exchange.

Registered Bonds of a series of Bonds intended to be sold in primary distribution both within the United States and outside the United States, and not denominated in U.S. dollars, shall, unless otherwise specified in the applicable Pricing Supplement, initially be represented by one or more Registered Global Bonds. A DTC

Global Bond in respect of sales of Bonds within the United States will be deposited on its Issue Date with the Custodian as custodian for, and registered in the name of a nominee of, DTC. The same or one or more other Registered Global Bonds in respect of sales of Bonds outside the United States will be deposited on its or their Issue Date with the Custodian as depositary for, and registered in the name of a nominee of, either DTC or Euroclear and Cedel, or such other clearing system, as agreed and approved, if required, by the Luxembourg Stock Exchange.

Registered Bonds may, if so specified in the applicable Pricing Supplement, initially be issued in definitive registered form ("Definitive Registered Bonds"). Otherwise, Definitive Registered Bonds will only be available in the case of Registered Bonds initially issued as Registered Global Bonds (other than Bonds in certain Specified Currencies), in certain circumstances described below.

Unless otherwise specified in the applicable Pricing Supplement, interests in a Registered Global Bond will be exchangeable for Definitive Registered Bonds only if such exchange is permitted by applicable law and (i) in the case of a DTC Global Bond, DTC notifies the FHLBanks that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the DTC Global Bond, or ceases to be a "clearing agency" registered under the U.S. Securities Exchange Act of 1934, as amended, or is at any time no longer eligible to act as such and the FHLBanks are unable to locate a qualified successor within 90 calendar days of receiving notice of such ineligibility on the part of DTC, (ii) in the case of any other Registered Global Bond, if the clearing system or systems through which it is cleared and settled is closed for business for a continuous period of 14 calendar days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, (iii) upon the request, and at the expense, of a registered holder, the FHLBanks, in their sole discretion, may elect to issue Definitive Registered Bonds or (iv) a registered holder has instituted any judicial proceeding in a court to enforce its rights under the Bonds and such registered holder has been advised by counsel that in connection with such proceeding it is necessary for such registered holder to obtain possession of its Bonds in definitive form. In such circumstances, the FHLBanks will cause sufficient Definitive Registered Bonds to be executed and delivered as soon as practicable (and in any event within 45 calendar days of the Office of Finance receiving notice of the occurrence of such circumstances) to the Registrar for completion, authentication and delivery to the relevant registered holders. A person having an interest in a Registered Global Bond must provide the Registrar with a written order containing instructions and such other information as the FHLBanks and the Registrar may require to complete, execute and deliver such Definitive Registered Bonds.

DTC has advised the FHLBanks that it will take any action permitted to be taken by a registered holder of Registered Bonds (including, without limitation, the presentation of DTC Global Bonds for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in DTC Global Bonds are credited and only in respect of such portion of the aggregate principal amount of the relevant DTC Global Bonds as to which such participant or participants has or have given such direction. However, in the circumstances described above, DTC will surrender the relevant DTC Global Bonds for exchange for Definitive Registered Bonds.

Bonds not in global form or not deposited with DTC will not be eligible for clearing or settlement through DTC.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the terms and conditions which, subject to completion and amendment and as supplemented, varied or substituted in accordance with the provisions of the applicable Pricing Supplement, will apply to the series of Bonds referred to in such Pricing Supplement:

Any matters concerning accounts on the books of the Federal Reserve Banks acting as U.S. Fiscal Agent are governed by the operating circulars or letters of the Federal Reserve Banks. Any matters concerning Fed Book-Entry Bonds on the Fed Book-Entry System shall be governed by operating circulars and letters of the Federal Reserve Banks, the regulations contained in 12 C.F.R. Part 912, as amended, modified, supplemented or superseded from time to time (the “Fed Book-Entry Regulations”) and the regulations now or hereafter prescribed by the United States Department of the Treasury for the conduct of similar transactions involving marketable United States securities. These matters shall not be affected by any inconsistent provisions of any depository or organized exchange. These regulations, operating circulars and letters may be modified, amended, supplemented, superseded, eliminated or otherwise altered without the consent of any Holding Institution or beneficial owner of Fed Book-Entry Bonds.

Registered Bonds are issued in accordance with a Global Agency Agreement. The Global Agency Agreement includes forms of Definitive Registered Bonds and Registered Global Bonds. Copies of the Global Agency Agreement are available for inspection at the specified offices of the Calculation Agent, the Exchange Agent, the Registrar and the Transfer Agents (each as defined below) and the Global Agent. The Global Agency Agreement permits the appointment of other agents and their successors, including a calculation agent (the “Calculation Agent”), an exchange agent (the “Exchange Agent”), one or more transfer agents (together, the “Transfer Agents”) and a registrar (the “Registrar”). The Global Agent, the Calculation Agent, the Exchange Agent, the Registrar, the Transfer Agents and the Federal Reserve Banks are together referred to herein as the “Agents”. The registered holders of Bonds are deemed to have notice of all of the provisions of the Global Agency Agreement applicable to them.

1. Form, Denomination, Title and Currency

(a) *Form and Denomination:* Each series of Bonds will either be issued in the form of Fed Book-Entry Bonds or Registered Bonds and will be issued in the aggregate principal amount (the “Aggregate Principal Amount”) and minimum denominations (“Authorized Denominations”) as specified in the applicable Pricing Supplement.

A certificate will be issued to each holder of definitive Registered Bonds (“Definitive Registered Bonds”) in respect of its registered holding or holdings. Each Definitive Registered Bond will be numbered serially with an identifying number, which will be recorded in the Register (as defined below) that the FHLBanks shall cause to be kept by the Registrar. Registered Bonds may also be held in book-entry form in the systems maintained by Euroclear, Cedel and DTC (“Registered Global Bonds”).

(b) *Title:* The FHLBanks may deem and treat the registered owner, in respect of any Registered Bond, as the owner thereof for all purposes whatsoever notwithstanding any notice to the contrary. The FHLBanks and the Federal Reserve Banks may treat the Holding Institution (as defined below) as the absolute owner of the Bonds for the purposes of making payments and for all other purposes. Fed Book-Entry Bonds may be held of record only by entities eligible to maintain book-entry accounts with the Federal Reserve Banks. Such entities of record are herein referred to as “Holding Institutions”. A Holding Institution that is not the beneficial owner of a Fed Book-Entry Bond, and each financial intermediary in the chain to the beneficial owner, has the responsibility of establishing and maintaining accounts for their respective customers. The rights of such beneficial owner may be exercised only through the Holding Institution of such Fed Book-Entry Bond. The FHLBanks and the Federal Reserve Banks will have no direct obligation to a beneficial owner of a Fed Book-Entry Bond that is not also the Holding Institution of such Fed Book-Entry Bond. The Federal Reserve Bank will act only upon the instructions of the Holding Institution in recording transfers of the Fed Book-Entry Bonds.

(c) *Specified Currency:* The Specified Currency of any Bond, and, if different, the currency of any interest payment (“Specified Interest Payment Currency”) and/or principal payment (“Specified Principal Payment Currency”) on the Bonds, are as specified in the applicable Pricing Supplement.

2. Transfers

(a) *Transfer of Fed Book-Entry Bonds:* Fed Book-Entry Bonds may be transferred between Holding Institutions in Federal Reserve Districts where the respective Federal Reserve Banks have adopted appropriate procedures, in accordance with such procedures.

(b) *Transfer of Definitive Registered Bonds:* A Definitive Registered Bond may be transferred in whole or in part at the office of the Registrar or any Transfer Agent by delivery of such Definitive Registered Bond with the form of transfer thereon duly endorsed by or accompanied by a written instrument of transfer in form satisfactory to the FHLBanks and the Registrar or any Transfer Agent duly executed by the registered Holder. In the case of a transfer of only part of such a Registered Bond, a new Registered Bond in respect of the balance not transferred will be issued to the transferor. Each new Registered Bond to be issued upon transfer of such a Registered Bond will be mailed to such address as may be specified in such form of transfer at the risk of the holder entitled to the new Registered Bond in accordance with the customary procedures of such Registrar or Transfer Agent.

(c) *Transfer of Registered Global Bonds:* Interests in a Registered Global Bond deposited with DTC, Euroclear or Cedel will be transferable in accordance with the rules and procedures established for that purpose by DTC, Euroclear or Cedel as applicable from time to time.

(d) *Service Charge:* Except in the case of a Registered Bond which is lost, mutilated or stolen, registrations of transfer will be effected without charge by or on behalf of the FHLBanks or the relevant Agent. The FHLBanks may require payment of a sum from the transferee sufficient to cover any applicable stamp tax or other governmental charge that may be imposed in connection with any registration or transfer.

(e) *Closed Periods:* No registered holder may require the registration of transfer of a Registered Bond (i) during the period of 15 calendar days ending on the due date for any payment of principal of that Bond, (ii) during the period of notice pursuant to Condition 5(c) (iii), for any Bonds that may be redeemed by the FHLBanks at its option pursuant thereto, or (iii) after any such Bond has been called for redemption in whole or in part.

(f) *Register:* The Registrar shall maintain the names and addresses of holders of Registered Bonds, the Bond numbers and other details with respect to the issuance, transfer and exchange of Registered Bonds on a definitive record (the “Register”).

3. Status

The Bonds constitute the joint and several obligations of the FHLBanks ranking *pari passu*, without any preference among themselves, with all other unsecured and unsubordinated obligations of the FHLBanks.

THE BONDS WILL NOT BE OBLIGATIONS OF THE UNITED STATES AND WILL NOT BE GUARANTEED BY THE UNITED STATES.

4. Interest

All words capitalized in this Condition 4, but not previously defined, are defined in Condition 4(IV). One or more of the following provisions apply to each Bond, as specified in the applicable Pricing Supplement:

(I) Fixed Rate Bonds

The following provisions in this Condition 4(I) apply to Bonds which bear interest at a fixed rate (“Fixed Rate Bonds”).

(a) *Interest Rate and Accrual:* Interest payable on a Fixed Rate Bond will accrue during each Interest Period at the rate or rates per annum specified in the applicable Pricing Supplement on such Fixed Rate Bond for that Interest Period (“Fixed Interest Rate(s)”). Interest accruing on a Fixed Rate Bond will be payable in arrears on each Interest Payment Date and on the Maturity Date or Redemption Date as specified in the applicable Pricing Supplement.

No interest on the principal of any Fixed Rate Bond will accrue on or after the Maturity Date or Redemption Date with respect to the principal repayable on such date unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue until the principal and interest is paid in full.

(b) *Calculation of Interest Amount:* The amount of interest on a Fixed Rate Bond will be calculated by the Calculation Agent by multiplying the Calculation Amount by the applicable Fixed Interest Rate and multiplying the product by the applicable Fixed Rate Day Count Fraction.

(II) Variable Rate Bonds

The following provisions in this Condition 4(II) apply to Bond(s) which bear interest at a variable rate (“Variable Rate Bonds”).

(a) *Interest Accrual:* Interest payable on a Variable Rate Bond will accrue during each Interest Period at the Rate of Interest (as defined below) or as otherwise specified in the applicable Pricing Supplement. Interest accruing on a Variable Rate Bond will be payable in arrears on each Interest Payment Date and on the Maturity Date or Redemption Date as specified in the applicable Pricing Supplement.

No interest on the principal of any Variable Rate Bond will accrue on or after the Maturity Date or Redemption Date with respect to the principal repayable on such date unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue until the principal and interest is paid in full.

(b) *Rate of Interest:* Variable Rate Bonds bear interest at a variable rate determined by reference to one or more interest rate indices or exchange rate indices to be determined in accordance with Condition 13 (each a “Reference Rate”) or as otherwise specified in the applicable Pricing Supplement (i) plus or minus a Spread, if any, and/or (ii) multiplied by a Multiplier, if any, in each case as specified in the applicable Pricing Supplement (the “Rate of Interest”). The interest rate on a Variable Rate Bond may vary in the same direction as changes in the applicable Reference Rate or in the opposite direction of those changes. Variable Rate Bonds may have Minimum Interest Rates, Maximum Interest Rates or both.

(c) *Rounding:* Unless otherwise specified in the applicable Pricing Supplement, the Calculation Agent shall, if necessary, round all values input into formulas for the Rate of Interest and intermediate calculations expressed as a percentage to five decimal places and any Rate of Interest expressed as a percentage to three decimal places.

(d) *Calculation of Interest Amounts:* Subject to Minimum Interest Rates and/or Maximum Interest Rates, if any, the Interest Amount on a Variable Rate Bond will be calculated by the Calculation Agent by multiplying the Calculation Amount by the Rate of Interest and then multiplying the product by the applicable Variable Rate Day Count Fraction. The determination of the Interest Amount by the Calculation Agent shall, in the absence of manifest error, be final and binding upon all parties.

(e) *Notification of Rate of Interest Amount:* The Calculation Agent will cause the Rate of Interest, Interest Amount and Interest Payment Date for each Interest Period to be provided to, as appropriate, the Office of Finance, the Agents and, if the relevant Bonds are at such time listed on one or more stock exchanges, to each stock exchange as soon as practicable after their determination but in no event later than two Relevant Business Days after the date of their determination. The Calculation Agent will also cause the Interest Amount and Interest Payment Date for each Interest Period to be provided to registered holders in accordance with Condition 10 as soon as practicable after its determination but in no event later than the seventh calendar day thereafter. The Interest Amount and the Interest Payment Date so published may

subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

(f) *Calculation Agent and Reference Banks:* The FHLBanks will ensure that, as long as any Variable Rate Bond remains outstanding, there shall always be a Calculation Agent for such Bond. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for any Interest Period or to calculate the Interest Amounts, the Office of Finance will appoint either itself or the New York or London office of a leading bank engaged in the international interbank markets to act as Calculation Agent in its place. The Calculation Agent may not resign its duties without a successor having been appointed.

(III) Zero Coupon Bonds

If specified in the applicable Pricing Supplement, Bonds may not bear interest and may be issued at a price that is less than the amount payable on the Maturity Date ("Zero Coupon Bonds"). If, on or after the Maturity Date, payment of principal is improperly withheld or refused, interest shall accrue thereon from the Maturity Date to the date payment is actually made (the "Relevant Date") at the rate per annum equal to the percentage (the "Amortization Yield") specified in the applicable Pricing Supplement.

(IV) Definitions

As used in these Conditions:

"Business Day Convention" means the convention for adjusting any Interest Payment Date, Redemption Date or Maturity Date if such date would otherwise fall on a day that is not a Relevant Business Day. Such adjustment will be made as follows:

(A) if the "Following Business Day Convention" is specified in the applicable Pricing Supplement, then the relevant Interest Payment Date, Redemption Date or Maturity Date will be the first following day that is a Relevant Business Day with the same force and effect as if made on such Interest Payment Date, Redemption Date or Maturity Date and no additional interest shall accrue for such Interest Period;

(B) if the "Modified Following Business Day Convention" is specified in the applicable Pricing Supplement, then the relevant Interest Payment Date, Redemption Date or Maturity Date will be the first following day that is a Relevant Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Relevant Business Day;

(C) if the "Preceding Business Day Convention" is specified in the applicable Pricing Supplement, then the relevant Interest Payment Date, Redemption Date or Maturity Date will be the first preceding day that is a Relevant Business Day; or

(D) based on such other Business Day Convention as may be specified in the applicable Pricing Supplement.

"Calculation Amount" means the amount specified as such on any Bond or, if no such amount is so specified, the amount of principal outstanding.

"Fixed Rate Day Count Fraction" is the fraction which, unless otherwise specified in the applicable Pricing Supplement, will be a fraction the numerator of which is the number of days in the Interest Period based on a year of 12 months of 30 days each and the denominator of which is 360 and in the case of an incomplete month, the number of days elapsed.

"FRN Convention" means, in respect of either Interest Payment Dates, Redemption Dates or Maturity Dates on a Bond, that the Interest Payment Date, Redemption Date or Maturity Date will be each day that numerically corresponds to the Issue Date of the Bond or such other date as may be specified on such Bond or, as the case may be, the preceding Interest Payment Date, Redemption Date or Maturity Date in the calendar month which is the specified Interest Period specified on such Bond after

the calendar month in which such Issue Date or such other date or, as the case may be, the preceding Interest Payment Date, Redemption Date or Maturity Date occurred, provided that:

(A) if there is no such numerically corresponding day in the calendar month in which an Interest Payment Date, Redemption Date or Maturity Date should occur, the relevant Interest Payment Date, Redemption Date or Maturity Date will be the last day which is a Relevant Business Day in that calendar month;

(B) if an Interest Payment Date, Redemption Date or Maturity Date would otherwise fall on a day that is not a Relevant Business Day, the relevant Interest Payment Date, Redemption Date or Maturity Date will be the first following day that is a Relevant Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day that is a Relevant Business Day; and

(C) if such Issue Date or such other date or the preceding Interest Payment Date, Redemption Date or Maturity Date occurred on the last day in a calendar month that was a Relevant Business Day, all subsequent Interest Payment Dates, Redemption Dates or Maturity Dates will be the last day that is a Relevant Business Day in the calendar month that is the specified Interest Period after the calendar month in which such Issue Date or such other date or, as the case may be, the preceding Interest Payment Date, Redemption Date or Maturity Date occurred.

“Issue Date” means the date of issuance of the series of Bonds.

“Interest Commencement Date” means the Issue Date or such other date as may be specified in the applicable Pricing Supplement; provided, however, in the case of an issuance of an additional tranche of a series of Bonds, the Interest Commencement Date shall be the most recent date that interest was paid on such series or if no interest has yet been paid, the Issue Date for the initial issuance within that series, or in any case such other date as may be specified in the Pricing Supplement applicable to such additional tranche.

“Interest Payment Date” means each date specified in the applicable Pricing Supplement for the payment of interest, in each case as adjusted by the Business Day Convention or FRN Convention specified in the applicable Pricing Supplement.

“Interest Period” means the period beginning on, and including, the most recent Interest Payment Date (or if no interest has been paid or made available for payment in respect of an issue of Bonds, from and including the Interest Commencement Date) to, but excluding, the next succeeding Interest Payment Date, Redemption Date or Maturity Date, as the case may be.

“Maximum Interest Rate” means the maximum interest rate limitations, or “caps,” on the rate at which interest may accrue during any Interest Period.

“Minimum Interest Rate” means the minimum interest rate limitations, or “floors,” on the rate at which interest may accrue during any Interest Period.

“Maturity Date” means the date specified in the applicable Pricing Supplement upon which the Bond matures, in each case, as adjusted by Conditions 6(a)(ii) or 6(b)(v), as applicable.

“Redemption Date” means the date(s) of early redemption specified in the applicable Pricing Supplement pursuant to Section 5(c).

“Relevant Banking Centers” means the banking center(s) specified in the applicable Pricing Supplement.

“Relevant Banking Day” means for any currency a day on which banks and foreign exchange markets are open for business in the Relevant Banking Center(s).

“Relevant Business Day” means:

(A) a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the Relevant Financial Centers;

(B) in the case of any currency, a day on which banks and foreign exchange markets are open for business in such other financial center or centers as specified on the relevant Bond; and

(C) in the case of a Bond the payments on which are made in Euro, a day on which the Trans-European Automated Real Time Cross Settlement Express Transfer System is operating.

“Relevant Financial Centers” means the financial center(s) specified in the applicable Pricing Supplement.

“Relevant Time” means, on a Determination Date, the local time at which it is customary to determine bid, offered and mean interest rates in respect of deposits in that currency in the interbank market in the Relevant Banking Center(s).

“Spread” means a constant or variable amount of basis points (one one-hundredth of a percent) to be added to or subtracted from the Reference Rate as specified in the applicable Pricing Supplement.

“Spread Multiplier” means the constant or variable number by which the relevant Reference Rate, as specified in the applicable Pricing Supplement, will be multiplied.

“Variable Rate Day Count Fraction” is the basis specified in the Bond and which, unless otherwise specified in the applicable Pricing Supplement, will be a fraction the numerator of which is the actual number of days in the relevant Interest Period and the denominator of which is 360 (or 365/366, if specified in the applicable Pricing Supplement), rounding, if necessary, the resultant figure to the nearest unit of the relevant currency (half of such unit being rounded upwards).

5. Maturity, Redemption and Purchase

(a) *Maturity*: Each Bond will mature on the Maturity Date unless redeemed prior thereto. The principal amount payable on the Maturity Date of a Bond will either be a fixed amount equal to 100% of the amount of principal outstanding on the Bonds, a specified amount above or below such outstanding principal amount, or any amount determined by reference to one or more interest rate indices, or otherwise, in each case as specified in the applicable Pricing Supplement.

(b) *Purchases*: The FHLBanks may purchase or otherwise acquire Bonds at any price from time to time.

(c) *Redemption*:

(i) *Early Redemption of Zero Coupon Bonds*: The following provisions in this Condition 5(c) (i) apply to Zero Coupon Bonds.

(A) The amount payable in respect of any Zero Coupon Bond upon redemption of such Zero Coupon Bond pursuant to, if applicable, Condition 5(c) (iii) or (iv) shall be the Amortized Face Amount (calculated as provided below) of such Zero Coupon Bond.

(B) Subject to the provisions of Condition 5(c) (i) (C), the “Amortized Face Amount” of any Bond shall be the product of (A) the reference price specified in the applicable Pricing Supplement for the relevant Redemption Date (the “Reference Price”), (B) the Aggregate Principal Amount of that Zero Coupon Bond payable on the Maturity Date, and (C) the percentage of the Aggregate Principal Amount of such Bond issue to be redeemed on that Redemption Date. Where the specified calculation is to be made for a period of less than one year, it shall be calculated using the applicable Fixed Rate Day Count Fraction.

(C) If the amount payable in respect of any Bond upon redemption of such Bond pursuant to, if applicable, Condition 5(c) (iii) or (iv), is not paid when due, the amount due and payable in

respect of such Bond shall be the Amortized Face Amount of such Bond as defined in Condition 5(c)(i)(B), except that Condition 5 shall have effect as though the reference therein to the date on which the Bond becomes due and payable were replaced by a reference to the Relevant Date (as defined in Condition 4(III)). The calculation of the Amortized Face Amount in accordance with this Condition 5(c)(i)(C) will continue to be made (before and, to the extent permitted by applicable law, after judgment) until the Relevant Date unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the principal amount of that Bond payable on the Maturity Date together with any interest that may accrue in accordance with Condition 4(III).

(ii) *Redemption of Bonds According to Formula:* If specified in the applicable Pricing Supplement, the Bonds may be redeemed prior to maturity in a manner provided for in the applicable Pricing Supplement and dependent upon the value of a Reference Rate. The principal amount payable on a Redemption Date for such Bonds will be an amount specified in, or determined in a manner described in, the applicable Pricing Supplement, together with accrued and unpaid interest to the Redemption Date.

(iii) *Redemption at the Option of the FHLBanks:* If so specified in the applicable Pricing Supplement, an issue of Bonds will be subject to redemption at the option of the FHLBanks, in whole (and in certain circumstances in part), on one or more specified dates, at any time on or after a specified date or during one or more specified periods of time. The principal amount payable on a Redemption Date for such Bonds subject to redemption will be an amount specified in, or determined in a manner described in, the applicable Pricing Supplement, together with accrued and unpaid interest to the Redemption Date. In order for the FHLBanks to redeem an issue of Bonds pursuant to this Condition 5(c)(iii), the FHLBanks are required to give notice of their intention to redeem those Bonds to the registered holder of such Bonds in the manner described in the applicable Pricing Supplement. However, failure to give any notice, or any defect therein will not affect the validity of any proceedings for the redemption of Bonds.

(iv) *Redemption at the Option of a Registered Holder:* If so specified in the applicable Pricing Supplement, the FHLBanks shall, at the option of the registered holder of any such Bond, redeem such Bond on the date or dates specified in the applicable Pricing Supplement (which shall, in the case of a Variable Rate Bond be an Interest Payment Date) at the price specified in the applicable Pricing Supplement, together with interest accrued to, but excluding, the Redemption Date. The FHLBanks may elect to give to the registered holder of such Bond notice, of not more than the number of days nor less than the number of days specified in the applicable Pricing Supplement prior to such date or dates, of the period for exercise of such option.

In the case of a Registered Bond, to exercise such option the registered holder must deposit (i) such Bond with the Registrar or any Transfer Agent at its specified offices and (ii) a duly completed notice of redemption ("Redemption Notice") in the form obtainable from any Agent, in each case not more than the number of days nor less than the number of days specified in the applicable Pricing Supplement prior to the date fixed for redemption. Unless otherwise specified in the applicable Pricing Supplement, no Bond (or Redemption Notice) so deposited may be withdrawn without the prior consent of the FHLBanks and the Global Agent. In the case of a Fed Book-Entry Bond, if the beneficial owner wishes to exercise such option, then the beneficial owner must give notice thereof to the FHLBanks through the relevant Holding Institution.

(v) *Cancellation:* All Bonds redeemed will be cancelled forthwith and may not be resold or reissued. All Bonds purchased or acquired by an FHLBank may be cancelled or may be reissued or resold.

(vi) *Amortizing Bonds:* Unless previously redeemed, each Bond that provides for a specific amount to be redeemed on each Redemption Date ("Installment Amounts") will be partially redeemed on each Redemption Date by the Installment Amount specified in the applicable Pricing Supplement, whereupon the outstanding principal amount of such Bond shall be reduced by the Installment Amount

for all purposes. Amortizing Bonds may be Fixed Rate Bonds or Variable Rate Bonds as specified in the applicable Pricing Supplement.

(vii) *Partial Redemption*: In the case of a partial redemption of Bonds other than Fed Book-Entry Bonds, the notice to registered holders shall also contain the serial or other identifying numbers of the Bonds to be redeemed, which shall have been selected for redemption in such place as the Global Agent may approve and in such manner, including pro rata if requested by the FHLBanks, subject to compliance with any applicable laws and stock exchange requirements. In the case of a partial redemption of Fed Book-Entry Bonds or other pro rata redemption, each such Bond will be redeemed in the amount of its pro rata share of the aggregate amount of such partial redemption and thereafter shall be treated as being outstanding as to its unredeemed balance. The Calculation Agent shall round the result of the calculation used to determine the unredeemed balance to nine decimal places.

6. Payments

(a) *Fed Book-Entry Bonds*:

(i) Payments of Principal and Interest

Payments of principal of and interest on Fed Book-Entry Bonds will be made by the U.S. Fiscal Agent, on behalf of the FHLBanks, by crediting Holding Institutions' accounts at the U.S. Fiscal Agent. The "Fed Book-Entry Record Date" for the purpose of payment of interest on or principal of the Fed Book-Entry Bonds shall be as of the close of business of the U.S. Fiscal Agent on the day preceding the due date for payment thereof, or otherwise in accordance with regulations, operating circulars and letters of the Federal Reserve Banks. If any such day is not a day on which the U.S. Fiscal Agent is open for business, the Fed Book-Entry Record Date shall be the next preceding day on which the U.S. Fiscal Agent is open for business. The Holding Institution and each other financial intermediary holding such Bonds either directly or indirectly on behalf of the beneficial owners will have the responsibility of remitting payments for the accounts of their customers.

(ii) Delay in Payment

A registered holder will not be entitled to any interest or other payment for any delay after the due date if any date for payment is not a day on which the U.S. Fiscal Agent is open for business, and the registered holder will not be entitled to payment until the next following day on which the U.S. Fiscal Agent is open for business.

(b) *Registered Bonds*:

(i) Payments of Principal and Interest

Payments of principal and interest in respect of Registered Bonds will be made by the Global Agent, on behalf of the FHLBanks, to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "Record Date"). The Global Agent will make such payments (1) by transfer to an account in such currency maintained by the payee with a bank in the Relevant Financial Center of such currency, or (2) as may otherwise be provided on such Bonds, subject in each case to Condition 6(b)(iii). Payments of principal will only be made against surrender of the relevant Registered Bond at the specified office of any Transfer Agent. Details of the account to which a registered holder's payments will be transferred should be provided to the specified office of the Global Agent before a Record Date.

(ii) Payments by Check

At its option upon application to the specified office of the Registrar or any Transfer Agent before a Record Date, a registered holder may elect to receive, or if it fails to nominate an account to which transfers may be made a registered holder will receive, its payments of principal or interest by check drawn on the relevant bank provided for in Condition 6(b)(i). Payments by check will be mailed by the

Global Agent, on behalf of the FHLBanks, to the registered holder (or to the first named of joint holders) of a Bond at its address appearing in the Register maintained by the Registrar.

(iii) Payment Initiation

Where payment is to be made by transfer to an account in the relevant currency, payment instructions (for value on the due date, or if the due date is not a Relevant Business Day, for value on the first following day which is a Relevant Business Day) will be initiated, and, where payment is to be made by check, the check will be mailed on the last day on which the Global Agent is open for business preceding the due date for payment or, in the case of any payment of principal where the relevant Registered Bond has not yet been surrendered at the specified office of any Transfer Agent, on a day on which the Global Agent is open for business and on which the relevant Registered Bond is so surrendered.

(iv) Payments Through The Depository Trust Company

Registered Bonds, if so specified on their face, will be issued in the form of one or more certificates registered in the name of, or the name of a nominee for, The Depository Trust Company ("DTC") which will be the registered holder of the Registered Bond. Payments of principal and interest in respect of Registered Bonds denominated in U.S. dollars will be made in accordance with Conditions 6(b)(i), (ii) and (iii). Payments of principal and interest in respect of Registered Bonds denominated in a currency other than U.S. dollars will be made by the Global Agent in the relevant currency in accordance with the following provisions. The amounts in such currency payable by the Global Agent to DTC with respect to Registered Bonds held through DTC will be received by the Exchange Agent, which will make payments in such currency by wire transfer of same day funds to the designated account in such currency of DTC participants entitled to receive the relevant payment that have made an irrevocable election prior to 5:00 p.m. New York City time on the third day on which banks are open for business in New York City following the applicable record date in the case of interest and the twelfth calendar day prior to the payment date for the payment of principal to receive that payment in such currency. The Exchange Agent, after converting amounts in such currency into U.S. dollars as necessary to make payments in U.S. dollars, will deliver U.S. dollar amounts in same day funds to DTC for payment through its settlement system to DTC participants entitled to receive the relevant payment that have not elected to receive payments in such currency. The Global Agency Agreement sets out the manner in which such conversions are to be made.

(v) Delay in Payment

A registered holder will not be entitled to any interest or other payment (A) for any delay after the due date in receiving the amount due if the due date is not a Relevant Business Day, (B) if the registered holder is late in surrendering its Registered Bond (if required to do so), (C) if its Registered Bond cannot be surrendered to a Transfer Agent that is open for business on the day of such surrender or (D) if a check mailed in accordance with this Condition 6(a) arrives after the due date for payment.

(c) *Payments Subject to Law:* All payments are subject to any applicable laws and regulations.

(d) *Appointment of Agents:* The Registrar (if any), the Calculation Agent (if any) and the Transfer Agents (if any) initially appointed on behalf of the FHLBanks and their respective specified offices are listed below. The FHLBanks reserve the right at any time to vary the terms of or terminate the appointment of the Registrar, the Calculation Agent or any Transfer Agent, to appoint another Registrar or Calculation Agent and to appoint additional or other Transfer Agents, provided that the FHLBanks will at all times maintain (i) for Fed Book-Entry Bonds, a U.S. Fiscal Agent, (ii) a Global Agent, (iii) for Registered Bonds, a Registrar and Transfer Agent, including a Transfer Agent having a specified office in a European city which, so long as the Bonds are listed on the Luxembourg Stock Exchange, will be Luxembourg and (iv) a Calculation Agent. The FHLBanks also reserve the right to appoint the Office of Finance to be the Calculation Agent.

Notice of any such change or any change of any specified office will promptly be given to the registered holders in accordance with Condition 10.

(e) *Currency of Payment:* All payments in respect of this Bond shall be made in the Specified Currency or, in the case of a Variable Rate Bond, the Specified Interest Payment Currency and/or the Specified Principal Payment Currency specified on such Bond.

(f) *Additional Amounts:* If any withholding or other tax is imposed by any jurisdiction, then the FHLBanks will have no obligation to pay to the registered holder any additional interest or other amounts in consequence thereof or to redeem the Bonds before their scheduled maturity.

7. Replacement of Bonds

If any Registered Bond is lost, stolen, mutilated, defaced or destroyed, then it may be replaced at the specified office of the Transfer Agent subject to stock exchange requirements, upon payment by the claimant of such costs as may be incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the FHLBanks and the Global Agent may require. Mutilated or defaced Registered Bonds must be surrendered before replacements will be issued.

8. Further Issues

Further Bonds may be issued from time to time without the consent of the registered holders so as to form a single series with outstanding Bonds.

9. Agents

In acting under the Global Agency Agreement and the Fed Fiscal Agency Agreement, the Agents act solely as agents of the FHLBanks and do not assume any obligation or relationship of agency or trust for or with any holder.

10. Notices

Notices to a beneficial owner of Fed Book-Entry Bonds will be broadcast to each Holding Institution on the Fed Book-Entry System. Notices to holders of Registered Bonds will be mailed to them by the Registrar at their respective addresses in the Register. In the case of any Bonds listed on a stock exchange, notice shall be given in a manner complying with the rules of such stock exchange. Any such notice shall be deemed to have been given on the later of the date of publication, if any, and the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. If published more than once, notices will be deemed to have been given on the date of the first publication in such newspapers as provided above.

11. Governing Law

The Bonds are governed by, and shall be construed in accordance with, the laws of the State of New York (without regard to conflict of law principles).

12. Modification and Amendment

The terms of an issue of Bonds may be modified, amended or supplemented, without the consent of any registered holder of any such Bond, (i) for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective terms or, with respect to matters or questions arising with respect to such issue of Bonds, making any other provision that is not inconsistent with the provisions of the terms, (ii) for the purpose of conforming terms of the Bonds to, or curing any ambiguity or discrepancy resulting from any changes in, the Fed Book-Entry Regulations or the Fed Fiscal Agency Agreement or any regulation or document that the Fed Book-Entry Regulations or the Fed Fiscal Agency Agreement make applicable to book-entry securities of the FHLBanks or the Global Agency Agreement, (iii) for the purpose of increasing the amount of such issue of Bonds or (iv) in any manner that the Issuer may determine and that will not adversely affect in any material respect the interests of the registered holders at the time of such modification, amendment or supplement (including without limitation the designation of a different person or entity to serve as Calculation Agent with respect to any Bonds).

In addition, with the written consent of the registered holders of at least a majority of the aggregate then outstanding principal amount of an issue of Bonds (which may include Bonds owned by an FHLBank), the Issuer may from time to time and at any time modify, amend or supplement the terms of an issue of Bonds for the purpose of adding any provisions to or changing in any manner or eliminating any provisions of those Bonds or of modifying in any manner the rights of the registered holders; provided, however, that no such modification, amendment or supplement may, without the written consent of the registered holder of the principal amount of that Bond, (i) change the Maturity Date of, or the due date of any installment of interest on, that Bond, (ii) materially modify the redemption provisions, if any, relating to the redemption price of, or any redemption date or period for, that Bond, (iii) reduce the principal amount of, or materially modify the rate of interest or the calculation of the rate of interest on, that Bond or (iv) reduce the percentage of the then outstanding principal amount of the issue of Bonds of which that Bond forms a part, the consent of the registered holders of which is necessary to modify, amend or supplement the related terms. The registered holders need not approve the particular form of any proposed amendment, so long as their consent approves the substance of the change.

Any instrument given by or on behalf of any registered holder of a Bond in connection with any consent to any such modification, amendment or supplement may not be revoked by the registered holder once given, and, once accepted by the Issuer, will be conclusive and binding on all subsequent registered holders of that Bond. Any modification, amendment or supplement of the terms of Bonds will be conclusive and binding on all registered holders of the Bonds subject to that modification, amendment or supplement, whether or not they have given such consent.

13. Determination of Reference Rate

All words capitalized in this Condition 13, but not previously defined, are defined in Condition 13(II).

(I) Determination

The Reference Rate will be adjusted on each Reset Date. For each Reset Date, the Reference Rate shall be determined on the corresponding Determination Date, subject to the Rate Cut Off Date, if any. The Reference Rate for a Saturday, Sunday or a day for which such Reference Rate is not available will be the Reference Rate applied to the immediately prior Relevant Business Day. The Reference Rate will be the interest rate, exchange rate or other index or indices specified in the applicable Pricing Supplement appearing on the Primary Source Page, if any, in the manner specified in the applicable Pricing Supplement.

If the Reference Rate does not appear on the Primary Source Page, if any, on the applicable Determination Date, the Reference Rate for the applicable Reset Date will be the rate appearing on the Secondary Source Page, if any, indicated in, and in the manner described in, the applicable Pricing Supplement.

If the Reset Date does not appear on the Primary Source Page or the Secondary Source Page, if any, or the Primary Source Page and the Secondary Source Page, if any, are not available on the applicable Determination Date, then the Reference Rate for the applicable Reset Date will be as described in the applicable Pricing Supplement (the "Back-Up Source").

If the determination of the Reference Rate requires a Rate Cut Off Date, then the last Reference Rate actually determined and applied on or prior to the Rate Cut Off Date will be applied to each day from the Rate Cut Off Date through the end of the Interest Period.

(II) Definitions

"Determination Date" means, in respect of any Interest Period, that number of Relevant Business Days (if any) specified in the applicable Pricing Supplement prior to each Reset Date or such other dates as set forth in the Pricing Supplement.

“Primary Source Page” means the information source or its replacement or successor information source (or, if no replacement or successor information source is available, such different information source as selected by the Calculation Agent) as specified in the applicable Pricing Supplement.

“Rate Cut Off Date” means, in respect of any Interest Period, that number of Relevant Business Days specified in the applicable Pricing Supplement prior to each Interest Payment Date or such other dates set forth in the applicable Pricing Supplement.

“Reset Date” means each date specified in the applicable Pricing Supplement on which the Reference Rate determined on the applicable Determination Date is first applied.

“Secondary Source Page” means the information source or its replacement or successor information source (or, if no replacement or successor information source is available, such different information source as selected by the Calculation Agent) as specified in the applicable Pricing Supplement.

14. Eligibility for Stripping

Certain issues of Fed Book-Entry Bonds designated by the Issuer (the “Eligible Bonds”) will be eligible to be separated (“stripped”) into their separate Interest Components and Principal Components (each as defined below) on the Fed Book-Entry System. Each Interest Component and Principal Component (each a “Component”) will receive a CUSIP number.

An issue of Fed Book-Entry Bonds that the U.S. Fiscal Agent is capable of stripping on the Fed Book-Entry System may be designated by the Issuer as eligible to be stripped into Components either at the time of original issuance of those Fed Book-Entry Bonds or at any time thereafter until the Maturity Date of an Eligible Bond or, if the Eligible Bond is subject to redemption prior to the Maturity Date, the first possible Redemption Date (a “Cut-off Date”). The Issuer is under no obligation, however, to designate any issue of Fed Book-Entry Bonds as eligible to be stripped into Components.

For an Eligible Bond to be stripped into Components, the principal amount of the Eligible Bond must be in an amount that, based on the stated interest rate of the Eligible Bond, will produce an interest payment of \$1,000 or an integral multiple thereof on each Interest Payment Date for such Fed Book-Entry Bond as specified in the applicable Pricing Supplement. The minimum principal amount required to strip an Eligible Bond currently may be obtained by calling the Office of Finance at (703) 487-9500. **The minimum principal amount required to strip a Fed Book-Entry Bond that is eligible to be stripped upon original issuance and the minimum amount of each Component generally will be disclosed in the applicable Pricing Supplement.**

In some cases, certain Interest Components of two or more issues of Fed Book-Entry Bonds may be due on the same day. Such Interest Components may have the same or different CUSIP numbers. It currently is expected that most Interest Components due on the same day (regardless of Fed Book-Entry Bond issue) will have the same CUSIP number. However, the Issuer may designate Interest Components from an issue of Fed Book-Entry Bonds to receive CUSIP numbers different than the CUSIP number of Interest Components due on the same day from one or more other issues of Fed Book-Entry Bonds. The Issuer also may designate at any time that any or all Interest Components of issues of Fed Book-Entry Bonds originally issued on or after a specified time will have CUSIP numbers different than Interest Components of issues of Fed Book-Entry Bonds originally issued prior to such time.

A registered holder of an Eligible Bond currently may request that such Eligible Bond be separated into its Components at any time from the date it becomes eligible to be stripped until the Cut-off Date. The registered holder must make a request for separation to the U.S. Fiscal Agent and comply with any requirements and procedures, including payment of applicable fees, if any, of the U.S. Fiscal Agent in effect at such time.

The Components may be maintained and transferred on the Fed Book-Entry System as integral multiples of \$1,000 as specified in the applicable Pricing Supplement. Payments on Components will be made in U.S. dollars on the applicable payment dates, subject to the applicable Business Day Convention or FRN Convention by credit of the payment amount to the account at the U.S. Fiscal Agent of the Holding

Institution whose names appear on the book-entry records of the U.S. Fiscal Agent as the entities to whose account such Components have been deposited ("Component Holders").

If any modification, amendment or supplement of the terms of an issue of Fed Book-Entry Bonds requires any consent of registered holders, the consent with respect to Fed Book-Entry Bonds which have been stripped is to be provided by the Component Holders of Principal Components, and Component Holders of Interest Components will have no right to give or withhold such consent; provided, however, that a Component Holder of an Interest Component will have the right to give or withhold consent to any such modification, amendment or supplement which would change the due date of the installment of interest relating to that Interest Component or would result in the material modification of the rate of interest represented by that Interest Component. See "TERMS AND CONDITIONS OF THE BONDS — Modification and Amendment."

Currently, at the request of a Component Holder holding a Principal Component and all applicable unmatured Interest Components and on the Component Holder's payment of a fee (presently the U.S. Fiscal Agent's fee applicable to on-line book-entry securities transfers), the U.S. Fiscal Agent will restore ("reconstitute") the Principal Components of a stripped Fed Book-Entry Bond and the applicable unmatured Interest Components (all in appropriate amounts) to such Fed Book-Entry Bond in fully constituted form. Generally, for purposes of reconstituting a Fed Book-Entry Bond, the Principal Component of an issue of Fed Book-Entry Bonds may be combined with either Interest Components of such issue or Interest Components, if any, from other issues of Fed Book-Entry Bonds that have the same CUSIP numbers as the unmatured Interest Components of such issue. Component Holders wishing to reconstitute Components into a Fed Book-Entry Bond also must comply with all applicable requirements and procedures of the U.S. Fiscal Agent relating to the stripping and reconstitution of securities.

The preceding discussion is based on the Issuer's understanding of the manner in which the U.S. Fiscal Agent currently strips and reconstitutes eligible securities on the Fed Book-Entry System. The U.S. Fiscal Agent may cease stripping or reconstituting Eligible Bonds or may change the manner in which this is done or the requirements, procedures or charges therefor at any time without notice to or consent of any registered holder of Fed Book-Entry Bonds.

USE OF PROCEEDS

The net proceeds from the sale of Bonds will be used by the FHLBanks to make credit available to their members pursuant to the Federal Home Loan Bank Act, as amended (12 U.S.C. §§ 1421-1449), to retire outstanding debt securities of the FHLBanks or to increase the working capital of the FHLBanks or will be used for general corporate purposes, including investments, as permitted by law.

CLEARANCE AND SETTLEMENT

Introduction

The Program has been designed so that Bonds may be held through one or more international and domestic clearing systems, principally the book-entry systems operated by the Federal Reserve Banks and DTC in the United States and Euroclear and Cedel in Europe. A series of Bonds denominated in U.S. dollars and distributed both inside and outside the United States will clear and settle, inside the United States, through the Fed Book-Entry System and, outside the United States, through the clearing systems operated by Euroclear and Cedel. A series of Bonds not denominated in U.S. dollars and distributed both inside and outside the United States will clear and settle through the clearing systems operated by DTC, Euroclear and/or Cedel. Any series of Bonds, irrespective of currency, that is intended to be distributed solely outside the United States will clear and settle through Euroclear and Cedel, and in certain cases, DTC. Bonds may also clear and settle through other or additional clearing systems, as specified in the applicable Pricing Supplement and, if required, as approved by the Luxembourg Stock Exchange.

Electronic securities and payment transfer, processing, depository and custodial links have been established among the Fed Book-Entry System, DTC, Euroclear, Cedel and others, either directly or indirectly through custodians and depositories, which enable Bonds to be issued, held and transferred among the clearing systems across these links. Special procedures have been established among these clearing systems, allowing clearance and settlement of certain Bonds traded across borders in the secondary market. Cross-market transfers of Bonds denominated in certain currencies and issued in global form may be cleared and settled using these procedures on a delivery against payment basis. Cross-market transfers of Bonds in other than global form may be cleared and settled in accordance with other procedures established among the Global Agent and the clearing systems concerned for this purpose.

The relationship between the FHLBanks and the holder of a Registered Bond or a Fed Book-Entry Bond is governed by the terms and conditions of that Bond. The holder of a Registered Global Bond will be one or more clearing systems. The beneficial interests in Bonds held by a clearing system will be in book-entry form in the relevant clearing system. Each clearing system has its own separate operating procedures and arrangements with participants or accountholders which govern the relationship between them and the relevant clearing system and to which neither the Issuer nor any of the FHLBanks is or will be a party. The FHLBanks will not impose fees payable by any registered holder with respect to any Bonds held by one or more clearing systems; however, holders of beneficial interests in Bonds may incur fees payable in respect of the maintenance and operation of the book-entry accounts in which Bonds are held.

The Federal Reserve Banks are the U.S. fiscal and paying agents for U.S. dollar denominated Bonds intended to be distributed in the United States and held through the Fed Book-Entry System. Citibank, N.A., London Office is the Global Agent for Bonds held through DTC and for Bonds held through Euroclear, Cedel, and such other clearing systems as may be specified in the applicable Pricing Supplement and approved by the Luxembourg Stock Exchange, if required.

The Clearing Systems

The Fed Book-Entry System

The Fed Book-Entry System provides book-entry holding and settlement for all U.S. dollar denominated securities issued by the U.S. Government, certain of its agencies and instrumentalities (including the FHLBanks) and international organizations of which the United States is a member. The system enables specified depositories and other institutions with an appropriate account with a Federal Reserve Bank or Branch ("Holding Institutions") to hold, make payments and transfer securities and funds through the Federal Reserve Banks' Fedwire electronic funds transfer system.

DTC

DTC is a limited-purpose trust company organized under the laws of the State of New York, and is a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the U.S. Securities Exchange Act of 1934, as amended. DTC holds securities for DTC participants and facilitates the clearance and settlement of transactions between DTC participants through electronic book-entry changes in accounts of DTC participants.

Euroclear

Euroclear was created in 1968 and is operated by Morgan Guaranty Trust Company of New York, Brussels Office. Euroclear holds securities for participating organizations and facilitates multi-currency clearance and settlement of securities transactions between its and Cedel's accountholders through electronic book-entry changes in accounts of its accountholders.

Cedel

Cedel is incorporated under the laws of Luxembourg as a professional depository. Cedel holds securities for its participating organizations and facilitates multi-currency clearance and settlement of securities transactions between its and Euroclear's accountholders through electronic book-entry changes in accounts of its accountholders.

Other Clearing Systems

Any other clearing system which is approved, if required, by the Luxembourg Stock Exchange (if required) and the FHLBanks, the Global Agent and any Dealer agree shall be available for a particular series of Bonds will be described in the applicable Pricing Supplement, together with the clearance and settlement procedures for such clearing system.

Clearance and Settlement Procedures — Primary Distribution

Distribution of Bonds will be through one or more of the clearing systems described above or any other clearing system specified in the applicable Pricing Supplement. Payment for Bonds will be on a delivery versus payment or free delivery basis, as more fully described in the applicable Pricing Supplement.

The FHLBanks and the relevant Dealer(s) shall agree that either global clearance and settlement procedures or specific clearance and settlement procedures should be available for any series of Bonds, as specified in the applicable Pricing Supplement. The customary clearance and settlement procedures are described under the specific clearance and settlement procedures below.

Unless otherwise agreed between the FHLBanks and the Global Agent, Citibank, N.A., London Office, acting through its relevant office, will act as the initial custodian or depository for all Bonds in global form.

Specific Clearance and Settlement — Federal Reserve Banks

The aggregate holdings of Fed Book-Entry Bonds of each Holding Institution will be reflected in the book-entry account of such Holding Institution with its Federal Reserve Bank or Branch. The Fed Book-Entry Bonds may be held of record only by Holding Institutions. A Holding Institution may or may not be the beneficial owner of a Bond. Beneficial owners will ordinarily hold the Bonds through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. Each Holding Institution, and each other intermediate holder in the chain to the ultimate beneficial owner, will have the responsibility of establishing and maintaining accounts for its customers having interests in Fed Book-Entry Bonds.

The Federal Reserve Banks will be responsible only for maintaining the book-entry accounts of Holding Institutions, effecting transfers on their books and ensuring that payments from the FHLBanks, through the Federal Reserve Banks, are credited to appropriate Holding Institutions. With respect to Fed Book-Entry Bonds, the Federal Reserve Banks will act only on the instructions of Holding Institutions for which they maintain such Fed Book-Entry Bonds.

Specific Clearance and Settlement — DTC

Registered Bonds that are to be cleared and settled through DTC will be represented by a DTC Global Bond that will be deposited with Cede & Co., as nominee for DTC (or such other nominee selected by DTC). DTC participants acting on behalf of investors holding Registered Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same-Day Funds Settlement System. Registered Bonds will be credited to DTC participants' securities accounts following confirmation of receipt of payment to the FHLBanks on the relevant Issue Date.

Specific Clearance and Settlement — Euroclear and Cedel

Registered Bonds that are to be cleared and settled through Euroclear and Cedel will be represented by one or more Registered Global Bonds registered in the name of a nominee, who will be located in Europe, of

the Euroclear and Cedel depositaries. Investors holding Registered Bonds through Euroclear and Cedel will follow the settlement procedures applicable to conventional eurobonds. Registered Bonds will be credited to Euroclear and Cedel participants' securities clearance accounts either on the Issue Date or on the settlement day following the relevant Issue Date against payment in same day funds (for value on the relevant Issue Date).

Clearance and Settlement Procedures — Secondary Market Transfers

Transfers of Registered Bonds

Transfers of interests in a Bond in global form within the various clearing systems that may be clearing and settling interests therein will be made in accordance with the usual rules and operating procedures of the relevant clearing system and the nature of the transfer. Further details concerning such rules and procedures may be set forth in the applicable Pricing Supplement.

For series of Bonds that are cleared and settled through both DTC and another clearing system, time zone differences may result in an investor's cash account being credited for value on the settlement date while his or her securities account may not be credited until the next settlement processing day.

Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a DTC Global Bond to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a definitive security in respect of such interest.

Transfers of Fed Book-Entry Bonds

Transfers of Fed Book-Entry Bonds can only take place in book-entry form on the Fed Book-Entry System. Such transfers will occur between Holding Institutions made through the Federal Reserve Communications System. Certain Holding Institutions may hold Fed Book-Entry Bonds as depositaries for Euroclear and Cedel, enabling the Fed Book-Entry Bonds to be held and transferred in accordance with secondary market trading.

General

Although DTC, Euroclear and Cedel have established procedures to facilitate transfers of beneficial interests in Bonds in global form among participants and accountholders of DTC, Euroclear and Cedel, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the FHLBanks, the Global Agent, the U.S. Fiscal Agent or any other Agent will have any responsibility for the performance by DTC, Euroclear and Cedel or the Fed Book-Entry System or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

TAX MATTERS

The following is a summary of the taxation of the Bonds and of certain anticipated United States federal income, withholding and estate tax consequences resulting from the ownership of the Bonds. This summary does not cover all of the possible tax consequences relating to the ownership of the Bonds and the receipt of interest thereon, and it is not intended as tax advice to any person. It addresses only holders who are initial purchasers of the Bonds and hold the Bonds as capital assets, and does not address special classes of holders, such as dealers in securities or currencies, banks, tax-exempt entities, life insurance companies, persons holding Bonds as a hedge or hedged against interest rate or currency risks or as part of a straddle or conversion transaction, or holders whose functional currency is not the U.S. dollar. This summary is based upon the United States federal income, withholding and estate tax laws as currently in effect and as currently interpreted and does not include any description of the tax laws of any non-U.S. government that may apply.

Prospective purchasers of Bonds should consult their own tax advisors concerning the application of the United States federal income, withholding and estate tax laws, as well as the possible application of the tax laws of any other jurisdiction, to their particular situation.

Prospective purchasers of Bonds with a maturity of one year or less, Bonds with variable maturities, Bonds providing for principal or interest payments that are contingent for United States federal income tax purposes, Bonds subject to early redemption or Bonds providing for a maximum or minimum interest rate should consult the applicable Pricing Supplement for any special United States federal income, withholding and estate tax considerations with respect to such Bonds.

As used herein, the term “U.S. Holder” means a beneficial owner of a Bond that is (for purposes of United States federal income tax) (i) a citizen or resident of the United States, (ii) a corporation, partnership, or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate or trust the income of which is subject to United States federal income taxation regardless of its source, or (iv) any other person whose income or gain in respect of a Bond is effectively connected with the conduct of a United States trade or business.

State and Local Taxation

Under the Federal Home Loan Bank Act, as amended, the Bonds and interest thereon are exempt from state, county, municipal, and other local income taxes in the United States. This statute has been construed as not exempting the Bonds and interest thereon from nondiscriminatory franchise taxes or other non-property taxes in lieu thereof imposed on corporations.

United States Federal Taxation of the Bonds in General

The Bonds and the interest thereon (including original issue discount, if any) generally will be subject to taxation, including United States federal income and estate taxation. However, non-U.S. Holders may be entitled to certain exemptions from such taxes, as discussed below under “Non-U.S. Holders”.

United States Federal Income Taxation

U.S. Holders

Treatment of Stated Interest. Under general principles of United States federal income tax law, payments of interest on a Bond generally will be taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received, in accordance with the U.S. Holder’s regular method of tax accounting.

If an interest payment is denominated in or determined by reference to a currency other than the U.S. dollar (a “foreign currency”), then the amount of income recognized by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. Accrual basis U.S. Holders may determine the amount of income recognized with respect to such interest payments in accordance with either of two methods, in either case regardless of whether the payments are in fact converted into U.S. dollars. Under the first method, the amount of income recognized will be based on the average exchange rate in effect during the interest accrual period (or, with respect to an accrual period that spans two taxable years, the partial period within the taxable year). Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Bond) denominated in or determined by reference to a foreign currency, an accrual basis U.S. Holder will recognize ordinary income or loss measured by the difference between such average exchange rate and the exchange rate in effect on the date of receipt.

Under the second method, an accrual basis U.S. Holder may elect to translate interest income into U.S. dollars at the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, at the exchange rate in effect on the last day of the partial period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period or taxable year, an electing accrual basis U.S. Holder may instead translate such

accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any election to use the second method will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by such U.S. Holder, and will be irrevocable without the consent of the Internal Revenue Service.

Bonds Issued at a Premium. If a U.S. Holder purchases a Bond for an amount that is greater than the amount payable at maturity, then that U.S. Holder will be considered to have purchased such a Bond with “amortizable bond premium” equal in amount to such excess, and may elect, in accordance with the applicable provisions of section 171 of the Internal Revenue Code of 1986, as amended (the “Code”), to amortize that premium as an offset to the interest payments on the Bond using a constant yield to maturity method over the remaining term of the Bond. Pursuant to section 67(b)(11) of the Code, the amortization of that premium is not considered a miscellaneous itemized deduction. Any amortization of Bond premium shall reduce the basis of the Bond pursuant to section 1016(a)(5) of the Code.

Bonds Issued at a Discount. In the case of a Bond that is offered to the public at a price that is less than its stated redemption price at maturity (i.e., its principal amount), the Bond may bear original issue discount, or “OID”, for federal income tax purposes.

Original issue discount is defined as the excess of the Bond’s stated redemption price over its issue price (which is the initial offering price to the public at which a substantial amount of the Bonds are sold), provided that excess equals or exceeds a statutory de minimis amount (one-quarter of one percent of the Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity).

OID will accrue to U.S. Holders of a Bond over the period to maturity based on a constant yield to maturity method, using semi-annual compounding. The portion of OID that accrues during the time a U.S. Holder owns a Bond (i) constitutes interest includable in the U.S. Holder’s gross income for federal income tax purposes and (ii) is added to the U.S. Holder’s tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale, or other disposition of the Bond. Thus, the effect of OID is to increase the amount of taxable income above the actual interest payments during the life of the Bond.

Purchase, Sale and Retirement of the Bonds. A U.S. Holder’s tax basis in a Bond will generally be its U.S. dollar cost. The U.S. dollar cost of Bonds purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Bonds traded on an established securities market (within the meaning of Treasury Regulation Section 1.988-2(a)(iv)) purchased by a cash basis U.S. Holder (or an electing accrual basis U.S. Holder), on the settlement date for the purchase.

A U.S. Holder generally will recognize gain or loss on the sale or retirement of a Bond equal to the difference between the amount realized on the sale or retirement and the tax basis of the Bond. The amount realized on a sale or retirement for an amount in a foreign currency will be the U.S. dollar value of such amount on the date of sale or retirement or, in the case of Bonds traded on an established securities market (within the meaning of Treasury Regulation Section 1.988-2(a)(iv)) sold by a cash basis U.S. Holder (or an electing accrual basis U.S. Holder), on the settlement date for the sale. In the case of U.S. Holders that are individuals, capital gains resulting from the sale or retirement of Bonds held for more than one year will be taxed at a maximum rate of 20 percent.

Gain or loss recognized by a U.S. Holder on the sale or retirement of a Bond that is attributable to changes in exchange rates will be treated as ordinary income or loss. However, exchange gain or loss is taken into account only to the extent of total gain or loss realized on the transaction.

Exchange of Amounts in Foreign Currency. Foreign currency received as interest on a Bond or on the sale or retirement of a Bond will have a tax basis equal to its U.S. dollar value at the time such interest is received or at the time of such sale or retirement. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of such foreign currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of a foreign currency (including its use to purchase Bonds or upon exchange for U.S. dollars) will be ordinary income or loss.

Non-U.S. Holders

Income and Withholding Tax. A beneficial owner of a Bond that is not a U.S. Holder and that holds the Bonds directly (or indirectly through a securities clearing organization such as Cedel or Euroclear) will be subject to the 30% United States federal income and withholding tax (the “withholding tax”) that generally applies to periodic payments of income (such as interest) unless one of the following steps is taken to obtain an exemption from or reduction of the tax:

Exemption for Non-U.S. Holders (IRS Form W-8). Subject to certain exceptions described in the next paragraph, a beneficial owner of a Bond that is a non-U.S. Holder can obtain an exemption from the withholding tax by providing a properly completed IRS Form W-8 (Certificate of Foreign Status). This procedure requires the beneficial owner of the Bonds to certify to the person otherwise required to withhold United States federal income tax from such interest, under penalties of perjury, that he or it is not a United States person and to provide his or its name and address. In the alternative, a securities clearing organization, bank or other financial institution that holds customers’ securities in the ordinary course of its trade or business (a “financial institution”) and holds the Bond can certify to the person otherwise required to withhold United States federal income tax from such interest (the “Withholding Agent”), under penalties of perjury, that such a certification has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner. Each certificate described in the preceding sentence which is provided by a financial institution, including any such certificate provided to the Withholding Agent, must be accompanied by a copy of the certificate provided by the beneficial owner. In the case of Bonds held through a non-U.S. intermediary that is a participant in Euroclear (as currently structured), the Withholding Agent will be the Brussels office of Morgan Guaranty Trust Company of New York. In the case of Bonds held through Cedel (as currently structured), the Withholding Agent will be Citibank, N.A.

The withholding exemption utilizing IRS Form W-8 that is described in the preceding paragraph is not available for payments (i) made to a bank and described in section 881(c)(3)(A) of the Code, (ii) made to a non-U.S. Holder that actually or constructively owns 10 percent or more of the total combined voting power of the stock of any of the FHLBanks, (iii) made to a controlled foreign corporation that is related to any of the FHLBanks through stock ownership, or (iv) of contingent interest described in section 871(h)(4) of the Code.

Exemption or reduced rate for Non-U.S. Holders entitled to the benefits of a treaty (IRS Form 1001). A beneficial owner of a Bond that is a non-U.S. Holder entitled to the benefit of an income tax treaty to which the United States is a party can obtain an exemption from or reduction of the withholding tax (depending on the terms of the treaty) by providing a properly completed IRS Form 1001 (Ownership, Exemption or Reduced Rate Certificate).

Exemption for Non-U.S. Holders with effectively connected income (IRS Form 4224). A beneficial owner of a Bond that is a non-U.S. Holder, including a non-United States corporation or bank with a United States branch, that conducts a trade or business in the United States with which interest income on a Bond is effectively connected, can obtain an exemption from the withholding tax by providing a properly completed IRS Form 4224 (Exemption from Withholding of Tax on Income Effectively Connected with the Conduct of a Trade or Business in the United States). Interest on a Bond that is effectively connected with the conduct of a trade or business in the United States by a holder of a Bond who is a non-United States person, although exempt from the withholding tax, may be subject to graduated United States income tax as if such interest was earned by a United States person.

In each of the above cases (Form W-8, Form 1001, and Form 4224), the relevant certification or IRS form must be delivered pursuant to applicable procedures and must ultimately be properly transmitted to the Withholding Agent. In addition, none of the persons receiving the relevant certification or IRS form can have actual knowledge that the certification or any statement on the IRS form is false.

In lieu of the W-8 procedure described above, there is an alternative exemption from the withholding tax permitted under Treasury Regulations that, in certain circumstances, does not require disclosure of the non-U.S. Holder’s name and address to the Withholding Agent. This alternative method requires that (i) the Bonds be targeted to foreign markets, (ii) interest be paid to a registered holder outside the United States that

is a "financial institution", (iii) a prescribed certificate must be provided by the financial institution to the interest payor, and (iv) the Withholding Agent must not have actual knowledge that the beneficial owner of the Bond is a U.S. person. The FHLBanks do not currently contemplate utilizing this alternative procedure and, if it is utilized in the future, the FHLBanks will provide a more complete discussion of the procedure in the applicable Pricing Supplement.

New Regulations. Recently finalized Treasury regulations (the "Final Withholding Regulations") that will generally be effective with respect to payments received on or after January 1, 2000, provide in certain circumstances alternative methods for obtaining an exemption from withholding, for obtaining certain treaty benefits and for information reporting. Among other changes, the Final Withholding Regulations provide that IRS Forms W-8, 1001 and 4224 will be combined in a new Form W-8. The Final Withholding Regulations also require, in the case of bonds held by a foreign partnership, that the certification as to non-U.S. status be provided by the partners rather than by the foreign partnership and that the partnership provide certain information. Holders should consult their tax advisors for specific advice concerning the effect of the Final Withholding Regulations on their particular circumstances.

EACH HOLDER OF A BOND SHOULD BE AWARE THAT IF IT DOES NOT PROPERLY PROVIDE THE REQUIRED IRS FORM, OR IF THE IRS FORM (OR, IF PERMISSIBLE, A COPY OF SUCH FORM) IS NOT PROPERLY TRANSMITTED TO AND RECEIVED BY THE WITHHOLDING AGENT, INTEREST ON THE BOND MAY BE SUBJECT TO UNITED STATES WITHHOLDING TAX AT A 30% RATE AND THE HOLDER (INCLUDING THE BENEFICIAL OWNER) WILL NOT BE ENTITLED TO ANY ADDITIONAL AMOUNTS FROM THE FHLBANKS. SUCH TAX, HOWEVER, MAY IN CERTAIN CIRCUMSTANCES BE ALLOWED AS A REFUND OR AS A CREDIT AGAINST SUCH HOLDER'S UNITED STATES FEDERAL INCOME TAX. THE FOREGOING DOES NOT DEAL WITH ALL ASPECTS OF FEDERAL INCOME TAX WITHHOLDING THAT MAY BE RELEVANT TO FOREIGN HOLDERS OF THE BONDS. INVESTORS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS FOR SPECIFIC ADVICE CONCERNING THE OWNERSHIP AND DISPOSITION OF BONDS.

Sale, Exchange, or Redemption of Bonds. A non-U.S. Holder will not be subject to United States federal income or withholding tax on any gain realized on the sale, exchange or redemption of a Bond unless the gain is effectively connected with the beneficial owner's trade or business in the United States or, in the case of an individual, the holder is present in the United States for 183 days or more in the taxable year in which the sale, exchange or redemption occurs and certain other conditions are met.

Information Reporting on Exempt Interest. Interest on a Bond that is beneficially owned by a non-U.S. Holder will be reported annually on IRS Form 1042S, which must be filed by the Withholding Agent with the Internal Revenue Service and furnished to such beneficial owner.

Estate Tax. A Bond owned by an individual who at the time of death is not a citizen or resident of the United States will not be subject to United States federal estate tax as a result of such individual's death if (i) the individual did not actually or constructively own 10% or more of the total combined voting power of the stock of any of the FHLBanks, (ii) none of the interest on the Bond is contingent interest described in section 871(h)(4) of the Code and (iii) the income on the Bond would not have been effectively connected with a U.S. trade or business of the individual.

Backup Withholding and General Information Reporting

In the case of U.S. Holders, general information reporting requirements will apply to payments of principal and interest made on a Bond and the proceeds of the sale of a Bond within the United States to non-corporate holders of the Bonds, and "backup withholding" at a rate of 31% will apply to such payments if the holder fails to provide an accurate taxpayer identification number in the manner required to report all interest and dividends required to be shown on its federal income tax returns. A beneficial owner of a Bond that is a U.S. Holder can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

General information reporting and backup withholding will generally not apply to payments made by the FHLBanks or a paying agent to a non-U.S. Holder on a Bond if an IRS Form W-8, 1001, or 4224 has been provided under applicable procedures discussed under "Non-U.S. Holders".

Payments of the proceeds from the sale of a Bond made to or through a foreign office of a broker will not be subject to information reporting or backup withholding except that, if the broker is (i) a United States person, (ii) a controlled foreign corporation for United States tax purposes, (iii) a foreign person that derives 50% or more of its gross income for a specified three-year period from the conduct of a trade or business in the United States, or (iv) for payments made on or after January 1, 2000, a foreign partnership (I) one or more of the partners in which are United States persons who in the aggregate hold more than 50% of the income or capital interests in the partnership or (II) which is engaged in a United States trade or business, then the payments will be subject to information reporting unless the broker has documentary evidence in its files that the holder or beneficial owner is a non-United States person or the holder or beneficial owner otherwise establishes an exemption.

Backup withholding is not a separate tax, but is allowed as a refund or as a credit against the holder's United States federal income tax, provided the necessary information is furnished to the Internal Revenue Service.

CURRENCY CONVERSIONS

Payments for Bonds

Investors will be required to pay for Bonds in the Specified Currency. Each Dealer may, under certain terms and conditions, arrange for the conversion of the Investor's Currency into the Specified Currency to enable investors to pay for the Bonds in the Specified Currency. Each such conversion will be made by such Dealer on such terms and subject to such conditions, limitations and charges as such Dealer may from time to time establish in accordance with its regular foreign exchange practices, and subject to any applicable laws and regulations. All costs of conversion will be borne by such investors in the Bonds.

Payments on Bonds

Payments in respect of such Bonds will be made in the Specified Currency, Specified Principal Payment Currency or Specified Interest Payment Currency (the "Specified Payment Currency") as specified in the applicable Pricing Supplement. Currently, there are limited facilities in the United States for the conversion of U.S. dollars into foreign currencies and vice versa. In addition, most banks in the United States do not currently offer non-U.S. dollar denominated checking or savings account facilities in the United States. Accordingly, unless otherwise specified in the applicable Pricing Supplement, payments in respect of Bonds in a Specified Currency other than U.S. dollars will be made to an account outside the United States.

Investors holding beneficial interests in a DTC Global Bond denominated in a Specified Currency other than U.S. dollars through DTC participants ("DTC Bondholders") will receive such payments in U.S. dollars, unless they elect to receive payments in the Specified Payment Currency. Except as provided below, in the event that a DTC Bondholder shall not have made such election, where the Specified Payment Currency is not U.S. dollars, payments to such DTC Bondholder will be converted to U.S. dollars by the Exchange Agent. The U.S. dollar amount in respect of any payment received by a DTC Bondholder not electing payment in the Specified Payment Currency will be based on the Exchange Agent's bid quotation as of 11:00 a.m., London time, on the second day on which banks are open for business in London and New York City preceding the applicable payment date, for the purchase of U.S. dollars with the Specified Payment Currency for settlement on such payment date of the aggregate amount of the Specified Payment Currency payable to all DTC Bondholders receiving U.S. dollar payments. If such bid quotation is not available, the Exchange Agent will obtain a bid quotation from a leading foreign exchange bank in London or New York City selected by the Exchange Agent for such purchase. If no such bids are available, then payment of the aggregate amount due to all DTC Bondholders on the payment date will be made in the Specified Payment Currency. All costs of any such conversion into U.S. dollars will be borne by the relevant DTC Bondholder by deduction from such payments.

A DTC Bondholder may elect to receive payment of the principal of, or interest with respect to, the Bonds in the Specified Payment Currency by notifying DTC prior to 5:00 p.m., New York City time, on the third day on which banks are open for business in New York City (a "New York Business Day") following the applicable record date in the case of interest, and the twelfth calendar day prior to the payment date for the payment of principal, of (i) such holder's election to receive all or a portion of such payment in the Specified Payment Currency for value on the relevant Interest Payment Date or Maturity Date, as the case may be, and (ii) wire transfer instructions to an account denominated in the Specified Payment Currency with respect to any payment to be made in the Specified Payment Currency. Such election shall be made by the DTC participant holding its interest in a DTC Global Bond and any such election in respect of that payment shall be irrevocable. A DTC participant must notify the DTC Bondholder through which it is holding its interest in a DTC Global Bond of such election and wire transfer instructions prior to 5:00 p.m., New York City time, on the first New York Business Day following the applicable record date. DTC will notify the Exchange Agent of such election and wire transfer instructions and of the amount of the Specified Payment Currency to be converted into U.S. dollars, prior to 5:00 p.m., New York City time, on the fifth New York Business Day following the applicable record date in the case of interest and the tenth calendar day prior to the payment date for the payment of principal. If complete instructions are received by the DTC participant and forwarded by the DTC participant to DTC, and by DTC to the Exchange Agent, on or prior to such dates, the DTC

Bondholder will receive payment in the Specified Payment Currency outside DTC. Otherwise only U.S. dollar payments will be made by the Exchange Agent. Payments in the Specified Payment Currency outside DTC will be made by wire transfer of same day funds in accordance with the relevant wire transfer instructions for value on the relevant payment date.

PLAN OF DISTRIBUTION

Dealers

The Program provides for the initial appointment of certain dealers (the names of which are listed below under "Dealer Agreement") and the subsequent appointment of dealers in respect of the Program or any particular series of Bonds (all such dealers and any affiliates of such dealers together, the "Dealers") and agents of the Issuer. Any Dealer will be able to purchase Bonds on an underwritten basis, either individually or as part of a syndicate, or on an agency basis.

The Dealer Agreement provides for Dealers to be appointed or removed from the Program and for Dealers subsequently appointed to receive the benefits and be subject to the obligations of the Dealer Agreement in respect of a particular series of Bonds for which they are appointed as Dealers.

Dealer Agreement

Bonds may be sold from time to time by the Issuer to or through any one or more of the Dealers and by the Issuer directly. The arrangements under which the Bonds may from time to time be agreed to be sold by the Issuer to or through the Dealers are set out in the Amended and Restated Dealer Agreement dated as of October 31, 1995 (as amended, supplemented or replaced from time to time, the "Dealer Agreement"), among the Issuer, the FHLBanks and ABN AMRO Bank N.V., Barclays Capital, Inc., Bear, Stearns & Co. Inc., Credit Suisse First Boston Corporation, Deutsche Bank Securities, Inc., First Tennessee Bank, Fuji Securities, Inc., Goldman Sachs International, Lehman Brothers International (Europe), Merrill Lynch International Limited, Midland Bank plc., J.P. Morgan Securities Ltd., Morgan Stanley & Co. International Limited, Paribas Corporation, Salomon Brothers International Limited and UBS AG, acting through its division Warburg Dillon Read. Any agreement for the sale of Bonds will, among other things, make provision for the form and terms and conditions of the relevant Bonds, the method of distribution of the Bonds, the price at which such Bonds will be purchased by the Dealers and the commissions or other agreed deductibles (if any) that are payable or allowable by the FHLBanks in respect of such purchase.

Secondary Market

Each Dealer has agreed with the Issuer and the FHLBanks to use its reasonable efforts to support a secondary market for each particular series of Bonds that it shall distribute under the Program by providing a reasonable bid in respect of each issue it sells, based on market conditions at the time of the bid.

No series of Bonds will have an established trading market when issued. There can be no assurance that Bonds will have secondary market liquidity.

Selling Restrictions

Each Dealer will, to the best of its knowledge, after reasonable investigation, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells, or delivers Bonds or has in its possession or distributes the Information Memorandum or any amendment or supplement thereto or any other information relating to the FHLBanks and/or the Bonds that is either publicly available or the Issuer has authorized to be used in writing in connection with a particular issue of Bonds.

No Dealer is authorized to make any representation or use any information in connection with the issue, offering and sale of the Bonds other than as contained in the Information Memorandum, the applicable Pricing Supplement, or such information relating to the FHLBanks and/or the Bonds that is either publicly

available or the Issuer has otherwise authorized to be used in writing in connection with a particular issue of Bonds.

Selling restrictions may be modified or supplemented by the agreement of the Issuer and the relevant Dealers following a change in any relevant law, regulation or directive. Selling restrictions may also be added to reflect the requirements of any particular Specified Currency. Any such modification or supplement will be set out in the Pricing Supplement issued in respect of each series of Bonds to which such modification or addition relates or in a supplement to this Information Memorandum. Each Dealer has agreed that it is familiar with and will observe the selling restrictions on the offering, sale and delivery of Bonds and distribution of offering materials relating to the Bonds.

United Kingdom

Each Dealer has represented and agreed that:

(a) it has not offered or sold and, prior to the expiration of the period of six months from the closing date with respect to a particular issue of Bonds, having a maturity of one year or greater, will not offer or sell any such Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(b) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and

(c) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with an issue of Bonds to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

France

Each of the Dealers has agreed that the Bonds will be issued outside France and may not be offered to the public therein. Accordingly, in connection with their initial distribution, the Bonds will not be offered or sold, directly or indirectly, to the public in France; and this Information Memorandum or any other offering material relating to the Bonds will not be distributed or cause to be distributed to the public in France.

Japan

Each Dealer understands that the Bonds have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"), and has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Securities and Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Germany

In connection with the initial placement of Bonds in Germany, each Dealer has agreed that it will offer and sell Bonds (i) unless otherwise provided in the relevant Pricing Supplement or syndication agreement in connection with an issue made on a syndicated basis, only for an aggregate purchase price per purchaser of at least DM 80,000 (or the foreign currency equivalent) or such other amount as may be stipulated from time to

time by applicable German law or (ii) as may otherwise be permitted in accordance with applicable German law.

General

Bonds with similar terms but different interest rates and yields may be offered concurrently to different investors. Bonds with different variable terms also may be offered concurrently to different investors.

The FHLBanks and the Dealers have agreed to indemnify each other against certain liabilities.

The Dealers and certain affiliates thereof engage in transactions with and perform services for the FHLBanks, including without limitation the purchase and sale of investment securities. In connection with any particular issue of Bonds, the FHLBanks may enter into interest rate exchange agreements or other transactions with, or arranged by, the applicable Dealer or an affiliate thereof, or an unaffiliated third party.

GENERAL INFORMATION

1. In connection with the application to list the Bonds issued under the Program on the Luxembourg Stock Exchange, a legal notice relating to the Bonds and copies of the Federal Home Loan Bank Act of 1932, as amended, will be deposited with the Chief Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*) where such documents may be examined and copies obtained.
2. The Issuer and the FHLBanks have obtained all necessary consents, approvals and authorizations in connection with the commencement of the Program. The Board of Directors of the Office of Finance approved the Program on June 30, 1994.
3. Except as described in the Information Memorandum, including any information incorporated by reference therein, and in the applicable Pricing Supplement, none of the FHLBanks is involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Bonds nor, so far as the Office of Finance is aware, is any such litigation or arbitration pending or threatened.
4. Except as disclosed in the Information Memorandum, including any information incorporated by reference therein, and in the applicable Pricing Supplement, there has been no adverse change in the financial position or results of operations of the FHLBanks, taken as a whole, which is material in the context of the Program or the issuance or offering of Bonds thereunder since the date as of which the most recent audited financial statements were prepared.
5. The Bonds have been accepted for clearance through the Fed Book-Entry System, DTC, and the Euroclear and Cedel systems. The CUSIP number and/or the Common Code, ISIN and CINS and such other relevant numbers for each series of Bonds will be set out in the relevant Pricing Supplement.
6. The Bonds will not be issued under an indenture, and no trustee is provided for in the Bonds.
7. The Luxembourg Stock Exchange has allocated the number 2306 to the Program for listing purposes.

Total assets of the FHLBanks at December 31, 1997 was USD 348.2 billion. There has been no material adverse change in the FHLBanks' capitalization since December 31, 1997.

EXHIBIT A

FORM OF PRICING SUPPLEMENT

Pricing Supplement



**Federal Home Loan Banks
Global Debt Program**

**Series []
[Title of Issue of Bonds]**

The Bonds are Joint and Several Obligations of the FHLBanks and are not obligations of the United States and are not guaranteed by the United States.

SEE "CERTAIN INVESTMENT CONSIDERATIONS" IN THE INFORMATION MEMORANDUM [AND ON PAGE OF THIS PRICING SUPPLEMENT] FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE BONDS OFFERED HEREBY.

[Dealer Marketing Name(s)]

The date of this Pricing Supplement is [Pricing Date or, in the case of a syndicated offering, the date of the Syndication Agreement].

This document ("Pricing Supplement") is issued to give details of an issue of Bonds by the Federal Housing Finance Board, acting by and through the Office of Finance (together with any successors and assigns acting in a similar capacity with respect to the issuance of securities, the "Issuer") of the FHLBanks under the Global Debt Program which commenced on July 1, 1994 [and to provide information supplemental to the Information Memorandum referred to below].

This Pricing Supplement supplements the terms and conditions in, and incorporates by reference, the Information Memorandum dated March 31, 1999, and all documents incorporated by reference therein (the "Information Memorandum"), and should be read in conjunction with the Information Memorandum. Unless otherwise defined in this Pricing Supplement, terms used herein have the same meaning as in the Information Memorandum.

No person is authorized to give any information or to make any representation not contained in the Information Memorandum or this Pricing Supplement, and any information or representation not contained herein or in the Information Memorandum must not be relied on as having been authorized by or on behalf of the FHLBanks or by any of the Dealers (as defined in the Information Memorandum). The delivery of the Information Memorandum or this Pricing Supplement at any time does not imply that the information contained in the Information Memorandum or this Pricing Supplement, as the case may be, is correct at any time subsequent to the date of the Information Memorandum or, if later, the date of the documents incorporated by reference in the Information Memorandum or to the date of this Pricing Supplement, respectively.

Terms and Conditions

The following items under this heading "Terms and Conditions" are the particular terms which relate to the issue the subject of this Pricing Supplement. These are the only terms which form part of the form of Bonds for such issue.

[Include whichever of the following apply]

- | | |
|--|---|
| 1. Series: | [Number] |
| 2. Form of Bonds
(Condition 1(a)): | [Form] |
| 3. Aggregate Principal Amount
(Condition 1(a)): | [Amount] |
| 4. Authorized Denomination(s)
(Condition 1(a)): | [Currency and Amount(s)] |
| 5. Specified Currency
(Condition 1(c)): | [Currency of Denomination] |
| 6. Specified Principal Payment Currency
(Condition 1(c)): | [Currency]
<i>(Delete term if identical to Specified Currency)</i> |
| 7. Specified Interest Payment Currency
(Condition 1(c)): | [Currency]
<i>(Delete term if identical to Specified Currency)</i> |
| 8. Issue Date: | [Date] |
| 9. Maturity Date
(Condition 5(a)): | [Date] |
| 10. Business Day Convention/FRN Convention | [Specify] |
| (a) Relevant Business Day | [Describe] |
| (b) Relevant Financial Center(s): | [Specify] |

11. Fixed Rate Bonds
(Condition 4(I)):
- [Applicable/Not Applicable]
(if not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Calculation Amount: [Amount of principal outstanding/other]
- (b) Interest Commencement Date
(Conditions 4(I) and 4(IV)):
- [Date]
(Delete term if identical to Issue Date)
- (c) Interest Payment Date(s): [Date(s)]
- (d) Fixed Interest Rate(s): [] percent per annum [for period] [[] percent per annum for additional step-up periods]
- (e) Fixed Rate Day Count Fraction(s): [Specify]
12. Variable Rate Bonds
(Condition 4(II)):
- [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Calculation Amount: [Amount of principal outstanding/other]
- (b) Interest Commencement Date
(Conditions 4(I) and 4(IV)):
- [Date]
(Delete term if identical to Issue Date)
- (c) Interest Payment Date(s): [Date(s)]
- (d) Rate of Interest
(Condition 4(II)(b)):
- [Spread Multiplier, if any x] Reference Rate
[+/- Spread, if any]
- (e) Spread: [+/- [] percent per annum/Not Applicable]
- (f) Spread Multiplier: [Specify/Not Applicable]
- (g) Variable Rate Day Count Fraction(s): [Specify]
- (h) Minimum Interest Rate: [Percent]
- (i) Maximum Interest Rate: [Percent]
- (j) Rounding Convention for Rate of Interest
(Condition 4(II)(c)):
- [Round to three decimal places/other convention]

- (k) Rounding Convention for indexing formulas and intermediate calculations (Condition 4(II)(c)):
- [Round to five decimal places/other convention]
- (l) Reference Rate(s) (Condition 13):
- [Specify, indicating whether bid, offer or mean]
- (1) Primary Source Page:
- [Specify]
- (2) Secondary Source Page:
- [Specify]
- (3) Back-Up Source:
- [Specify and describe]
- (4) Reset Dates:
- [Specify]
- (5) Determination Date(s):
- [Specify]
- (6) Rate Cut-Off Date:
- [Describe]
- (7) Relevant Banking Day:
- [Describe]
- (8) Relevant Banking Center(s):
- [Specify]
- (m) Calculation Agent:
- [Specify]
13. Zero Coupon Bonds (Condition 4(III)):
- [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Amortization Yield:
- [Yield]
14. Redemption of Zero Coupon Bonds (Condition 5(c)(i)):
- [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Reference Price:
- [Price]
- (b) Terms:
- [Describe]
15. Redemption According to Formula (Condition 5(c)(ii)):
- [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Redemption Date(s):
- [Specify]
- (b) Terms:
- [Specify]

- (c) Reference Rate(s): [Specify, indicating whether bid, offer or mean]
- (1) Primary Source Page: [Specify]
- (2) Secondary Source Page: [Specify]
- (3) Back-up Source: [Specify and describe]
- (4) Reset Dates: [Specify]
- (5) Determination Date(s): [Specify]
- (6) Rate Cut-Off Date: [Describe]
- (7) Relevant Banking Day [Describe]
- (8) Relevant Banking Center(s): [Specify]
- (d) Price paid on Redemption Date: [Price]
16. Issuer's Optional Redemption:
(Condition 5(c) (iii)):
- [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Redemption Date(s): [Dates]
- (b) Terms: [Specify whole or whole and part]
- (c) Price paid on Redemption Date: [Specify]
- (d) Notice: [Specify]
17. Redemption at the Option of a Registered Holder
(Condition 5(c) (iv)):
- [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Redemption Date(s): [Dates]
- (b) Terms: [Specify]
- (c) Price paid on Redemption Date: [Specify]
- (d) Notice to registered owner: [Specify]
- (e) Withdrawal of Bonds: [Give details]

18. Amortizing Bonds
(Condition 5(c)(vi)):
- [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Redemption Date(s): [Specify]
- (b) Installment Amount(s): [Specify]
- (c) Price paid on Redemption Date(s): [Specify]
19. Eligible to be Stripped
(Condition 14):
- [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Minimum Principal Amount: [Amount]
- (b) Minimum Interest Component: [Specify]
- (c) Minimum Principal Component: [Specify]
- (d) Cut-Off Date: [Specify]
- (e) Other Terms: [Describe]
- Other Relevant Terms**
1. Listing (if yes, specify Stock exchange): [Stock Exchange]
2. Details of Clearance System Approved by the FHLBanks and the Global Agent and Clearance and Settlement Procedures: [Give details]
3. Method of Payment: [Delivery versus Payment/Free Delivery Basis/or other method specified]
4. Distribution: [Individual/Syndicated/Agency]
5. Liability: [Several/Joint and Several]
6. Dealers:
- (a) Lead Manager(s)/Dealer (and principal amount(s)): [Legal Name]
- (b) Co-Lead Manager(s) (and principal amount(s)): [Not Applicable/Legal Name]
7. Stabilizing Manager: [Legal Name]
8. Issue Price: [Price]

9. Commissions, Concessions, Reallowance and other Compensation: [Specify]
10. Codes:
- (a) Common Code: [Number]
 - (b) ISIN: [Number]
 - (c) CUSIP: [Number]
 - (d) CINS: [Number]
 - (e) Other: [Number]
11. Agents:
- (a) Global Agent: [Not Applicable/Legal Name]
 - (b) Registrar: [Not Applicable/Legal Name]
 - (c) Transfer Agent(s): [Not Applicable/Legal Name]
 - (d) Custodian: [Not Applicable/Legal Name]
 - (e) Exchange Agent: [Not Applicable/Legal Name]

General Information

All required U.S. authorizations for the issuance of the Bonds have been obtained.

[Set out any additions or variations to the selling restrictions.]

[Supplemental Disclosure]

[Set out here any additional disclosure regarding, for example, investment considerations or taxation which is considered necessary or advisable for the particular issue.]

FEDERAL HOUSING FINANCE BOARD

FEDERAL HOME LOAN BANK OF BOSTON
FEDERAL HOME LOAN BANK OF NEW YORK
FEDERAL HOME LOAN BANK OF PITTSBURGH
FEDERAL HOME LOAN BANK OF ATLANTA
FEDERAL HOME LOAN BANK OF CINCINNATI
FEDERAL HOME LOAN BANK OF INDIANAPOLIS
FEDERAL HOME LOAN BANK OF CHICAGO
FEDERAL HOME LOAN BANK OF DES MOINES
FEDERAL HOME LOAN BANK OF DALLAS
FEDERAL HOME LOAN BANK OF TOPEKA
FEDERAL HOME LOAN BANK OF SAN FRANCISCO
FEDERAL HOME LOAN BANK OF SEATTLE

By: Office of Finance,
Federal Home Loan Banks

By: _____
Name:
Title:

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London EC2M 3XW

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New York, NY 10167-6247

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New York, NY 10019

Fuji Securities, Inc.
Two World Financial Center
South Tower, 26th Floor
New York, NY 10281

Lehman Brothers International (Europe)
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London EC2M 7HA

Midland Bank plc
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10 Queen Street Place
London EC41R 1BQ

Morgan Stanley & Co. International Limited
25 Cabot Square
Canary Wharf
London E14 4QA

Salomon Brothers International Limited
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Barclays Capital, Inc.
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London EC4Y 0JP

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London EC2M 2RH

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LISTING AGENT, PAYING AGENT AND TRANSFER AGENT IN LUXEMBOURG

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FEDERAL HOME LOAN BANKS

Quarterly Financial Report For the Three Months Ended March 31, 2002

This report provides financial information on the Federal Home Loan Banks. You should use this Financial Report, with other information the Federal Home Loan Banks specifically provide, when you consider whether or not to purchase the consolidated bonds and consolidated discount notes (collectively consolidated obligations) of the Federal Home Loan Banks.

The Securities Act of 1933, as amended, does not require the registration of consolidated obligations. Accordingly, no registration statement has been filed with the Securities and Exchange Commission. Neither the Securities and Exchange Commission, the Federal Housing Finance Board, nor any State securities commission has approved or disapproved the consolidated obligations or has passed upon the accuracy or adequacy of any offering material.

The consolidated obligations are not obligations of the United States and are not guaranteed by the United States.

Neither this Financial Report nor any offering material provided by the Office of Finance on behalf of the Federal Home Loan Banks concerning any offering of consolidated obligations describes all the risks of investing in consolidated obligations. Prospective investors should consult their financial and legal advisors about the risks of investing in any particular issue of consolidated obligations.

The financial information is as of and for periods ended March 31, 2002. You should read this Financial Report in conjunction with the 2001 Financial Report dated March 29, 2002. We are incorporating that report by reference. The 2001 Financial Report contains financial and other information about the Federal Home Loan Banks as of December 31, 2001. These documents are available on the Office of Finance website, www.fhfb-of.com.

You should direct questions about this Financial Report to the Federal Home Loan Banks' Office of Finance, Director of Accounting Policy & Financial Reporting. You should direct questions about the Federal Home Loan Banks' consolidated obligations to the Federal Home Loan Banks' Office of Finance, Marketing & Information Services. The address for both is Federal Home Loan Banks' Office of Finance, 11921 Freedom Drive, Suite 1000, Reston, VA 20190, (703) 467-3600, www.fhfb-of.com. The Office of Finance will provide additional copies of this Financial Report upon request. Please contact the Office of Finance if you want to receive subsequent annual and quarterly financial reports.

The delivery of this Financial Report does not imply that there has been no change in the financial condition of the Federal Home Loan Banks since March 31, 2002.

The date of this Quarterly Financial Report is May 9, 2002.

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The Luxembourg Stock Exchange has allocated the number 2306 to the Federal Home Loan Banks' Global Debt Program for listing purposes. Application may be made to list consolidated obligations issued under the program on the Luxembourg Stock Exchange.

FEDERAL HOME LOAN BANKS
SUMMARY FINANCIAL DATA
(Dollar amounts in millions)
(Unaudited)

	2002	2001
At March 31,		
Advances	\$461,994	\$450,474
Mortgage loans, net	31,625	16,506
Investments (1)	202,703	200,062
Total assets	702,761	674,271
Deposits and borrowings	30,847	30,057
Consolidated obligations	623,171	600,295
Capital stock	34,007	31,363
Retained earnings	977	749
Average balances for the three months ended March 31,		
Advances	\$467,237	\$451,587
Mortgage loans, net	29,245	16,299
Investments (1)	194,478	186,457
Total assets	699,898	664,663
Deposits and borrowings	29,464	20,906
Consolidated obligations	619,739	597,836
Capital stock	33,302	30,917
Retained earnings	1,080	1,001
Operating results for the three months ended March 31,		
Net income	\$ 449	\$ 535
Dividends paid in cash and stock	404	515
Weighted average dividend rate (2)	4.92%	6.76%
Return on average equity	5.30%	6.80%
Return on average assets	0.26%	0.33%
Net interest margin (3)	0.40%	0.49%
At March 31,		
Total capital ratio (4)	5.0%	4.8%
Leverage ratio	20.1:1	21.0:1

- (1) Investments also include interest-bearing deposits in banks, securities purchased under resale agreements, and Federal funds sold.
- (2) Weighted average dividend rates are dividends paid in cash and stock divided by the average of capital stock eligible for dividends.
- (3) Net interest margin is net interest income before loan loss provision as a percentage of average earning assets.
- (4) Total capital ratio is capital stock plus retained earnings as a percentage of total assets at period end.

FEDERAL HOME LOAN BANKS
DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this discussion and analysis of financial condition and results of operations with the combined financial statements and the notes beginning on page 27 of this Financial Report. See "Explanatory Statement about FHLBanks Combined Financial Report" on page 25.

Amounts used to calculate percentage variances from March 31, 2002, to the most recent year-end and comparable preceding interim period are based on numbers in the millions. Accordingly, recalculations may not produce the same results when the relevant amounts are disclosed only in billions.

Forward-Looking Information

Statements contained in this report, including statements describing the objectives, projections, estimates, or future predictions of the Federal Home Loan Banks (FHLBanks) and the Office of Finance may be "forward-looking statements." These statements may use forward-looking terminology, such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or their negatives or other variations on these terms. The FHLBanks caution that, by their nature, forward-looking statements involve risk or uncertainty and that actual results could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate, or prediction is realized.

These forward-looking statements involve risks and uncertainties including, but not limited to, the following:

- economic and market conditions;
- demand for FHLBank advances resulting from changes in FHLBank members' deposit flows and credit demands;
- volatility of market prices, rates, and indices that could affect the value of collateral held by the FHLBanks as security for the obligations of FHLBank members and counterparties to interest-rate exchange agreements and similar agreements;
- political events, including legislative, regulatory, judicial, or other developments that affect the FHLBanks, their members, counterparties, and/or investors in the consolidated obligations of the FHLBanks;
- competitive forces, including without limitation other sources of funding available to FHLBank members, other entities borrowing funds in the capital markets, and the ability to attract and retain skilled individuals;
- ability to develop and support technology and information systems, including the Internet, sufficient to manage the risks of the FHLBanks' business effectively;
- changes in investor demand for consolidated obligations and/or the terms of interest-rate exchange agreements and similar agreements;
- timing and volume of market activity;
- ability to introduce new FHLBank products and services, and manage successfully the risks associated with those products and services, including new types of collateral securing advances;
- risk of loss arising from litigation filed against one or more of the FHLBanks; and
- inflation/deflation.

Financial Trends

Conditions in Financial Markets. During the first quarter of 2002, the financial markets continued to exhibit significant volatility as the U.S. economy began to recover from the terrorist attacks of September 11 that adversely affected the stock market, eroded consumer confidence and disrupted commerce. The stock market continues to be affected by reports of poor year-end earnings for 2001, lowered growth expectations by numerous industrial and service companies, and the announcement of substantial employee layoffs by many companies.

In response to economic conditions, the Federal Reserve Board, through its Federal Open Market Committee, cut the discount rate 11 times for a total of 475 basis points during 2001. As a result of lower interest rates, a significant volume of redemptions of callable FHLBank consolidated obligations were triggered, with those bonds being replaced by bonds with lower interest rates. As spreads narrowed, given the overall downward shift in interest rates, the FHLBanks' funding spreads have also compressed as a result of unprecedented U.S. Government-Sponsored Enterprise (GSE) and corporate demand for funding and the increased cost of hedging their market risk using interest-rate exchange agreements. In 2001, the latest period for which data is available, new issue volume in the U.S. bond market reached a new record, totaling \$4.6 trillion.

The continued low level of interest rates in the first quarter of 2002 has had a demonstrable impact on the FHLBanks' profitability, particularly because a majority of their investment portfolios have maturities of less than one year. Representative of that phenomenon is the change in the overnight Federal funds effective rate as reported by the Board of Governors of the Federal Reserve System, the rate at which banks sell excess reserves to one another. On average, the overnight Federal funds effective rate during the first quarter of 2001 was 5.61 percent. During the first quarter of 2002, that rate averaged 1.74 percent, a decline of 387 basis points or 69 percent period over period.

The lower level of interest rates also affects all FHLBanks directly through lower earnings on invested capital. In addition, many homeowners took advantage of lower mortgage rates to refinance their homes, resulting in increased prepayments on mortgages, including the member mortgage asset programs established by the FHLBanks, and the resulting income recognition of any associated premiums or discounts. The effective yields on the mortgage assets that replaced those prepaid loans reflect the current lower overall level of interest rates.

For the year ended December 31, 2001, the latest period for which data is available, the FDIC reported that deposit growth exceeded loan growth at commercial banks for the fifth consecutive quarter and that deposit growth of FDIC-insured deposits rose \$275 billion since December 31, 2000. This was the ninth consecutive quarter with growth in deposits. These increases have reversed a long period of minimal deposit growth, which may affect the future demand for advances from the FHLBanks.

Statement of Condition. Statement of Financial Accounting Standards No. 133, *Accounting For Derivative Instruments and Hedging Activities* (SFAS 133) requires that, beginning in 2001, the assets and liabilities hedged with derivative instruments designated and effective under fair-value hedging relationships be adjusted for changes in fair value even as other assets and liabilities continue to be carried on a historical cost basis. In discussing changes in the Statement of Condition for the first three months of 2002 compared to the same period in 2001, the SFAS 133 fair value adjustment information for advances, investments and consolidated obligations have been included.

All other fair value adjustments were less than one percent of the book value. The SFAS 133 basis adjustments for advances, investments and consolidated obligations are as follows:

Federal Home Loan Banks
SFAS 133 Basis Adjustments
(Dollar amounts in millions)

	At March 31,	
	2002	2001
Advances at pre-SFAS 133 value	\$455,508	\$444,801
SFAS 133 basis adjustments	6,486	5,673
Advances at carrying value	<u>\$461,994</u>	<u>\$450,474</u>
Investments at pre-SFAS 133 value(1)	\$202,594	\$199,817
SFAS 133 basis adjustments	109	245
Investments at carrying value	<u>\$202,703</u>	<u>\$200,062</u>
Consolidated obligations at pre-SFAS 133 value	\$622,682	\$597,957
SFAS 133 basis adjustments	489	2,338
Consolidated obligations at carrying value	<u>\$623,171</u>	<u>\$600,295</u>

(1) Investments also include interest-bearing deposits in banks, securities purchased under resale agreements, and Federal funds sold.

Advances totaled \$462.0 billion at March 31, 2002. Advances decreased by 2.3 percent from December 31, 2001 and increased by 2.6 percent from March 31, 2001. Advances activity has been affected by improvements in members' liquidity positions due to strong deposit flows.

More than 69.9 percent of the advances outstanding at March 31, 2002, had a remaining maturity greater than one year compared with 67.8 percent at December 31, 2001 and 58.2 percent at March 31, 2001. Advance originations totaled \$903.2 billion in the first three months of 2002, down 8.8 percent from originations of \$990.4 billion during the first three months of 2001, reflecting lower demand by members for short-term advances.

The principal investments of the FHLBanks are mortgage-backed securities, overnight and term Federal funds sold, commercial paper, agency securities, and U.S. Government securities. At March 31, 2002, investments grew by \$12.6 billion, or 6.6 percent from the year-end 2001 balance of \$190.1 billion. Investments grew by \$2.6 billion, or 1.3 percent from March 31, 2001. The Finance Board's Financial Management Policy limits the mortgage-backed security investments of any FHLBank to 300 percent of that FHLBank's capital. Aggregate mortgage-backed security investments of \$88.8 billion at March 31, 2002, were 254 percent of total FHLBank capital. These investments represented 253 percent and 263 percent of total FHLBank capital at December 31, 2001 and March 31, 2001, respectively. The FHLBanks make use of interest-rate exchange agreements to alter the cash flows on certain of their investment securities.

Historically, the FHLBanks have been one of the largest providers of Federal funds. Federal funds sold were \$55.2 billion (27.2 percent of total investments) at March 31, 2002, compared with \$48.4 billion (25.5 percent of total investments) at year-end 2001 and \$65.0 billion (32.5 percent of total investments) at March 31, 2001.

The FHLBanks held commercial paper investments of \$5.8 billion (2.9 percent of total investments) at March 31, 2002, compared with \$6.7 billion (3.5 percent of total investments) at year-end 2001 and \$10.2 billion (5.1 percent of total investments) at March 31, 2001. The FHLBanks also invest in U.S. agency obligations, primarily structured debt issued by other GSEs. The FHLBanks use interest-rate exchange agreements to hedge the interest-rate risk associated

with investments in structured debt. U.S. agency obligations rose to \$19.6 billion or 9.7 percent of total investments at year-end 2001, up from \$15.1 billion or 7.9 percent of total investments at year-end 2001 and \$11.5 billion or 5.7 percent at March 31, 2001.

Mortgage loans held increased to \$31.6 billion at March 31, 2002 from \$27.6 billion at December 31, 2001 and \$16.5 billion at March 31, 2001. The increase in mortgage loans relates to the expansion of the member mortgage asset programs established by the FHLBanks, allowing them to purchase mortgages from member financial institutions. Despite lower interest rates leading to homeowners refinancing their mortgage loans, new loan production far outpaced the accelerated prepayments. For the first three months of 2002, repayments and prepayments were approximately \$2.4 billion while originations were approximately \$6.4 billion. The FHLBank of Chicago, which pioneered the Mortgage Partnership Finance (MPF®) program in which nine of the 12 FHLBanks now participate, and the FHLBank of Des Moines hold the largest mortgage loan balances with 59.4 percent and 11.1 percent, respectively, of the FHLBanks' mortgage loans held at March 31, 2002. MPF® had mortgage loans outstanding of \$27.3 billion at March 31, 2002. The FHLBanks of Cincinnati, Indianapolis and Seattle developed the Mortgage Purchase Program (MPP), which had mortgage loans outstanding of \$4.3 billion at March 31, 2002.

The principal funding source for FHLBank operations is consolidated obligations, which consist of consolidated bonds and consolidated discount notes. Member deposits, capital, and to the lesser extent, repurchase agreements, are also funding sources. Generally, consolidated discount notes have maturities up to 360 days, and consolidated bonds have maturities of one year or longer. Discount notes are a significant funding source for advances with short-term maturities or short repricing intervals, for convertible advances, and for money-market investments. The FHLBanks make significant use of interest-rate exchange agreements to alter the cash flows on consolidated obligations to better match their funding needs and to reduce funding costs. Consolidated obligations outstanding increased 0.3 percent between March 31, 2002 and year-end 2001, rising to \$623.2 billion at March 31, 2002. Consolidated obligations outstanding increased 3.8 percent between March 31, 2002 and March 31, 2001. Consolidated discount notes outstanding decreased 8.2 percent from December 31, 2001 and 30.7 percent from March 31, 2001, reaching \$128.0 billion at March 31, 2002, and consolidated bonds outstanding increased by 2.8 percent from December 31, 2001 and 19.2 percent from March 31, 2001 to a balance of \$495.2 billion at March 31, 2002.

The FHLBanks' total capital grew by \$0.7 billion or 2.0 percent between December 31, 2001 and March 31, 2002, and \$2.8 billion or 8.7 percent from March 31, 2001 to March 31, 2002, due to increases in advances, increases in members, the payment of stock dividends by the FHLBanks of Cincinnati, Chicago, Dallas, San Francisco, and Seattle, and the accumulation of retained earnings to absorb temporary earnings volatility resulting from SFAS 133. Over the same periods, total assets grew less than total capital, causing the FHLBanks' capital-to-asset ratio to increase to 5.0 percent at March 31, 2002 from 4.9 percent at year-end 2001 and 4.8 percent at March 31, 2001.

The FHLBank leverage limit is based on a ratio of assets to capital rather than a ratio of liabilities to capital. The amount of each FHLBank's assets is generally limited to no more than 21 times capital. Nevertheless, an FHLBank whose non-mortgage assets, after deducting deposits and capital, do not exceed 11 percent of its assets may have total assets in an amount no greater than 25 times its capital. At March 31, 2002, combined FHLBank asset-based leverage was 20.1 to 1. Combined FHLBank asset-based leverage was 20.4 to 1 at year-end 2001 and 21.0 to 1 at March 31, 2001. At March 31, 2002, five FHLBanks had leverage in excess of 21.0 to 1, but less than 25.0 to 1 in all cases.

Debt Financing Activity. Increases in deposits and borrowings of \$4.0 billion or 15.1 percent and consolidated obligations outstanding of \$1.9 billion or 0.3 percent from December 31, 2001 financed most of the increase in FHLBank assets. Increases in FHLBank assets from March 31, 2001 were financed primarily by the increase in consolidated obligations of \$22.9 billion or 3.8 percent from March 31, 2001 to March 31, 2002. Bonds composed 79.5 percent of consolidated

obligations outstanding at March 31, 2002, with the remainder being discount notes. Through December 31, 2000, the Finance Board through the Office of Finance issued consolidated obligations on behalf of the FHLBanks on a daily basis. The Finance Board adopted final rules on June 2, 2000, to govern the issuance of debt directly by the FHLBanks. Beginning January 2, 2001, the FHLBanks issue debt jointly through the Office of Finance as their agent.

The data in the following table is not adjusted for the \$2.7 billion of interbank holdings at par value of consolidated bonds at March 31, 2002.

Federal Home Loan Banks
Composition of Consolidated Bonds Outstanding
(Par amounts in billions)

	At March 31,	
	2002	2001
Fixed-rate, Non-callable	\$229.5	\$195.0
Fixed-rate, Callable	179.5	168.4
Fixed-rate, Puttable	0.6	0.6
Single-index Floating Rate	62.7	39.7
Zero-coupon, Non-callable	0.5	1.4
Zero-coupon, Callable	20.8	20.3
Other	19.8	6.1
Total	<u>\$513.4</u>	<u>\$431.5</u>

In the first three months of 2002, 80.6 percent of bond sales by par amount were negotiated transactions, 19.2 percent by par amount were competitively bid and 0.2 percent by par amount were direct placements. In the first three months of 2002, 32.6 percent of bonds sold were fixed-rate, fixed-term, non-callable (bullet) bonds; 44.1 percent were callable bonds; and 11.6 percent were simple floating-rate bonds. Bonds issued through the Office of Finance often have investor-determined features. The decision to issue a bond using a particular structure is based upon the funding level to be achieved and the ability of the FHLBank(s) receiving the proceeds of the bonds issued to hedge the risks. The issuance of a bond with an associated interest-rate exchange agreement, which effectively converts the consolidated bond into a simple fixed- or floating-rate bond, usually results in a funding vehicle with a lower cost than the FHLBanks could otherwise achieve. The continued attractiveness of such debt depends on price relationships in both the bond and interest-rate exchange markets. If conditions in these markets change, then the FHLBanks may alter the types or terms of the bonds issued. The increase in funding alternatives available to the FHLBanks through negotiated transactions has diversified the investor base, reduced funding costs, and provided additional asset-liability management tools.

The FHLBanks, through the Office of Finance, issued \$90.6 billion of bonds at par in the first three months of 2002. This compares with \$77.5 billion issued at par for the first three months of 2001. The increase in bond issuance occurred because of greater call activity attributable to the decline in the level of interest rates throughout 2001 and into the first quarter of 2002.

Discount notes are a significant funding source for the FHLBanks. Discount notes are short-term instruments, and the issuance of discount notes with maturities of one business day influences the aggregate origination volume. Through a 16-member selling group, the FHLBanks, through the Office of Finance, offers discount notes daily in a range of maturities up to 360 days. In addition, the FHLBanks, through the Office of Finance, offers discount notes in four standard maturities in two auctions each week. The FHLBanks primarily use discount notes to fund short-term advances, longer-term advances with short repricing intervals, convertible advances, and money market investments. Discount notes comprised 20.5 percent of outstanding consolidated obligations at March 31, 2002 but accounted for 91.3 percent of the proceeds from the sale of consolidated

obligations in the first three months of 2002. Much of the discount note activity reflects the refinancing of overnight discount notes, which averaged \$12.3 billion in the first three months of 2002.

Federal Home Loan Banks
Average Consolidated Obligations Outstanding
(Dollar amounts in billions)

	For the Three Months Ended March 31,	
	2002	2001
Overnight discount notes	\$ 12.3	\$ 15.3
Term discount notes	123.8	155.6
Total discount notes	136.1	170.9
Bonds	499.3	446.3
Total consolidated obligations	<u>\$635.4</u>	<u>\$617.2</u>

The composition of consolidated obligations shifted in the first quarter of 2002 compared to the first quarter of 2001 as total discount notes decreased by 20.4 percent and bonds increased by 11.9 percent. The shift in funding mix represents the relatively more attractive cost of funds available through bond issuance and other financing vehicles compared with discount notes.

The FHLBanks have emphasized diversification of funding sources and channels as the need for funding from the capital markets has grown. In July 1994, the Office of Finance initiated a Global Debt Program. By issuing debt under this program, the FHLBanks can expand and diversify their investor base. In the first three months of 2002, the Global Debt Program provided \$16.5 billion in term funds. In mid-1999, the Office of Finance implemented the TAP issue program. This program consolidates domestic bullet bond issuance through daily auctions of common maturities by re-opening previously issued bonds. In this way, the Office of Finance seeks to enhance the liquidity of these issues. In the first three months of 2002, TAP bond issuance was \$12.4 billion up \$2.5 billion from the same period in 2001.

Results of Operations

Net Income and Net Interest Income. The FHLBanks' net income for the first three months in 2002 was \$449 million, which is \$86 million or 16.1 percent below the net income for the first three months in 2001. For the first three months in 2002, the decrease in net interest income after mortgage loan loss provision was \$104 million, a 13.2 percent decrease from the same period in 2001. The decrease is attributable to lower interest rates.

SFAS 133 was adopted on January 1, 2001. For the three months ended March 31, 2002, the FHLBanks recorded net realized and unrealized gains on derivatives and hedging activities of \$130 million and a net unrealized losses on securities held at fair value of \$159 million. For the same period during year 2001, the FHLBanks recorded net realized and unrealized losses on derivatives and hedging activities of \$43 million, net unrealized gains on securities held at fair value of \$76 million, and a \$30 million decrease to net income as the cumulative effect of change in accounting principle. Under SFAS 133, all derivatives are recorded at fair value and an FHLBank is required to recognize unrealized losses or gains on derivative positions regardless of whether offsetting gains or losses on the underlying assets or liabilities being hedged are permitted to be recognized in a symmetrical manner. Therefore, SFAS 133 introduces the potential for a considerable timing difference between income recognition on those assets or liabilities not adjusted for market changes and the income effects of hedge instruments entered into to mitigate interest-rate risk and cash-flow variability. Because some of the FHLBanks manage derivatives positions with

primary emphasis on economic cost-effectiveness, as opposed to symmetrical accounting results, the adoption of SFAS 133 has led to more volatility in the reported earnings for those FHLBanks following this strategy due to changes in market prices and interest rates.

The following table presents average balances and yields of major earning asset categories and the sources funding those earning assets. It also presents spreads between yields on total earning assets and the cost of interest-bearing liabilities and spreads between yields on total earning assets and the cost of total funding sources (i.e., interest-bearing liabilities plus capital plus other interest-free liabilities funding earning assets.) The primary source of FHLBank earnings is net interest income, which is the interest earned on advances, mortgages, investments and capital less interest paid on consolidated obligations, deposits, and other borrowings. The increase in spread on total interest bearing liabilities from the three months ended March 31, 2001 to March 31, 2002 reflects the somewhat more rate sensitive nature of the FHLBanks' funding relative to assets and a move to a more profitable mix of assets. The decrease in net interest margin is largely attributable to the decline in interest rates and the effect of lower interest rates on invested capital.

Federal Home Loan Banks
Spread and Yield Analysis
(Dollar amounts in millions)

	For the Three Months Ended March 31,			
	2002 Average		2001 Average	
	Balance	Yield	Balance	Yield
Earning assets:				
Advances	\$467,237	2.46%	\$451,587	6.04%
Mortgage loans	29,245	6.60%	16,299	7.37%
Investments	194,478	3.69%	186,457	6.31%
Total earning assets	<u>\$690,960</u>	2.98%	<u>\$654,343</u>	6.15%
Funded by:				
Consolidated obligations	\$619,739	2.80%	\$597,836	6.00%
Interest-bearing deposits and other borrowings	29,464	1.68%	20,906	5.53%
Total interest-bearing liabilities	649,203	2.75%	618,742	5.98%
Capital and other non-interest-bearing funds	41,757		35,601	
Total funding	<u>\$690,960</u>	2.58%	<u>\$654,343</u>	5.66%
Spread on:				
Total interest-bearing liabilities		0.23%		0.17%
Total funding (net interest margin)		0.40%		0.49%

In the preceding table, average amounts for the three months ended March 31, 2001 have been restated using daily average balances, rather than the quarter-end average balances, for calculations to be consistent with the 2002 presentation.

A significant portion of net interest income results from earnings on assets funded by non-interest-bearing capital. Average total capital for the three months ended March 31, 2002 was \$34.4 billion, which was \$2.5 billion or 7.7 percent greater than average total capital of \$31.9 billion for the three months ended March 31, 2001. Growth in FHLBank membership, increased advance levels and stock dividends, and the accumulation of retained earnings to compensate for temporary earnings volatility resulting from SFAS 133 contributed to the increase in average total capital.

Changes in both volume and interest rates influence changes in net interest income and net interest margin. The following table summarizes changes in interest income and interest expense

between the first three months in 2002 and 2001. Changes in interest income and interest expense not identifiable as either volume-related or rate-related, but rather equally attributable to both volume and rate changes, have been allocated to the volume and rate categories based upon the proportion of the absolute value of the volume and rate changes.

Federal Home Loan Banks
Rate and Volume Analysis
(Dollar amounts in millions)

	For the Three Months Ended March 31,		
	2002 vs. 2001		
	Increase	(Decrease)	Due to
	Volume	Rate	Total
Interest Income:			
Advances	\$226	\$(4,111)	\$(3,885)
Mortgage loans	214	(34)	180
Investments	120	(1,252)	(1,132)
Total interest income	<u>560</u>	<u>(5,397)</u>	<u>(4,837)</u>
Interest Expense:			
Consolidated obligations	313	(4,883)	(4,570)
Deposits and other borrowings	87	(250)	(163)
Total interest expense	<u>400</u>	<u>(5,133)</u>	<u>(4,733)</u>
Changes in net interest income	<u>\$160</u>	<u>\$ (264)</u>	<u>\$ (104)</u>

Operating Expenses. The following table presents operating expenses for the three months ended March 31, 2002 and 2001:

Federal Home Loan Banks
Operating Expenses
(Dollar amounts in millions)

	For the Three Months Ended March 31,		Percentage Increase/ (Decrease)
	2002	2001	
Salaries and employee benefits	\$55	\$52	5.8%
Occupancy cost	6	7	(14.3)%
Other	27	26	3.8%
Total operating expenses	<u>\$88</u>	<u>\$85</u>	<u>3.5%</u>

Total FHLBank operating expenses for the first three months of 2002 were \$88 million, which is \$3 million or 3.5 percent above total operating expenses for the first three months in 2001. The increase in salaries and benefits in the first three months of 2002 reflects general pay and benefits increases, higher staffing levels, and an increase in pension expense. Operating expenses as a percent of average assets on an annualized basis were 5.0 basis points and 5.5 basis points for the first three months of 2002 and 2001, respectively. Operating expenses include the costs of providing member correspondent services, as well as advance and mortgage purchase operations. The FHLBank of New York's headquarters at 7 World Trade Center were destroyed as a result of the September 11 attacks. The FHLBank of New York is working out of interim locations in New York

and New Jersey, while considering options for a new permanent location. The increase in operating expenses relating to the relocation is not expected to materially affect the FHLBank of New York's operations.

Other, net. The FHLBank of New York's receipt of \$6 million in proceeds of insurance claims related to the destruction of its headquarters on September 11 was recorded in the other, net expenses in the quarter ended March 31, 2002. These proceeds offset the other, net expense amount during this period. For the three months ended March 31, 2001, the other, net expense amount totaled \$5 million. The other, net expenses consist of operating expenses related to MPF®.

Finance Board and Office of Finance Expenses. The FHLBanks are assessed the costs of operating the Finance Board and the Office of Finance. These expenses totaled \$13 million for the first three months in 2002, an increase of 30.0 percent from \$10 million for the same period in 2001.

Affordable Housing Program. The AHP expense for the first three months in 2002 was \$49 million, 15.5 percent less than the \$58 million AHP expense for the first three months in 2001. The AHP assessment was 10 percent of net income after the required payment to REFCORP. The AHP assessment change from the first three months in 2002 to 2001 reflects the decline of the FHLBanks net income.

REFCORP Payment

The FHLBanks must pay 20 percent of net earnings (after their AHP obligation) to REFCORP to support the payment of part of the interest on the bonds issued by REFCORP. The FHLBanks must make these payments to REFCORP until the total amount of payments actually made is equivalent to a \$300 million annual annuity whose final maturity date is April 15, 2030. The Finance Board will shorten or lengthen the period during which the FHLBanks must make payments to REFCORP depending on actual payments relative to the referenced annuity. In addition, the Finance Board, in consultation with the Secretary of the Treasury, will select the appropriate discounting factors used in this calculation.

The REFCORP assessment of the FHLBanks was \$112 million (cash payment of \$113.6 million) for the first quarter of 2002 compared to the \$134 million assessment for the same period in year 2001. The cash payments are made based on preliminary net income amounts due to the timing requirement of the payment. As specified in the Finance Board regulation that implements section 607 of the Gramm-Leach-Bliley Act (GLB Act), the amount of a quarter's payment in excess of the \$75 million benchmark payment is used to simulate the purchase of zero-coupon Treasury bonds to "defease" all or a portion of the most-distant remaining quarterly benchmark payment. The \$38.6 million first-quarter REFCORP payment in excess of the \$75 million quarterly benchmark will fully defease the remaining \$23.7 million portion of the benchmark payment due on April 15, 2023, the benchmark payments due on January 15, 2023, and defease \$34.7 million of the \$75 million benchmark payment due on October 15, 2022. These benchmark payments or portions of them could be restored if the future actual REFCORP payments of the FHLBanks fall short of \$75 million in a quarter.

The following table presents information on the status of the FHLBanks' REFCORP payments.

Federal Home Loan Banks
REFCORP Payment Summary
For First Quarter 2002 Payment
(Dollar amounts in millions)

<u>Payment Due Date</u>	<u>Amount of Benchmark Payment Defeased*</u>	<u>Interest Rate Used to Discount the Future Benchmark Payment</u>	<u>Present Value of Benchmark Payment Defeased**</u>
April 15, 2023 (most distant remaining payment) . .	\$ 23.7	6.03%	\$ 6.7
January 15, 2023	75.0	6.02%	21.7
October 15, 2022	34.7	6.03%	10.2
Total	<u>\$133.4</u>		<u>\$38.6</u>

* Subject to possible subsequent reinstatement.

** Cash payment of \$113.6 million made on estimated net income.

Risk Management

The fundamental business of the FHLBanks is to provide member institutions and housing associates with advances and other credit products in a wide range of maturities and terms to meet member demand. The principal sources of funds for these activities are consolidated obligations and, to a lesser extent, capital and deposits from members. Lending and investing funds, and engaging in interest-rate exchange agreements, have the potential for exposing the FHLBanks to a number of risks, including credit and interest-rate risk. The FHLBanks are also subject to operational risk. To control these risks, the FHLBanks have established policies and practices to evaluate and manage their credit, business, operating and interest-rate risk positions. The Finance Board has established regulations governing the FHLBanks' risk management practices. FHLBanks must file periodic compliance reports with the Finance Board. The Finance Board conducts an annual on-site examination of each FHLBank and the Office of Finance as well as off-site analyses.

The FHLBanks do not have any special purpose entities or any other type of off-balance sheet conduits. All derivatives are recorded on the balance sheet at fair value. The Finance Board's Financial Management Policy (Financial Management Policy) prohibits the speculative use of interest-rate exchange agreements. The FHLBanks do not trade derivatives for short-term profit.

Liquidity. The FHLBanks are required to maintain liquidity in accordance with certain regulations, with the Financial Management Policy, and with policies established by their board of directors. The FHLBanks need liquidity to satisfy member demand for short- and long-term funds, repay maturing consolidated obligations, and meet other obligations. In their asset/liability management planning, members may look to the FHLBanks to provide standby liquidity. The FHLBanks seek to be in a position to meet their customers' credit and liquidity needs without maintaining excessive holdings of low-yielding liquid investments or being forced to incur unnecessarily high borrowing costs. The FHLBanks' primary sources of liquidity are short-term investments and the issuance of new consolidated obligation bonds and discount notes. Other short-term borrowings, such as Federal funds purchased, securities sold under agreements to repurchase, and loans from other FHLBanks, also provide liquidity. The FHLBanks maintain contingency liquidity plans designed to enable them to meet their obligations and the liquidity needs of members in the event of operational disruptions at the FHLBanks or the Office of Finance or short-term capital market disruptions.

Managing Interest-Rate Risk. Interest-rate risk is the risk that relative and absolute changes in interest rates may adversely affect an institution's financial condition. The goal of an interest-rate risk management strategy is not necessarily to eliminate interest-rate risk but to manage it by setting appropriate limits. The general approach of the FHLBanks toward managing interest-rate risk is to acquire and maintain a portfolio of assets and liabilities, which, together with their associated interest-rate exchange agreements, limit the expected duration mismatch. The FHLBanks manage interest-rate risk in several different ways as is more fully discussed below.

The FHLBanks measure interest-rate risk exposure by various methods, including calculation of duration of equity. Duration of equity shows the sensitivity of market value of equity to changes in interest rates. Higher duration numbers, whether positive or negative, indicate greater volatility of market value of equity. Under the Finance Board's Financial Management Policy, each FHLBank's duration of equity must stay within a range of +5 to -5 years assuming current interest rates. It must stay within a range of +7 to -7 years assuming an instantaneous parallel increase or decrease in interest rates of 200 basis points. The FHLBanks report the results of their duration of equity calculations to the Finance Board each quarter. The Finance Board's new capital rules ultimately will replace duration of equity-based limits on interest-rate risk with a model-generated market-risk capital requirement. (See Duration of Equity table in the Quantitative Disclosure about Market Risk section on page 18.)

The optionality embedded in certain financial instruments held by the FHLBanks can create interest-rate risk. When a member prepays an advance, the FHLBank could suffer lower future income if the principal portion of the prepaid advance were reinvested in lower-yielding assets that continue to be funded by higher-cost debt. To protect against this risk, each FHLBank generally charges a prepayment fee that makes it financially indifferent to a borrower's decision to prepay an advance. When the FHLBanks offer advances (other than short-term advances) that a member may prepay without a prepayment fee, they usually finance such advances with callable debt or otherwise hedge this option.

The FHLBanks hold mortgage-related investments, including mortgage loans, mortgage-backed securities, and agency obligations. The prepayment options embedded in mortgages can result in extensions or contractions in the expected maturities of these investments, depending on changes in interest rates. The Financial Management Policy limits this source of interest-rate risk by restricting the types of mortgage-backed securities the FHLBanks may own to those with limited average life changes under certain interest-rate shock scenarios. The FHLBanks may hedge against contraction risk by funding some mortgage-related investments with consolidated obligations that have call features. In addition, the FHLBanks may use caps, floors, and other interest-rate exchange agreements to manage the extension and contraction variability of mortgage-related investments. The FHLBanks may also use interest-rate exchange agreements to transform the characteristics of investment securities other than mortgage-backed securities.

Derivatives and Hedging Activities

General. The FHLBanks enter into interest-rate swaps, swaptions, interest-rate cap and floor agreements, calls, puts, and futures and forward contracts (collectively, interest-rate exchange agreements) to manage their exposure to changes in interest rates. They may adjust the effective maturity, repricing frequency, or option characteristics of financial instruments to achieve risk-management objectives. The FHLBanks use interest-rate exchange agreements in three ways: either by designating them as fair-value or cash-flow hedges of underlying financial instruments or forecasted transactions, by acting as an intermediary, or in asset-liability management. For example, the FHLBanks use interest-rate exchange agreements in their overall interest-rate risk management to adjust the interest-rate sensitivity of consolidated obligations to approximate more closely the interest-rate sensitivity of assets (advances, investments and mortgage-related investments), and/or to adjust the interest-rate sensitivity of advances, investments, or mortgage-related investments to approximate more closely the interest-rate sensitivity of liabilities. In addition to using interest-rate

exchange agreements to manage mismatches of interest rates between assets and liabilities, the FHLBanks also use interest-rate exchange agreements to manage embedded options in assets and liabilities, to hedge the market value of existing assets and liabilities and anticipated transactions, to hedge the duration risk of prepayable instruments and to reduce funding costs.

Consolidated Obligations. An FHLBank manages the risk arising from changing market prices and volatility of a consolidated obligation by matching the interest received on the interest-rate exchange agreement with the interest paid on the consolidated obligation. In addition, all the FHLBanks require collateral agreements on most interest-rate exchange agreements. While consolidated obligations are the joint-and-several obligations of the FHLBanks, individual FHLBanks serve as counterparties to interest-rate exchange agreements associated with specific debt issues.

In a typical transaction, fixed-rate consolidated obligations are issued for one or more FHLBanks, and each of those FHLBanks simultaneously enters into a matching interest-rate exchange agreement in which the counterparty pays a fixed interest rate to the FHLBank designed to mirror in timing and amount the interest rate paid by the FHLBank on the consolidated obligation. In this typical transaction, the FHLBank pays a variable interest rate that closely matches the interest payments it receives on short-term or variable-rate advances. This intermediation between the capital and swap markets permits the FHLBanks to raise funds at lower costs than would otherwise be available through the issuance of simple fixed- or floating-rate consolidated obligations in the capital markets.

Advances. With issuance of convertible advances, an FHLBank has purchased from the member one or more put option(s) that enables the FHLBank to convert an advance from fixed rate to floating rate if interest rates increase or to terminate the advance and, upon request of the member, extend replacement advances on new terms. An FHLBank may fund a convertible advance by using short-term floating-rate funds and entering into a cancelable interest-rate exchange agreement where the FHLBank pays fixed and receives variable. In this type of hedge, the variable interest received on the interest-rate exchange agreement mirrors in timing and amount the interest paid of the short-term floating-rate funds. If interest rates rise, the swap counterparty can cancel the interest-rate exchange agreement on the call date, and the FHLBank can convert the advance to a floating rate.

The optionality embedded in certain financial instruments held by the FHLBanks can create interest-rate risk. When a member prepays an advance, the FHLBanks could suffer lower future income if the principal portion of the prepaid advance were invested in lower-yielding assets that continue to be funded by higher-cost debt. To protect against this risk, each FHLBank generally charges a prepayment fee that makes it financially indifferent to a borrower's decision to prepay an advance. When an FHLBank offers advances (other than short-term advances) that a member may prepay without a prepayment fee, it usually finances such advances with callable debt or otherwise hedges this option.

Mortgage Loans. The FHLBanks invest in mortgage assets (mortgage-backed securities) and mortgage loans under the member mortgage asset programs. The prepayment options embedded in mortgage assets purchased can result in extensions or contractions in the expected maturities of these assets, depending on changes in interest rates. The FHLBanks may manage against contraction risk by funding some mortgage assets with consolidated obligations that have call features. In addition, the FHLBanks may use interest-rate exchange agreements to manage the extension and contraction variability of mortgage assets. Net income could be reduced if the FHLBank replaces the mortgages with lower-yielding assets and if the FHLBank's higher funding costs are not reduced concomitantly.

The FHLBanks manage the interest-rate and prepayment risk associated with mortgages through a combination of debt issuance and derivatives. The FHLBanks issue both callable and non-callable debt to achieve cash-flow patterns and liability durations similar to those expected on the mortgage loans. The FHLBanks also use derivatives to approximate the expected prepayment

characteristics of the mortgages. Interest-rate swaps, to the extent the payments on the mortgages result in simultaneous reduction of the notional amount on the swaps, may receive fair-value hedge accounting under which changes in the fair value of the swaps and changes in the fair value of the mortgages that are attributable to the hedged risk, are recorded in current-period earnings. A portfolio of interest-rate swaps and various options, including futures, may be used to hedge pools of mortgage loans with similar asset characteristics, such as loan type and coupon tranche, in a fair-value hedge relationship. Options may also be used to hedge prepayment risk on the mortgages, many of which are not identified to specific mortgages and, therefore, do not receive fair-value or cash-flow hedge accounting treatment. Changes in fair value of options are recognized in current period earnings. The FHLBanks also purchase interest-rate caps and floors, swaptions, callable swaps, calls, and puts to minimize the prepayment risk embedded in the mortgage assets and mortgage loans. Although these derivatives are valid economic hedges against the prepayment risk of the loans, they are not specifically linked to individual loans and, therefore, do not receive either fair-value or cash-flow hedge accounting. Changes in fair value of derivatives are recognized in current period earnings.

The FHLBanks analyze the risk of the mortgage portfolio on a regular basis and consider the interest-rate environment under various rate scenarios and also perform analyses of the duration and convexity of the portfolio.

Investments. The FHLBanks invest in U.S. agency securities, mortgage-backed securities and the taxable portion of state or local housing finance agency securities. The interest-rate and prepayment risk associated with these investment securities is managed through a combination of debt issuance and derivatives. The FHLBanks may manage against prepayment and duration risk by funding investment securities with consolidated obligations that have call features. The FHLBanks may also manage the risk arising from changing market prices and volatility of investment securities by matching the cash outflow on the interest-rate exchange agreements with the cash inflow on the investment securities. Certain FHLBanks' derivatives currently associated with investment securities are designated as economic hedges with the changes in fair values of the derivatives being recorded in current earnings. The hedged investment securities are classified as securities held at fair value.

Anticipated Debt Issuance. Certain FHLBanks enter into swaps on the anticipated issuance of debt to "lock in" the cost of funding. The swap is terminated upon issuance of the debt instrument, and amounts reported in accumulated other comprehensive income are reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the debt that was issued.

Intermediation. To meet the hedging needs of their members, the FHLBanks enter into offsetting interest-rate exchange agreements, acting as an intermediary between members and other counterparties. This intermediation allows smaller members indirect access to the swap market. The derivatives used in intermediary activities do not receive SFAS 133 hedge accounting and are separately marked-to-market through earnings. The net result of the accounting for these derivatives does not significantly affect the operating results of the FHLBanks.

Derivative Notional Amount. At March 31, 2002, the FHLBanks had \$612 billion total notional amount of interest-rate exchange agreements outstanding compared with \$601 billion at December 31, 2001 and \$545 billion at March 31, 2001. The notional amount serves as a factor in determining periodic interest payments or cash flows received and paid, and does not represent actual amounts exchanged or the FHLBanks' exposure to credit and market risk. The amount potentially subject to credit loss is much less. Notional values are not meaningful measures of the risks associated with derivatives. The risk of derivatives can only be measured meaningfully on a portfolio basis, taking into account the derivatives, the item being hedged, and any offsets between them. The FHLBanks adopted SFAS 133, as amended by Statement of Financial Accounting Standard No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, on

January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the Statement of Condition at their fair values. At March 31, 2002, the FHLBanks had derivative assets of \$2.2 billion and derivative liabilities of \$6.3 billion. At December 31, 2001 and March 31, 2001, the FHLBanks had derivative assets of \$2.7 billion and \$2.0 billion, and derivative liabilities of \$7.8 billion and \$4.1 billion, respectively.

Derivative Credit Risk Exposure and Counterparty Ratings. In addition to market risk, each FHLBank is subject to credit risk because of the risk of potential nonperformance by counterparties to the agreements as well as operational risks. The degree of counterparty risk on derivatives depends on the extent to which netting procedures are used to mitigate the risk. Each FHLBank manages counterparty credit risk through credit analysis, collateral management, and other credit enhancements, and by following the requirements set forth in the Financial Management Policy. The FHLBanks require collateral agreements on interest-rate exchange agreements, and maximum net unsecured credit exposure amounts that may exist before collateral requirements are triggered based upon each individual counterparty's rating. For example, a counterparty must deliver collateral to a FHLBank if the total market value of the FHLBank's exposure to that counterparty rises above a specific trigger point. As a result of these risk mitigation initiatives, the management of each FHLBank does not anticipate any credit losses on its interest-rate exchange agreements.

The contractual or notional amount of interest-rate exchange agreements reflects the involvement of an FHLBank in the various classes of financial instruments. The notional amount of interest-rate exchange agreements does not measure the credit-risk exposure of an FHLBank. The maximum credit exposure of an FHLBank is much less than the notional amount. The maximum credit risk is the estimated cost of replacing favorable interest-rate swaps, forward agreements, and purchased caps and floors if the counterparty defaults, net of the value of related collateral.

At March 31, 2002, the FHLBanks' maximum credit risk, before considering collateral, was approximately \$1,555 million. In determining maximum credit risk, the FHLBanks consider accrued interest receivables and payables, and the legal right to offset assets and liabilities by counterparty. The FHLBanks' net exposure after collateral was approximately \$643 million at March 31, 2002.

Federal Home Loan Banks
Derivative Counterparty Credit Exposure
At March 31, 2002
(Dollar amounts in millions)

<u>Credit Rating</u>	<u>Notional Amount</u>	<u>Total Net Exposure at Fair Value</u>	<u>Collateral Held</u>	<u>Net Exposure After Collateral</u>
AAA	\$ 34,079	\$ 105	\$ 24	\$ 81
AA	471,394	1,115	628	487
A	101,890	312	240	72
BBB	733	3	3	
	608,096	1,535	895	640
Intermediaries	3,700	20	17	3
Total Derivatives	<u>\$611,796</u>	<u>\$1,555</u>	<u>\$912</u>	<u>\$643</u>

Excluding interest-rate exchange agreements with intermediaries, over 99 percent of the notional amount of the FHLBanks' outstanding interest-rate exchange agreements are with counterparties rated "single-A" or higher. At March 31, 2002, 28 counterparties represented approximately 99 percent of the total notional amount of the FHLBanks' outstanding interest-rate exchange agreements excluding intermediaries, and approximately 80 percent is with 22 counterpar-

ties rated “double-A” or higher and approximately 20 percent is with 6 counterparties rated “single-A.”

Foreign Currencies. The FHLBanks have issued some consolidated obligations denominated in currencies other than U.S. dollars, and the FHLBanks use forward exchange contracts to hedge currency risk. These contracts are agreements to exchange different currencies at specified future dates and at specified rates. The use of these contracts effectively simulates the conversion of these consolidated obligations denominated in foreign currencies to ones denominated in U.S. dollars. At March 31, 2002, consolidated obligations denominated in foreign currencies represented less than one percent of consolidated obligations outstanding.

Quantitative Disclosure about Market Risk. Duration is the primary means used by the FHLBanks to measure their exposure to changes in interest rates. Duration is the weighted-average maturity (typically measured in months or years) of an instrument’s cash flows, weighted by the present value of those cash flows. Duration measures the time required to recapture an investment, reinvesting repaid principal. As duration lengthens, the risk increases. Duration is also a measure of price volatility. The value of an instrument with a duration of 5 years will change by approximately 5 percent with a 1 percentage point change in interest rates.

Duration of equity is the market value-weighted duration of assets minus the market value-weighted duration of liabilities divided by the market value of equity. The Financial Management Policy requires that each FHLBank’s duration of equity (at current interest rate levels using the consolidated obligation cost curve or an appropriate discounting methodology) be maintained within a range of ± 5 years. Each FHLBank must maintain its duration of equity, under an assumed instantaneous ± 200 basis points parallel shift in interest rates, within a range of ± 7 years.

Each FHLBank has an internal modeling system for measuring duration of equity. The table below reflects the results of each FHLBank’s own measurement of its exposure to interest-rate risk in accordance with the Financial Management Policy. The table summarizes the interest-rate risk associated with all instruments entered into by the FHLBanks.

**Federal Home Loan Banks
Duration of Equity
(In Years)**

FHLBank	March 31, 2002			December 31, 2001			March 31, 2001		
	Up	Base	Down	Up	Base	Down	Up	Base	Down
Boston	2.9	2.1	0.0	3.0	1.8	(0.3)	2.1	1.3	(0.4)
New York	4.5	3.6	2.8	4.1	3.3	2.0	4.9	4.4	2.9
Pittsburgh	4.3	2.7	(1.5)	1.6	0.3	(3.6)	5.1	2.9	(1.6)
Atlanta	2.7	0.8	(3.7)	2.7	2.6	(4.0)	4.0	0.7	(2.9)
Cincinnati	5.8	3.6	(2.9)	5.9	2.2	(2.4)	4.5	(0.3)	(1.8)
Indianapolis	0.3	0.3	1.4	0.0	0.1	1.3	3.2	3.4	0.3
Chicago	3.7	3.9	(5.4)	1.3	2.5	(3.3)	4.0	4.1	(4.5)
Des Moines	2.1	1.6	(2.6)	(1.6)	(0.1)	2.5	1.1	0.3	(5.0)
Dallas	3.9	2.9	1.7	3.8	3.0	1.8	4.6	1.6	1.6
Topeka	3.5	1.1	(2.9)	2.1	(0.8)	(4.9)	3.1	(0.6)	(4.7)
San Francisco	2.6	1.8	0.4	2.6	2.0	0.9	2.0	1.3	0.6
Seattle	4.1	2.5	(0.9)	3.2	0.8	(4.0)	6.8	2.0	(6.6)

Up = +200 basis points. Down = -200 basis points. The Finance Board regulation restricts the down rate from assuming a negative interest rate.

Growth of mortgage assets with their embedded optionality, partially offset by the related funding/hedging strategy, has the effect of widening the duration of equity range at certain FHLBanks.

Managing Credit Risk. Credit risk is the risk of loss due to default. The FHLBanks protect against credit risk on advances through collateralization of all advances. In addition, each FHLBank can call for additional or substitute collateral during the life of an advance to protect its security interest. No FHLBank has ever experienced a credit loss on an advance to a member.

While the FHLBanks face minimal credit risk on advances, they are subject to credit risk on some investments and on interest-rate exchange agreements. Each FHLBank follows guidelines established by the Finance Board and its board of directors on unsecured extensions of credit, whether on- or off-balance sheet. The Finance Board regulations limit the amounts and terms of unsecured credit exposure to any counterparty other than to the U.S. Government. Unsecured credit exposure to any counterparty is limited by the credit quality and capital level of the counterparty and by the capital level of the FHLBank. (See "Regulatory Developments—Unsecured Credit Limits" for a description of these regulations.)

At March 31, 2002, the FHLBanks had Federal funds sold of \$55.2 billion. At the same date, the FHLBanks held \$5.8 billion of commercial paper.

At March 31, 2002, the FHLBanks' unsecured credit exposure to counterparties other than the U.S. Government or U.S. Government agencies and instrumentalities was \$81.2 billion, much of which was Federal funds sold and commercial paper. This is a \$10.0 billion increase from the \$71.2 billion unsecured credit exposure to such counterparties at December 31, 2001. About 38.8 percent of this exposure at March 31, 2002 had an overnight maturity, 22.9 percent had a maturity from 2 to 30 days, 29.0 percent had a maturity from 31 to 90 days, and the remainder had a maturity less than 271 days. At March 31, 2002, the FHLBanks had aggregate unsecured credit exposure of more than \$1 billion to each of 32 counterparties. The aggregate unsecured credit exposure to these 32 counterparties represented 61.9 percent of the FHLBanks' unsecured credit exposure to non-government counterparties.

Included in the aggregate unsecured credit exposure total is unsecured credit of \$2.3 billion to Washington Mutual Bank, FA, and \$652.0 million to its affiliated Washington Mutual Bank. As of the same date, Washington Mutual Bank had advances of \$5.4 billion from the FHLBank of Seattle, its affiliated Washington Mutual Bank, FA, had advances of \$55.8 billion from the FHLBank of San Francisco, its affiliated Washington Mutual Bank, FSB, had advances of \$354 million from the FHLBank of Seattle, and its affiliated First Community Industrial Bank had advances of \$100 million from the FHLBank of Topeka. All these advances were secured borrowings. An officer of Washington Mutual Bank serves as a director of the FHLBank of Seattle. In February 2001, Washington Mutual Bank, FA, acquired Bank United, Houston, Texas. Before its acquisition, Bank United renegotiated \$7.6 billion of its advances from the FHLBank of Dallas, principally to extend the term of these advances. After the merger, Washington Mutual Bank, FA, is responsible for the repayment of these advances to the FHLBank of Dallas. This amount is included in the Washington Mutual, FA, advance amount noted above. An officer of Bank United served on the board of directors of the FHLBank of Dallas until the merger in February 2001.

On January 7, 2002, Washington Mutual, FA, finalized its acquisition of the parent company of Dime Savings Bank of New York, FSB. Before the acquisition in January 2002, Dime Savings Bank of New York, FSB, replaced maturing short-term advances and borrowed new advances, both with intermediate maturities, totaling \$7.9 billion from the FHLBank of New York. After the merger, Washington Mutual Bank, FA, is responsible for the repayment of these advances to the FHLBank of New York. This amount is included in the Washington Mutual, FA, advance amount noted above. An officer of Dime Savings Bank of New York, FSB, served on the board of directors of the FHLBank of New York until the acquisition.

Mortgage Loans. All 12 FHLBanks have established member mortgage asset purchase programs as services to their members. The programs all involve the investment by the FHLBank in loans created by members. The Finance Board authorized all of the FHLBanks to hold acquired member assets, such as assets acquired under the Mortgage Partnership Finance® (MPF®) program developed by the FHLBank of Chicago and the Mortgage Purchase Program (MPP) developed by the FHLBanks of Cincinnati, Indianapolis, and Seattle. Under these programs, the FHLBank acquires mortgage assets from or through members or housing associates, and the members or housing associates continue to bear a significant portion of the credit risk. These assets may have more credit risk than advances, even though the member or housing associate provides credit enhancement. At March 31, 2002, the acquired member asset programs had a total outstanding balance of \$31.6 billion of mortgage loans, all of which were credit enhanced by members to a level equivalent to at least an investment-grade rating. Outstanding mortgage loan balances were \$27.6 billion at December 31, 2001 and \$16.5 billion at March 31, 2001. All of the FHLBanks participating in these programs have established appropriate loan loss allowances. Neither the member credit enhancements nor mortgage loans are rated. An FHLBank must hold risk-based capital against acquired member assets or pools of assets that have an implied credit rating less than double-A. All of the FHLBanks except Seattle, Cincinnati and Indianapolis offer the MPF® program to their members, and these three FHLBanks offer an alternative mortgage purchase plan, MPP.

The acquired member asset rule of the Finance Board specifies that assets must be either whole loans eligible to secure advances (excluding mortgages above the conforming loan limit), whole loans secured by manufactured housing, or state and local housing finance agency bonds. In addition, the rule mandates a member or housing associate nexus. All pools of acquired member assets must have a credit-risk-sharing arrangement with a member, housing associate, or third-party mortgage insurance that limits the FHLBank's credit-risk exposure to no less than investment grade, as determined by a formal rating or a comparable methodology.

Operational Risk. Operational risk is the risk of potential loss due to human error, systems malfunctions, man-made or natural disasters, fraud, or circumvention or failure of internal controls. The FHLBanks have established comprehensive financial and operating policies and procedures and appropriate insurance coverage to mitigate the likelihood of, and potential losses from, such occurrences. The FHLBanks' policies and procedures include controls to ensure that system-generated data are reconciled to source documentation on a regular basis. Each FHLBank's internal audit department, which reports directly to the individual FHLBank's audit committee, regularly monitors each FHLBank's compliance with established policies and procedures. In addition, each FHLBank has a business continuity plan that is designed to restore critical business processes and systems in the event of disasters. However, some of the operational risks of the FHLBanks are beyond the control of the FHLBanks, and the failure of other parties to address adequately their operational risk could adversely affect the FHLBanks.

Regulatory Developments

Capital Plans. On January 30, 2001, the Finance Board published a final rule implementing a new capital structure for the FHLBanks, as required by the GLB Act. The rule establishes risk-based and leverage capital requirements for the FHLBanks, addresses different classes of stock that an FHLBank may issue and the rights and preferences that may be associated with each class of stock, and required each FHLBank to submit a capital plan to the Finance Board for approval by October 29, 2001. All FHLBanks submitted their proposed capital plans to the Finance Board by October 29, 2001. The Finance Board has announced a schedule to consider the FHLBanks' proposed capital plans during its meetings from March 13 to July 10, 2002; however, there is no assurance that the capital plans will be approved on the review dates. The capital rule provides a transition period that allows each FHLBank up to three years from the effective date of its capital

plan to implement its new capital structure. The existing capital structure of each FHLBank will remain in place until its capital plan has been approved and is effective.

On March 13, 2002 and April 10, 2002, the Finance Board approved the capital structure plan of the FHLBanks of Seattle and Atlanta, respectively.

Unsecured Credit Limits. On December 27, 2001, the Finance Board published a final rule amending its rules governing the amount of unsecured credit that an FHLBank can extend to a particular counterparty. The amendments require an FHLBank to base its credit limit on the long-term credit rating of the counterparty, set the amount of unsecured credit that may be extended to a Government-Sponsored Enterprise at the level allowed under the Financial Management Policy, adjust the limits for sales of overnight Federal funds and limits for unsecured credit extended to groups of affiliated counterparties, address how unsecured credit limits should be applied to certain housing finance agency bonds, and clarify how an FHLBank should calculate its credit exposures from on- and off-balance sheet items and derivative contracts. The rule became effective March 27, 2002.

Multiple Membership Petitions. The Finance Board published a solicitation of comments on the implications for the FHLBanks raised by structural changes occurring in their membership. The solicitation was prompted by the submission of several petitions requesting that the Finance Board permit a single depository institution to become a member of two FHLBanks concurrently. On January 22, 2002, the Finance Board announced that it intends to defer action on multi-district membership petitions until it decides on a course of action to address broader membership issues.

Non-Mortgage Assets Redefinition. The Finance Board published a proposed rule on March 7, 2002, that would amend its regulation of FHLBank consolidated obligations in order to redefine the term "non-mortgage assets" as used in the provision on FHLBank leverage limits. The amendment excludes mortgage loans from the term "non-mortgage assets."

Capital Adequacy

The FHLBank Act prescribes minimum member capital stock requirements. At March 31, 2002, 97.4 percent of the FHLBanks' capital was capital stock, and 2.6 percent was retained earnings. At March 31, 2002, the FHLBanks had an aggregate capital-to-asset ratio of 5.0 percent. This compares with a capital-to-asset ratio of 4.9 percent at December 31, 2001 and 4.8 percent at March 31, 2001.

Transactions with Related Parties

Each FHLBank is a cooperative bank. The consolidated obligations issued by the FHLBanks are the joint-and-several obligation of all FHLBanks. The members own all the stock of the FHLBanks, the majority of the directors of each FHLBank is elected by and from the membership, and the FHLBanks conduct their advances and other business almost exclusively with members. Therefore, in the normal course of business, the FHLBanks extend credit to members whose officers may serve as directors of the FHLBanks. At March 31, 2002, the FHLBanks had \$81.6 billion of advances outstanding to members whose officers were serving as directors of the FHLBanks. This amounted to 17.9 percent of total advances at par.

Federal Home Loan Bank Membership Trends

At March 31, 2002, there were 7,896 members of the FHLBanks, a net increase of 19 since December 31, 2001. As of March 31, 2002, the membership in the FHLBanks was comprised of 1,465 thrift institutions (savings and loan associations and savings banks), 5,782 commercial banks, 591 credit unions, and 58 insurance companies.

Federal Home Loan Banks

Membership

	<u>Commercial Banks</u>	<u>Thriffs</u>	<u>Credit Unions</u>	<u>Insurance Companies</u>	<u>Total</u>
December 31, 1998	4,925	1,651	275	33	6,884
December 31, 1999	5,329	1,610	405	39	7,383
December 31, 2000	5,681	1,547	497	52	7,777
December 31, 2001 (1)	5,765	1,481	574	57	7,877
March 31, 2002	5,782	1,465	591	58	7,896

(1) Revised based on member mergers.

Members. Membership is voluntary. A member must give six months notice of its intent to withdraw. Members that withdraw from membership may not be readmitted to membership for five years. Between January 1, 1993, and March 31, 2002, only 47 FHLBank members withdrew from membership for reasons other than merger or acquisition, and two members have given notice to withdraw before October 1, 2002, for reasons other than merger or acquisition.

At March 31, 2002, total capital stock was \$34.0 billion, an increase of \$0.7 billion since December 31, 2001. Commercial bank members hold 46.2 percent of the capital stock and thrift institution members hold 48.5 percent.

Federal Home Loan Banks

Capital by Member Type (Dollar amounts in billions)

	<u>Commercial Banks</u>	<u>Thriffs</u>	<u>Credit Unions</u>	<u>Insurance Companies</u>	<u>Other(1)</u>	<u>Total</u>
December 31, 1998	\$10.0	\$11.1	\$0.3	\$0.2	\$0.7	\$22.3
December 31, 1999	13.2	14.0	0.5	0.3	0.4	28.4
December 31, 2000	13.8	15.3	0.6	0.4	0.4	30.5
December 31, 2001 (2) ...	15.2	16.4	0.9	0.3	0.5	33.3
March 31, 2002	15.7	16.5	1.0	0.3	0.5	34.0

(1) Includes capital stock of members involved in mergers other than Bank United and Dime Savings Bank of New York, FSB, which were both acquired by Washington Mutual Bank, FA, in February 2001 and January 2002, respectively. For additional information, see footnotes (1) and (2) in the "Top 10 Capital Stock Holding Members in the FHLBanks" table below. Advances to members involved in mergers must be paid off before or at maturity, if the merger involves a nonmember institution. Until these advances are paid off, the former member must still hold capital stock to support those advances.

(2) Revised based on member mergers.

The following table presents information on the 10 largest holders of FHLBank capital stock at March 31, 2002.

Federal Home Loan Banks
Top 10 Capital Stock Holding Members in the FHLBanks
at March 31, 2002

<u>Name</u>	<u>City</u>	<u>State</u>	<u>Capital Stock (\$Millions)</u>	<u>Percent of Total Capital Stock</u>
Washington Mutual Bank, FA(1)(2)	Stockton	CA	\$3,578.5	10.5%
California Federal Bank, AFSB*	San Francisco	CA	1,368.2	4.0%
World Savings Bank, FSB*	Oakland	CA	683.4	2.0%
Washington Mutual Bank*	Seattle	WA	679.2	2.0%
Charter One Bank, FSB*	Cleveland	OH	574.0	1.7%
BB&T of NC	Winston-Salem	NC	422.0	1.2%
US Bank, NA(3)	Cincinnati	OH	380.8	1.1%
Standard Federal Bank, NA*	Troy	MI	357.7	1.1%
World Savings Bank, FSB	Houston	TX	355.0	1.0%
Fleet National Bank	Providence	RI	331.9	1.0%
			<u>\$8,730.7</u>	<u>25.6%</u>

* An asterisk indicates that an officer of the member was an FHLBank director in 2002.

- (1) Includes \$399 million in capital stock from the acquisition of Bank United, a former member of the FHLBank of Dallas, by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco.
- (2) Includes \$394 million in capital stock from the acquisition of Dime Savings Bank of New York, FSB, a former member of the FHLBank of New York, by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco.
- (3) Includes \$22 million in capital stock owned by US Bank, NA, a former member of the FHLBank of Des Moines, which merged with US Bank, NA (Firststar), a member of the FHLBank of Cincinnati.

The information presented on capital stock in the table is for individual FHLBank members. The data are not aggregated to the holding-company level. Some of the institutions listed are affiliates of the same holding company, and some of the institutions listed have affiliates that are members but that are not listed in the tables.

Member Borrowers. The total number of borrowing members decreased from 5,210 at year end 2001 to 5,204 at March 31, 2002. The percent of total members borrowing declined to 65.9 percent at March 31, 2002 from 66.1 percent at December 31, 2001.

Federal Home Loan Banks
Member Borrowers

	<u>Commercial Banks</u>	<u>Thriffs</u>	<u>Credit Unions</u>	<u>Insurance Companies</u>	<u>Total</u>
December 31, 1998	3,056	1,083	87	13	4,239
December 31, 1999	3,683	1,211	179	19	5,092
December 31, 2000	3,843	1,165	177	25	5,210
December 31, 2001(1)	3,927	1,084	168	31	5,210
March 31, 2002	3,939	1,062	170	33	5,204

(1) Revised based on member mergers.

While 65.9 percent of the FHLBanks' members held advances at March 31, 2002, the 72 borrowers with advance holdings of \$1 billion or more at March 31, 2002, held 62.8 percent of the FHLBanks' total advances. At year-end 2001, 70 borrowers held advances greater than \$1 billion, representing 63.0 percent of total FHLBanks' advances.

Federal Home Loan Banks

Advances (Dollar amounts in billions)

	<u>Commercial Banks</u>	<u>Thriffs</u>	<u>Credit Unions</u>	<u>Insurance Companies</u>	<u>Other(1)</u>	<u>Total(2)</u>
December 31, 1998.....	\$104.4	\$172.9	\$1.1	\$2.5	\$7.3	\$288.2
December 31, 1999.....	147.7	238.0	3.4	3.2	3.4	395.7
December 31, 2000.....	172.1	254.9	3.4	2.5	5.0	437.9
December 31, 2001(3)....	196.3	251.6	4.9	3.1	7.4	463.3
March 31, 2002.....	198.7	240.2	5.5	3.7	7.4	455.5

(1) Includes advances to housing associates and members involved in mergers other than Bank United and Dime Savings Bank of New York, FSB, which were acquired by Washington Mutual Bank, FA in February 2001 and January 2002, respectively. For additional information, see footnotes (1) and (2) in the "Top 10 Advance Holding Members" table below. Advances to members involved in mergers must be paid off before or at maturity, if the merger involves a nonmember institution.

(2) Total advance amounts for December 31, 2001 and March 31, 2002, are at par value and will not agree to the Statements of Condition. The differences between the par and book value amounts relate to basis adjustments arising from hedges under SFAS 133 for book purposes.

(3) Revised based on member mergers.

The following table presents information on the 10 largest borrowers from the FHLBanks at March 31, 2002.

Federal Home Loan Banks

Top 10 Advance Holding Members at March 31, 2002

<u>Name</u>	<u>City</u>	<u>State</u>	<u>Advances (\$ Millions)</u>	<u>Percent of Total Advances(4)</u>
Washington Mutual Bank, FA(1)(2)	Stockton	CA	\$ 55,843.2	12.3%
California Federal Bank, FSB*	San Francisco	CA	20,457.3	4.5%
World Savings Bank, FSB*	Oakland	CA	10,540.7	2.3%
BB&T of NC	Winston-Salem	NC	8,419.7	1.8%
Standard Federal Bank, NA*	Troy	MI	7,154.9	1.6%
US Bank, NA(3)	Cincinnati	OH	7,031.1	1.5%
World Savings Bank, FSB	Houston	TX	7,000.0	1.5%
Charter One Bank, FSB*	Cleveland	OH	6,946.7	1.5%
SunTrust Bank	Atlanta	GA	6,613.0	1.5%
Wells Fargo Bank Minnesota, NA	Minneapolis	MN	6,076.0	1.3%
			<u>\$136,082.6</u>	<u>29.8%</u>

* An asterisk indicates that an officer of the member was an FHLBank director in 2002.

(1) Includes \$7,557 million in advances from the acquisition of Bank United, a former member of the FHLBank of Dallas, by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco.

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- (2) Includes \$7,884 million in advances from the acquisition of Dime Savings Bank of New York, FSB, a former member of the FHLBank of New York by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco.
 - (3) Includes \$434 million in advances of US Bank, NA, a former member of the FHLBank of Des Moines, which merged with US Bank, NA (Firststar), a member of the FHLBank of Cincinnati.
 - (4) Member advance amounts and the total advance amounts are at par value, and the total advance amount will not agree to the Statements of Condition. The difference between the par and book value amounts relates to basis adjustments arising from hedges under SFAS 133 for book purposes.

The information presented on advances in the table is for individual FHLBank members. The data are not aggregated to the holding-company level. Some of the institutions listed are affiliates of the same holding company, and some of the institutions listed have affiliates that are members but that are not listed in the tables.

Housing Associates. At March 31, 2002, the FHLBanks had \$344.2 million in advances outstanding to 18 housing associates, up from \$263.8 million at year-end 2001. Housing associates eligible to borrow include 44 State housing finance agencies, 7 county housing finance agencies, 4 city housing authorities and 1 tribal housing corporation.

Explanatory Statement about FHLBanks Combined Financial Report

The Office of Finance assumed responsibility for the preparation of the FHLBanks' combined Financial Reports, beginning with Financial Reports prepared for fiscal periods commencing after December 31, 2000. Financial Reports prepared and published for fiscal periods ended prior to January 1, 2001, were prepared by the Finance Board. The Office of Finance does not have the same access to information regarding the FHLBanks as the Finance Board has in its capacity as regulator of the FHLBanks. In connection with the Office of Finance's preparation responsibilities, the Office of Finance is responsible for combining the financial information it receives from the FHLBanks, each of which is responsible for the financial information it provides to the Office of Finance.

The FHLBanks' combined Financial Reports are required to be distributed to members, and are intended to be used by investors in the consolidated bonds and consolidated discount notes of the FHLBanks. These consolidated obligations are the joint-and-several obligations of the FHLBanks, which means that each FHLBank is responsible to the registered holders of the consolidated obligations for the payment of all principal of and interest on those obligations.

Each FHLBank is a separately chartered entity, with its own board of directors and management, even though the consolidated obligations are the joint-and-several obligations of all FHLBanks, and even though some financial institutions may have one or more affiliates which are members of one or more FHLBanks. All FHLBanks are subject to regulations issued by the Finance Board, and their operations are examined periodically by the Finance Board.

The Financial Reports are prepared on behalf of the FHLBanks because it is believed that the presentation of the financial information relating to the FHLBanks on a "combined" basis is more meaningful to investors in consolidated obligations than providing financial information relating to each FHLBank on a stand-alone basis only. However, investors should be aware that this combined presentation describes a combination of assets and liabilities only for this purpose, and that these assets and liabilities are not presented on a consolidated basis because the combined assets and liabilities are not under joint management and control. (See Note 1 to the accompanying combined financial statements.)

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FEDERAL HOME LOAN BANKS
COMBINED STATEMENTS OF CONDITION
(Dollar amounts in millions)

	March 31, 2002 (Unaudited)	December 31, 2001	March 31, 2001 (Unaudited)
ASSETS			
Cash and due from banks	\$ 483	\$ 319	\$ 419
Interest-bearing deposits in banks	21,649	19,141	17,237
Securities purchased under resale agreements	5,565	7,950	6,793
Federal funds sold	55,191	48,394	65,042
Held-to-maturity securities	102,304	97,296	96,366
Available-for-sale securities	8,441	7,403	7,763
Securities held at fair value	9,553	9,880	6,861
Advances	461,994	472,732	450,474
Mortgage loans	31,633	27,650	16,510
Less: allowance for credit losses on mortgage loans	8	7	4
Mortgage loans, net	31,625	27,643	16,506
Accrued interest receivable	3,080	3,106	4,214
Premises and equipment, net	129	132	126
Derivative assets	2,205	2,728	2,047
Other assets	542	552	423
Total assets	<u>\$702,761</u>	<u>\$697,276</u>	<u>\$674,271</u>
LIABILITIES			
Deposits:			
Demand and overnight	\$ 26,463	\$ 23,720	\$ 28,506
Term	1,375	1,115	927
Other	594	826	450
Total deposits	<u>28,432</u>	<u>25,661</u>	<u>29,883</u>
Borrowings:			
Securities sold under repurchase agreements	2,290	800	104
Other borrowings	125	350	70
Total borrowings	<u>2,415</u>	<u>1,150</u>	<u>174</u>
Consolidated obligations:			
Discount notes	128,001	139,502	184,838
Bonds	495,170	481,793	415,457
Total consolidated obligations	<u>623,171</u>	<u>621,295</u>	<u>600,295</u>
Accrued interest payable	5,657	5,751	6,009
Affordable Housing Program	676	696	641
Payable to REFCORP	113	161	134
Derivative liabilities	6,288	7,814	4,148
Other liabilities	1,093	530	879
Total liabilities	<u>667,845</u>	<u>663,058</u>	<u>642,163</u>
CAPITAL			
Capital stock (\$100 par value)	34,007	33,289	31,363
Retained earnings	977	932	749
Accumulated other comprehensive income:			
Net unrealized gains (losses) on available-for-sale securities	89	176	(5)
Cumulative effect of accounting change			(2)
Net change during period related to hedging activities	(157)	(179)	3
Total capital	<u>34,916</u>	<u>34,218</u>	<u>32,108</u>
Total liabilities and capital	<u>\$702,761</u>	<u>\$697,276</u>	<u>\$674,271</u>

FEDERAL HOME LOAN BANKS
COMBINED STATEMENTS OF INCOME
(Dollar amounts in millions)
(Unaudited)

	For the Three Months Ended March 31,	
	2002	2001
INTEREST INCOME		
Advances	\$2,838	\$6,723
Interest-bearing deposits in banks	92	244
Securities purchased under resale agreements	35	72
Federal funds sold	227	822
Held-to-maturity securities	1,254	1,535
Available-for-sale securities	35	107
Securities held at fair value	126	121
Mortgage loans	476	296
Other	1	1
Total interest income	<u>5,084</u>	<u>9,921</u>
INTEREST EXPENSE		
Consolidated obligations	4,276	8,846
Deposits	109	283
Securities sold under repurchase agreements	11	
Other borrowings	2	2
Total interest expense	<u>4,398</u>	<u>9,131</u>
NET INTEREST INCOME BEFORE MORTGAGE LOAN LOSS PROVISION	686	790
Mortgage loan loss provision	1	1
NET INTEREST INCOME AFTER MORTGAGE LOAN LOSS PROVISION	<u>685</u>	<u>789</u>
OTHER INCOME		
Net unrealized (losses) gains on securities held at fair value	(159)	76
Net realized and unrealized gains (losses) on derivatives and hedging activities	130	(43)
Service fees	10	11
Net gains on sale of securities held at fair value	7	
Net gains from sale of held-to-maturity securities	1	
Other, net	52	24
Total other income	<u>41</u>	<u>68</u>
OTHER EXPENSE		
Operating expenses	88	85
Finance Board and Office of Finance expenses	13	10
Other, net	5	5
Total other expenses	<u>101</u>	<u>100</u>
INCOME BEFORE ASSESSMENTS	625	757
Affordable Housing Program	49	58
REFCORP	112	134
Total assessments	<u>161</u>	<u>192</u>
INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	464	565
Losses on early retirement of debt, net	(15)	
Cumulative effect of change in accounting principle		(30)
NET INCOME	<u>\$ 449</u>	<u>\$ 535</u>

FEDERAL HOME LOAN BANKS
COMBINED STATEMENTS OF CAPITAL
(Dollar amounts in millions)
(Unaudited)

	Capital Stock		Retained Earnings		Total Retained Earnings	Accumulated Other Comprehensive Income	Total Capital
	Shares (In millions)	Par Value	Restricted	Unrestricted			
BALANCE, DECEMBER 31, 2000 . . .	305	\$30,537	\$	\$ 729	\$ 729	\$ (1)	\$31,265
Proceeds from the sale of capital stock . .	19	1,908					1,908
Redemption of capital stock	(13)	(1,330)					(1,330)
Comprehensive income:							
Net income				535	535		535
Other comprehensive income:							
Net unrealized loss on available- for-sale securities						(4)	(4)
Cumulative effect of accounting change						(2)	(2)
Net unrealized gains related to hedging activities						3	3
Comprehensive income							532
Dividends on capital stock:							
Cash				(267)	(267)		(267)
Stock	2	248		(248)	(248)		
BALANCE, MARCH 31, 2001	<u>313</u>	<u>\$31,363</u>	<u>\$</u>	<u>\$ 749</u>	<u>\$ 749</u>	<u>\$ (4)</u>	<u>\$32,108</u>
BALANCE, DECEMBER 31, 2001 . . .	332	\$33,289	\$	\$ 932	\$ 932	\$ (3)	\$34,218
Proceeds from the sale of capital stock . .	22	2,054					2,054
Redemption of capital stock	(16)	(1,546)					(1,546)
Comprehensive income:							
Net income				449	449		449
Other comprehensive income:							
Net unrealized losses on available- for-sale securities						(86)	(86)
Net unrealized gains related to hedging activities						21	21
Total comprehensive income							384
Dividend on capital stock:							
Cash				(194)	(194)		(194)
Stock	2	210		(210)	(210)		
BALANCE, MARCH 31, 2002	<u>340</u>	<u>\$34,007</u>	<u>\$</u>	<u>\$ 977</u>	<u>\$ 977</u>	<u>\$ (68)</u>	<u>\$34,916</u>

FEDERAL HOME LOAN BANKS
COMBINED STATEMENTS OF CASH FLOWS
(Dollar amounts in millions)
(Unaudited)

	For the Three Months Ended March 31,	
	2002	2001
OPERATING ACTIVITIES		
Net income	\$ 449	\$ 535
Extraordinary gain on early retirement of debt, net	15	
Cumulative effect of change in accounting principle		30
Income before extraordinary item and cumulative effect of change in accounting principle	464	565
Adjustments to reconcile income before extraordinary item and cumulative effect of change in accounting principle to net cash provided by operating activities:		
Depreciation and amortization:		
Net premiums and discounts on consolidated obligations and investments, and deferred costs and deferred fees received on interest-rate exchange agreements	338	1,312
Concessions on consolidated obligations	37	43
Deferred loss on interest-rate exchange agreements, net	2	10
Premises and equipment	5	3
Net premiums and discounts on mortgage loans	8	15
Other		(2)
Provision for credit losses on mortgage loans	1	1
Net realized gains on held-to-maturity securities	(1)	
(Increase) decrease in securities held at fair value, net transfers and transition adjustments	(1,159)	64
Gains due to change in net fair value adjustment on derivative and hedging activities	(193)	(138)
Decrease in accrued interest receivable	37	5,874
Increase in derivative assets — accrued interest	(29)	(177)
Decrease in derivative liabilities — accrued interest	(190)	(597)
Decrease (increase) in other assets	11	(159)
Increase in Affordable Housing Program (AHP) liability and discount on AHP advances	3	25
Decrease in accrued interest payable	(105)	(4,846)
Decrease in REFCORP liability	(48)	(12)
Increase in other liabilities	111	47
Total adjustments	(1,172)	1,463
Net cash (used in) provided by operating activities	(708)	2,028
INVESTING ACTIVITIES		
Net (increase) decrease in interest-bearing deposits in banks	(2,508)	867
Net increase in Federal funds sold	(6,797)	(9,775)
Net decrease (increase) in securities purchased under resale agreements	2,385	(5,377)
Net decrease in short-term held-to-maturity securities	1,292	925
Proceeds from sales of long-term held-to-maturity securities	44	
Proceeds from maturities of long-term held-to-maturity securities	11,082	5,215
Purchases of long-term held-to-maturity securities	(15,126)	(7,504)
Proceeds from sales of available-for-sale securities		1,098
Proceeds from maturities of available-for-sale securities	14,162	9,903
Purchases of available-for-sale securities	(16,305)	(8,660)
Principal collected on advances	911,000	983,449
Advances made	(903,212)	(990,400)
Principal collected on mortgage loans	2,390	1,092
Mortgage loans purchased	(6,383)	(1,443)
Increase in premises and equipment	(2)	(4)
Net cash used in investing activities	(7,978)	(20,614)

FEDERAL HOME LOAN BANKS
COMBINED STATEMENTS OF CASH FLOWS — (Continued)
(Dollar amounts in millions)
(Unaudited)

	For the Three Months Ended March 31,	
	2002	2001
FINANCING ACTIVITIES		
Net increase in deposits	\$ 2,771	\$ 12,820
Net increase in securities sold under repurchase agreements	1,090	104
Net increase in other borrowings	175	68
Net proceeds from sale of consolidated obligations:		
Discount notes	981,443	1,204,583
Bonds	93,198	82,710
Payments for maturing and retiring consolidated obligations:		
Discount notes	(993,390)	(1,180,997)
Bonds	(76,742)	(101,342)
Proceeds from issuance of capital stock	2,054	1,908
Payments for redemption of capital stock	(1,546)	(1,330)
Cash dividends paid	(203)	(271)
Net cash provided by financing activities	8,850	18,253
Net increase (decrease) in cash and cash equivalents	164	(333)
Cash and cash equivalents at beginning of period	319	752
Cash and cash equivalents at end of period	<u>\$ 483</u>	<u>\$ 419</u>
Supplemental Disclosures:		
Interest paid	\$ 4,317	\$ 10,927
Stock dividends issued	\$ 210	\$ 248

Notes to Combined Financial Statements (Unaudited)

Note 1 — Basis of Presentation

The accompanying combined interim financial statements for the three months ended March 31, 2002, should be read in conjunction with the audited financial statements for the year ended December 31, 2001, which are contained in the Federal Home Loan Banks 2001 Financial Report.

The results of operations for interim periods are not necessarily indicative of results to be expected for the year ending December 31, 2002.

Each FHLBank prepares its own financial statements and submits them, along with other financial information, to the Office of Finance. The Office of Finance is responsible for combining those financial statements, including the elimination of material transactions between the FHLBanks, and preparing the combined Financial Report that includes the combined financial statements.

Reclassifications. Certain amounts in the 2001 year-end and first quarter 2001 combined financial statements have been reclassified to conform with the March 31, 2002 presentation.

Note 2 — Principles of Combination and Segment Reporting

For the purposes of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Finance Board considers each FHLBank to be a segment. The combined financial statements include the financial records of the 12 FHLBanks. Material transactions among the FHLBanks have been eliminated. The principal transactions among segments are purchases of interbank bonds — consolidated obligations issued on behalf of one FHLBank and purchased by one or more other FHLBanks. All these transactions occur at market prices, and the purchasing FHLBanks treat these bonds as investments. No other transactions among the FHLBanks have a material effect on operating results.

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FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CONDITION
March 31, 2002
(Dollar amounts in millions)
(Unaudited)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
ASSETS						
Cash and due from banks	\$ 483	\$	\$ 4	\$ 36	\$ 121	\$ 79
Interest-bearing deposits in banks	21,649		550	5,757	1,088	974
Deposits for mortgage loan programs with other FHLBanks		(14)	1		3	8
Securities purchased under resale agreements	5,565		215			
Federal funds sold	55,191		5,506	2,668	552	11,426
Held-to-maturity securities	102,304	(1,478)	5,965	11,205	7,042	12,349
Available-for-sale securities	8,441	(503)	964		603	
Securities held at fair value	9,553	(698)	702		2,771	2,758
Advances	461,994		23,995	61,079	29,501	70,534
Mortgage loans	31,633		770	411	1,698	575
Less: allowance for credit losses on mortgages loans	8					1
Mortgage loans, net	31,625		770	411	1,698	574
Loans to other FHLBanks		(260)		50		10
Accrued interest receivable	3,080	(21)	160	385	540	439
Premises and equipment, net	129		6	8	10	28
Derivative assets	2,205		59	708	93	218
Other assets	542		21	24	40	46
Total assets	<u>\$702,761</u>	<u>\$(2,974)</u>	<u>\$38,918</u>	<u>\$82,331</u>	<u>\$44,062</u>	<u>\$99,443</u>
LIABILITIES						
Deposits:						
Demand and overnight	\$ 26,463	\$	\$ 2,035	\$ 2,348	\$ 2,017	\$ 5,903
Term	1,375		23	222	9	151
Deposits from other FHLBanks for mortgage loan programs		(14)				
Other	594		5	5	8	138
Total deposits	<u>28,432</u>	<u>(14)</u>	<u>2,063</u>	<u>2,575</u>	<u>2,034</u>	<u>6,192</u>
Borrowings:						
Other FHLBanks		(260)			210	
Securities sold under repurchase agreements	2,290				504	
Other borrowings	125				125	
Total borrowings	<u>2,415</u>	<u>(260)</u>			<u>839</u>	
Consolidated obligations:						
Discount notes	128,001		6,986	19,687	9,381	490
Bonds	495,170	(2,679)	27,104	54,019	28,722	85,663
Total consolidated obligations	<u>623,171</u>	<u>(2,679)</u>	<u>34,090</u>	<u>73,706</u>	<u>38,103</u>	<u>86,153</u>
Accrued interest payable	5,657	(21)	314	629	350	918
Affordable Housing Program	676		34	107	36	98
Payable to REFCORP	113		4	18	1	14
Derivative liabilities	6,288		202	1,334	438	1,614
Other liabilities	1,093		57	45	193	132
Total liabilities	<u>667,845</u>	<u>(2,974)</u>	<u>36,764</u>	<u>78,414</u>	<u>41,994</u>	<u>95,121</u>
CAPITAL						
Capital stock outstanding (\$100 par value)	34,007		2,110	3,707	2,004	4,150
Retained earnings	977		45	210	71	172
Accumulated other comprehensive income:						
Net unrealized net gains (losses) on available-for-sale securities	89		(13)		(9)	
Net change during period relating to hedging activities	(157)		12		2	
Total capital	<u>34,916</u>		<u>2,154</u>	<u>3,917</u>	<u>2,068</u>	<u>4,322</u>
Total liabilities and capital	<u>\$702,761</u>	<u>\$(2,974)</u>	<u>\$38,918</u>	<u>\$82,331</u>	<u>\$44,062</u>	<u>\$99,443</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 4 4,376	\$ 48 424	\$ 1	\$ 100 64	\$ 63	\$ 7 1,861	\$ 1 5,621	\$ 19 934
				1	1	2,200	50
11,577	2,400	2,804	3,000	2,414	1,455	9,740	2,580
9,037	5,060	4,889	2,069	4,590	6,563	17,755	14,765
1,795	1,570		207	3,805			
27	95	2,466	121	392	155	547	217
33,477	26,826	23,784	20,352	33,549	22,837	93,776	22,284
1,083	1,508	18,782	3,508	1,392	114		1,792
		4	3				
<u>1,083</u>	<u>1,508</u>	<u>18,778</u>	<u>3,505</u>	<u>1,392</u>	<u>114</u>		<u>1,792</u>
		200					
219	148	249	52	145	111	411	242
3	11	18	7	29	1	5	3
73	32	232	202	147	109	271	61
19	33	19	18	193	62	46	21
<u>\$61,690</u>	<u>\$38,155</u>	<u>\$53,540</u>	<u>\$34,259</u>	<u>\$46,720</u>	<u>\$33,276</u>	<u>\$130,373</u>	<u>\$42,968</u>
\$ 1,582 167	\$ 1,714	\$ 2,303 221	\$ 2,033 73	\$ 2,592 53	\$ 1,720 277	\$ 474 32	\$ 1,742 147
		14					
75	12	195			47	109	
<u>1,824</u>	<u>1,726</u>	<u>2,733</u>	<u>2,106</u>	<u>2,645</u>	<u>2,044</u>	<u>615</u>	<u>1,889</u>
			50				
		1,200					586
		1,200	50				586
22,619	10,503	9,637	5,785	10,072	6,661	17,573	8,607
32,733	23,014	36,401	24,323	30,924	22,322	103,763	28,861
<u>55,352</u>	<u>33,517</u>	<u>46,038</u>	<u>30,108</u>	<u>40,996</u>	<u>28,983</u>	<u>121,336</u>	<u>37,468</u>
433	325	477	251	365	300	923	393
78	34	38	24	15	27	132	53
11	7	10	1	4	8	28	7
636	636	264	109	223	390	335	107
20	103	111	4	133	18	268	9
<u>58,354</u>	<u>36,348</u>	<u>50,871</u>	<u>32,653</u>	<u>44,381</u>	<u>31,770</u>	<u>123,637</u>	<u>40,512</u>
3,287 49	1,771 34	2,603 120	1,572 35	2,269 75	1,450 56	6,656 82	2,428 28
	2		(1)	110			
		(54)		(115)		(2)	
<u>3,336</u>	<u>1,807</u>	<u>2,669</u>	<u>1,606</u>	<u>2,339</u>	<u>1,506</u>	<u>6,736</u>	<u>2,456</u>
<u>\$61,690</u>	<u>\$38,155</u>	<u>\$53,540</u>	<u>\$34,259</u>	<u>\$46,720</u>	<u>\$33,276</u>	<u>\$130,373</u>	<u>\$42,968</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CONDITION
MARCH 31, 2001
(Dollar amounts in millions)
(Unaudited)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
ASSETS						
Cash and due from banks	\$ 419	\$	\$ 13	\$ 19	\$ 103	\$ 78
Interest-bearing deposits in banks	17,237		155	6,430	149	944
Deposits for mortgage loan programs with other FHLBanks		(25)			14	6
Securities purchased under resale agreements	6,793		1,295			
Federal funds sold	65,042		8,952	6,066	3,777	6,863
Held-to-maturity securities	96,366	(1,578)	6,322	12,127	6,470	12,195
Available-for-sale securities	7,763	(559)	824		183	
Securities held at fair value	6,861	(523)	1,051		1,847	1,812
Advances	450,474		22,240	52,769	25,658	66,898
Mortgage loans	16,510		37	502	1,977	444
Less: allowance for credit losses on mortgage loans	4					
Mortgage loans, net	16,506		37	502	1,977	444
Loans to other FHLBanks		(80)		50		30
Accrued interest receivable	4,214	(31)	176	920	531	518
Premises and equipment, net	126		3	10	13	30
Derivative assets	2,047		82	327	273	108
Other assets	423		16	21	35	34
Total assets	\$674,271	\$(2,796)	\$41,166	\$79,241	\$41,030	\$89,960
LIABILITIES						
Deposits:						
Demand and overnight	\$ 28,506	\$	\$ 3,069	\$ 3,152	\$ 1,690	\$ 6,426
Term	927		42	216	18	59
Deposits from other FHLBanks for mortgage loan programs		(25)				
Other	450		4	7	137	55
Total deposits	29,883	(25)	3,115	3,375	1,845	6,540
Borrowings:						
Other FHLBanks		(80)			30	
Securities sold under repurchase agreements	104					
Other borrowings	70					
Total borrowings	174	(80)			30	
Consolidated obligations:						
Discount notes	184,838		13,756	29,588	4,845	9,169
Bonds	415,457	(2,660)	21,672	40,548	31,608	67,817
Total consolidated obligations	600,295	(2,660)	35,428	70,136	36,453	76,986
Accrued interest payable	6,009	(31)	331	852	485	910
Affordable Housing Program	641		36	92	43	90
Payable to REFCORP	134		9	17	8	17
Derivative liabilities	4,148		154	768	224	1,221
Other liabilities	879		98	44	20	109
Total liabilities	642,163	(2,796)	39,171	75,284	39,108	85,873
CAPITAL						
Capital stock outstanding (\$100 par value)	31,363		1,941	3,831	1,812	3,943
Retained earnings	749		48	126	109	144
Accumulated other comprehensive income:						
Net unrealized (losses) gains on available-for-sale securities	(5)		(8)			
Cumulative effect of accounting change	(2)		14		1	
Net change during period relating to hedging activities	3					
Total capital	32,108		1,995	3,957	1,922	4,087
Total liabilities and capital	\$674,271	\$(2,796)	\$41,166	\$79,241	\$41,030	\$89,960

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 25 3,147	\$ 42 143	\$ 1	\$ 74 160	\$ 51	\$ 1 1,426	\$ 6 3,850	\$ 6 833
				5			
9,648	45 2,493	53 2,324	2,750 4,290	2,550	3,085	2,000 10,244	650 4,750
8,706	4,716	4,840	4,216	5,771	5,453	15,068	12,060
2,141	1,399			3,725	50		
44	95	713	197	486	150	648	341
31,814	24,021	19,247	20,976	30,974	18,622	111,365	25,890
68	36	8,419	3,115	1,434	16		462
		2	2				
68	36	8,417	3,113	1,434	16		462
318	142	189	73	209	114	766	289
3	10	14	6	31		4	2
52	45	205	253	135	192	280	95
12	19	12	8	204	20	33	9
\$55,978	\$33,206	\$36,015	\$36,116	\$45,575	\$29,129	\$144,264	\$45,387
\$ 1,580 110	\$ 1,956	\$ 1,785 160	\$ 2,068 91	\$ 2,624 96	\$ 1,947 17	\$ 566 31	\$ 1,643 87
34	12	25 164			37		
1,724	1,968	2,134	2,159	2,720	2,001	597	1,730
			50				
					70		104
			50		70		104
26,219	11,607	7,540	6,108	7,742	5,773	41,507	20,984
24,096	17,319	23,878	25,562	32,220	19,479	93,980	19,938
50,315	28,926	31,418	31,670	39,962	25,252	135,487	40,922
336	304	357	349	371	244	1,187	314
69	30	32	28	36	26	115	44
12	7	7	7	7	7	27	9
348	357	301	33	195	264	265	18
276	12	17	3	148	8	139	5
53,080	31,604	34,266	34,299	43,439	27,872	137,817	43,146
2,849 48	1,573 29	1,677 72	1,777 40	2,097 37	1,202 55	6,435 26	2,226 15
1				2		(17)	
						3	
2,898	1,602	1,749	1,817	2,136	1,257	6,447	2,241
\$55,978	\$33,206	\$36,015	\$36,116	\$45,575	\$29,129	\$144,264	\$45,387

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2002

(Dollar amounts in millions)
(Unaudited)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
INTEREST INCOME						
Advances	\$2,838	\$	\$210	\$414	\$152	\$390
Interest-bearing deposits in banks	92		1	25	6	5
Securities purchased under resale agreements	35		6			
Federal funds sold	227		18	11	5	37
Held-to-maturity securities	1,254	(13)	77	185	65	176
Available-for-sale securities	35	(7)	5		5	
Securities held at fair value	126	(8)	10		36	42
Mortgage loans	476		8	7	28	9
Loans to other FHLBanks		(1)		1		
Other	1					
Total interest income	<u>5,084</u>	<u>(29)</u>	<u>335</u>	<u>643</u>	<u>297</u>	<u>659</u>
INTEREST EXPENSE						
Consolidated obligations	4,276	(28)	300	540	253	535
Deposits	109		8	11	8	24
Borrowings from other FHLBanks		(1)				
Securities sold under resale agreements	11				2	
Other borrowings	2					
Total interest expense	<u>4,398</u>	<u>(29)</u>	<u>308</u>	<u>551</u>	<u>263</u>	<u>559</u>
NET INTEREST INCOME BEFORE MORTGAGE LOAN LOSS PROVISION						
Mortgage loan loss provision	686		27	92	34	100
Mortgage loan loss provision	<u>1</u>					
NET INTEREST INCOME AFTER MORTGAGE LOAN LOSS PROVISION						
	<u>685</u>		<u>27</u>	<u>92</u>	<u>34</u>	<u>100</u>
OTHER INCOME						
Net unrealized (losses) gains on securities held at fair value	(159)		(3)		(35)	(48)
Net realized and unrealized gains (losses) on derivatives and hedging activities	130		1	1	9	36
Service fees	10			1	1	1
Net gains on sale of securities held at fair value	7				7	
Net gains from sale of held-to-maturity securities	1					
Other, net	52		5	26		1
Total other income	<u>41</u>		<u>3</u>	<u>28</u>	<u>(18)</u>	<u>(10)</u>
OTHER EXPENSE						
Operating expenses	88		6	9	8	11
Finance Board and Office of Finance expenses	13		1	1	1	1
Other, net				(5)		2
Total other expenses	<u>101</u>		<u>7</u>	<u>5</u>	<u>9</u>	<u>14</u>
INCOME BEFORE ASSESSMENTS						
	<u>625</u>		<u>23</u>	<u>115</u>	<u>7</u>	<u>76</u>
Affordable Housing Program	49		2	8	1	6
REFCORP	112		4	18	1	14
Total assessments	<u>161</u>		<u>6</u>	<u>26</u>	<u>2</u>	<u>20</u>
INCOME BEFORE EXTRAORDINARY ITEM						
	<u>464</u>		<u>17</u>	<u>89</u>	<u>5</u>	<u>56</u>
(Losses) gains on early retirement of debt, net	(15)			(16)		
NET INCOME						
	<u>\$ 449</u>	<u>\$</u>	<u>\$ 17</u>	<u>\$ 73</u>	<u>\$ 5</u>	<u>\$ 56</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$220 18	\$165 2	\$129	\$144 16	\$202	\$134 10	\$504 21	\$174 4
55	12	12	8	12	11	12	1
126	69	38	46	38	72	34	12
8	6		1	17		201	174
	2	33	1	2	1	3	4
13	13	282	63	24	2		27
<u>440</u>	<u>269</u>	<u>494</u>	<u>279</u>	<u>296</u>	<u>230</u>	<u>775</u>	<u>396</u>
378 7	221 7	410 11	244 7	247 10	197 7	639 2	340 7
		8	1				1
<u>385</u>	<u>228</u>	<u>429</u>	<u>252</u>	<u>258</u>	<u>204</u>	<u>641</u>	<u>349</u>
55	41	65 1	27	38	26	134	47
<u>55</u>	<u>41</u>	<u>64</u>	<u>27</u>	<u>38</u>	<u>26</u>	<u>134</u>	<u>47</u>
	(1)	(60)	(2)	2	(2)	(4)	(6)
	2 2	60	(15) 1	(7) 1	11	32 1	2
10		3	1	2	1	2	1
<u>10</u>	<u>3</u>	<u>3</u>	<u>(15)</u>	<u>(2)</u>	<u>10</u>	<u>31</u>	<u>(2)</u>
5 1	6 1	10 1	5 1	7 1	4 1	12 2	5 1
<u>6</u>	<u>7</u>	<u>14</u>	<u>6</u>	<u>8</u>	<u>5</u>	<u>14</u>	<u>6</u>
59	37	53	6	28	31	151	39
5	3	4	1	2	2	12	3
11	7	10	1	5	6	28	7
<u>16</u>	<u>10</u>	<u>14</u>	<u>2</u>	<u>7</u>	<u>8</u>	<u>40</u>	<u>10</u>
43	27	39 1	4	21	23	111	29
<u>\$ 43</u>	<u>\$ 27</u>	<u>\$ 40</u>	<u>\$ 4</u>	<u>\$ 21</u>	<u>\$ 23</u>	<u>\$111</u>	<u>\$ 29</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2001

(Dollar amounts in millions)
(Unaudited)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
INTEREST INCOME						
Advances	\$6,723	\$	\$373	\$782	\$397	\$ 967
Interest-bearing deposits in banks	244		2	102	12	12
Securities purchased under resale agreements ..	72		11			
Federal funds sold	822		58	77	50	89
Held-to-maturity securities	1,535	(27)	101	199	111	189
Available-for-sale securities	107	(7)	13		5	
Securities held at fair value	121	(8)	19		27	35
Mortgage loans	296		1	9	36	8
Loans to other FHLBanks		(1)		1		
Other	1					
Total interest income	<u>9,921</u>	<u>(43)</u>	<u>578</u>	<u>1,170</u>	<u>638</u>	<u>1,300</u>
INTEREST EXPENSE						
Consolidated obligations	8,846	(42)	499	1,032	564	1,130
Deposits	283		28	31	18	57
Borrowings from other FHLBanks		(1)				
Other borrowings	2			1		
Total interest expense	<u>9,131</u>	<u>(43)</u>	<u>527</u>	<u>1,064</u>	<u>582</u>	<u>1,187</u>
NET INTEREST INCOME BEFORE						
MORTGAGE LOAN LOSS PROVISION ..	790		51	106	56	113
Mortgage loan loss provision	<u>1</u>					
NET INTEREST INCOME AFTER						
MORTGAGE LOAN LOSS PROVISION ..	<u>789</u>		<u>51</u>	<u>106</u>	<u>56</u>	<u>113</u>
OTHER INCOME						
Net unrealized gains on securities held at fair value	76		8		18	20
Net realized and unrealized (losses) gains on derivatives and hedging activities	(43)		(6)	(7)	(14)	(13)
Service fees	11			1	4	1
Other, net	24		3			2
Total other income	<u>68</u>		<u>5</u>	<u>(6)</u>	<u>8</u>	<u>10</u>
OTHER EXPENSE						
Operating expenses	85		6	8	10	10
Finance Board and Office of Finance expenses ..	10		1	1	1	1
Other, net	5				1	2
Total other expenses	<u>100</u>		<u>7</u>	<u>9</u>	<u>12</u>	<u>13</u>
INCOME BEFORE ASSESSMENTS	<u>757</u>		<u>49</u>	<u>91</u>	<u>52</u>	<u>110</u>
Affordable Housing Program	58		3	8	3	8
REFCORP	134		9	17	8	17
Total assessments	<u>192</u>		<u>12</u>	<u>25</u>	<u>11</u>	<u>25</u>
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	565		37	66	41	85
Cumulative effect of change in accounting principle	<u>(30)</u>		<u>(3)</u>	<u>3</u>	<u>(9)</u>	<u>(16)</u>
NET INCOME	<u>\$ 535</u>	<u>\$</u>	<u>\$ 34</u>	<u>\$ 69</u>	<u>\$ 32</u>	<u>\$ 69</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$481	\$366	\$286	\$323	\$449	\$271	\$1,646	\$382
46	1		2		15	42	10
	1	1	26			31	2
170	31	33	50	30	41	138	55
140	81	85	72	75	89	216	204
30	21			44	1		
1	2	10	3	15	3	10	4
1	1	148	59	25			8
				1			
<u>869</u>	<u>504</u>	<u>563</u>	<u>535</u>	<u>639</u>	<u>420</u>	<u>2,083</u>	<u>665</u>
786	448	482	475	575	369	1,935	593
15	17	28	22	26	20	4	17
			1				
<u>801</u>	<u>465</u>	<u>510</u>	<u>498</u>	<u>601</u>	<u>389</u>	<u>1,939</u>	<u>611</u>
68	39	53	37	38	31	144	54
		1					
<u>68</u>	<u>39</u>	<u>52</u>	<u>37</u>	<u>38</u>	<u>31</u>	<u>144</u>	<u>54</u>
	1	17	1		4	7	
1	7	(19)	(6)	4	1	9	
	2		1	1			1
1	1		8		2	2	5
<u>2</u>	<u>11</u>	<u>(2)</u>	<u>4</u>	<u>5</u>	<u>7</u>	<u>18</u>	<u>6</u>
5	6	9	5	6	4	11	5
1			1	1		2	1
		1					1
<u>6</u>	<u>6</u>	<u>10</u>	<u>6</u>	<u>7</u>	<u>4</u>	<u>13</u>	<u>7</u>
<u>64</u>	<u>44</u>	<u>40</u>	<u>35</u>	<u>36</u>	<u>34</u>	<u>149</u>	<u>53</u>
5	3	3	3	3	3	12	4
12	8	8	6	6	7	27	9
<u>17</u>	<u>11</u>	<u>11</u>	<u>9</u>	<u>9</u>	<u>10</u>	<u>39</u>	<u>13</u>
47	33	29	26	27	24	110	40
(1)	(4)	1	1	(1)	4	(2)	(3)
<u>\$ 46</u>	<u>\$ 29</u>	<u>\$ 30</u>	<u>\$ 27</u>	<u>\$ 26</u>	<u>\$ 28</u>	<u>\$ 108</u>	<u>\$ 37</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001

(Dollar amounts in millions)
(Unaudited)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
CAPITAL STOCK SHARES (In millions)						
BALANCE, DECEMBER 31, 2000	305		19	36	21	35
Proceeds from sale of capital stock	19			2	4	6
Redemption of capital stock	(13)				(7)	(2)
Capital stock dividends	<u>2</u>					
BALANCE, MARCH 31, 2001	<u>313</u>		<u>19</u>	<u>38</u>	<u>18</u>	<u>39</u>
BALANCE, DECEMBER 31, 2001	332		20	37	19	41
Proceeds from sale of capital stock	22		1	2	7	2
Redemption of capital stock	(16)			(2)	(6)	(2)
Capital stock dividends	<u>2</u>					
BALANCE, MARCH 31, 2002	<u>340</u>		<u>21</u>	<u>37</u>	<u>20</u>	<u>41</u>
CAPITAL STOCK—PAR VALUE						
BALANCE, DECEMBER 31, 2000	\$30,537	\$	\$1,858	\$3,626	\$ 2,065	\$3,506
Proceeds from sale of capital stock	1,908		87	213	480	584
Redemption of capital stock	(1,330)		(4)	(8)	(733)	(147)
Capital stock dividends	<u>248</u>					
BALANCE, MARCH 31, 2001	<u>\$31,363</u>	<u>\$</u>	<u>\$1,941</u>	<u>\$3,831</u>	<u>\$ 1,812</u>	<u>\$3,943</u>
BALANCE, DECEMBER 31, 2001	\$33,289	\$	\$1,985	\$3,733	\$ 1,889	\$4,127
Proceeds from sale of capital stock	2,054		126	242	682	190
Redemption of capital stock	(1,546)		(1)	(268)	(567)	(167)
Capital stock dividends	<u>210</u>					
BALANCE, MARCH 31, 2002	<u>\$34,007</u>	<u>\$</u>	<u>\$2,110</u>	<u>\$3,707</u>	<u>\$ 2,004</u>	<u>\$4,150</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
28	15	16	17	21	12	63	22
	1	1	2	1	1	1	
			(1)	(1)	(1)	(1)	
<u>1</u>						<u>1</u>	
<u>29</u>	<u>16</u>	<u>17</u>	<u>18</u>	<u>21</u>	<u>12</u>	<u>64</u>	<u>22</u>
32	17	24	15	21	14	68	24
1	1	4	1	1	1	1	
		(2)			(1)	(3)	
				1		1	
<u>33</u>	<u>18</u>	<u>26</u>	<u>16</u>	<u>23</u>	<u>14</u>	<u>67</u>	<u>24</u>
\$2,789	\$1,550	\$1,631	\$1,744	\$2,127	\$1,218	\$6,268	\$2,155
11	23	72	129	99	64	99	47
(1)		(54)	(96)	(158)	(80)	(38)	(11)
<u>50</u>		<u>28</u>		<u>29</u>		<u>106</u>	<u>35</u>
<u>\$2,849</u>	<u>\$1,573</u>	<u>\$1,677</u>	<u>\$1,777</u>	<u>\$2,097</u>	<u>\$1,202</u>	<u>\$6,435</u>	<u>\$2,226</u>
\$3,198	\$1,741	\$2,395	\$1,539	\$2,143	\$1,396	\$6,752	\$2,391
54	30	344	37	119	122	103	5
(1)		(166)	(4)	(10)	(68)	(290)	(4)
<u>36</u>		<u>30</u>		<u>17</u>		<u>91</u>	<u>36</u>
<u>\$3,287</u>	<u>\$1,771</u>	<u>\$2,603</u>	<u>\$1,572</u>	<u>\$2,269</u>	<u>\$1,450</u>	<u>\$6,656</u>	<u>\$2,428</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CAPITAL—(Continued)
FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001

(Dollar amounts in millions)
(Unaudited)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
UNRESTRICTED RETAINED EARNINGS						
BALANCE, DECEMBER 31, 2000	\$ 729	\$	\$ 47	\$121	\$110	\$143
Net Income	535		34	69	32	69
Dividends on capital stock:						
Cash	(267)		(33)	(64)	(33)	(68)
Stock	(248)					
BALANCE, MARCH 31, 2001	<u>\$ 749</u>	<u>\$</u>	<u>\$ 48</u>	<u>\$126</u>	<u>\$109</u>	<u>\$144</u>
BALANCE, DECEMBER 31, 2001	\$ 932	\$	\$ 47	\$177	\$ 87	\$174
Net Income	449		17	73	5	56
Dividends on capital stock:						
Cash	(194)		(19)	(40)	(21)	(58)
Stock	(210)					
BALANCE, MARCH 31, 2002	<u>\$ 977</u>	<u>\$</u>	<u>\$ 45</u>	<u>\$210</u>	<u>\$ 71</u>	<u>\$172</u>
TOTAL RETAINED EARNINGS						
BALANCE, DECEMBER 31, 2000	\$ 729	\$	\$ 47	\$121	\$110	\$143
Net Income	535		34	69	32	69
Dividends on capital stock:						
Cash	(267)		(33)	(64)	(33)	(68)
Stock	(248)					
BALANCE, MARCH 31, 2001	<u>\$ 749</u>	<u>\$</u>	<u>\$ 48</u>	<u>\$126</u>	<u>\$109</u>	<u>\$144</u>
BALANCE, DECEMBER 31, 2001	\$ 932	\$	\$ 47	\$177	\$ 87	\$174
Net Income	449		17	73	5	56
Dividends on capital stock:						
Cash	(194)		(19)	(40)	(21)	(58)
Stock	(210)					
BALANCE, MARCH 31, 2002	<u>\$ 977</u>	<u>\$</u>	<u>\$ 45</u>	<u>\$210</u>	<u>\$ 71</u>	<u>\$172</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 53 46	\$ 31 29	\$ 70 30	\$ 29 27	\$ 39 26	\$ 49 28	\$ 24 108	\$ 13 37
(1) (50)	(31)	(28)	(16)	1 (29)	(22)	(106)	(35)
<u>\$ 48</u>	<u>\$ 29</u>	<u>\$ 72</u>	<u>\$ 40</u>	<u>\$ 37</u>	<u>\$ 55</u>	<u>\$ 26</u>	<u>\$ 15</u>
\$ 42 43	\$ 33 27	\$110 40	\$ 43 4	\$ 71 21	\$ 51 23	\$ 62 111	\$ 35 29
(36)	(26)	(30)	(12)	(17)	(18)	(91)	(36)
<u>\$ 49</u>	<u>\$ 34</u>	<u>\$120</u>	<u>\$ 35</u>	<u>\$ 75</u>	<u>\$ 56</u>	<u>\$ 82</u>	<u>\$ 28</u>
\$ 53 46	\$ 31 29	\$ 70 30	\$ 29 27	\$ 39 26	\$ 49 28	\$ 24 108	\$ 13 37
(1) (50)	(31)	(28)	(16)	1 (29)	(22)	(106)	(35)
<u>\$ 48</u>	<u>\$ 29</u>	<u>\$ 72</u>	<u>\$ 40</u>	<u>\$ 37</u>	<u>\$ 55</u>	<u>\$ 26</u>	<u>\$ 15</u>
\$ 42 43	\$ 33 27	\$110 40	\$ 43 4	\$ 71 21	\$ 51 23	\$ 62 111	\$ 35 29
(36)	(26)	(30)	(12)	(17)	(18)	(91)	(36)
<u>\$ 49</u>	<u>\$ 34</u>	<u>\$120</u>	<u>\$ 35</u>	<u>\$ 75</u>	<u>\$ 56</u>	<u>\$ 82</u>	<u>\$ 28</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CAPITAL—(Continued)
FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001

(Dollar amounts in millions)
(Unaudited)

	<u>Combined</u>	<u>Combining Adjustment</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME						
BALANCE, DECEMBER 31, 2000	\$ (1)	\$	\$ 1	\$	\$(1)	\$
Other Comprehensive Income:						
Net unrealized (losses) gains on available-for-sale securities	(4)		(9)		1	
Cumulative effect of accounting change ..	(2)		14		1	
Net unrealized gains related to hedging activities	<u>3</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
BALANCE, MARCH 31, 2001	<u>\$ (4)</u>	<u>\$</u>	<u>\$ 6</u>	<u>\$</u>	<u>\$ 1</u>	<u>\$</u>
BALANCE, DECEMBER 31, 2001	\$ (3)	\$	\$ 1	\$	\$ 2	\$
Other Comprehensive Income:						
Net unrealized (losses) gains on available-for-sale securities	(86)		(2)		(10)	
Net unrealized gains (losses) related to hedging activities	<u>21</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>—</u>
BALANCE, MARCH 31, 2002	<u>\$(68)</u>	<u>\$</u>	<u>\$(1)</u>	<u>\$</u>	<u>\$(7)</u>	<u>\$</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ (1)	\$	\$	\$	\$	\$	\$	\$
2				2		(17)	
<u>\$ 1</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2</u>	<u>\$</u>	<u>3</u> <u>\$(14)</u>	<u>\$</u>
\$	\$(1)	\$ (2)	\$	\$ 2	\$	\$ (5)	\$
	3		(1)	(76)			
<u>\$</u>	<u>\$ 2</u>	<u>(52)</u> <u>\$(54)</u>	<u>\$(1)</u>	<u>69</u> <u>\$ (5)</u>	<u>\$</u>	<u>3</u> <u>\$ (2)</u>	<u>\$</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CAPITAL—(Continued)
FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001

(Dollar amounts in millions)
(Unaudited)

	<u>Combined</u>	<u>Combining Adjustment</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
TOTAL CAPITAL						
BALANCE, DECEMBER 31, 2000	\$31,265	\$	\$1,906	\$3,747	\$2,174	\$3,649
Proceeds from sale of capital stock	1,908		87	213	480	584
Redemption of capital stock	(1,330)		(4)	(8)	(733)	(147)
Comprehensive income:						
Net Income	535		34	69	32	69
Other Comprehensive Income:						
Net unrealized (losses) gains on available- for-sale securities	(4)		(9)		1	
Cumulative effect of accounting change ...	(2)		14		1	
Net unrealized gains related to hedging activities	3					
Total Comprehensive Income	\$ 532	\$	\$ 39	\$ 69	\$ 34	\$ 69
Dividend on Capital Stock:						
Cash	(267)		(33)	(64)	(33)	(68)
BALANCE, MARCH 31, 2001	<u>\$32,108</u>	<u>\$</u>	<u>\$1,995</u>	<u>\$3,957</u>	<u>\$1,922</u>	<u>\$4,087</u>
BALANCE, DECEMBER 31, 2001	\$34,218	\$	\$2,033	\$3,910	\$1,978	\$4,301
Proceeds from sale of capital stock	2,054		126	242	682	190
Redemption of capital stock	(1,546)		(1)	(268)	(567)	(167)
Comprehensive income:						
Net Income	449		17	73	5	56
Other Comprehensive Income:						
Net unrealized (losses) gains on available- for-sale securities	(86)		(2)		(10)	
Net unrealized gains (losses) related to hedging activities	21				1	
Total Comprehensive Income	\$ 384	\$	\$ 15	\$ 73	\$ (4)	\$ 56
Dividend on Capital Stock:						
Cash	(194)		(19)	(40)	(21)	(58)
BALANCE, MARCH 31, 2002	<u>\$34,916</u>	<u>\$</u>	<u>\$2,154</u>	<u>\$3,917</u>	<u>\$2,068</u>	<u>\$4,322</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$2,841	\$1,581	\$1,701	\$1,773	\$2,166	\$1,267	\$6,292	\$2,168
11	23	72	129	99	64	99	47
(1)		(54)	(96)	(158)	(80)	(38)	(11)
46	29	30	27	26	28	108	37
2				2		(17)	
						3	
<u>\$ 48</u>	<u>\$ 29</u>	<u>\$ 30</u>	<u>\$ 27</u>	<u>\$ 28</u>	<u>\$ 28</u>	<u>\$ 94</u>	<u>\$ 37</u>
<u>(1)</u>	<u>(31)</u>		<u>(16)</u>	<u>1</u>	<u>(22)</u>		
<u>\$2,898</u>	<u>\$1,602</u>	<u>\$1,749</u>	<u>\$1,817</u>	<u>\$2,136</u>	<u>\$1,257</u>	<u>\$6,447</u>	<u>\$2,241</u>
\$3,240	\$1,773	\$2,503	\$1,582	\$2,216	\$1,447	\$6,809	\$2,426
54	30	344	37	119	122	103	5
(1)		(166)	(4)	(10)	(68)	(290)	(4)
43	27	40	4	21	23	111	29
	3		(1)	(76)			
		(52)		69		3	
<u>\$ 43</u>	<u>\$ 30</u>	<u>\$ (12)</u>	<u>\$ 3</u>	<u>\$ 14</u>	<u>\$ 23</u>	<u>\$ 114</u>	<u>\$ 29</u>
	(26)		(12)		(18)		
<u>\$3,336</u>	<u>\$1,807</u>	<u>\$2,669</u>	<u>\$1,606</u>	<u>\$2,339</u>	<u>\$1,506</u>	<u>\$6,736</u>	<u>\$2,456</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2002

(Dollar amounts in millions)
(Unaudited)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
OPERATING ACTIVITIES						
Net income	\$ 449	\$	\$ 17	\$ 73	\$ 5	\$ 56
Extraordinary losses (gains) on early retirement of debt	15			16		
Income before extraordinary item	464		17	89	5	56
Adjustments to reconcile income before extraordinary item to net cash provided by operating activities:						
Depreciation and amortization:						
Net premiums and discounts on consolidated obligations, investments, and deferred costs and fees received on interest-rate exchange agreements	338		45	91	91	21
Concessions on consolidated obligations	37		1	3	3	
Deferred losses on interest-rate exchange agreements, net	2					
Premises and equipment	5			1	1	
Net premiums and discounts on mortgage loans	8				1	
Provision for credit losses on mortgage loans	1					
Net realized gains on held-to-maturity securities	(1)					
(Increase) decrease in securities held at fair value, net of transfers and transition adjustments	(1,159)	(619)	67		(643)	(139)
(Gains) losses due to change in net fair value adjustment on derivative and hedging activities	(193)		(2)	(1)	2	(37)
Decrease (increase) in accrued interest receivable	37	(14)	5	(7)	(8)	47
(Increase) decrease in derivative asset-accrued interest	(29)		(73)	(4)	12	
(Decrease) increase in derivative liability-accrued interest	(190)		45	5	10	(85)
Decrease (increase) in other assets	11		(5)	14	2	41
Increase (decrease) in Affordable Housing Program (AHP) liability and discount on AHP advances	3		(3)	3	(5)	(1)
(Decrease) increase in accrued interest payable	(105)	14	(11)	(3)	10	(42)
(Decrease) decrease in REFCORP liability	(48)			(3)	(5)	(6)
Increase (decrease) in other liabilities	111		(3)	(3)	(5)	(7)
Total adjustments	(1,172)	(619)	66	96	(534)	(208)
Net cash (used in) provided by operating activities	(708)	(619)	83	185	(529)	(152)
INVESTING ACTIVITIES						
Net (increase) decrease in interest-bearing deposits in banks	(2,508)		(475)	158	93	203
Net (increase) decrease in Federal funds sold	(6,797)		(1,726)	(1,234)	575	(3,934)
Net decrease (increase) decrease in securities purchased under resale agreements	2,385		1,335			
Net decrease (increase) in short-term held-to maturity securities	1,292				249	100
Proceeds from sales of long-term held-to-maturity securities	44					
Proceeds from maturities of long-term held-to-maturity securities	11,082	(1,150)	421	921	656	2,181
Purchases of long-term held-to-maturity securities	(15,126)	1,000	(339)	(325)	(287)	(2,013)
Proceeds from maturities of available-for-sale securities	14,162		46		13	
Purchases of available-for-sale securities	(16,305)				(1,480)	
Principal collected on advances	911,000		33,181	174,264	226,145	11,947
Advances made	(903,212)		(32,947)	(174,786)	(226,582)	(11,248)
Principal collected on mortgage loans	2,390		13	59	256	47
Mortgage loans purchased	(6,383)		(453)	(45)	(117)	(111)
Net (increase) decrease in deposits to other FHLBanks for mortgage loan programs		(7)	(1)	1	4	(3)
Net (increase) decrease in loans to other FHLBanks		85				(10)
(Increase) decrease in premises and equipment	(2)		1	(1)		
Net cash (used in) provided by investing activities	(7,978)	(72)	(944)	(988)	(475)	(2,841)

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 43	\$ 27	\$ 40	\$ 4	\$ 21	\$ 23	\$ 111	\$ 29
<u>43</u>	<u>27</u>	<u>(1)</u> <u>39</u>	<u>4</u>	<u>21</u>	<u>23</u>	<u>111</u>	<u>29</u>
83	38	41	42	(148)	33	(12)	13
3	3	1	4	6	4	8	1
		1				1	
		2		1			
		6					1
		1					(1)
3	1	60	27	42	15	4	23
	(2)	(171)	27	69	(17)	(33)	(28)
3	(23)	(7)	4	12	(1)	8	18
(31)	2	(31)	(8)		37	65	2
9	(20)	9	(7)		(45)	(99)	(12)
2	22	(3)	(4)	3	(42)	1	(20)
3	1	2	(2)	(1)		5	1
54	64	30	(43)	(106)	5	(157)	80
(1)	(1)	(8)	(6)	(4)	2	(9)	(7)
<u>4</u>	<u>89</u>	<u>89</u>	<u>(1)</u>	<u>(46)</u>	<u>1</u>	<u>(6)</u>	<u>(1)</u>
<u>132</u>	<u>174</u>	<u>22</u>	<u>33</u>	<u>(172)</u>	<u>(8)</u>	<u>(224)</u>	<u>70</u>
<u>175</u>	<u>201</u>	<u>61</u>	<u>37</u>	<u>(151)</u>	<u>15</u>	<u>(113)</u>	<u>99</u>
(1,230)	(128)		71		149	(1,134)	(215)
(267)	696	361	(599)	(233)	266	(1,295)	593
		(50)	1,000			(50)	150
		682	(146)	600	(279)	35	51
							44
1,337	751	521	396	398	754	1,611	2,285
(1,374)	(982)	(1,537)	(796)	(323)	(1,086)	(2,627)	(4,437)
14,057	38			8			
(14,245)	(493)			(87)			
90,422	8,332	4,882	7,491	171,778	66,004	102,481	14,073
(88,934)	(8,967)	(6,940)	(7,210)	(172,908)	(66,181)	(94,363)	(12,146)
34	12	1,237	436	210	4		82
(552)	(1,125)	(3,452)	(200)	(164)	(18)		(146)
				7	(1)		
100		(200)		(1)		25	
<u>(652)</u>	<u>(1,866)</u>	<u>(1)</u> <u>(4,497)</u>	<u>443</u>	<u>(715)</u>	<u>(388)</u>	<u>4,683</u>	<u>334</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS—(Continued)
FOR THE THREE MONTHS ENDED MARCH 31, 2002

(Dollar amounts in millions)
(Unaudited)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
FINANCING ACTIVITIES						
Net increase (decrease) in deposits	\$ 2,771	\$	\$ (481)	\$ (287)	\$ 316	\$ 1,185
Net increase in securities sold under repurchase agreements ..	1,090				504	
Net increase (decrease) in other borrowings	175				125	
Net decrease in deposits to other FHLBanks for mortgage loan programs		7				
Net increase (decrease) in loans from other FHLBanks		(85)			210	
Net proceeds from sale of consolidated obligations:						
Discount notes	981,443		48,047	111,016	125,912	57
Bonds	93,198	(1,000)	4,401	11,410	5,100	14,704
Payments for maturing and retiring consolidated obligations:						
Discount notes	(993,390)		(49,159)	(114,215)	(127,645)	(363)
Bonds	(76,742)	1,769	(2,056)	(7,032)	(3,535)	(12,547)
Proceeds from issuance of capital stock	2,054		126	242	682	190
Payments for redemption of capital stock	(1,546)		(1)	(268)	(567)	(167)
Cash dividends paid	(203)		(22)	(40)	(21)	(64)
Net cash provided by (used in) financing activities ..	8,850	691	855	826	1,081	2,995
Net increase (decrease) in cash and cash equivalents	164		(6)	23	77	2
Cash and cash equivalents at beginning of period	319		10	13	44	77
Cash and cash equivalents at end of period	\$ 483	\$	\$ 4	\$ 36	\$ 121	\$ 79
Supplemental Disclosures:						
Interest paid	\$ 4,317		\$ 330	\$ 460	\$ 196	\$ 560
Stock dividends issued	\$ 210					

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 189	\$ 182	\$ 980	\$ 128	\$ 138	\$ 678	\$ (137)	\$ (120)
		400				(200)	586
		(7)			(125)		(150)
173,189	98,681	85,534	100,012	53,503	88,411	40,395	56,686
6,072	4,289	9,984	5,772	4,641	2,728	19,654	5,443
(175,445)	(97,641)	(84,933)	(101,572)	(50,016)	(88,424)	(44,100)	(59,877)
(3,587)	(3,839)	(7,701)	(4,805)	(7,493)	(2,926)	(19,996)	(2,994)
54	30	344	37	119	122	103	5
(1)		(166)	(4)	(10)	(68)	(290)	(4)
	(26)		(12)		(18)		
471	1,676	4,435	(444)	882	378	(4,571)	(425)
(6)	11	(1)	36	16	5	(1)	8
10	37	2	64	47	2	2	11
<u>\$ 4</u>	<u>\$ 48</u>	<u>\$ 1</u>	<u>\$ 100</u>	<u>\$ 63</u>	<u>\$ 7</u>	<u>\$ 1</u>	<u>\$ 19</u>
\$ 274	\$ 172	\$ 353	\$ 283	\$ 85	\$ 206	\$ 1,132	\$ 266
\$ 36		\$ 30		\$ 17		\$ 91	\$ 36

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2001

(Dollar amounts in millions)
(Unaudited)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
OPERATING ACTIVITIES						
Net income	\$ 535	\$	\$ 34	\$ 69	\$ 32	\$ 69
Cumulative effect of change in accounting principle	30		3	(3)	9	16
Income before cumulative effect of change in accounting principle	565		37	66	41	85
Adjustments to reconcile income before cumulative effect of change in accounting principle to net cash provided by operating activities:						
Depreciation and amortization:						
Net premiums and discounts on consolidated obligations and investments, and deferred costs and deferred fees received on interest-rate exchange agreements	1,312		206	9	1	120
Concessions on consolidated obligations	43		1	2	2	7
Deferred loss on interest-rate exchange agreements, net	10			7		
Premises and equipment	3				1	
Net premiums and discounts on mortgage loans	15				3	
Other	(2)					(2)
Provision for credit losses on mortgage loans	1					
Decrease (increase) in securities held at fair value, net of transfers and transition adjustments	64	(130)	52		(380)	759
(Gains) losses due to change in net fair value adjustment on derivative and hedging activities	(138)		(2)	(1)	(190)	13
Decrease (increase) in accrued interest receivable	5,874	(23)	311	145	346	(36)
(Increase) decrease in derivative assets—accrued interest	(177)		(29)	163	485	50
(Decrease) increase in derivative liabilities—accrued interest	(597)		(31)	(38)	(270)	(65)
(Increase) decrease in other assets	(159)		(1)	(5)	2	8
Increase in Affordable Housing Program (AHP) liability and discount on AHP advances	25		1	4		5
Decrease in accrued interest payable	(4,846)	23	(165)	(92)	(190)	(80)
(Decrease) increase in REFCORP liability	(12)		(1)	(2)	(2)	(3)
Increase (decrease) in other liabilities	47		(15)	(2)		(10)
Total adjustments	1,463	(130)	327	190	(192)	766
Net cash provided by (used in) operating activities	2,028	(130)	364	256	(151)	851
INVESTING ACTIVITIES						
Net decrease (increase) in interest-bearing deposits in banks	867		(55)	1,590	1,013	(332)
Net (increase) decrease in Federal funds sold	(9,775)		(1,850)	(3,038)	1,690	(787)
Net increase in securities purchased under resale agreements	(5,377)		(1,195)			
Net decrease (increase) in short-term held-to-maturity securities	925		724		246	
Proceeds from maturities of long-term held-to-maturity securities	5,215	(612)	239	472	744	527
Purchases of long-term held-to-maturity securities	(7,504)	450	(359)	(1,291)	(600)	(1,856)
Proceeds from sales of available-for-sale securities	1,098					
Proceeds from maturities of available-for-sale securities	9,903	(160)			188	
Purchases of available-for-sale securities	(8,660)		(39)			
Principal collected on advances	983,449		217,042	248,211	96,237	17,929
Advances made	(990,400)		(217,464)	(247,896)	(95,448)	(25,045)
Principal collected on mortgage loans	1,092		1	38	129	49
Mortgage loans purchased	(1,443)		(20)	(12)	(184)	(69)
Net decrease (increase) in deposits to other FHLBanks for mortgage loan programs		(11)			16	
Net increase in loans to other FHLBanks		30				(30)
Increase in premises and equipment	(4)					
Net cash (used in) provided by investing activities	(20,614)	(303)	(2,976)	(1,926)	4,031	(9,614)

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 46 1	\$ 29 4	\$ 30 (1)	\$ 27 (1)	\$ 26 1	\$ 28 (4)	\$ 108 2	\$ 37 3
<u>47</u>	<u>33</u>	<u>29</u>	<u>26</u>	<u>27</u>	<u>24</u>	<u>110</u>	<u>40</u>
340 1	135 10	83 2 1 1 8	113 2 4	(2) 2 1	89 3	(32) 9 2	250 2
4	(2)	(16)	3	(13)	103	(7)	(309)
160 (41) (56) 1	(7) 425 (17) (75) 9	3 390 (98) (42) 1	(19) 612 (315) (53) 26	13 575 (108) (22) (96)	31 285 (72) (26)	21 2,370 (116) 101 (104)	314 (79) (20)
4 (48) (2) (1)	3 (357) (1) (3)	(307) (2) (54)	(80) (1) (10)	(465) (1) 96	1 (183) (1)	5 (2,701) 2 104	2 (201) 1 (57)
<u>362</u>	<u>120</u>	<u>(29)</u>	<u>282</u>	<u>(20)</u>	<u>230</u>	<u>(346)</u>	<u>(97)</u>
<u>409</u>	<u>153</u>		<u>308</u>	<u>7</u>	<u>254</u>	<u>(236)</u>	<u>(57)</u>
155 (1,403)	(144) (83)	73 (7)	110 (335) (1,950)	55	(284) (1,466)	(1,152) (1,868) (1,600)	(34) (763) (625)
497 (457)	217 (268)	351 306 (413)	(250) (1) 1,098	(954) (645)	41 240 (124)	488 610 (1,124)	279 1,772 (816)
9,493 (8,621) 118,429 (117,762)	79 13,570 (13,043) 1	7,674 (8,162) 529 (846)	15,157 (14,792) 239 (60)	298 116,376 (117,046) 91 (144)	5 57,755 (58,421) (11)	62,183 (62,874)	12,886 (12,447) 15 (59)
(38)			(5)				
<u>293</u>	<u>329</u>	<u>(2)</u> <u>(497)</u>	<u>(784)</u>	<u>(1)</u> <u>(1,772)</u>	<u>(2,265)</u>	<u>(5,337)</u>	<u>(1)</u> <u>207</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS—(Continued)
FOR THE THREE MONTHS ENDED MARCH 31, 2001

(Dollar amounts in millions)
(Unaudited)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
FINANCING ACTIVITIES						
Net increase in deposits	\$ 12,820	\$	\$ 1,806	\$ 1,213	\$ 399	\$ 3,248
Net increase in securities sold under agreements to repurchase	104					
Net increase in other borrowings	68	(2)				
Net decrease in deposits from other FHLBanks for mortgage loan programs		13				
Net increase in loans from other FHLBanks		(30)			30	
Net proceeds from sale of consolidated obligations:						
Discount notes	1,204,583		89,055	223,317	123,473	31,209
Bonds	82,710	(450)	3,331	7,258	1,687	19,243
Payments for maturing and retiring consolidated obligations:						
Discount notes	(1,180,997)		(89,050)	(222,160)	(120,355)	(28,207)
Bonds	(101,342)	902	(2,573)	(8,105)	(9,166)	(17,067)
Proceeds from issuance of capital stock	1,908		87	213	480	584
Payments for redemption of capital stock	(1,330)		(4)	(8)	(733)	(147)
Cash dividends paid	(271)		(37)	(64)	(33)	(68)
Net cash provided by (used in) financing activities	<u>18,253</u>	<u>433</u>	<u>2,615</u>	<u>1,664</u>	<u>(4,218)</u>	<u>8,795</u>
Net (decrease) increase in cash and cash equivalents	(333)		3	(6)	(338)	32
Cash and cash equivalents at beginning of period	752		10	25	441	46
Cash and cash equivalents at end of period	<u>\$ 419</u>	<u>\$</u>	<u>\$ 13</u>	<u>\$ 19</u>	<u>\$ 103</u>	<u>\$ 78</u>
Supplemental Disclosures:						
Interest paid	\$ 10,927		\$ 692	\$ 1,185	\$ 726	\$ 1,215
Stock dividends issued	\$ 248					

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 588	\$ 1,212	\$ 137	\$ 1,023	\$ 1,262	\$ 929	\$ 220	\$ 783
					70		104
		(13)					
312,139	92,856	88,040	11,029	42,777	57,706	49,290	83,692
3,645	2,159	3,735	6,532	11,020	4,172	17,367	3,011
(313,385)	(87,414)	(85,533)	(13,100)	(42,649)	(57,507)	(39,940)	(81,697)
(3,685)	(9,281)	(5,890)	(5,023)	(10,631)	(3,321)	(21,424)	(6,078)
11	23	72	129	99	64	99	47
(1)		(54)	(96)	(158)	(80)	(38)	(11)
(1)	(31)		(16)	1	(22)		
(689)	(476)	494	478	1,721	2,011	5,574	(149)
13	6	(3)	2	(44)		1	1
12	36	4	72	95	1	5	5
\$ 25	\$ 42	\$ 1	\$ 74	\$ 51	\$ 1	\$ 6	\$ 6
\$ 448	\$ 513	\$ 734	\$ 480	\$ 829	\$ 455	\$ 2,935	\$ 715
\$ 50		\$ 28		\$ 29		\$ 106	\$ 35

FEDERAL HOME LOAN BANKS

2001

FINANCIAL REPORT

This report provides financial information on the Federal Home Loan Banks. You should use this Financial Report, with other information the Federal Home Loan Banks specifically provide, when you consider whether or not to purchase the consolidated bonds and consolidated notes (collectively consolidated obligations) of the Federal Home Loan Banks.

The Securities Act of 1933, as amended, does not require the registration of consolidated obligations. Accordingly, no registration statement has been filed with the Securities and Exchange Commission. Neither the Securities and Exchange Commission, the Federal Housing Finance Board, nor any State securities commission has approved or disapproved the consolidated obligations or has passed upon the accuracy or adequacy of any offering material.

The consolidated obligations are not obligations of the United States and are not guaranteed by the United States.

Neither this Financial Report nor any offering material provided by the Office of Finance on behalf of the Federal Home Loan Banks concerning any offering of consolidated obligations describes all the risks of investing in consolidated bonds or consolidated notes. Prospective investors should consult their financial and legal advisors about the risks of investing in any particular issue of consolidated bonds or consolidated notes.

The financial information is as of and for periods ended December 31, 2001. This document is available on the Federal Home Loan Banks' Office of Finance website, www.fhlb-of.com.

You should direct questions about the Federal Home Loan Banks' Combined Financial Statements to the Federal Home Loan Banks' Office of Finance, Director of Accounting Policy & Financial Reporting. You should direct questions about the Federal Home Loan Banks' consolidated obligations to the Federal Home Loan Banks' Office of Finance, Marketing & Information Services. The address for both is Federal Home Loan Banks' Office of Finance, 11921 Freedom Drive, Suite 1000, Reston, VA 20190, (703) 467-3600, www.fhlb-of.com. The Office of Finance will provide additional copies of this Financial Report upon request. Please contact the Office of Finance if you want to receive subsequent annual and quarterly financial reports.

The delivery of this Financial Report does not imply that there has been no change in the financial condition of the Federal Home Loan Banks since December 31, 2001.

The date of this Financial Report is March 29, 2002.

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The Luxembourg Stock Exchange has allocated the number 2306 to the Federal Home Loan Banks' global debt program for listing purposes. Application may be made to list consolidated obligations issued under the program on the Luxembourg Stock Exchange.

FEDERAL HOME LOAN BANKS

The 12 Federal Home Loan Banks (FHLBanks) are instrumentalities of the United States of America organized under the authority of the Federal Home Loan Bank Act of 1932, as amended (FHLBank Act). The Office of Finance is a joint office of the FHLBanks established by the Federal Housing Finance Board (Finance Board) to facilitate issuing and servicing of consolidated obligations of the FHLBanks. The Finance Board is an independent agency in the executive branch of the U.S. Government charged with the regulation of the FHLBanks and the Office of Finance.

The FHLBanks serve the public through member institutions by providing members liquidity and enhancing the availability of residential mortgage and community investment credit. They provide a readily available, low-cost source of funds to their member institutions. The FHLBanks are cooperatives; only member institutions own the capital stock of each FHLBank and the members receive dividends on their investment. Each FHLBank has its own management, employees, and board of directors. The Finance Board is an independent agency in the executive branch of the U.S. Government. The Finance Board's purpose is to ensure that the FHLBanks operate in a safe and sound manner. In addition, the Finance Board ensures that the FHLBanks carry out their housing finance and community investment mission and remain adequately capitalized and able to raise funds in the capital market. The Finance Board, through the Office of Finance and through the period ended December 31, 2000, was the issuer of consolidated obligations for which the FHLBanks are jointly and severally liable. Effective January 2, 2001, the FHLBanks issue debt through the Office of Finance as their agent.

Each FHLBank operates in a specifically defined geographic district. The district number, the FHLBank's name and address, and the States and territories comprising each district are as follows:

District 1	FHLBank of Boston 111 Huntington Avenue Boston, MA 02199 Business number: (617) 292-9600	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
District 2	FHLBank of New York 200 Park Avenue New York, NY 10166 Business number: (212) 294-1800 30 Montgomery Street, 3rd. Floor Jersey City, NJ 07302 Business number: (201) 356-1000	New Jersey, New York, Puerto Rico, Virgin Islands
District 3	FHLBank of Pittsburgh..... 601 Grant Street Pittsburgh, Pennsylvania 15219 Business number: (412) 288-3400	Delaware, Pennsylvania, West Virginia
District 4	FHLBank of Atlanta 1475 Peachtree Street, N.E. Atlanta, Georgia 30309 Business number: (404) 888-8000	Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia
District 5	FHLBank of Cincinnati Atrium Two, Suite 1000 221 East Fourth Street Cincinnati, Ohio 45202 Business number: (513) 852-7500	Kentucky, Ohio, Tennessee
District 6	FHLBank of Indianapolis 8250 Woodfield Crossing Boulevard Indianapolis, Indiana 46240 Business number: (317) 465-0200	Indiana, Michigan

District 7	FHLBank of Chicago 111 East Wacker Drive, Suite 800 Chicago, Illinois 60601 Business number: (312) 565-5700	Illinois, Wisconsin
District 8	FHLBank of Des Moines 907 Walnut Street Des Moines, Iowa 50309 Business number: (515) 243-4211	Iowa, Minnesota, Missouri, North Dakota, South Dakota
District 9	FHLBank of Dallas 8500 Freeport Parkway South, Suite 100 Irving, Texas 75063 Business number: (214) 441-8500	Arkansas, Louisiana, Mississippi, New Mexico, Texas
District 10	FHLBank of Topeka 2 Townsite Plaza 120 East 6th Street Topeka, Kansas 66603 Business number: (785) 233-0507	Colorado, Kansas, Nebraska, Oklahoma
District 11	FHLBank of San Francisco 600 California Street San Francisco, California 94108 Business number: (415) 616-1000	Arizona, California, Nevada
District 12	FHLBank of Seattle 1501 Fourth Avenue, 19th Floor Seattle, Washington 98101 Business number: (206) 340-2300 Office of Finance Federal Home Loan Banks 11921 Freedom Drive, Suite 1000 Reston, Virginia 20190 Business number: (703) 467-3600 www.fhlb-of.com Federal Housing Finance Board 1777 F Street, N.W. Washington, D.C. 20006 Business number: (202) 408-2500	Alaska, Guam, Hawaii, Idaho, Montana, Oregon, Pacific Islands, Utah, Washington, Wyoming

FEDERAL HOME LOAN BANKS

SUMMARY FINANCIAL DATA

(Dollar amounts in millions)

	2001	2000	1999	1998	1997
At December 31,					
Advances	\$472,732	\$437,861	\$395,747	\$288,189	\$202,265
Mortgage loans, net	27,643	16,149	2,026	966	37
Investments(1)	190,064	186,437	171,425	137,193	140,106
Total assets	697,074	653,687	583,212	434,002	348,575
Deposits and borrowings	26,811	17,100	17,624	25,805	18,445
Consolidated obligations	621,093	591,606	525,419	376,715	304,493
Capital stock	33,289	30,537	28,361	22,287	18,833
Retained earnings	932	729	660	468	344
Average balances for the year ended					
December 31,					
Advances	\$457,698	\$418,123	\$327,605	\$229,932	\$170,963
Mortgage loans, net	19,810	8,509	1,399	344	37
Investments(1)	186,256	171,970	151,035	144,946	136,020
Total assets	672,983	609,491	488,459	381,909	311,931
Deposits and borrowings	26,176	14,058	19,378	22,185	16,084
Consolidated obligations	599,581	553,262	434,385	332,265	270,904
Capital stock	31,627	29,280	24,798	20,026	17,542
Retained earnings	1,010	945	796	330	342
Operating results for the year ended					
December 31,					
Net income(2)	\$ 2,154	\$ 2,211	\$ 2,128	\$ 1,778	\$ 1,492
Dividends paid in cash and stock	1,951	2,142	1,636	1,354	1,191
Weighted average dividend rate(3)	6.17%	7.32%	6.60%	6.76%	6.79%
Return on average equity(2)	6.60%	7.32%	8.31%	8.73%	8.33%
Return on average assets(2)	0.32%	0.36%	0.44%	0.47%	0.49%
Net interest margin(4)	0.47%	0.55%	0.52%	0.57%	0.58%
At December 31,					
Total capital ratio(5)	4.9%	4.8%	5.0%	5.2%	5.5%
Ratio of total unsecured liabilities to total capital(6)			19.1:1	17.9:1	17.2:1
Leverage ratio(6)	20.4:1	20.9:1			

- (1) Investments also include interest-bearing deposits in banks, securities purchased under resale agreements, and Federal funds sold.
- (2) Net income for the years ended December 31, 2001 and 2000, include expenses of \$538 million and \$553 million relating to the FHLBanks' REFCORP payments. REFCORP payments were charged directly to retained earnings for years through December 31, 1999. Title VI of the Gramm-Leach-Bliley Act made FHLBank membership voluntary and, effective January 1, 2000, changed the REFCORP payment from a fixed \$300 million annual amount to 20 percent of each FHLBank's net earnings. As a result of these statutory changes, the REFCORP payment is similar to a tax and is presented as an expense on the Combined Statements of Income effective for 2000 and beyond. Presentation of operating results for years before 2000 have not been restated. Therefore, net income, the return on average equity, and the return on average assets for 2000 and 2001 are not comparable to prior years.
- (3) Weighted average dividend rates are dividends paid in cash and stock divided by the average of capital stock eligible for dividends.
- (4) Net interest margin is net interest income before mortgage loan loss provision as a percentage of average earning assets.
- (5) Total capital ratio is capital stock plus retained earnings as a percentage of total assets at year-end.
- (6) On June 2, 2000, the Finance Board adopted a final rule amending the FHLBanks' leverage limit requirements. Effective July 1, 2000, each FHLBank's leverage limit is based on a ratio of assets to capital rather than a ratio of liabilities to capital.

FEDERAL HOME LOAN BANKS
SELECTED FIVE-YEAR FINANCIAL INFORMATION
(Dollar amounts in millions)

	At December 31,				
	2001	2000	1999	1998	1997
Statements of Condition					
Advances	\$472,732	\$437,861	\$395,747	\$288,189	\$202,265
Mortgage loans, net	27,643	16,149	2,026	966	37
Investments(1)	190,064	186,437	171,425	137,193	140,106
Other assets(2)	6,635	13,240	14,014	7,654	6,167
Total assets	<u>\$697,074</u>	<u>\$653,687</u>	<u>\$583,212</u>	<u>\$434,002</u>	<u>\$348,575</u>
Deposits and borrowings	\$ 26,811	\$ 17,100	\$ 17,624	\$ 25,805	\$ 18,445
Consolidated obligations	621,093	591,606	525,419	376,715	304,493
Other liabilities(3)	14,952	13,716	11,154	8,730	6,463
Total liabilities	<u>\$662,856</u>	<u>\$622,422</u>	<u>\$554,197</u>	<u>\$411,250</u>	<u>\$329,401</u>
Capital stock outstanding	\$ 33,289	\$ 30,537	\$ 28,361	\$ 22,287	\$ 18,833
Retained earnings	932	729	660	468	344
Other comprehensive income	(3)	(1)	(6)	(3)	(3)
Total capital	<u>\$ 34,218</u>	<u>\$ 31,265</u>	<u>\$ 29,015</u>	<u>\$ 22,752</u>	<u>\$ 19,174</u>
	For the Year Ended December 31,				
	2001	2000	1999	1998	1997
Statements of Income					
Total interest income	\$31,696	\$38,980	\$26,520	\$21,478	\$18,030
Total interest expense	<u>28,596</u>	<u>35,667</u>	<u>23,986</u>	<u>19,362</u>	<u>16,258</u>
Net interest income before mortgage loan loss provision	3,100	3,313	2,534	2,116	1,772
Mortgage loan loss provision	<u>4</u>	<u>2</u>	<u>1</u>		
Net interest income after mortgage loan loss provision	<u>3,096</u>	<u>3,311</u>	<u>2,533</u>	<u>2,116</u>	<u>1,772</u>
Net unrealized gains on securities held at fair value ..	66				
Net gains on derivatives and hedging activities	83				
Other non-interest income, net	170	65	107	119	112
Total non-interest income	<u>319</u>	<u>65</u>	<u>107</u>	<u>119</u>	<u>112</u>
Operating expenses	369	333	282	258	229
Finance Board and Office of Finance expenses	33	29	29	28	24
Other, net	18	11	3	2	
Total other expenses	<u>420</u>	<u>373</u>	<u>314</u>	<u>288</u>	<u>253</u>
Affordable Housing Program	239	246	199	169	137
REFCORP(4)	538	553			
Total assessments	<u>777</u>	<u>799</u>	<u>199</u>	<u>169</u>	<u>137</u>
Extraordinary item:					
(Losses) gains on early retirement of debt, net	(34)	7	1		(2)
Cumulative effect of change in accounting principle ..	<u>(30)</u>				
Net income(4)	<u>\$ 2,154</u>	<u>\$ 2,211</u>	<u>\$ 2,128</u>	<u>\$ 1,778</u>	<u>\$ 1,492</u>

(1) Investments also include interest-bearing deposits in banks, securities purchased under resale agreements, and Federal funds sold.

(2) Other assets also include cash and due from banks, accrued interest receivable, net bank premises and equipment, and derivative assets.

(3) Other liabilities also include accrued interest payable, Affordable Housing Program, payable to REFCORP, and derivative liabilities.

(4) The FHLBanks' REFCORP payments were charged directly to retained earnings for years through December 31, 1999. Title VI of the Gramm-Leach-Bliley Act made FHLBank membership voluntary and effective January 1, 2000, changed the REFCORP payment from a fixed \$300 million annual amount to 20 percent of each FHLBank's net earnings. As a result of these statutory changes, the REFCORP payment is similar to a tax and is presented as an expense on the Combined Statements of Income effective for the year 2000.

FEDERAL HOME LOAN BANK
DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this discussion and analysis of financial condition and results of operations with the combined financial statements and the notes beginning on page 35 of this Financial Report. See "Explanatory Statement about FHLBanks Combined Financial Report" on page 34.

Amounts used to calculate percentage variances are based on numbers in the millions. Accordingly, recalculations may not produce the same results when the relevant amounts are disclosed only in billions.

Forward-Looking Information

Statements contained in this report, including statements describing the objectives, projections, estimates, or future predictions of the Finance Board, the FHLBanks, and the Office of Finance may be "forward-looking statements." These statements may use forward-looking terminology, such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or their negatives or other variations on these terms. The FHLBanks caution that, by their nature, forward-looking statements involve risk or uncertainty and that actual results could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate, or prediction is realized.

These forward-looking statements involve risks and uncertainties including, but not limited to, the following:

- economic and market conditions;
- volatility of market prices, rates, and indices that could affect the value of collateral held by the FHLBanks as security for the obligations of FHLBank members and counterparties to interest-rate exchange agreements and similar agreements;
- political events, including legislative, regulatory, judicial, or other developments that affect the FHLBanks, their members, counterparties, and/or investors in the consolidated obligations of the FHLBanks;
- competitive forces, including without limitation other sources of capital available to FHLBank members, other entities borrowing funds in the capital markets, and the ability to attract and retain skilled individuals;
- ability to develop and support technology and information systems, including the Internet, sufficient to manage the risks of the FHLBanks' business effectively;
- changes in investor demand for consolidated obligations and/or the terms of interest-rate exchange agreements and similar agreements;
- timing and volume of market activity;
- ability to introduce new FHLBank products and services, and manage successfully the risks associated with those products and services, including new types of collateral securing advances;
- risk of loss arising from litigation filed against one or more of the FHLBanks; and
- inflation/deflation.

2001 Highlights

Financial Highlights. Net income decreased by 2.6 percent to \$2,154 million in 2001 from \$2,211 million in 2000. Net interest income after mortgage loan loss provision decreased 6.5 percent to \$3,096 million in 2001 because of generally lower interest rates and the impact of lower interest

rates on invested capital combined with the effects of compressed spreads earned on interest bearing assets net of interest bearing liabilities which reflects relatively less attractive execution in the agency debt markets. Average assets of \$673.0 billion during 2001 were 10.4 percent higher than a year ago. Partially offsetting the lower level of net interest income were recognition of unrealized and realized gains on sale of securities held at fair value, and gain on derivatives and hedging activities, increase in other income, and decreases in AHP and REFCORP assessments. The FHLBanks' operating expenses, which were \$369 million in 2001, increased 10.8 percent from 2000 operating expenses.

The adoption of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) resulted in net gains on derivatives and hedging activities of \$83 million and a \$30 million decrease to net income as the cumulative effect of change in accounting principle for 2001. In addition, the transition provisions of SFAS 133 allowed the FHLBanks to transfer any security classified as "held-to-maturity" and/or "available-for-sale" to "securities held at fair value." Therefore, the FHLBanks transferred certain investments classified as "held-to-maturity" and/or "available-for-sale" to "securities held at fair value" so that the FHLBanks could obtain reasonably symmetrical accounting treatment for the hedged investments and the associated interest-rate exchange agreements. As a result of these transfers under SFAS 133, the FHLBanks recognized net unrealized gains on securities held at fair value of \$66 million during the year ending 2001.

Net income for the year ended December 31, 2001, includes an expense of \$538 million relating to the FHLBanks' REFCORP payments. REFCORP payments were charged directly to retained earnings for the years through December 31, 1999. Title VI of the Gramm-Leach-Bliley Act (GLB Act) made membership voluntary and effective January 1, 2000, changed the REFCORP payment from a fixed \$300 million annual amount to 20 percent of net income. As a result of these statutory changes, the REFCORP payment is similar to a tax and is now presented as an expense on the Combined Statement of Income. Because of the change in accounting presentation, neither the return on average equity nor the return on average assets for 1999 are comparable to 2001 and 2000. (See "Discussion and Analysis of Financial Condition and Results of Operations—REFCORP Payment".)

The spread between the yield on earning assets and the cost of interest-bearing liabilities in 2001 was 21 basis points, 1 basis point lower than in 2000. The return on average assets was 32 basis points in 2001, 4 basis points lower than in 2000. This decline is due primarily to lower income and higher average assets for 2001. The return on average equity was 6.6 percent in 2001, which is 72 basis points lower than in 2000. The decrease in net income and increase in average equity account for this decrease. The weighted average dividend rate was 6.17 percent in 2001, compared with 7.32 percent one year earlier.

Seven of the 12 FHLBanks had an increase in total assets and 9 of the 12 FHLBanks had an increase in advances during 2001. In 2001, advances increased by 8.0 percent to \$472.7 billion, total assets increased by 6.6 percent to \$697.1 billion, consolidated obligations outstanding increased by 5.0 percent to \$621.1 billion, and total capital increased by 9.4 percent to \$34.2 billion.

Advances and investments grew in 2001. Advances as a percentage of total assets have increased to 67.8 percent at December 31, 2001, from 67.0 percent at December 31, 2000. Investments as a percentage of total assets decreased, falling to 27.3 percent from 28.5 percent over the same period. While advances and investments changed slightly as a percentage of total assets, mortgage loans increased to 4.0 percent of total assets at December 31, 2001, from 2.5 percent one year earlier.

The growth in advances for the majority of FHLBanks reflects demand by members for term funding. A significant part of advances growth over the past several years has been attributable to convertible advances, which entail one or more put option(s) sold by the member to the FHLBank that allows the FHLBank to convert the advance from fixed-rate to floating rate. A convertible advance carries an interest rate considerably lower than a comparable-maturity advance that does

not have the conversion feature. (See “Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Derivatives” and Note 8 to the accompanying combined financial statements.)

Investments other than mortgage-backed securities (MBS) decreased by 1.8 percent to \$103.3 billion. MBS increased by 6.7 percent to \$86.7 billion. Finance Board policy limits an FHLBank’s investments in MBS to three times its capital, and aggregate MBS investments were 2.53 times aggregate FHLBank capital at December 31, 2001, compared with 2.60 times capital one year earlier.

Consolidated obligations, which are the joint-and-several obligations of the FHLBanks, are the FHLBanks’ principal funding source, and they reached \$621.1 billion outstanding at December 31, 2001, an increase of \$29.5 billion from one year earlier.

The 9.4 percent increase in capital to \$34.2 billion is attributable to a number of factors, including: the number of FHLBank members grew by 1.6 percent to 7,902 and each new member must purchase stock in its FHLBank based on its level of residential mortgage assets; borrowing members must hold capital stock at least equal to 5 percent of their advances outstanding and as aggregate advances grew, some borrowers needed to purchase additional capital stock to comply with this statutory requirement; five of the FHLBanks pay stock dividends, and this gives rise to increased levels of capital; and several FHLBanks, as a result of the adoption of SFAS 133, increased their accumulated retained earnings in order to offset the possible impact of temporary income volatility associated with SFAS 133. The FHLBanks’ capital to asset ratio was 4.9 percent at December 31, 2001, compared with 4.8 percent at December 31, 2000.

The FHLBanks operate deposit programs primarily for the benefit of their members, and member deposits at the end of 2001 increased to \$25.7 billion, up 50.1 percent from year-end 2000. Most of these deposits are very short term, and the FHLBanks, as a matter of prudence, hold short-term assets with maturities similar to the deposits. Member demand and the liquidity situation of members drive the level of deposits. Factors that generally influence deposit levels include turnover in members’ investment and loan portfolios, changes in member demand for liquidity, and the FHLBanks’ deposit pricing as compared to other short-term market rates.

Legislation and Regulatory Developments. Title VI of the GLB Act, enacted on November 12, 1999, contained major legislative changes affecting the FHLBanks. Some of the provisions of the GLB Act were effective upon enactment. Other provisions required the Finance Board to adopt implementing regulations before they are effective.

In 2001, the Finance Board issued several final rules, including:

Capital Plans. On January 30, 2001, the Finance Board published a final rule implementing a new capital structure for the FHLBanks, as required by the GLB Act. The rule establishes risk-based and leverage capital requirements for the FHLBanks, addresses different classes of stock that an FHLBank may issue and the rights and preferences that may be associated with each class of stock, and required each FHLBank to submit a capital plan to the Finance Board for approval by October 29, 2001. All FHLBanks submitted their proposed capital plans to the Finance Board by October 29, 2001. The Finance Board has announced a schedule to consider the FHLBanks’ proposed capital plans during its meetings from March 13 to July 10, 2002; however, there is no assurance that the capital plans will be approved on the review dates. The capital rule provides a transition period that allows each FHLBank up to three years from the effective date of its capital plan to implement their new capital structure. The existing capital structure of each FHLBank will remain in place until its capital plan has been approved and is effective.

On March 13, 2002, the Finance Board approved the capital structure plan of the FHLBank of Seattle.

Unsecured Credit Limits. On December 27, 2001, the Finance Board published a final rule amending its rules governing the amount of unsecured credit that an FHLBank can extend to a particular counterparty. The amendments require an FHLBank to base its credit limit on the long-term credit rating of the counterparty, set the amount of unsecured credit that may be extended to a Government-Sponsored Enterprise at the level allowed under an FHLBank's Financial Management Policy, adjust the limits for sales of overnight Federal funds and limits for unsecured credit extended to groups of affiliated counterparties, address how unsecured credit limits should be applied to certain housing finance agency bonds, and clarify how an FHLBank should calculate its credit exposures from on- and off-balance sheet items and derivative contracts. The rule became effective March 27, 2002.

Multiple Membership Petitions. The Finance Board published a solicitation of comments on the implications for the FHLBanks raised by structural changes occurring in their membership. The solicitation was prompted by the submission of several petitions requesting that the Finance Board permit a single depository institution to become a member of two FHLBanks concurrently. On January 22, 2002, the Finance Board announced that it intends to defer action on multi-district membership petitions until it decides on a course of action to address broader membership issues.

Non-Mortgage Assets Redefinition. The Finance Board published a proposed rule on March 7, 2002, that would amend its regulation of FHLBank consolidated obligations in order to redefine the term "non-mortgage assets" as used in the provision on FHLBank leverage limits. The amendment would allow an FHLBank to maintain more easily its assets-to-capital ratio.

Business Overview

Historical Perspective. The fundamental business of the FHLBanks is to provide member institutions and housing associates with advances and other credit products in a wide range of maturities to meet member demand. Congress created the FHLBanks in 1932 to improve the availability of funds to support home ownership. Although initially capitalized with government funds, their members have provided all the FHLBanks' capital for almost 50 years.

To accomplish their public purpose, the FHLBanks offer a readily available, low-cost source of funds, called advances, to member institutions and certain housing associates. Congress originally granted access to advances only to those institutions with the potential to make and hold long-term, amortizing home mortgage loans. Such institutions were primarily Federally and State-chartered savings and loan associations, cooperative banks, and State-chartered savings banks (thrift institutions).

FHLBanks and their member thrift institutions became an integral part of the home mortgage financing system in the United States. However, a variety of factors, including a severe recession, record-high interest rates, and deregulation, resulted in significant losses for thrift institutions in the 1980s. In reaction to the very significant cost to the American taxpayer of resolving failed thrift institutions, Congress restructured the home mortgage financing system in 1989. While Congress reaffirmed the housing finance mission of the FHLBanks, it expanded membership eligibility in the FHLBanks beyond traditional thrift institutions to include commercial banks and credit unions with a commitment to housing finance.

Financial Performance. As a cooperative, the FHLBanks seek to maintain a balance between their public policy mission and their obligation to provide adequate returns on the capital supplied by their members. The FHLBanks achieve this balance by delivering low-cost financing to members to help them meet the credit needs of their communities while paying a market-rate dividend. Reflecting the FHLBanks' unique cooperative nature, the FHLBanks' financial strategies are designed to enable the FHLBanks to expand and contract in response to member credit needs. The FHLBanks invest their capital in high-quality, short- and intermediate-term financial instruments. This strategy reduces the risk of loss if investments have to be liquidated to redeem excess capital stock.

Financial Trends

Conditions in Financial Markets. The financial markets during 2001 exhibited significant volatility, as the U.S. economy began to slow. The stock market was adversely affected by reports of poor quarterly earnings throughout 2001, numerous industrial and service companies lowered growth expectations, and substantial employee layoffs were announced. The terrorist attacks of September 11 also adversely affected the stock market, eroded consumer confidence and disrupted commerce.

In response to economic conditions, the Federal Reserve, through its Federal Open Market Committee, cut the discount rate 11 times for a total of 475 basis points since January 1, 2001. As a result, a significant volume of redemptions of callable FHLBank consolidated obligations were triggered with those bonds being replaced by bonds with lower interest rates. As spreads narrowed, given the overall downward shift in interest rates, the FHLBanks' funding spreads have also compressed as a result of unprecedented U.S. Government-Sponsored Enterprise (GSE) and corporate demand for funding and the increased cost of hedging their market risk using interest-rate exchange agreements. In 2001, new issue volume in the U.S. bond market reached a new record, totaling \$4.6 trillion, up from \$2.7 trillion in 2000, a 37 percent increase.

The lower level of interest rates affects all FHLBanks directly through lower earnings on invested capital. In addition, many homeowners took advantage of lower mortgage rates to refinance their homes, resulting in increased prepayments on mortgages, including the member mortgage asset programs established by the FHLBanks, and the recognition of any associated premiums or discounts.

For the third quarter ended September 30, 2001, the latest period for which data is available, the FDIC reported that deposits growth exceeded loan growth at commercial banks for the fourth consecutive quarter and that deposits growth of FDIC-insured deposits rose \$128 billion since December 31, 2000. This was the eighth consecutive quarter with growth in deposits. These increases have reversed a long period of minimal deposit growth, which may, if sustained, affect the future demand for advances at the FHLBanks.

Statement of Condition. SFAS 133 requires that, beginning in 2001, the assets and liabilities hedged with derivative instruments designated under fair value hedging relationships be adjusted for changes in fair value even as other assets and liabilities continue to be carried on a historical cost basis. In discussing changes in the Statement of Condition for 2001 compared to 2000, the SFAS 133 fair value adjustment information for advances, investments and consolidated obligations have been included. All other fair value adjustments were less than one percent of the book value. In addition, SFAS 133 requires that all derivative instruments be recorded in the Statement of Condition at their fair value, which includes accrued interest. In the prior year, accrued interest on derivatives was reported as accrued interest receivable and accrued interest payable in the Statement of Condition.

Advances rose to \$472.7 billion at year-end 2001. Advances have been increasing in recent years reflecting the use of advances by new commercial bank members and the development of advance products tailored to specific member funding needs. Advances increased by 10.7 percent in 2000 and by 8.0 percent in 2001. Advances increased primarily in the second half of 2001 and by a total of \$34.8 billion by year-end. Approximately \$9.4 billion of the increase in advances in 2001 relates to basis adjustments related to hedging relationships accounted for under SFAS 133. The FHLBanks make significant use of interest-rate exchange agreements to alter cash flows on certain of their advances. (See Note 8 to the accompanying combined financial statements.)

More than 67.8 percent of the advances outstanding at December 31, 2001, had a remaining maturity greater than one year compared with 57.3 percent at December 31, 2000. Approximately 28.7 percent of the par amount of advances outstanding at December 31, 2001, were floating-rate advances compared with 32.0 percent one year earlier. Approximately 31.5 percent of the par amount of advances outstanding at December 31, 2001 were convertible advances compared with

22.9 percent at December 31, 2000. Advance originations totaled \$3.758 trillion in 2001, down 19.7 percent from 2000 originations of \$4.680 trillion, reflecting lower demand by members for short-term advances. (See Note 8 to the accompanying combined financial statements.)

In 2001, investments grew by \$3.7 billion, or 1.9 percent. Approximately \$301 million of the increase in investments in 2001 relates to basis adjustments related to hedging relationships accounted for under SFAS 133. Investments grew by \$15.0 billion, or 8.8 percent, during 2000. The principal investments of the FHLBanks are mortgage-backed securities, overnight and term Federal funds sold, commercial paper, agency securities, and U.S. Government securities. The Finance Board's Financial Management Policy limits the mortgage-backed security investments of any FHLBank to 300 percent of that FHLBank's capital. Aggregate mortgage-backed security investments of \$86.7 billion at December 31, 2001, were 253 percent of total FHLBank capital. These investments represented 260 percent of total FHLBank capital at December 31, 2000. The FHLBanks make significant use of interest-rate exchange agreements to alter the cash flows on certain of their investment securities. (See Note 5 to the accompanying combined financial statements.)

Historically, the FHLBanks have been one of the largest providers of Federal funds. Federal funds sold were \$48.4 billion (25.5 percent of total investments) at year-end 2001, compared with \$55.3 billion (29.7 percent of total investments) at year-end 2000.

The FHLBanks held commercial paper investments of \$6.7 billion (3.5 percent of total investments) at year-end 2001, compared with \$11.7 billion (6.3 percent of total investments) at year-end 2000. The FHLBanks also invest in U.S. agency obligations, primarily structured debt issued by other GSEs and also in the consolidated obligations of other FHLBanks. The FHLBanks use interest-rate exchange agreements to hedge the interest-rate risk associated with investments in structured debt. U.S. agency obligations rose to \$15.1 billion or 7.9 percent of total investments at year-end 2001, up from \$13.9 billion or 7.5 percent of total investments at year-end 2000. (See Notes 5, 6, and 7 to the accompanying combined financial statements.)

Mortgage loans held increased to \$27.6 billion at December 31, 2001, from \$16.1 billion at December 31, 2000. The increase in mortgage loans relates to the expansion of the member mortgage asset programs established by the FHLBanks. Despite lower interest rates leading to homeowners refinancing their mortgage loans, new loan production far outpaced the accelerated prepayments. During 2001, repayments and prepayments were approximately \$8.0 billion while originations were approximately \$19.5 billion. The FHLBank of Chicago, which pioneered the Mortgage Partnership Finance (MPF®) program in which ten of the 12 FHLBanks now participate, allowing them to purchase mortgages from member financial institutions, and the FHLBank of Des Moines hold the largest mortgage loan balances with 60.0 percent and 13.5 percent, respectively. MPF® had mortgage loans outstanding of \$24.9 billion at December 31, 2001. The FHLBanks of Cincinnati, Indianapolis and Seattle developed the Mortgage Purchase Program (MPP), which had mortgage loans outstanding of \$2.7 billion at December 31, 2001. The FHLBank of Indianapolis participates in both programs.

The principal funding source for FHLBank operations is consolidated obligations, which consist of consolidated bonds and consolidated discount notes. Member deposits and capital are also funding sources. Generally, discount notes are consolidated obligations with maturities up to 360 days, and consolidated bonds have maturities of one year or longer. Discount notes are a significant funding source for advances with short-term maturities or short repricing intervals, for convertible advances, and for money-market investments. The FHLBanks make significant use of interest-rate exchange agreements to alter the cash flows on consolidated obligations and to reduce funding costs. Consolidated obligations outstanding increased 5.0 percent between year-end 2000 and year-end 2001, rising to \$621.1 billion at year-end 2001. Approximately \$2.9 billion of the increase in consolidated obligations in 2001 relates to basis adjustments related to hedging relationships accounted for under SFAS 133. Consolidated discount notes outstanding decreased 12.7 percent over the same period, reaching \$139.5 billion at year end 2001, and consolidated bonds

outstanding increased by 11.5 percent to end 2001 at \$481.6 billion. (See Notes 11, 12, and 13 to the accompanying combined financial statements.)

The FHLBanks' total capital grew by \$2.9 billion or 9.4 percent between 2000 and 2001 due to increases in advances, increases in membership, the payment of stock dividends by the FHLBanks of Cincinnati, Chicago, Dallas, San Francisco, and Seattle, and the accumulation of retained earnings to compensate for temporary earnings volatility resulting from SFAS 133. Over the same period, total assets grew less than total capital, causing the FHLBanks' capital-to-asset ratio to increase to 4.9 percent at year-end 2001 from 4.8 percent at year-end 2000. (See Note 14 to the accompanying combined financial statements.)

Effective July 1, 2000, the FHLBank leverage limit is based on a ratio of assets to capital rather than a ratio of liabilities to capital. The final rule generally limits each FHLBank's assets to no more than 21 times capital. Nevertheless, an FHLBank whose non-mortgage assets, after deducting deposits and capital, do not exceed 11 percent of its assets may have total assets in an amount no greater than 25 times its capital. At year-end 2001, combined FHLBank asset-based leverage was 20.4 to 1. Combined FHLBank asset-based leverage was 20.9 to 1 at year-end 2000, and combined FHLBank liability-based leverage was 19.1 to 1 at year-end 1999. At December 31, 2001, four FHLBanks had leverage in excess of 21.0 to 1, but less than 25.0 to 1 in all cases. (See "Business—Debt Financing—Consolidated Obligations," and Note 14 to the accompanying combined financial statements.)

Debt Financing Activity. An increase in consolidated obligations outstanding of \$29.5 billion or 5.0 percent in 2001 financed most of the increase in FHLBank assets. Bonds composed 77.5 percent of consolidated obligations outstanding at year-end 2001, with the remainder being discount notes. Through December 31, 2000, the Finance Board through the Office of Finance issued consolidated obligations on behalf of the FHLBanks on a daily basis. The Finance Board adopted final rules on June 2, 2000, to govern the issuance of debt directly by the FHLBanks. Beginning January 2, 2001, the FHLBanks issue debt jointly through the Office of Finance as their agent. (See "Discussion and Analysis of Financial Condition and Results of Operations—Risk Management," and Notes 13 and 16 to the accompanying combined financial statements.)

The data in the following table is not adjusted for the \$2.7 billion of interbank holdings at par value of consolidated obligations at December 31, 2001.

Federal Home Loan Banks
Composition of Bonds Outstanding
(Par amounts in billions at December 31)

	At December 31,	
	2001	2000
Fixed-rate, Non-callable	\$224.0	\$188.5
Fixed-rate, Callable	180.8	197.1
Fixed-rate, Putable	0.6	0.6
Single-index Floating Rate	58.1	31.7
Zero-coupon, Non-callable	0.9	1.4
Zero-coupon, Callable	20.8	24.3
Other	12.3	9.6
Total	<u>\$497.5</u>	<u>\$453.2</u>

In 2001, 81.1 percent of bond sales by par amount were negotiated transactions and 18.6 percent by par amount were competitively bid. In 2001, 27.3 percent of bonds sold were fixed-

rate, fixed-term, non-callable (bullet) bonds; 54.5 percent were callable bonds; and 15.0 percent were simple floating-rate bonds. Bonds issued through the Office of Finance often have investor-determined features. The decision to issue a bond using a particular structure is based upon the funding level to be achieved and the ability of the FHLBank(s) receiving the proceeds of the bonds issued to hedge the risks. The issuance of a bond with an associated interest-rate exchange agreement, which effectively converts the consolidated bond into a simple fixed- or floating-rate bond, usually results in a funding vehicle with a lower cost than the FHLBanks could otherwise achieve. The continued attractiveness of such debt depends on price relationships in both the bond and interest-rate exchange markets. If conditions in these markets change, then the FHLBanks may alter the types or terms of the bonds issued. The increase in funding alternatives available to the FHLBanks through negotiated transactions has diversified the investor base, reduced funding costs, and provided additional asset-liability management tools. (See "Discussion and Analysis of Financial Condition and Results of Operations—Risk Management" and Notes 13 and 16 to the accompanying combined financial statements.)

The FHLBanks through the Office of Finance issued \$383.0 billion of bonds at par in 2001. This compares with \$190.8 billion at par in 2000 and \$239.9 at par billion in 1999. The increase in bond issuance occurred because of greater call activity attributable to the decline in interest rates in 2001. The FHLBanks are extensive users of callable debt, with \$222.0 billion at par outstanding without interbank holding adjustment of \$1.2 billion as of year-end 2001 or 44.6 percent of total bonds. At December 31, 2001, an estimated \$70.5 billion of bonds had in-the-money calls that could be exercised in 2002 based on interest rates prevailing on December 31, 2001. The amount of bonds that will be called in 2002 will depend on the level and volatility of interest rates and other factors.

Discount notes are a significant funding source for the FHLBanks. Discount notes are short-term instruments, and the issuance of discount notes with maturities of one business day influences the aggregate origination volume. Through a 16-member selling group, the Office of Finance offers discount notes daily in a range of maturities up to 360 days. In addition, the Office of Finance offers discount notes in four standard maturities in two auctions each week. The FHLBanks use discount notes to fund short-term advances, longer-term advances with short repricing intervals, some puttable advances, and money market investments. Discount notes comprised 22.5 percent of outstanding consolidated obligations at year-end 2001 but accounted for 91.8 percent of the proceeds from the sale of consolidated obligations in 2001. Much of the discount note activity reflects the refinancing of overnight discount notes, which averaged \$14.7 billion in 2001.

Federal Home Loan Banks
Average Consolidated Obligations Outstanding
(Dollar amounts in billions)

	<u>2001</u>	<u>2000</u>
Overnight discount notes	\$ 14.7	\$ 12.8
Term discount notes	<u>151.8</u>	<u>131.9</u>
Total discount notes	166.5	144.7
Bonds	449.6	432.4
Total consolidated obligations	<u>\$616.1</u>	<u>\$577.1</u>

The FHLBanks have emphasized diversification of funding sources and channels as the need for funding from the capital markets has grown. In July 1994, the Office of Finance initiated a Global Debt Program. By issuing debt under this program, the FHLBanks can expand and diversify their investor base. In 2001, the Global Debt Program provided \$91.5 billion in term funds. In mid-1999, the Office of Finance implemented the TAP issue program. This program consolidates most bullet bond issuance through daily auctions of common maturities by re-opening previously issued

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bonds. By consolidating these small issues, the Office of Finance seeks to enhance the liquidity of these issues. In 2001, TAP issuance was \$48.3 billion up from \$43.1 billion in 2000.

REFCORP Payment

The FHLBanks must pay 20 percent of net earnings (after their AHP obligation) to REFCORP to support the payment of part of the interest on the bonds issued by REFCORP. The FHLBanks must make these payments to REFCORP until the total amount of payments actually made is equivalent to a \$300 million annual annuity whose final maturity date is April 15, 2030. The Finance Board will shorten or lengthen the period during which the FHLBanks must make payments to REFCORP depending on actual payments relative to the referenced annuity. In addition, the Finance Board, in consultation with the Secretary of the Treasury, will select the appropriate discounting factors used in this calculation.

The REFCORP assessment of the FHLBanks was \$161 million (cash payment of \$160.1 million) for the fourth quarter of 2001 and \$538 million (cash payment of \$536.5 million) for the year 2001. The cash payments are made based on preliminary net income amounts due to the timing requirement of the payment. As specified in the Finance Board regulation that implements section 607 of the GLB Act, the amount of a quarter's payment in excess of the \$75 million benchmark payment is used to simulate the purchase of zero-coupon Treasury bonds to "defease" all or a portion of the most-distant remaining quarterly benchmark payment. The \$85.1 million fourth-quarter REFCORP payment in excess of the \$75 million quarterly benchmark will fully defease the remaining \$25.5 million portion of the benchmark payment due on April 15, 2024; the benchmark payments due on January 15, 2024, October 15, 2023, and July 15, 2023; and defease \$51.3 million of the \$75 million benchmark payment due on April 15, 2023. These benchmark payments or portions of them could be restored if the future actual REFCORP payments of the FHLBanks fall short of \$75 million in a quarter.

The FHLBanks' cash payments to REFCORP in 2001 of \$536.5 million had the effect of shortening the period during which the FHLBanks must make quarterly payments to April 15, 2023, from April 15, 2027. If future payments to REFCORP are less than \$75 million in a quarter, some or all of these payments could be reinstated.

The following table presents information on the status of the FHLBanks' REFCORP payments.

**Federal Home Loan Banks
REFCORP Payment Summary
For Fourth Quarter 2001 Payment
(Dollar amounts in millions)**

<u>Payment Due Date</u>	<u>Amount of Benchmark Payment Defeased*</u>	<u>Interest Rate Used to Discount the Future Benchmark Payment</u>	<u>Present Value of Benchmark Payment Defeased**</u>
April 15, 2024 (most distant remaining payment as of September 30, 2001)	\$ 25.5	5.88%	\$ 6.9
January 15, 2024	75.0	5.88%	20.8
October 15, 2023	75.0	5.88%	21.1
July 15, 2023	75.0	5.86%	21.5
April 15, 2023	51.3	5.89%	14.8
Total	<u>\$301.8</u>		<u>\$85.1</u>

* Subject to possible subsequent reinstatement.

** Cash payment of \$160.1 million made on estimated net income.

Results of Operations

Net Income and Net Interest Income. The FHLBanks' net income for 2001 was \$2,154 million, \$57 million or 2.6 percent below 2000 net income. The FHLBanks' net income for 2000 was 3.9 percent above 1999 net income, while net income for 1999 was 19.7 percent above 1998 net income. Reported net income in 2001 and 2000 are not comparable to net income in years before 2000. Beginning with the first quarter of 2000, the FHLBanks' required REFCORP payments became 20 percent of their respective net earnings, and these combined payments are reflected on the statement of income. Before the first quarter of 2000, the FHLBanks' required REFCORP payment was a fixed \$75 million per quarter, and this was treated as a charge to retained earnings and was not expensed. The FHLBanks' combined REFCORP payment for 2001 and 2000 were \$538 million and \$553 million, respectively, compared with \$300 million for 1999.

For 2001, the decrease in net interest income after mortgage loan loss provision was \$215 million, a 6.5 percent decrease from 2000. The decrease is attributable to lower interest rates as well as the effects of the compressed spreads earned on assets net of the cost of liabilities, which reflects relatively less attractive execution in the agency debt market because of the unprecedented U.S. GSE and corporate demand for funding and the increased cost of FHLBanks hedging their market risk using interest-rate exchange agreements. Net interest income after mortgage loan loss provision for 2000 was 30.7 percent above 1999, while net interest income after mortgage loan loss provision for 1999 was 19.7 percent above 1998.

SFAS 133 was adopted by the FHLBanks on January 1, 2001, and resulted in net gains on derivatives and hedging activities of \$83 million, a net unrealized gain on securities now held at fair value of \$66 million and a \$30 million decrease to net income as the cumulative effect of change in accounting principle for 2001. Under SFAS 133, all derivatives are recorded at fair value and an FHLBank is required to recognize unrealized losses or gains on derivative positions regardless of whether offsetting gains or losses on the underlying assets or liabilities being hedged are permitted to be recognized in a symmetrical manner. Therefore, SFAS 133 introduces the potential for a

considerable timing difference between income recognition from assets or liabilities and the income effects of hedge instruments positioned to mitigate market risk and cash-flow variability. Because some of the FHLBanks manage derivatives positions with primary emphasis on economic cost-effectiveness, as opposed to symmetrical accounting results, the adoption of SFAS 133 has led to more volatility in the reported earnings for certain FHLBanks following this strategy due to changes in market prices and interest rates.

Earnings Analysis. The following table presents changes in the components of the FHLBanks earnings for the past three years:

Federal Home Loan Banks Change in Earnings Components (Dollar amounts in millions)			
	2001 vs. 2000	2000 vs. 1999	1999 vs. 1998
Increase (decrease) in:			
Total interest income	\$ (7,284)	\$12,460	\$5,042
Total interest expense	<u>(7,071)</u>	<u>11,681</u>	<u>4,624</u>
Net interest income before mortgage loan loss provision	(213)	779	418
Mortgage loan loss provision	<u>2</u>	<u>1</u>	<u>1</u>
Net interest income after mortgage loan loss provision	<u>(215)</u>	<u>778</u>	<u>417</u>
Net unrealized gains on securities held at fair value	66		
Net gains on derivatives and hedging activities	83		
Other non-interest income, net	<u>105</u>	<u>(42)</u>	<u>(12)</u>
Total non-interest income	<u>254</u>	<u>(42)</u>	<u>(12)</u>
Operating expenses	36	51	24
Finance Board and Office of Finance expenses	4		1
Other, net	<u>7</u>	<u>8</u>	<u>1</u>
Total other expenses	<u>47</u>	<u>59</u>	<u>26</u>
Affordable Housing Program	(7)	47	30
REFCORP	<u>(15)</u>	<u>553</u>	
Total assessments	<u>(22)</u>	<u>600</u>	<u>30</u>
Extraordinary item:			
(Losses) gains on early retirement of debt, net ..	(41)	6	1
Cumulative effect of change in accounting principle	<u>(30)</u>		
Net income	<u>\$ (57)</u>	<u>\$ 83</u>	<u>\$ 350</u>

Excluding the primary effects of SFAS 133 on 2001 earnings, net income would have decreased by an additional \$83 million, net of the REFCORP and AHP assessments. The \$57 million change in net income for 2001 versus 2000 was impacted by the adoption of SFAS 133, including unrealized gains on securities held at fair value of \$66 million, net gains on derivatives and hedging activities of \$83 million and a decrease to net income as negative cumulative effect of change in accounting principle of \$30 million. The net \$119 million increase in net income as a result of SFAS 133 for 2001 versus 2000 is offset by \$32 million in REFCORP and AHP assessments.

The following table presents average balances and yields of major earning asset categories and the sources funding those earning assets. It also presents spreads between yields on total earning assets and the cost of interest-bearing liabilities and spreads between yields on total earning assets and the cost of total funding sources (i.e., interest-bearing liabilities plus capital plus other interest-free liabilities funding earning assets). The primary source of FHLBank earnings is net interest income, which is the interest earned on advances, mortgages, investments and capital less interest paid on consolidated obligations, deposits, and other borrowings. The decrease in net interest margin is largely attributable to the decline in interest yields and the effects of compressed spreads because of the less attractive execution in the agency debt markets because of the unprecedented U.S. GSE and corporate demand for funding.

Federal Home Loan Banks
Spread and Yield Analysis
(Dollar amounts in millions)

	2001		2000		1999	
	Average Balance	Yield	Average Balance	Yield	Average Balance	Yield
Earning assets:						
Advances and mortgage loans	\$477,508	4.62%	\$426,632	6.53%	\$329,004	5.42%
Investments	186,256	5.17%	171,970	6.46%	151,035	5.76%
Total earning assets	<u>\$663,764</u>	4.78%	<u>\$598,602</u>	6.51%	<u>\$480,039</u>	5.52%
Funded by:						
Consolidated obligations	\$599,581	4.61%	\$553,262	6.29%	\$434,385	5.30%
Interest-bearing deposits and other borrowings	<u>26,176</u>	3.68%	<u>14,058</u>	6.13%	<u>19,378</u>	4.87%
Total interest-bearing liabilities	625,757	4.57%	567,320	6.29%	453,763	5.29%
Capital and other non-interest-bearing funds	<u>38,007</u>		<u>31,282</u>		<u>26,276</u>	
Total funding	<u>\$663,764</u>	4.31%	<u>\$598,602</u>	5.96%	<u>\$480,039</u>	5.00%
Spread on:						
Total interest-bearing liabilities		0.21%		0.22%		0.23%
Total funding (net interest margin)		0.47%		0.55%		0.52%

In the preceding table, average amounts for the years ended 2000 and 1999 have been restated using daily average balances, rather than the year-end average balances, for calculations to be consistent with the 2001 presentation.

A significant portion of net interest income results from earnings on assets funded by non-interest-bearing capital. Average total capital for 2001 was \$32.6 billion, which was \$2.4 billion or 7.9 percent greater than average total capital of \$30.2 billion for 2000. Average total capital also increased from 1999 to 2000, growing 18.1 percent to \$30.2 billion in 2000. Growth in FHLBank membership, increased advance levels and stock dividends contributed to the increase in average total capital.

Changes in both volume and interest rates influence changes in net interest income and net interest margin. The following table summarizes changes in interest income and interest expense between 2001 and 2000 and between 2000 and 1999. Changes in interest income and interest

expense not identifiable as either volume-related or rate-related, but rather equally attributable to both volume and rate changes, have been allocated to the volume and rate categories based upon the proportion of the absolute value of the volume and rate changes.

Federal Home Loan Banks
Rate and Volume Analysis
(Dollar amounts in millions)

	2001 vs. 2000 Increase/(Decrease) Due to			2000 vs. 1999 Increase/(Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Advances and mortgage loans . . .	\$3,036	\$(8,852)	\$(5,816)	\$5,948	\$4,105	\$10,053
Investments	872	(2,340)	(1,468)	1,283	1,124	2,407
Total interest income	3,908	(11,192)	(7,284)	7,231	5,229	12,460
Interest expense:						
Consolidated obligations	2,725	(9,898)	(7,173)	6,991	4,771	11,762
Deposits and other borrowings . .	540	(438)	102	(293)	212	(81)
Total interest expense	3,265	(10,336)	(7,071)	6,698	4,983	11,681
Changes in net interest income . . .	\$ 643	\$ (856)	\$ (213)	\$ 533	\$ 246	\$ 779

Other Income. The following table presents other income for each of the last three years:

	For the Year Ended December 31,		
	2001	2000	1999
	(Dollar amounts in millions)		
Other income:			
Net unrealized gains on securities held at fair value	\$ 66	\$	\$
Net gains on derivatives and hedging activities	83		
Service fees	40	44	43
Gains on sale of securities held at fair value, net	7		
Gains on sale of available-for-sale securities, net		2	
Prepayment fees, net	94	4	13
Other, net	29	15	51
Total other income	<u>\$319</u>	<u>\$65</u>	<u>\$107</u>

During 2001, total other income was \$319 million, \$254 million more than total other income in 2000. The increase in 2001 is mainly attributable to the \$83 million in net gains on derivatives and hedging activities and \$66 million net unrealized gains on securities held at fair value resulting from the adoption of SFAS 133 and the \$90 million increase in prepayment fees.

The FHLBanks charge their members a prepayment fee when they prepay certain advances before their original maturity. The Finance Board's regulations generally require advances with a maturity or repricing period greater than six months to carry a fee sufficient to make an FHLBank financially indifferent to the borrower's decision to prepay the advances. Prepayment fees, which are reported as a part of the other, net income on the Statements of Income in the accompanying combined financial statements, increased \$90 million from 2000. This increase is attributable to the lower interest rates which resulted in an increase in re-financing activities during 2001.

Operating Expenses. The following table presents operating expenses for the last three years:

Federal Home Loan Banks
Operating Expenses
(Dollar amounts in millions)

	For the Year Ended December 31,			Percentage Increase (Decrease)	
	2001	2000	1999	2001/2000	2000/1999
Salaries and employee benefits	\$218	\$185	\$155	17.8%	19.4%
Occupancy cost	23	25	19	(8.0)%	31.6%
Other	128	123	108	4.1%	13.9%
Total operating expenses	<u>\$369</u>	<u>\$333</u>	<u>\$282</u>	10.8%	18.1%

Total FHLBank operating expenses for 2001 were \$369 million, \$36 million or 10.8 percent above total operating expenses in 2000. The increase in salaries and benefits in 2001 reflects general pay and benefits increases, higher staffing levels and an increase in pension liabilities. Operating expenses as a percent of average assets were 5.5 basis points in 2001 and 2000. Operating expenses include the costs of providing member correspondent services, as well as credit operations. The FHLBank of New York's headquarters at 7 World Trade Center were destroyed as a result of the September 11 attacks. The FHLBank of New York is working out of interim locations in New York and New Jersey, while considering options for a new permanent location. The increase in operating expenses relating to the relocation is not expected to materially affect the FHLBank of New York's operations.

Finance Board and Office of Finance Expenses. The FHLBanks are assessed the costs of operating the Finance Board and the Office of Finance. These expenses totaled \$33 million in 2001, an increase of 13.8 percent over the 2000 \$29 million expense.

Affordable Housing Program. The AHP expense for 2001 was \$239 million, 2.8 percent less than the 2000 AHP expense of \$246 million. For both 2001 and 2000, the AHP assessment was 10 percent of net income after the required payment to REFCORP. The AHP assessment changes in 2001, 2000, and 1999 reflect trends of the FHLBank net income. (See Note 9 to the accompanying combined financial statements.)

Quarterly Results of Operations

The following table presents combined results of operations for the FHLBanks, by quarter, for the past three years:

Federal Home Loan Banks
Income Statement
(Dollar amounts in millions)

	2001 Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
Total interest income	\$9,921	\$8,407	\$7,369	\$5,999
Total interest expense	<u>9,131</u>	<u>7,662</u>	<u>6,585</u>	<u>5,218</u>
Net interest income before mortgage loan loss provision	790	745	784	781
Mortgage loan loss provision	<u>1</u>	<u>1</u>	<u> </u>	<u>2</u>

	2001 Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
Net interest income after mortgage loan loss provision	789	744	784	779
Net unrealized gains (losses) on securities held at fair value	76	(48)	183	(145)
Net (losses) gains on derivatives and hedging activities ..	(43)	112	(297)	311
Other non-interest income, net	35	28	45	62
Total non-interest income	68	92	(69)	228
Operating expenses	85	90	90	104
Finance Board and Office of Finance expenses	10	7	11	5
Other, net	5	2	4	7
Total other expenses	100	99	105	116
Affordable Housing Program	58	61	48	72
REFCORP	134	135	108	161
Total assessments	192	196	156	233
Extraordinary item:				
Losses on early retirement of debt, net		(1)	(14)	(19)
Cumulative effect of change in accounting principle	(30)			
Net income	<u>\$ 535</u>	<u>\$ 540</u>	<u>\$ 440</u>	<u>\$ 639</u>

	2000 Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
Total interest income	\$8,663	\$9,366	\$10,298	\$10,653
Total interest expense	7,898	8,548	9,441	9,780
Net interest income before mortgage loan loss provision	765	818	857	873
Mortgage loan loss provision	1		1	
Net interest income after mortgage loan loss provision	764	818	856	873
Prepayment fees, net			1	3
Other non-interest income, net	18	14	11	18
Total non-interest income	18	14	12	21
Operating expenses	74	84	78	97
Finance Board and Office of Finance expenses	9	7	8	5
Other, net	1	3	3	4
Total other expenses	84	94	89	106
Affordable Housing Program	57	61	63	65
REFCORP	129	135	144	145
Total assessments	186	196	207	210
Extraordinary item:				
Gains (losses) on early retirement of debt, net	4	1	3	(1)
Net income	<u>\$ 516</u>	<u>\$ 543</u>	<u>\$ 575</u>	<u>\$ 577</u>

	1999 Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
Total interest income	\$5,668	\$5,988	\$6,800	\$8,064
Total interest expense	5,094	5,399	6,146	7,347
Net interest income before mortgage loan loss provision	574	589	654	717
Mortgage loan loss provision	1	(1)		1
Net interest income after mortgage loan loss provision	573	590	654	716
Prepayment fees, net	8	4	2	(1)
Other non-interest income, net	29	22	25	18
Total non-interest income	37	26	27	17
Operating expenses	67	68	68	79
Finance Board and Office of Finance expenses	8	7	6	8
Other, net			1	2
Total other expenses	75	75	75	89
Affordable Housing Program	47	45	51	56
Total assessments	47	45	51	56
Extraordinary item:				
Gains on early retirement of debt, net			1	
Net income	<u>\$ 488</u>	<u>\$ 496</u>	<u>\$ 556</u>	<u>\$ 588</u>

Risk Management

The fundamental business of the FHLBanks is to provide member institutions and housing associates with advances and other credit products in a wide range of maturities and terms to meet member demand. The principal sources of funds for these activities are consolidated obligations and, to a lesser extent, capital and deposits from members. Lending and investing funds, and engaging in interest-rate exchange agreements, have the potential for exposing the FHLBanks to a number of risks, including credit and interest-rate risk. The FHLBanks are also subject to operational risk. To control these risks, the FHLBanks have established policies and practices to evaluate and manage their credit, business, operating and interest-rate risk positions. The Finance Board has established regulations governing the FHLBanks' risk management practices. FHLBanks must file periodic compliance reports with the Finance Board. The Finance Board conducts an annual on-site examination of each FHLBank and the Office of Finance as well as off-site analyses.

The FHLBanks do not have any special purpose entities or any other type of off-balance sheet conduits. All derivatives are recorded on the balance sheet at fair value. The Finance Board's Financial Management Policy (Financial Management Policy) prohibits the speculative use of interest-rate exchange agreements. The FHLBanks do not trade derivatives for short-term profit.

Liquidity. The FHLBanks are required to maintain liquidity in accordance with certain regulations, with the Financial Management Policy, and with policies established by their board of directors. The FHLBanks need liquidity to satisfy member demand for short- and long-term funds, repay maturing consolidated obligations, and meet other obligations. In their asset/liability management planning, members may look to the FHLBanks to provide standby liquidity. The FHLBanks seek to be in a position to meet their customers' credit and liquidity needs without maintaining excessive holdings of low-yielding liquid investments or being forced to incur unnecessarily high borrowing costs. The FHLBanks' primary sources of liquidity are short-term investments and the issuance of new consolidated obligation bonds and discount notes. Other short-term borrowings,

such as Federal funds purchased, securities sold under agreements to repurchase, and loans from other FHLBanks, also provide liquidity. The FHLBanks maintain contingency liquidity plans designed to enable them to meet their obligations and the liquidity needs of members in the event of operational disruptions at the FHLBanks or the Office of Finance or short-term capital market disruptions.

Managing Interest-Rate Risk. Interest-rate risk is the risk that relative and absolute changes in interest rates may adversely affect an institution's financial condition. The goal of an interest-rate risk management strategy is not necessarily to eliminate interest-rate risk but to manage it by setting appropriate limits. The general approach of the FHLBanks toward managing interest-rate risk is to acquire and maintain a portfolio of assets and liabilities, which, together with their associated interest-rate exchange agreements, limit the expected duration mismatch. The FHLBanks manage interest-rate risk in several different ways as is more fully discussed below.

The FHLBanks measure interest-rate risk exposure by various methods, including calculation of duration of equity. Duration of equity shows the sensitivity of market value of equity to changes in interest rates. Higher duration numbers, whether positive or negative, indicate greater volatility of market value of equity. Under the Finance Board's Financial Management Policy, each FHLBank's duration of equity must stay within a range of +5 to -5 years assuming current interest rates. It must stay within a range of +7 to -7 years assuming an instantaneous parallel increase or decrease in interest rates of 200 basis points. The FHLBanks report the results of their duration of equity calculations to the Finance Board each quarter. The Finance Board's new capital rules ultimately will replace duration of equity-based limits on interest-rate risk with a model-generated market-risk capital requirement. (See Duration of Equity table in the Quantitative Disclosure about Market Risk section on page 27.)

The optionality embedded in certain financial instruments held by the FHLBanks can create interest-rate risk. When a member prepays an advance, the FHLBank could suffer lower future income if the principal portion of the prepaid advance were reinvested in lower-yielding assets that continue to be funded by higher-cost debt. To protect against this risk, each FHLBank generally charges a prepayment fee that makes it financially indifferent to a borrower's decision to prepay an advance. When the FHLBanks offer advances (other than short-term advances) that a member may prepay without a prepayment fee, they usually finance such advances with callable debt or otherwise hedge this option.

The FHLBanks hold mortgage-related investments, including mortgage loans, mortgage-backed securities, and agency obligations. The prepayment options embedded in mortgages can result in extensions or contractions in the expected maturities of these investments, depending on changes in interest rates. The Financial Management Policy limits this source of interest-rate risk by restricting the types of mortgage-backed securities the FHLBanks may own to those with limited average life changes under certain interest-rate shock scenarios. The FHLBanks may hedge against contraction risk by funding some mortgage-related investments with consolidated obligations that have call features. In addition, the FHLBanks may use caps, floors, and other interest-rate exchange agreements to manage the extension and contraction variability of mortgage-related investments. The FHLBanks may also use interest-rate exchange agreements to transform the characteristics of investment securities other than mortgage-backed securities.

Derivatives. The FHLBanks enter into interest-rate swaps, swaptions, interest-rate cap and floor agreements, calls, puts, and futures and forward contracts (collectively, interest-rate exchange agreements) to manage their exposure to changes in interest rates. They may adjust the effective maturity, repricing frequency, or option characteristics of financial instruments to achieve risk-management objectives. The FHLBanks use interest-rate exchange agreements in three ways: either by designating them as a fair-value or cash-flow hedge of an underlying financial instrument or a forecasted transaction, by acting as an intermediary, or in asset-liability management. For example, the FHLBanks use interest-rate exchange agreements in their overall interest-rate risk management to adjust the interest-rate sensitivity of consolidated obligations to approximate more closely the

interest-rate sensitivity of assets (advances, investments and mortgage loans), and/or to adjust the interest-rate sensitivity of advances, investments, or mortgage loans to approximate more closely the interest-rate sensitivity of liabilities. In addition to using interest-rate exchange agreements to manage mismatches of interest rates between assets and liabilities, the FHLBanks also use interest-rate exchange agreements to manage embedded options in assets and liabilities, to hedge the market value of existing assets and liabilities, and anticipated transactions, to hedge the duration risk of prepayable instruments and to reduce funding costs. The Financial Management Policy prohibits the speculative use of interest-rate exchange agreements. The FHLBanks do not trade derivatives for short-term profit.

An FHLBank manages the risk arising from changing market prices and volatility of a consolidated obligation by matching the interest received on the interest-rate exchange agreement with the interest paid on the consolidated obligation. In addition, all the FHLBanks require collateral agreements on most interest-rate exchange agreements. While consolidated obligations are the joint-and-several obligations of the FHLBanks, individual FHLBanks serve as counterparties to interest-rate exchange agreements associated with specific debt issues.

In a typical transaction, fixed-rate consolidated obligations are issued for one or more FHLBanks, and each of those FHLBanks simultaneously enters into a matching interest-rate exchange agreement in which the counterparty pays a fixed interest rate to the FHLBank designed to mirror in timing and amount the interest rate paid by the FHLBank on the consolidated obligation. In this typical transaction, the FHLBank pays a variable interest rate that closely matches the interest payments it receives on short-term or variable-rate advances. This intermediation between the capital and swap markets permits the FHLBanks to raise funds at lower costs than would otherwise be available through the issuance of simple fixed- or floating-rate consolidated obligations in the capital markets.

With issuances of convertible advances, an FHLBank has purchased from the member one or more put option(s) that enables the FHLBank to convert an advance from fixed rate to floating rate if interest rates increase or to terminate the advance and, upon request of the member, extend replacement advances on new terms. An FHLBank may fund a convertible advance by using short-term floating-rate funds and entering into a cancelable interest-rate exchange agreement where the FHLBank pays fixed and receives variable. In this type of hedge, the interest-rate exchange agreement variable interest received mirrors in timing and amount the interest paid of the short-term floating-rate funds. If interest rates rise, the swap counterparty can cancel the interest-rate exchange agreement on the call date, and the FHLBank can convert the advance to a floating rate.

The FHLBanks invest in mortgage assets (mortgage-backed securities) and mortgage loans under the member mortgage asset programs. The prepayment options embedded in mortgage assets purchased can result in extensions or contractions in the expected maturities of these assets, depending on changes in interest rates. The Financial Management Policy limits this source of interest-rate risk by restricting the types of mortgage-backed securities the FHLBanks may own to those with limited average life changes under certain interest-rate shock scenarios. The FHLBanks may manage against contraction risk by funding some mortgage assets with consolidated obligations that have call features. In addition, the FHLBanks may use interest-rate caps, floors, and interest-rate exchange agreements to manage the extension and contraction variability of mortgage assets. Net income could be reduced if the FHLBank replaces the mortgages with lower-yielding assets and if the FHLBank's higher funding costs are not reduced concomitantly.

The FHLBanks manage the interest-rate and prepayment risk associated with mortgages through a combination of debt issuance and derivatives. The FHLBanks issue both callable and non-callable debt to achieve cash-flow patterns and liability durations similar to those expected on the mortgage loans. The FHLBanks also use derivatives to match the expected prepayment characteristics of the mortgages. The FHLBanks analyze the risk of the mortgage portfolio on a regular basis and consider the interest-rate environment under various rate scenarios and also perform analyses of the duration and convexity of the portfolio.

At December 31, 2001, the FHLBanks had \$600.7 billion total notional amount of interest-rate exchange agreements outstanding compared with \$565.7 billion at December 31, 2000. The notional amount serves as a factor in determining periodic interest payments or cash flows received and paid, and does not represent actual amounts exchanged or the FHLBanks' exposure to credit and market risk. The amount potentially subject to credit loss is much less. Notional values are not meaningful measures of the risks associated with derivatives. The risk of derivatives can only be measured meaningfully on a portfolio basis, taking into account the derivatives, the item being hedged, and any offsets between them. The FHLBanks adopted SFAS 133, as amended by Statement of Financial Accounting Standard No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, on January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the statement of condition at their fair values. At December 31, 2001, the FHLBanks had derivative assets of \$2.7 billion and derivative liabilities of \$7.8 billion.

In addition to market risk, each FHLBank is subject to credit risk because of the risk of nonperformance by counterparties to the agreements as well as operational risks. The degree of counterparty risk on derivatives depends on the extent to which netting procedures are used to mitigate the risk. Each FHLBank manages counterparty credit risk through credit analysis, collateral management and other credit enhancements, and by following the requirements set forth in the Financial Management Policy. The FHLBanks require collateral agreements on interest-rate exchange agreements, and maximum net unsecured credit exposure amounts which may exist before collateral requirements are triggered based upon each individual counterparty's rating. For example, a counterparty must deliver collateral to a FHLBank if the total market value of the FHLBank's exposure to that counterparty rises above a specific trigger point. As a result of these risk mitigation initiatives, the management of each FHLBank does not anticipate any credit losses on its agreements.

The FHLBanks have approximately 25 counterparties for interest-rate exchange agreements. Most are derivative dealers and major domestic and international banks, some of which may be affiliated with underwriters of consolidated obligations and members. Most of the counterparties are rated AA/Aa or higher.

The following table categorizes the estimated fair value of derivative financial instruments excluding accrued interest by product and type of accounting treatment. The categories "Fair Value, Firm Commitments and Cash Flow" represent hedges where hedge accounting is achieved. The category "Economic" represents hedge strategies where hedge accounting is not achieved. Amounts at December 31, 2001 are as follows (dollar amounts in millions):

Total by Product

	<u>Notional</u> (excludes accrued interest)	<u>Estimated Fair Value</u>
Advances		
Fair Value	\$227,481	\$(9,448)
Firm Commitments	13	
Cash Flow	1,727	76
Economic	3,733	4
Total	<u>232,954</u>	<u>(9,368)</u>
Investments		
Fair Value	5,966	(251)
Economic	19,492	(205)
Total	<u>25,458</u>	<u>(456)</u>

	<u>Notional</u> (excludes accrued interest)	<u>Estimated Fair Value</u>
Mortgage Loans		
Fair Value	\$ 2,213	\$ 22
Economic	<u>10,597</u>	<u>80</u>
Total	<u>12,810</u>	<u>102</u>
Consolidated Obligations		
Fair Value	271,825	2,952
Firm Commitments	41	(1)
Cash Flow	1,500	(2)
Economic	<u>42,504</u>	<u>14</u>
Total	<u>315,870</u>	<u>2,963</u>
Discount Notes		
Fair Value	4,996	7
Cash Flow	1,710	124
Economic	<u>949</u>	<u>19</u>
Total	<u>7,655</u>	<u>150</u>
Deposits		
Fair Value	20	4
Economic	<u>350</u>	<u>—</u>
Total	<u>370</u>	<u>4</u>
Balance Sheet		
Economic	<u>900</u>	<u>1</u>
Total	<u>900</u>	<u>1</u>
Intermediary Positions		
Intermediaries	<u>4,778</u>	<u>1</u>
Total	<u>4,778</u>	<u>1</u>
Caps		
Economic	109	—
Total	<u>109</u>	<u>—</u>
Total Notional and Fair Value	<u>\$600,904</u>	<u>\$(6,603)</u>
Total Derivatives Excluding Accrued Interest		<u>\$(6,603)</u>
Accrued Interest at December 31, 2001		<u>1,517</u>
Net Derivative Balance at December 31, 2001		<u>\$(5,086)</u>
Net Derivative Assets Balance at December 31, 2001 ..		<u>\$ 2,728</u>
Net Derivative Liabilities Balance at December 31, 2001 ..		<u>(7,814)</u>
Net Derivative Balance at December 31, 2001		<u>\$(5,086)</u>

The FHLBanks have issued some consolidated obligations denominated in currencies other than U.S. dollars, and the FHLBanks use forward exchange contracts to hedge currency risk. These contracts are agreements to exchange different currencies at specified future dates and at specified rates. The use of these contracts effectively simulates the conversion of these consolidated

obligations denominated in foreign currencies to ones denominated in U.S. dollars. At December 31, 2001, consolidated obligations denominated in foreign currencies represented less than 1 percent of consolidated obligations outstanding.

Quantitative Disclosure about Market Risk. Duration is the primary means used by the FHLBanks to measure their exposure to changes in interest rates. Duration is the weighted-average maturity (typically measured in months or years) of an instrument's cash flows, weighted by the present value of those cash flows. Duration measures the time required to recapture an investment, reinvesting repaid principal. As duration lengthens, the risk increases. Duration is also a measure of price volatility. The value of an instrument with a duration of 5 years will change by approximately 5 percent with a 1 percentage point change in interest rates.

Duration of equity is the market value-weighted duration of assets minus the market value-weighted duration of liabilities divided by the market value of equity. The Financial Management Policy requires that each FHLBank's duration of equity (at current interest rate levels using the consolidated obligation cost curve or an appropriate discounting methodology) be maintained within a range of ± 5 years. Each FHLBank must maintain its duration of equity, under an assumed instantaneous ± 200 basis points parallel shift in interest rates, within a range of ± 7 years.

Each FHLBank has an internal modeling system for measuring duration of equity. The table below reflects the results of each FHLBank's own measurement of its exposure to interest-rate risk in accordance with the Financial Management Policy. The table summarizes the interest-rate risk associated with all instruments entered into by the FHLBanks.

Federal Home Loan Banks

Duration of Equity (In years)

FHLBank	December 31, 2001			December 31, 2000		
	Up	Base	Down	Up	Base	Down
Boston	3.0	1.8	(0.3)	2.3	1.8	(0.0)
New York	4.1	3.3	2.0	2.9	3.8	2.2
Pittsburgh	1.6	0.3	(3.6)	5.1	2.9	(1.3)
Atlanta	2.7	2.6	(4.0)	4.0	1.9	(3.4)
Cincinnati	5.9	2.2	(2.4)	3.7	0.0	(2.0)
Indianapolis	0.0	0.1	1.3	2.0	2.3	0.1
Chicago	1.3	2.5	(3.3)	4.2	3.7	(4.1)
Des Moines	(1.6)	(0.1)	2.5	4.5	1.2	(2.5)
Dallas	3.8	3.0	1.8	4.1	4.2	2.1
Topeka	2.1	(0.8)	(4.9)	3.5	0.3	(4.6)
San Francisco	2.6	2.0	0.9	2.0	1.4	0.7
Seattle	3.2	0.8	(4.0)	6.8	2.5	(6.5)

Up = +200 basis points. Down = - 200 basis points.

Growth of mortgage assets with their embedded optionality, partially offset by the related funding/hedging strategy, has the effect of widening the duration of equity range at certain FHLBanks.

Managing Credit Risk. Credit risk is the risk of loss due to default. The FHLBanks protect against credit risk on advances through collateralization of all advances. In addition, each FHLBank can call for additional or substitute collateral during the life of an advance to protect its security interest. No FHLBank has ever experienced a credit loss on an advance to a member.

While the FHLBanks face minimal credit risk on advances, they are subject to credit risk on some investments and on interest-rate exchange agreements. Each FHLBank follows guidelines established by the Finance Board and its board of directors on unsecured extensions of credit, whether on- or off-balance sheet. The Financial Management Policy limits the amounts and terms of unsecured credit exposure to any counterparty other than to the U.S. Government. Unsecured credit exposure to any counterparty is limited by the credit quality and capital level of the counterparty and by the capital level of the FHLBank.

At December 31, 2001, the FHLBanks had Federal funds sold of \$48.4 billion. At the same date, the FHLBanks held \$6.7 billion of commercial paper.

At December 31, 2001, the FHLBanks' unsecured credit exposure to counterparties other than the U.S. Government or U.S. Government agencies and instrumentalities was \$71.2 billion, most of which was Federal funds sold and commercial paper. This is a \$13.3 billion decrease from the \$84.5 billion unsecured credit exposure to such counterparties at December 31, 2000. About 26.9 percent of this exposure at December 31, 2001 had an overnight maturity, 46.9 percent had a maturity from 2 to 30 days, 20.0 percent had a maturity from 31 to 90 days, and the remainder had a maturity less than 271 days. At December 31, 2001, the FHLBanks had aggregate unsecured credit exposure of more than \$1 billion to each of 21 counterparties. The aggregate unsecured credit exposure to these 21 counterparties represented 47.1 percent of the FHLBanks' unsecured credit exposure to non-government counterparties.

Included in the aggregate unsecured credit exposure total is unsecured credit of \$1.7 billion to Washington Mutual Bank, FA, and \$913.1 million to its affiliated Washington Mutual Bank. As of the same date, Washington Mutual Bank had advances of \$7.3 billion from the FHLBank of Seattle, its affiliated Washington Mutual Bank, FA, had advances of \$53.2 billion from the FHLBank of San Francisco, its affiliated Washington Mutual Bank, FSB, had advances of \$503.6 million from the FHLBank of Seattle, and its affiliated First Community Industrial Bank had advances of \$110.0 million from the FHLBank of Topeka. All these advances were secured borrowings. An officer of Washington Mutual Bank, FA, serves as a director and vice chairman of the FHLBank of San Francisco, and an officer of Washington Mutual Bank serves as a director and vice chairman of the FHLBank of Seattle. In February 2001, Washington Mutual Bank, FA, acquired Bank United, Houston, Texas. Before its acquisition, Bank United renegotiated \$7.6 billion of its advances from the FHLBank of Dallas, principally to extend the term of these advances. After the merger, Washington Mutual Bank, FA, is responsible for the repayment of these advances to the FHLBank of Dallas. This amount is included in the Washington Mutual, FA, advance amount noted above. An officer of Bank United served on the board of directors of the FHLBank of Dallas until the merger in February 2001.

On January 7, 2002, Washington Mutual, Inc., finalized its acquisition of the parent company of Dime Savings Bank of New York. As of December 31, 2001, Dime Savings Bank of New York, FSB, had unsecured credit from the FHLBanks of \$601.0 million and advances of \$8.5 billion. An officer of Dime Savings Bank of New York, FSB, served on the board of directors of the FHLBank of New York in 2001.

Mortgage Loans. All 12 FHLBanks have established member mortgage asset programs as services to their members. The programs all involve the investment by the FHLBank in loans created by members. The Finance Board authorized all of the FHLBanks to hold acquired member assets, such as assets acquired under the Mortgage Partnership Finance® (MPF®) program developed by the FHLBank of Chicago and the Mortgage Purchase Program (MPP) developed by the FHLBanks of Cincinnati, Indianapolis, and Seattle. Under these programs, the FHLBank acquires mortgage assets from or through members or housing associates, and the members or housing associates continue to bear a significant portion of the credit risk. These assets may have more credit risk than advances, even though the member or housing associate provides credit enhancement. At December 31, 2001, the acquired member asset programs had a total outstanding balance of \$27.6 billion of mortgage loans, all of which were credit enhanced by members to a level

equivalent to at least an investment-grade rating. Outstanding mortgage loan balances were \$16.1 billion at December 31, 2000. All of the FHLBanks participating in these programs have established appropriate loan loss allowances. Neither the member credit enhancements nor loans are rated. An FHLBank must hold risk-based capital against acquired member assets or pools of assets that have an implied credit rating less than double-A. All of the FHLBanks except Seattle and Cincinnati offer the MPF® program to their members, and these two FHLBanks, along with the FHLBank of Indianapolis, offer an alternative mortgage purchase plan, MPP.

The acquired member asset rule of the Finance Board specifies that assets must be either whole loans eligible to secure advances (excluding mortgages above the conforming loan limit), whole loans secured by manufactured housing, or state and local housing finance agency bonds. In addition, the rule mandates a member or housing associate nexus. All pools of acquired member assets must have a credit-risk-sharing arrangement with a member, housing associate or third-party mortgage insurance that limits the FHLBank's credit-risk exposure to no less than investment grade, as determined by a formal rating or a comparable methodology.

Operational Risk. Operational risk is the risk of potential loss due to human error, systems malfunctions, man-made or natural disasters, fraud, or circumvention or failure of internal controls. The FHLBanks have established comprehensive financial and operating policies and procedures and appropriate insurance coverage to mitigate the likelihood of, and potential losses from, such occurrences. The FHLBanks' policies and procedures include controls to ensure that system-generated data are reconciled to source documentation on a regular basis. Each FHLBank's internal audit department, which reports directly to the individual FHLBank's audit committee, regularly monitors each FHLBank's compliance with established policies and procedures. In addition, each FHLBank has a disaster recovery plan that is designed to restore critical business processes and systems in the event of disasters. However, some of the operational risks of the FHLBanks are beyond the control of the FHLBanks, and the failure of other parties to address adequately their operational risk could adversely affect the FHLBanks.

Capital Adequacy

The FHLBank Act prescribes minimum member capital stock requirements. At December 31, 2001, 97.3 percent of the FHLBanks' capital was capital stock, and 2.7 percent was retained earnings. At December 31, 2001, the FHLBanks had an aggregate capital-to-asset ratio of 4.9 percent. This compares with a capital-to-asset ratio of 4.8 percent at December 31, 2000. (See "Business—Debt Financing—Consolidated Obligations," "Business—Capitalization," and Note 14 to the accompanying combined financial statements.)

Transactions with Related Parties

Each FHLBank is a cooperative bank. The debt issued by the FHLBanks is the joint and several obligation of all FHLBanks. The members own all the stock of the FHLBanks, the majority of the directors of each FHLBank is elected by and from the membership, and the FHLBanks conduct their advances and other business almost exclusively with members. Therefore, in the normal course of business, the FHLBanks extend credit to members whose officers may serve as directors of the FHLBanks. At December 31, 2001, the FHLBanks had \$141.3 billion of advances outstanding to members whose officers were serving as directors of the FHLBanks. This amounted to 29.9 percent of total advances.

Critical Accounting Matters

Accounting for Derivatives. The FHLBanks adopted SFAS 133, as amended by Statement of Financial Accounting Standard No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, on January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the statement of condition at their fair values. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a

derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The gains and losses on derivative instruments that are designated as cash flow hedges and reported in other comprehensive income will be reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current period earnings. For a derivative designated as a fair-value hedge, the transition adjustment for the derivative was reported as a cumulative effect adjustment of net income. Concurrently, any fair-value gain or loss on the hedged instrument was recognized as an adjustment of the hedged item's carrying amount, but only to the extent of the offsetting transition adjustment of the derivative, and was also reported as a cumulative effect adjustment of net income. Changes in the fair value of a non-SFAS 133 hedge of an asset or liability (economic hedge) for asset-liability management will be recorded in current-period earnings. As discussed in more detail below, the adoption of SFAS 133 is likely to lead to more volatility in the statement of income because of changes in market prices and interest rates. The transition provisions of SFAS 133 also provide that at the date of initial application an entity may transfer any security classified as "held-to-maturity" to "available-for-sale" or "trading" (herein referred to as securities held at fair value), and any security classified as "available-for-sale" to "trading" (securities held at fair value).

The adoption of SFAS 133 resulted in the FHLBanks recording a decrease in net income of \$30 million and an unrealized net loss of \$2 million in the other comprehensive income component of capital at January 1, 2001, as a cumulative effect of change in accounting principle.

As noted under "Risk Management—Derivatives," by regulation, derivative instruments are only permitted to be used by an FHLBank in order to mitigate identifiable risks. All of an FHLBank's derivatives are positioned to offset some or all of the risk exposure inherent in its member lending, investment, and funding activities. Under SFAS 133, an FHLBank is required to recognize unrealized losses or gains on derivative positions regardless of whether offsetting gains or losses on the underlying assets or liabilities being hedged are permitted to be recognized in a symmetrical manner. Therefore, the new accounting framework imposed by SFAS 133 introduces the potential for a considerable mismatch between the timing of income and expense recognition from assets or liabilities and the income effects of hedge instruments positioned to mitigate market risk and cash-flow variability. Hence, during periods of significant changes in interest rates, an FHLBank's reported GAAP earnings may exhibit considerably greater variability than had been reported in previous years. Certain FHLBanks have generally continued their practice of utilizing the most cost-efficient hedging techniques available—viewing the resulting accounting consequences to be an important but secondary consideration. These FHLBanks anticipate that this approach will result in enhanced long-term performance, albeit at the expense of increased variability in quarterly earnings as reported under the new requirements of SFAS 133. In managing derivatives positions with primary emphasis on economic cost-effectiveness as opposed to evenness of accounting result, the adoption of SFAS 133 has led to more volatility in the reported earnings for FHLBanks following this strategy due to changes in market prices and interest rates.

REFCORP Payments. These combined financial statements do not include a liability for the statutorily mandated payments from the FHLBanks to REFCORP. No liability is recorded because the FHLBanks must pay 20 percent of net earnings (after their AHP obligation) to REFCORP to support the payment of part of the interest on the bonds issued by REFCORP and the FHLBanks are unable to estimate their future payments required as the payments are based on future earnings and not estimable under SFAS 5. Accordingly, the REFCORP payments are disclosed as a long-term statutory payment requirement and are treated for accounting purpose similar to a tax.

Federal Home Loan Bank Membership Trends

At December 31, 2001, there were 7,902 members of the FHLBanks, a net increase of 125 since December 31, 2000. As of December 31, 2001, the membership in the FHLBanks was

comprised of 1,483 thrift institutions (savings and loan associations and savings banks), 5,786 commercial banks, 576 credit unions, and 57 insurance companies.

**Federal Home Loan Banks
Membership**

	<u>Commercial Banks</u>	<u>Thrifts</u>	<u>Credit Unions</u>	<u>Insurance Companies</u>	<u>Total</u>
December 31, 1997	4,514	1,742	213	35	6,504
December 31, 1998	4,925	1,651	275	33	6,884
December 31, 1999	5,329	1,610	405	39	7,383
December 31, 2000	5,681	1,547	497	52	7,777
December 31, 2001	5,786	1,483	576	57	7,902

Members. Membership is voluntary. A member must give six months notice of its intent to withdraw. Members that withdraw from membership may not be readmitted to membership for five years. Between January 1, 1993, and December 31, 2001, only 47 FHLBank members withdrew from membership for reasons other than merger or acquisition, and no member has given notice to withdraw before July 1, 2002, for reasons other than merger or acquisition.

At December 31, 2001, total capital stock was \$33.3 billion, an increase of \$2.8 billion since December 31, 2000. Commercial bank members hold 45.9 percent of the capital stock and thrift institution members hold 49.2 percent.

Federal Home Loan Banks

**Capital by Member Type
(Dollar amounts in billions)**

	<u>Commercial Banks</u>	<u>Thrifts</u>	<u>Credit Unions</u>	<u>Insurance Companies</u>	<u>Other(1)</u>	<u>Total</u>
December 31, 1997	\$8.0	\$9.9	\$0.2	\$0.2	\$0.5	\$18.8
December 31, 1998	10.0	11.1	0.3	0.2	0.7	22.3
December 31, 1999	13.2	14.0	0.5	0.3	0.4	28.4
December 31, 2000	13.8	15.3	0.6	0.4	0.4	30.5
December 31, 2001	15.3	16.4	0.9	0.3	0.4	33.3

(1) Includes capital stock of members involved in mergers other than Bank United, which was acquired by Washington Mutual Bank, FA, in February 2001. For additional information, see footnote (1) in the "Top 10 Capital Stock Holding Members in the FHLBanks" table below. Advances to members involved in mergers must be paid off before or at maturity, if the merger involves a nonmember institution. Until these advances are paid off, the former member must still hold capital stock to support those advances.

The following table presents information on the 10 largest holders of FHLBank capital stock at December 31, 2001.

Federal Home Loan Banks
Top 10 Capital Stock Holding Members in the FHLBanks
at December 31, 2001

<u>Name</u>	<u>City</u>	<u>State</u>	<u>Capital Stock (\$Millions)</u>	<u>Percent of Total Capital Stock</u>
Washington Mutual Bank, FA(1)*	Stockton	CA	\$3,143.4	9.4%
California Federal Bank, FSB*	San Francisco	CA	1,446.6	4.3%
World Savings Bank, FSB*	Oakland	CA	753.4	2.3%
Washington Mutual Bank*	Seattle	WA	669.3	2.0%
Charter One Bank, FSB*	Cleveland	OH	567.7	1.7%
Dime Savings Bank of New York, FSB(2)*	New York	NY	426.9	1.3%
BB&T of NC	Winston-Salem	NC	422.2	1.3%
US Bank, NA(3)	Cincinnati	OH	363.1	1.1%
World Savings Bank, FSB	Austin	TX	352.4	1.1%
SunTrust Bank	Atlanta	GA	350.1	1.1%
			<u>\$8,495.1</u>	<u>25.6%</u>

* An asterisk indicates that an officer of the member was an FHLBank director in 2001.

- (1) Includes \$396.0 million in capital stock from the acquisition of Bank United, a former member of the FHLBank of Dallas, by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco.
- (2) On January 7, 2002, Washington Mutual, Inc., finalized its acquisition of the parent company of Dime Savings Bank of New York. If the merger had been effective at December 31, 2001, Washington Mutual, Inc., through its various affiliates, would have held \$4,300.3 million or 12.9% of total FHLBank capital stock.
- (3) Includes \$22.0 million in capital stock of US Bank, NA, a former member of FHLBank of Des Moines which merged with US Bank, NA (Firststar), a member of FHLBank of Cincinnati on August 9, 2001.

The information presented on capital stock in the table is for individual FHLBank members. The data are not aggregated to the holding-company level. Some of the institutions listed are affiliates of the same holding company, and some of the institutions listed have affiliates that are members but that are not listed in the tables.

For information on the top five holders of capital stock of each FHLBank and their holdings at December 31, 2001, please refer to page 131.

Member Borrowers. While the total number of borrowing members has increased in recent years, and rose to 5,222 at year end 2001 from 5,210 at year end 2000, the percent of total members borrowing declined to 66.1 percent in 2001 from 67.0 percent in 2000.

Federal Home Loan Banks
Member Borrowers

	<u>Commercial Banks</u>	<u>Thrifts</u>	<u>Credit Unions</u>	<u>Insurance Companies</u>	<u>Total</u>
December 31, 1997.....	2,530	1,113	57	13	3,713
December 31, 1998.....	3,056	1,083	87	13	4,239
December 31, 1999.....	3,683	1,211	179	19	5,092
December 31, 2000.....	3,843	1,165	177	25	5,210
December 31, 2001.....	3,937	1,086	168	31	5,222

While 66.1 percent of the FHLBank's members held advances at December 31, 2001, the 72 borrowers with advance holdings of \$1 billion or more at December 31, 2001, held 61.7 percent of

the FHLBanks' total advances. At year-end 2000, 68 borrowers held advances greater than \$1 billion, representing 62.9 percent of total FHLBanks' advances.

Federal Home Loan Banks

Advances (Dollar amounts in billions)

	Commercial Banks	Thrfts	Credit Unions	Insurance Companies	Other(1)	Total
December 31, 1997	\$57.4	\$138.0	\$0.6	\$1.8	\$4.5	\$202.3
December 31, 1998	104.4	172.9	1.1	2.5	7.3	288.2
December 31, 1999	147.7	238.0	3.4	3.2	3.4	395.7
December 31, 2000	172.1	254.9	3.4	2.5	5.0	437.9
December 31, 2001	197.6	251.6	4.9	3.1	15.5	472.7

(1) Includes advances to housing associates and members involved in mergers other than Bank United, which was acquired by Washington Mutual Bank, FA, in February 2001. For additional information, see footnote (1) in the "Top 10 Advance Holding Members" table below. Advances to members involved in mergers must be paid off before or at maturity, if the merger involves a nonmember institution.

The following table presents information on the 10 largest borrowers at the FHLBanks at December 31, 2001.

Federal Home Loan Banks

Top 10 Advance Holding Members at December 31, 2001

Name	City	State	Advances (\$ Millions)	Percent of Total Advances(4)
Washington Mutual Bank, FA(1)*	Stockton	CA	\$ 53,239.5	11.3%
California Federal Bank, FSB*	San Francisco	CA	22,323.0	4.7%
World Savings Bank, FSB*	Oakland	CA	11,037.5	2.3%
Dime Savings Bank of New York, FSB(2)*	New York	NY	8,537.4	1.8%
BB&T of NC	Winston-Salem	NC	8,443.2	1.8%
Charter One Bank, FSB*	Cleveland	OH	7,772.5	1.6%
Washington Mutual Bank*	Seattle	WA	7,321.8	1.5%
US Bank, NA(3)	Cincinnati	OH	7,171.3	1.5%
World Savings Bank, FSB	Austin	TX	7,000.0	1.5%
SunTrust Bank	Atlanta	GA	7,000.0	1.5%
			<u>\$139,846.2</u>	<u>29.5%</u>

* An asterisk indicates that an officer of the member was an FHLBank director in 2001.

(1) Includes \$7,592.5 million in advances from the acquisition of Bank United, a former member of the FHLBank of Dallas, by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco.

(2) On January 7, 2002, Washington Mutual, Inc., finalized its acquisition of the parent company of Dime Savings Bank of New York. If the merger had been effective at December 31, 2001, Washington Mutual, Inc., through its various affiliates, would have held \$69,712 million or 14.7% of total FHLBank advances.

(3) Includes \$439.3 million in advances of US Bank, NA a former member of FHLBank of Des Moines which merged with US Bank, NA (Firststar), a member of FHLBank of Cincinnati on August 9, 2001.

(4) Member advance amounts are at par and total advance amounts are at book value. The difference between the par and book value amounts relates to basis adjustments arising from hedges under SFAS 133 for book purposes. The difference is approximately 2% and has no material impact on the calculated percentage amounts.

The information presented on advances in the table is for individual FHLBank members. The data are not aggregated to the holding-company level. Some of the institutions listed are affiliates of the same holding company, and some of the institutions listed have affiliates that are members but that are not listed in the tables.

For information on the five largest borrowers by FHLBank at December 31, 2001, please refer to page 133.

Housing Associates. At year-end 2001, the FHLBanks had \$263.8 million in advances outstanding to 19 housing associates, up from \$223.5 million at year-end 2000. Housing associates eligible to borrow include 42 State housing finance agencies, 7 county housing finance agencies, 4 city housing authorities and 1 tribal housing corporation.

Explanatory Statement about FHLBanks Combined Financial Report

The Office of Finance assumed responsibility for the preparation of the FHLBanks' combined Financial Reports, beginning with Financial Reports prepared for fiscal periods commencing after December 31, 2000. Financial Reports prepared and published for fiscal periods ended prior to January 1, 2001, were prepared by the Finance Board. The Office of Finance does not have the same access to information regarding the FHLBanks as the Finance Board has in its capacity as regulator of the FHLBanks. In connection with the Office of Finance's preparation responsibilities, the Office of Finance is responsible for combining the financial information it receives from the FHLBanks, each of which is responsible for the financial information it provides to the Office of Finance.

The FHLBanks' combined Financial Reports are intended to be used by investors in the consolidated bonds and consolidated discount notes of the FHLBanks. These consolidated obligations are the joint-and-several obligations of the FHLBanks, which means that each FHLBank is responsible to the registered holders of the consolidated obligations for the payment of all principal of and interest on those obligations.

Each FHLBank is a separately chartered entity, with its own board of directors and management, even though the consolidated obligations are the joint-and-several obligations of all FHLBanks, and even though some financial institutions may have one or more affiliates which are members of one or more FHLBanks. All FHLBanks are subject to regulations issued by the Finance Board, and their operations are examined periodically by the Finance Board.

The Financial Reports are prepared on behalf of the FHLBanks because it is believed that the presentation of the financial information relating to the FHLBanks on a "combined" basis is more meaningful to investors in consolidated obligations than providing financial information relating to each FHLBank on a stand-alone basis only. However, investors should be aware that this combined presentation describes a combination of assets and liabilities only for this purpose, and that these assets and liabilities are not presented on a consolidated basis because the combined assets and liabilities are not under joint management and control. (See Note 1 to the accompanying combined financial statements.)

FEDERAL HOME LOAN BANKS
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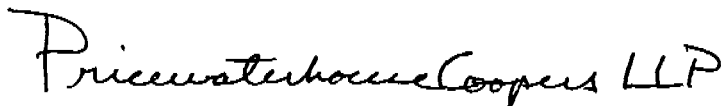
REPORT OF INDEPENDENT ACCOUNTANTS

To the Boards of Directors of the Federal Home Loan Banks and
the FHLBanks Office of Finance

In our opinion, the accompanying combined statements of condition and the related combined statements of income, of capital, and of cash flows shown on pages 37 to 101 present fairly, in all material respects, the combined financial position of the Federal Home Loan Banks (the FHLBanks) at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These combined financial statements are the responsibility of the management of the Office of Finance and the FHLBanks; our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Also, in accordance with those standards and as part of our audit of the financial statements of the Federal Home Loan Banks, we issued separate reports on internal controls and on compliance with laws and regulations. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As explained in Note 14, the FHLBanks changed their method of accounting for REFCORP payments during the year ended December 31, 2000. For the years ended December 31, 2001 and 2000, the REFCORP payments have been recorded as an expense in the statements of income. During the year ended December 31, 1999 REFCORP payments were recorded as deductions from capital. As discussed in Note 2, the FHLBanks adopted Statement of Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statement of Accounting Standards No. 138, on January 1, 2001.

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole; we have also audited each of the individual FHLBank financial statements. The combining information included herein is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual FHLBanks. However, the combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.



Washington, D.C.
March 27, 2002

FEDERAL HOME LOAN BANKS
COMBINED STATEMENTS OF CONDITION
(Dollar amounts in millions)

	December 31,	
	2001	2000
ASSETS		
Cash and due from banks	\$ 319	\$ 752
Interest-bearing deposits in banks	19,141	18,138
Securities purchased under resale agreements	7,950	1,416
Federal funds sold	48,394	55,263
Held-to-maturity securities including \$2,809 and \$781 pledged in 2001 and 2000 ..	97,296	107,186
Available-for-sale securities including \$35 and \$9 pledged in 2001 and 2000	7,403	4,434
Securities held at fair value including \$1,183 pledged in 2001	9,880	
Advances	472,732	437,861
Mortgage loans	27,650	16,152
Less: allowance for credit losses on mortgage loans	7	3
Mortgage loans, net	27,643	16,149
Accrued interest receivable	3,106	12,137
Premises and equipment, net	132	123
Derivative assets	2,728	
Other assets	350	228
Total assets	<u>\$697,074</u>	<u>\$653,687</u>
LIABILITIES		
Deposits:		
Demand and overnight	\$ 23,720	\$ 15,859
Term	1,115	755
Other	826	486
Total deposits	25,661	17,100
Borrowings:		
Securities sold under repurchase agreements	800	
Other borrowings	350	
Total borrowings	1,150	
Consolidated obligations, net:		
Discount notes	139,502	159,870
Bonds	481,591	431,736
Total consolidated obligations	621,093	591,606
Accrued interest payable	5,751	12,331
Affordable Housing Program	696	618
Payable to REFCORP	161	146
Derivative liabilities	7,814	
Other liabilities	530	621
Total liabilities	662,856	622,422
Commitments and contingencies (Notes 9, 13, 14, 15 and 18)		
CAPITAL		
Capital stock (\$100 par value) — issued and outstanding shares: 332,873 in 2001 and 305,361 in 2000	33,289	30,537
Retained earnings	932	729
Accumulated other comprehensive loss:		
Net unrealized gains (losses) on available-for-sale securities	176	(1)
Net change during period related to hedging activities	(179)	
Total capital	34,218	31,265
Total liabilities and capital	<u>\$697,074</u>	<u>\$653,687</u>

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

FEDERAL HOME LOAN BANKS
COMBINED STATEMENTS OF INCOME
(Dollar amounts in millions)

	For the Years Ended December 31,		
	2001	2000	1999
INTEREST INCOME			
Advances	\$20,679	\$26,987	\$17,721
Interest-bearing deposits in banks	710	855	445
Securities purchased under resale agreements	190	165	177
Federal funds sold	2,292	3,062	2,620
Held-to-maturity securities	5,737	6,696	5,193
Available-for-sale securities	290	326	262
Securities held at fair value	417		
Mortgage loans	1,378	714	88
Other	3	175	14
Total interest income	<u>31,696</u>	<u>38,980</u>	<u>26,520</u>
INTEREST EXPENSE			
Consolidated obligations	27,632	34,805	23,043
Deposits	951	817	910
Securities sold under repurchase agreements	6	17	24
Other borrowings	7	28	9
Total interest expense	<u>28,596</u>	<u>35,667</u>	<u>23,986</u>
NET INTEREST INCOME BEFORE MORTGAGE LOAN LOSS PROVISION	3,100	3,313	2,534
Mortgage loan loss provision	<u>4</u>	<u>2</u>	<u>1</u>
NET INTEREST INCOME AFTER MORTGAGE LOAN LOSS PROVISION	<u>3,096</u>	<u>3,311</u>	<u>2,533</u>
OTHER INCOME			
Net unrealized gains on securities held at fair value	66		
Net gains on derivatives and hedging activities	83		
Service fees	40	44	43
Gains on sale of securities held at fair value, net	7		
Gains on sale of available-for-sale securities, net		2	
Other, net	123	19	64
Total other income	<u>319</u>	<u>65</u>	<u>107</u>
OTHER EXPENSE			
Operating expenses	369	333	282
Finance Board and Office of Finance expenses	33	29	29
Other, net	18	11	3
Total other expenses	<u>420</u>	<u>373</u>	<u>314</u>
INCOME BEFORE ASSESSMENTS	<u>2,995</u>	<u>3,003</u>	<u>2,326</u>
Affordable Housing Program	239	246	199
REFCORP	538	553	
Total assessments	<u>777</u>	<u>799</u>	<u>199</u>
INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	2,218	2,204	2,127
(Losses) gains on early retirement of debt, net	(34)	7	1
Cumulative effect of change in accounting principle	<u>(30)</u>		
NET INCOME	<u>\$ 2,154</u>	<u>\$ 2,211</u>	<u>\$ 2,128</u>

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

FEDERAL HOME LOAN BANKS
COMBINED STATEMENTS OF CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(Dollar amounts in millions)

	Capital Stock		Restricted	Unrestricted	Total Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Capital
	Shares (In millions)	Par Value					
BALANCE, DECEMBER 31, 1998	223	\$22,287	\$77	\$ 391	\$ 468	\$ (3)	\$22,752
Proceeds from sale of capital stock	88	8,851					8,851
Redemption of capital stock	(35)	(3,478)					(3,478)
Comprehensive income:							
Net income				2,128	2,128		2,128
Other comprehensive income:							
Net unrealized losses on available-for-sale securities						(3)	(3)
Total comprehensive income							2,125
Transfers			(8)	8			
Dividend on capital stock:							
Cash				(935)	(935)		(935)
Stock	8	701		(701)	(701)		
Capital distribution to REFCORP				(300)	(300)		(300)
BALANCE, DECEMBER 31, 1999	284	\$28,361	\$69	\$ 591	\$ 660	\$ (6)	\$29,015
Proceeds from sale of capital stock	66	6,636					6,636
Redemption of capital stock	(55)	(5,470)					(5,470)
Comprehensive income:							
Net income				2,211	2,211		2,211
Other comprehensive income:							
Net unrealized gains on available-for-sale securities						5	5
Total comprehensive income							2,216
Transfers			(69)	69			
Dividend on capital stock:							
Cash				(1,132)	(1,132)		(1,132)
Stock	10	1,010		(1,010)	(1,010)		
BALANCE, DECEMBER 31, 2000	305	\$30,537	\$	\$ 729	\$ 729	\$ (1)	\$31,265
Proceeds from sale of capital stock	92	9,236					9,236
Redemption of capital stock	(74)	(7,431)					(7,431)
Comprehensive income:							
Net income				2,154	2,154		2,154
Other comprehensive income:							
Net unrealized gains on available-for-sale securities						177	177
Cumulative effect of change in accounting principle						(2)	(2)
Net unrealized losses relating to hedging activities						(204)	(204)
Reclassification adjustment in net income						27	27
Total comprehensive income							2,152
Dividend on capital stock:							
Cash				(1,004)	(1,004)		(1,004)
Stock	9	947		(947)	(947)		
BALANCE, DECEMBER 31, 2001	<u>332</u>	<u>\$33,289</u>	<u>\$</u>	<u>\$ 932</u>	<u>\$ 932</u>	<u>\$ (3)</u>	<u>\$34,218</u>

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

FEDERAL HOME LOAN BANKS
COMBINED STATEMENTS OF CASH FLOWS
(Dollar amounts in millions)

	For the Years Ended December 31,		
	2001	2000	1999
OPERATING ACTIVITIES			
Net income	\$ 2,154	\$ 2,211	\$ 2,128
Extraordinary losses (gains) on early retirement of debt, net	34	(7)	(1)
Cumulative effect of change in accounting principle	30		
Income before extraordinary item and cumulative effect of change in accounting principle	2,218	2,204	2,127
Adjustments to reconcile income before extraordinary item and cumulative effect of change in accounting principle to net cash provided by operating activities:			
Depreciation and amortization:			
Net premiums and discounts on consolidated obligations and investments, and deferred costs and deferred fees received on interest-rate exchange agreements	3,857	5,147	3,283
Concessions on consolidated obligations	221	78	120
Deferred losses on interest-rate exchange agreements, net	11	24	15
Premises and equipment	23	16	12
Net premiums and discounts on mortgage loans	51	5	
Other	(3)	(1)	
Provision for credit losses on mortgage loans	4	2	1
Loss due to change in net mark to market adjustment for interest-rate exchange agreements in which the FHLBanks are intermediaries		5	9
Net realized gains on held-to-maturity securities	(3)		
Net realized gains on available-for-sale securities		(2)	
Increase in securities held at fair value, net of transfers and transition adjustments	(1,744)		
Loss due to change in net fair value adjustment on derivative and hedging activities	(357)		
Gain on disposal of bank premises and equipment			(5)
Decrease (increase) in accrued interest receivable	8,863	(2,504)	(2,946)
Increase in derivative assets-accrued interest	(1,443)		
Decrease in derivative liabilities-accrued interest	(70)		
(Increase) decrease in other assets	(130)	257	(281)
Increase in Affordable Housing Program (AHP) liability and discount on AHP advances	83	100	64
(Decrease) increase in accrued interest payable	(6,520)	2,335	3,329
Increase in REFCORP liability	15	71	
Increase (decrease) in other liabilities	67	(223)	(537)
Total adjustments	2,925	5,310	3,064
Net cash provided by operating activities	5,143	7,514	5,191

	For the Years Ended December 31,		
	2001	2000	1999
INVESTING ACTIVITIES			
Net increase in interest-bearing deposits in banks	\$ (1,038)	\$ (8,184)	\$ (5,238)
Net decrease (increase) in federal funds sold	6,869	2,947	(9,687)
Net (increase) decrease in securities purchased under resale agreements	(6,534)	1,339	1,234
Net decrease (increase) in short-term held-to-maturity securities	3,097	1,208	(3,260)
Proceeds from sales of long-term held-to-maturity securities	6,822	20	8
Proceeds from maturities of long-term held-to-maturity securities	30,676	13,596	24,806
Purchases of long-term held-to-maturity securities	(43,028)	(24,182)	(40,868)
Proceeds from sales of available-for-sale securities	124	750	303
Proceeds from maturities of available-for-sale securities	60,266	21,656	43,119
Purchases of available-for-sale securities	(58,748)	(22,134)	(43,759)
Principal collected on advances	3,732,858	4,637,522	2,469,535
Advances made	(3,758,305)	(4,679,644)	(2,577,096)
Principal collected on mortgage loans	7,881	469	110
Mortgage loans purchased	(19,418)	(14,600)	(1,166)
Principal collected on other loans	1	(1,225)	1
(Increase) decrease in premises and equipment	(27)	(44)	65
Net cash used in investing activities	<u>(38,504)</u>	<u>(70,506)</u>	<u>(141,893)</u>
FINANCING ACTIVITIES			
Net increase (decrease) in deposits	8,594	5	(7,739)
Net decrease in securities sold under repurchase agreements		(543)	(105)
Net increase (decrease) in other borrowings	1,150	(1)	(336)
Net proceeds from sale of consolidated obligations:			
Discount notes	4,665,348	4,090,586	2,883,705
Bonds	415,410	217,297	244,700
Payments for maturing and retiring consolidated obligations:			
Discount notes	(4,689,707)	(4,077,439)	(2,861,458)
Bonds	(368,653)	(170,223)	(122,854)
Proceeds from issuance of capital stock	9,236	6,636	8,849
Payments for redemption of capital stock	(7,431)	(5,470)	(3,480)
Cash dividends paid	(1,019)	(1,151)	(919)
Cash distributions to REFCORP			(300)
Net cash provided by financing activities	<u>32,928</u>	<u>59,697</u>	<u>140,063</u>
Net (decrease) increase in cash and cash equivalents	(433)	(3,295)	3,361
Cash and cash equivalents at beginning of period	752	4,047	686
Cash and cash equivalents at end of period	<u>\$ 319</u>	<u>\$ 752</u>	<u>\$ 4,047</u>
Supplemental Disclosures:			
Interest paid	\$ 30,098	\$ 30,571	\$ 19,166
Stock dividends issued	\$ 947	\$ 1,010	\$ 701

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

Federal Home Loan Banks

Notes to Combined Financial Statements

Background Information

These financial statements present the combined financial position and results of operations of the 12 Federal Home Loan Banks (FHLBanks). The FHLBanks and the Office of Finance are regulated by the Federal Housing Finance Board (Finance Board). The FHLBanks serve the public by enhancing the availability of residential mortgage and community investment credit. They provide a readily available, low-cost source of funds to their member institutions. The FHLBanks are cooperatives; only member institutions own the capital stock of each FHLBank and receive dividends on their investment. All members must purchase stock in their district FHLBank. Each FHLBank operates as a separate entity with its own management, employees and board of directors.

The Finance Board, an independent agency in the executive branch of the United States Government, regulates the FHLBanks. The Finance Board ensures that the FHLBanks operate in a safe and sound manner, carry out their housing finance mission, remain adequately capitalized, and can raise funds in the capital markets. Also, the Finance Board establishes policies and regulations governing the operations of the FHLBanks.

FHLBank debt instruments (consolidated obligations), the joint-and-several obligations of all 12 FHLBanks, are the primary source of funds for the FHLBanks. Deposits, other borrowings, and the issuance of capital stock provide other funds. Some FHLBanks also offer to their members correspondent services, such as item processing, collection, and settlement.

Note 1—Summary of Significant Accounting Policies

Principles of Combination. For the purposes of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Finance Board considers each FHLBank to be a segment. The combined financial statements include the financial records of the 12 FHLBanks. Material transactions among the FHLBanks have been eliminated. The principal transactions among segments are purchases of interbank bonds—consolidated obligations issued on behalf of one FHLBank and purchased by one or more other FHLBanks. All these transactions occur at market prices, and the purchasing FHLBanks treat these bonds as investments. No other transactions among the FHLBanks have a material effect on operating results.

The following paragraphs describe the more significant accounting policies followed by the FHLBanks.

Use of Estimates. The preparation of combined financial statements requires the preparer to make assumptions and estimates. These assumptions and estimates may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. Actual results could differ from those estimates.

Investments. The FHLBanks carry at cost investments for which they have both the ability and intent to hold to maturity, adjusted for periodic principal repayments, amortization of premiums and accretion of discounts. Amortization of premiums and accretion of discounts are computed on the level-yield method. In addition, the FHLBanks adjusted the carrying value of these investments for the unamortized costs of designated interest-rate exchange agreements for periods prior to the implementation of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement No. 133*, and as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* (herein referred to as “SFAS 133”).

The FHLBanks classify investments that they may sell before maturity as available-for-sale and carry them at fair value. In addition, prior to the implementation of SFAS 133, the FHLBanks adjusted the carrying value of these investments for the fair value of interest-rate exchange agreements that are associated with them. Beginning in 2001 for available-for-sale securities that

have been hedged and qualify as a fair value hedge, the FHLBanks record the portion of the change in value related to the risk being hedged in other income as "Net gain (loss) on derivatives and hedging activities" together with the related change in the fair value of the interest-rate exchange agreements, and the remainder of the change in other comprehensive income as an unrealized gain or loss on available-for-sale securities. With available-for-sale securities that have been hedged and qualify as a cash-flow hedge, the FHLBanks record the effective portion of the change in value of the interest-rate exchange agreements related to the risk being hedged in other comprehensive income as an unrealized gain or loss on hedging activities. The ineffective portion is recorded as other income. The change in value of the available-for-sale securities is recorded in other comprehensive income as a net unrealized gain or loss on available-for-sale securities.

The FHLBanks classify certain investments that they may sell before maturity as securities held at fair value and carry them at fair value. The FHLBanks record changes in the fair value of these investments through other income.

The FHLBanks compute gains and losses on sales of investment securities using the specific identification method and include these gains and losses in other income. The FHLBanks treat securities purchased under agreements to resell as collateralized financings.

Advances. The FHLBanks present advances, net of unearned commitment fees and discounts on advances for the Affordable Housing Program (AHP), as discussed below. The FHLBanks credit interest on advances to income as earned. Following the requirements of the Federal Home Loan Bank Act of 1932 (the FHLBank Act), as amended, each FHLBank obtains sufficient collateral on advances to protect it from losses. The FHLBank Act limits eligible collateral to certain investment securities, residential mortgage loans, cash or deposits with the FHLBank, and other eligible real estate-related assets. As Note 8 more fully describes, community financial institutions (FDIC-insured institutions with assets of \$517 million or less) are subject to more liberal statutory collateral rules for small business and agricultural loans. The FHLBanks have not incurred any credit losses on advances since its inception. Because of the collateral held as security on the advances and repayment history, management of each FHLBank believes that an allowance for losses on advances is unnecessary. In addition, prior to implementing SFAS 133 in 2001, the FHLBanks adjusted the carrying value of advances for the unamortized cost of, and deferred gains and losses from, associated interest-rate exchange agreements.

Mortgage Loans. All 12 FHLBanks have established member mortgage asset programs as services to their members. The programs all involve the investment by the FHLBank in loans created by members. The Finance Board authorized all of the FHLBanks to hold acquired member assets, such as assets acquired under the Mortgage Partnership Finance® (MPF®) program developed by the FHLBank of Chicago and the Mortgage Purchase Program (MPP) developed by the FHLBanks of Cincinnati, Indianapolis, and Seattle. Under these programs, the FHLBanks invest in mortgage loans, which are either funded by the FHLBanks or purchased from its participating members. The FHLBanks manage the liquidity and interest-rate risk, and optionality of the loans, while the members retain the marketing and servicing activities. The FHLBanks and the members share the credit risk of the loans. The member assumes credit losses up to the amount of the credit enhancement obligation specified in the master agreement. This member credit risk is collateralized using various agreements entered into with its FHLBank. Remaining losses are the responsibility of the FHLBanks.

The FHLBanks classify loans as held for investment and report them at their principal amount outstanding, net of deferred loan fees and premiums and discounts.

The FHLBanks defer and amortize loan origination fees (agent fees) and premiums/discounts as interest income over the average life of the related loan. The FHLBanks use actual prepayment experience and estimates of future principal prepayments in calculating the average lives of the loans. The FHLBanks aggregate the loans by similar characteristics (coupon, type, maturity and acquisition date) in determining prepayment estimates.

The FHLBanks record non-origination fees, such as credit enhancement fees and pair-off fees, in interest income and other income, accordingly.

The FHLBanks place a conventional loan on nonaccrual status when the collection of the contractual principal or interest is 90 days or more past due. When an FHLBank places a loan on nonaccrual status, it reverses accrued but uncollected interest against interest income. The FHLBanks record cash interest payments received on nonaccrual loans first as interest income until they recover all interest and then as principal. An FHLBank does not place a government-guaranteed loan on nonaccrual status when the collection of the contractual principal is 90 days or more past due because the member is obligated to repurchase the loan.

An FHLBank bases its allowance for credit losses on its management's analysis of estimated credit losses inherent in the FHLBanks' mortgage loan portfolio. Actual losses greater than defined levels are offset by the members' credit enhancement up to their respective limits. The analysis includes consideration of the various factors such as past performance, current performance, loan portfolio characteristics, collateral valuations, and prevailing economic conditions.

The first loss liability is the responsibility of the FHLBanks and is predetermined percentage of the unpaid principal balance, net of related charge-offs. The FHLBanks' members bear credit risk on their respective mortgages through a credit enhancement established as a second loss liability. This member credit risk may be collateralized under various agreements entered into with the FHLBanks. In certain circumstances, the FHLBanks use mortgage insurance to reduce credit risk. Losses remaining after the second loss liability are the responsibility of the FHLBanks.

Affordable Housing Program. The FHLBank Act requires each FHLBank to establish and fund an AHP (see Note 9). The FHLBanks charge required AHP funding to earnings and establish a liability. The AHP funds provide direct subsidies to members to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. In addition, some FHLBanks grant AHP advances at interest rates below the customary interest rate for unsubsidized advances. When an FHLBank makes an AHP advance, the present value of the variation in the cash flow caused by the difference in the interest rate between the AHP advance rate and the FHLBank's related cost of funds for comparable-maturity funding is charged against the AHP liability and recorded as a discount on the AHP advance.

Prepayment Fees. The FHLBanks charge their members a prepayment fee when members prepay certain advances before the original maturity. The FHLBanks credit prepayment fees to income when received in other income. Gains and losses on interest-rate exchange agreements associated with prepaid advances are included with prepayment fees on the Statements of Income.

Commitment Fees. The FHLBanks defer commitment fees for advances and accrete them to interest income using the straight-line method. They defer refundable fees until the commitment expires or until they make the advance. The FHLBanks record commitment fees for letters of credit as a deferred credit when they receive the fees and accrete them over the term of the letter of credit.

Derivatives. All derivatives are recognized on the balance sheet at their fair value and those not used for intermediary purposes are designated as (1) a hedge of the fair value of (a) a recognized asset or liability or (b) an unrecognized firm commitment (a "fair-value" hedge); (2) a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash-flow" hedge); (3) a hedge of the foreign currency component of a hedged item in a fair-value or cash-flow hedge; (4) a non-SFAS 133 hedge of an asset or liability (economic hedge) for asset-liability management purposes. Changes in the fair value of a derivative that is effective as—and that is designated and qualifies as—a fair-value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (including changes that reflect losses or gains on firm commitments), are recorded in current-period earnings. Changes in the fair value of a derivative that is effective

as—and that is designated and qualifies as—a cash-flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of a variable-rate asset or liability are recorded in earnings). Changes in the fair value of a derivative that is effective as—and that is designated and qualifies as—a foreign-currency hedge are recorded in either current-period earnings or other comprehensive income, depending on whether the hedging relationship satisfies the criteria for a fair-value or cash-flow hedge. Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the change in fair value of hedged item or the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings. Changes in the fair value of a stand-alone derivative designated as an economic hedge are recorded in current-period earnings with no fair value adjustment to an asset or liability. Hedge ineffectiveness and changes in the fair value of stand-alone derivatives are recorded in other income as “Net gain (loss) on derivatives and hedging activities.”

The FHLBanks occasionally purchase financial instruments in which a derivative instrument is “embedded” and that are not remeasured at fair value with changes in fair value reported in earnings as they occur. Upon purchasing the financial instrument, the FHLBanks assess whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and designated as either (1) a hedging instrument in a fair-value, cash-flow, or foreign-currency hedge or (2) a stand-alone derivative instrument pursuant to an economic hedge. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings (e.g., an investment security classified as “trading” under SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*), or if the FHLBanks could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and no portion of the contract would be designated as a hedging instrument.

The FHLBanks formally document all relationships between derivative hedging instruments and hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions and its method of assessing ineffectiveness. This process includes linking all derivatives that are designated as fair-value, cash-flow, or foreign-currency hedges to (1) assets and liabilities on the balance sheet, (2) firm commitments or (3) forecasted transactions. The FHLBanks also formally assess (both at the hedge’s inception and at least quarterly on an ongoing basis) whether the derivatives that are used in hedging transactions have been effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain effective in future periods. The FHLBanks typically use regression analyses or other statistical analyses to assess the effectiveness of its hedges. When it is determined that a derivative has not been or is not expected to be effective as a hedge, the FHLBanks discontinue hedge accounting prospectively, as discussed below.

The FHLBanks discontinue hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative and/or the hedged item expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued due to the FHLBanks’ determination that the derivative no longer qualifies as an effective fair-value hedge, the FHLBanks will continue to carry

the derivative on the balance sheet at its fair value, cease to adjust the hedged asset or liability for changes in fair value, and begin amortizing the cumulative basis adjustment on the hedged item into earnings over the remaining life of the hedged item. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the FHLBanks will continue to carry the derivative on the balance sheet at its fair value, removing from the balance sheet any asset or liability that was recorded to recognize the firm commitment and recording it as a gain or loss in current-period earnings. When the FHLBanks discontinue hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. When hedge accounting is discontinued due to the FHLBanks' determination that the derivative no longer qualifies as an effective cash-flow hedge of an existing hedged item, the FHLBanks will continue to carry the derivative on the balance sheet at its fair value and amortize the cumulative other comprehensive income adjustment to earnings when earnings are affected by the original forecasted transaction. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the FHLBanks will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value of the derivative in current-period earnings.

The FHLBanks are not derivative dealers and thus do not trade derivatives for short-term profit.

The FHLBanks are subject to credit risk due to the risk of nonperformance by counterparties to the derivative agreements. The degree of counterparty risk on derivative agreements depends on the extent to which master netting arrangements are included in such contracts to mitigate the risk. The FHLBanks manage counterparty credit risk through credit analysis and collateral requirements and by following the requirements set forth in the Finance Board's Financial Management Policy. Based on credit analyses and collateral requirements, the managements of the FHLBanks do not anticipate any credit losses on their agreements.

Hedging Activities.

General. The FHLBanks enter into interest-rate swaps, swaptions, interest-rate cap and floor agreements, calls, puts, and futures and forward contracts (collectively, interest-rate exchange agreements) to manage their exposure to changes in interest rates. The FHLBanks may adjust the effective maturity, repricing frequency, or option characteristics of financial instruments to achieve risk-management objectives. The FHLBanks use interest-rate exchange agreements in three ways: either by designating them as a fair-value or cash-flow hedge of an underlying financial instrument or a forecasted transaction, by acting as an intermediary, or in asset-liability management (i.e., a non-SFAS 133 economic hedge.) For example, the FHLBanks use interest-rate exchange agreements in their overall interest-rate risk management to adjust the interest-rate sensitivity of consolidated obligations to approximate more closely the interest-rate sensitivity of assets (both advances and investments), and/or to adjust the interest-rate sensitivity of advances, investments or mortgage loans to approximate more closely the interest-rate sensitivity of liabilities. In addition to using interest-rate exchange agreements to manage mismatches of interest rates between assets and liabilities, the FHLBanks also use interest-rate exchange agreements to manage embedded options in assets and liabilities, to hedge the market value of existing assets and liabilities, and anticipated transactions, to hedge the duration risk of prepayable instruments and to reduce funding costs.

Consolidated Obligations. An FHLBank manages the risk arising from changing market prices and volatility of a consolidated obligation by matching the cash inflow on the interest-rate exchange agreement with the cash outflow on the consolidated obligation. In addition, the FHLBanks require collateral agreements on some interest-rate exchange agreements. While consolidated obligations are the joint-and-several obligations of the FHLBanks, one or more

FHLBanks individually serve as counterparties to interest-rate exchange agreements associated with specific debt issues.

In a typical transaction, fixed-rate consolidated obligations are issued for one or more FHLBanks, and each of those FHLBanks simultaneously enters into a matching interest-rate exchange agreement in which the counterparty pays fixed cash flows to the FHLBank designed to mirror in timing and amount the cash outflows the FHLBank pays on the consolidated obligation. Such transactions are treated as fair-value hedges under SFAS 133. In this typical transaction, the FHLBanks pay a variable cash flow that closely matches the interest payments it receives on short-term or variable-rate advances. This intermediation between the capital and swap markets permits the FHLBanks to raise funds at lower costs than would otherwise be available through the issuance of simple fixed- or floating-rate consolidated obligations in the capital markets.

Advances. With issuances of convertible advances, an FHLBank may purchase from the member a put option(s) that enables the FHLBank to convert an advance from fixed rate to floating rate if interest rates increase or to terminate the advance and extend additional credit on new terms. An FHLBank may hedge a convertible advance by entering into a cancelable interest-rate exchange agreement where the FHLBank pays fixed and receives variable. This type of hedge is treated as a fair value hedge under SFAS 133. The swap counterparty can cancel the interest-rate exchange agreement on the call date, which would normally occur in a rising-rate environment, and the FHLBank can convert the advance to a floating rate.

The optionality embedded in certain financial instruments held by the FHLBanks can create interest-rate risk. When a member prepays an advance, the FHLBanks could suffer lower future income if the principal portion of the prepaid advance were invested in lower-yielding assets that continue to be funded by higher-cost debt. To protect against this risk, each FHLBank generally charges a prepayment fee that makes it financially indifferent to a borrower's decision to prepay an advance. When an FHLBank offers advances (other than short-term advances) that a member may prepay without a prepayment fee, it usually finances such advances with callable debt or otherwise hedges this option.

Mortgage Loans. The FHLBanks invest in mortgage assets. The prepayment options embedded in mortgage assets can result in extensions or contractions in the expected maturities of these investments, depending on changes in interest rates. The Finance Board's Financial Management Policy limits this source of interest-rate risk by restricting the types of mortgage assets the FHLBank may own to those with limited average life changes under certain interest-rate shock scenarios. The FHLBanks may manage against prepayment and duration risk by funding some mortgage assets with consolidated obligations that have call features. In addition, the FHLBanks may use interest-rate exchange agreements to manage the prepayment and duration variability of mortgage assets. Net income could be reduced if the FHLBanks replace the mortgages with lower-yielding assets and if the FHLBanks' higher funding costs are not reduced concomitantly.

The FHLBanks manage the interest-rate and prepayment risk associated with mortgages through a combination of debt issuance and derivatives. The FHLBanks issue both callable and non-callable debt to achieve cash-flow patterns and liability durations similar to those expected on the mortgage loans. The FHLBanks also use derivatives to match the expected prepayment characteristics of the mortgages. Interest-rate swaps, to the extent the payments on the mortgages result in simultaneous reduction of the notional amount on the swaps, may receive fair-value hedge accounting under which changes in the fair value of the swaps and changes in the fair value of the mortgages that are attributable to the hedged risk, are recorded in current-period earnings. Options may also be used to hedge prepayment risk on the mortgages, many of which are not identified to specific mortgages and, therefore, do not receive fair-value or cash-flow hedge accounting treatment. The options are marked-to-market through current earnings. The FHLBanks also purchase interest-rate caps and floors, swaptions, callable swaps, calls, and puts to minimize the prepayment risk embedded in the mortgage loans. Although these derivatives are valid economic hedges against the prepayment risk of the loans, they are not specifically linked to individual loans and, therefore, do

not receive either fair-value or cash-flow hedge accounting. The derivatives are marked-to-market through earnings.

The FHLBanks analyze the risk of the mortgage portfolio on a regular basis and considers the interest-rate environment under various rate scenarios and also performs analyses of the duration and convexity of the portfolio.

Investments. The FHLBanks invest in U.S. agency securities, mortgage-backed securities and the taxable portion of state or local housing finance agency securities. The interest-rate and prepayment risk associated with these investment securities is managed through a combination of debt issuance and derivatives. The FHLBanks may manage against prepayment and duration risk by funding investment securities with consolidated obligations that have call features. The FHLBanks may also manage the risk arising from changing market prices and volatility of investment securities by matching the cash outflow on the interest-rate exchange agreements with the cash inflow on the investment securities. The FHLBanks' derivatives currently associated with investment securities are designated as economic hedges with the changes in fair values of the derivatives being recorded in current earnings. The hedged investment securities are classified as securities held at fair value.

Anticipated Debt Issuance. Certain FHLBanks enter into swaps on the anticipated issuance of debt to "lock in" a spread between the earning asset and the cost of funding. The swap is terminated upon issuance of the debt instrument, and amounts reported in accumulated other comprehensive income are reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the debt that was issued.

The FHLBanks have issued some consolidated obligations denominated in currencies other than U.S. dollars, and the FHLBanks use forward exchange contracts to hedge currency risk. These contracts are agreements to exchange different currencies at specified future dates and at specified rates. The use of these contracts effectively simulates the conversion of these consolidated obligations denominated in foreign currencies to ones denominated in U.S. dollars. Such transactions are treated as foreign currency fair-value hedges under SFAS 133, whereby the fair value changes of the foreign-currency-denominated obligation and the forward contract are recorded in current period earnings. At December 31, 2001, consolidated obligations denominated in foreign currencies represented less than 1 percent of consolidated obligations outstanding. Therefore, the FHLBanks are not exposed to material amounts of currency risk.

To meet the off-balance-sheet hedging needs of their members, the FHLBanks enter into offsetting interest-rate exchange agreements, acting as an intermediary between members and other counterparties. This intermediation allows smaller members indirect access to the swap market. The derivatives used in intermediary activities do not receive SFAS 133 hedge accounting and are separately marked-to-market through earnings. The net result of the accounting for these derivatives does not significantly affect the operating results of the FHLBank.

Premises and Equipment. The FHLBanks state premises and equipment at cost less accumulated depreciation and amortization of approximately \$132 million and \$123 million at December 31, 2001 and 2000. The FHLBanks compute depreciation on the straight-line method over the estimated useful lives of assets. They amortize leasehold improvements on the straight-line basis over the shorter of the estimated useful life of the improvement or the remaining term of the lease. The FHLBanks capitalize improvements and major renewals but expense ordinary maintenance and repairs when incurred. The FHLBanks include gains and losses on disposal of premises and equipment in other income.

Concessions on Consolidated Obligations. The FHLBanks defer and amortize, using the straight-line method, the amounts paid to dealers in connection with the sale of consolidated obligation bonds over the term of the bonds or to the first call date for callable bonds. The Office of Finance prorates the amount of the concession among the FHLBanks. The FHLBanks charge to expense as incurred the concessions applicable to the sale of consolidated obligation discount notes because of the short maturities of these notes.

Discounts and Premiums on Consolidated Obligations. The FHLBanks expense the discounts on consolidated obligation discount notes using the straight-line method over the term of the related notes due to their short maturity. They amortize the discounts and premiums on consolidated bonds to expense using a method that approximates the level-yield method over the term to maturity of the consolidated obligation bond or through the first call date for callable bonds.

Capital Distributions to Resolution Funding Corporation. Although the FHLBanks are exempt from ordinary federal, state, and local taxation except for local real estate tax, they are required to make payments to the Resolution Funding Corporation (REFCORP). For years through 1999, the FHLBanks charged the \$300 million annual capital distribution to the Resolution Funding Corporation (REFCORP) directly to retained earnings (see Note 14). Effective January 1, 2000, each FHLBank is required to pay 20 percent of net earnings after AHP to REFCORP. The FHLBanks will expense these amounts until the aggregate amounts actually paid by all 12 FHLBanks are equivalent to a \$300 million annual annuity whose final maturity date is April 15, 2030, at which point the required payment of each FHLBank to REFCORP will be fully satisfied.

Finance Board and Office of Finance Expenses. The FHLBanks are assessed the costs of operating the Finance Board and the Office of Finance, their debt issuing agent.

Estimated Fair Values. Many of the FHLBanks' financial instruments lack an available trading market characterized by transactions between willing parties other than in a forced or liquidation sale. Therefore, the FHLBanks use significant estimates and present-value calculations when disclosing estimated fair values. The FHLBanks assume that book value approximates fair value for financial instruments with three months or less to repricing or maturity. Note 17 details the estimated fair values of the FHLBanks' financial instruments.

Cash Flows. In the statements of cash flows, the FHLBanks consider cash on hand and due from banks as cash and cash equivalents.

Reclassifications. Certain amounts in the 2000 and 1999 combined financial statements have been reclassified to conform with the 2001 presentation.

Note 2—Change in Accounting Principle and Recently Issued Accounting Standards

Adoption of SFAS 133. The FHLBanks adopted SFAS 133 on January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The gains and losses on derivative instruments that are reported in other comprehensive income will be reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current period earnings.

For a derivative designated as a fair-value hedge, the transition adjustment for the derivative was reported as a cumulative effect adjustment of net income. Concurrently, any fair value gain or loss on the hedged item was recognized as an adjustment of the hedged item's carrying amount, but only to the extent of the offsetting transition adjustment of the derivative, and was also reported as a cumulative effect adjustment of net income. The transition provisions of SFAS 133 also provide that at the date of initial implementation an entity may transfer any security classified as "held-to-maturity" to "available-for-sale" or "trading" (herein referred to as investments at fair value), and any security classified as "available-for-sale" to "trading" (investments at fair value.)

In accordance with the transition provisions of SFAS 133, the FHLBanks recorded the following cumulative effect adjustments to earnings as of January 1, 2001 (dollar amounts in millions):

Net adjustments related to (1) fair-value hedges, (2) derivative transactions not designated as hedges under SFAS 133, and (3) derivative transactions not meeting the requirements for fair-value or cash-flow hedges	\$(166)
Unrealized net gains (losses) on investments transferred from "held-to-maturity" to "investments at fair value"	<u>136</u>
Total cumulative effect of accounting change on earnings	<u>\$ (30)</u>

The FHLBanks also recorded cumulative-effect adjustments in other comprehensive income as of January 1, 2001, and recorded changes in other comprehensive income for the year ended December 31, 2001, as follows (dollar amounts in millions):

Previously deferred hedging gains and losses	\$ (1)
Net unrealized gains (losses) on investments transferred from "held-to-maturity" to "available-for-sale"	<u>(1)</u>
Total cumulative effect of accounting change on other comprehensive income at January 1, 2001	<u>(2)</u>
Net amounts reclassified as earnings for the year ended December 31, 2001 ..	27
Net change associated with hedging activities for the year ended December 31, 2001	<u>(204)</u>
Net change during period related to hedging activities	<u>(177)</u>
Total cumulative effect of accounting change on other comprehensive income at January 1, 2001, less net change during the year ended December 31, 2001, related to hedging activities ..	<u>\$ (179)</u>

On January 1, 2001, the FHLBanks transferred held-to-maturity securities with an amortized cost of \$4.60 billion and an estimated fair value of \$4.64 billion into the available-for-sale category. The unrealized net gain related to the transfer of certain securities into the available-for-sale category, net of adjustments to related derivatives, was \$1 million, which has been recognized in the accumulated other comprehensive income component of capital, as part of the cumulative effect of adopting the accounting principle in 2001. In addition, the FHLBanks transferred held-to-maturity securities with an amortized cost of \$7.53 billion and an estimated fair value of \$7.66 billion into the investments held at fair value category. The unrealized gain related to the transfer of certain held-to-maturity securities into the investments held at fair value category was \$136 million, and has been shown as an increase to the FHLBanks' results of operations in 2001 as a cumulative effect of a change in accounting principle. The remaining cumulative effect of adjustments related to fair-value hedges and derivative transactions either not designated as hedges under SFAS 133 or not meeting the requirements for fair value or cash-flow hedges have been shown as a charge to the FHLBanks' results of operations in 2001 as part of the cumulative effect of a change in accounting principle, decreasing net income by \$166 million. In addition, the FHLBanks recognized in accumulated other comprehensive income as part of the cumulative effect of a change in accounting principle at transition a loss of \$2 million decreasing capital.

As a result of SFAS 133, for the year ended December 31, 2001, the FHLBanks recorded net gains on derivatives and hedging activities of \$83 million in other income. In addition, the FHLBanks recorded derivative assets of \$2,728 million and derivative liabilities of \$7,814 million at December 31, 2001. For fair-value hedges and their related hedged items, the FHLBanks recognized a net gain of \$79.1 million in earnings which represents the amount of the hedge's ineffectiveness, classified as "net gain (loss) on derivatives and hedging activities" on the Statements of Income. The FHLBanks also recognized \$2.3 million in earnings due to hedged firm commitments no longer qualifying as fair-value hedges. For economic hedges, the FHLBanks recognized a net loss of \$51.6 million in earnings, classified as "net gain (loss) on derivatives and

hedging activities” on the Statements of Income. For cash-flow hedges and their related hedged items, the FHLBanks recognized a net gain of \$28.8 million in earnings, of which \$0.7 million represents the amount of the hedge’s ineffectiveness, classified as “net gain (loss) on derivatives and hedging activities” on the Statements of Income. There were no material amounts for the year ended December 31, 2001, that were reclassified into earnings as a result of the discontinuance of cash-flow hedges because it became probable that the original forecasted transactions would not occur by the end of the originally specified time period or within a two month period thereafter. As of December 31, 2001, the deferred net gains (losses) on derivative instruments accumulated in other comprehensive income expected to be reclassified as earnings during the next twelve months is approximately \$7.8 million. The maximum length of time over which the FHLBanks is hedging its exposure to the variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, is five years.

Certain notes included herein are adjusted to accommodate the effect of SFAS 133. Comparative information for prior years, which is no longer relevant in 2001, is not disclosed in accordance with the transition provisions of SFAS 133. Other disclosures for 2001 resulting from the implementation of SFAS 133 have been added, and comparative information for 2000 may not be relevant and therefore not disclosed.

Recently Issued Accounting Standard. In September 2000, Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140) was issued. SFAS 140 provides accounting and reporting requirements for all transfers and the servicing of financial assets and the extinguishment of liabilities, effective for all transfers and extinguishments beginning after March 31, 2001. SFAS 140 is also effective for the recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. Management of the FHLBanks has evaluated the effect of adopting SFAS 140 and has determined that the effect of adoption is not material.

Note 3—Cash and Due from Banks

Compensating Balances. The FHLBanks maintain collected cash balances with commercial banks in return for certain services. These agreements contain no legal restrictions about the withdrawal of funds. The average compensating balances for the years ended December 31, 2001 and 2000, were approximately \$67.9 million and \$38.8 million.

In addition, the FHLBanks maintained average required clearing balances with various Federal Reserve Banks and branches of approximately \$113.5 million and \$109.6 million for the years ended December 31, 2001 and 2000. These clearing balances are required and may not be withdrawn; however, the FHLBanks may use earnings credits on these balances to pay for services received from the Federal Reserve Banks.

Pass-through Deposit Reserves. The FHLBanks act as a pass-through correspondent for member institutions required to deposit reserves with the Federal Reserve Banks. The amount shown as cash and due from banks includes pass-through reserves deposited with Federal Reserve Banks of approximately \$156.1 million and \$79.8 million as of December 31, 2001 and 2000. The FHLBanks include member reserve balances in “other liabilities” on the statements of condition.

Note 4—Securities Purchased Under Agreements to Resell

Certain FHLBanks have entered into purchases of securities under agreements to resell. These amounts represent short-term loans and are assets in the Statements of Condition. The securities purchased under agreements to resell are held in safekeeping in the name of the FHLBank by one of the Federal Reserve Banks or a safekeeping agent. Should the market value of the underlying securities decrease below the market value required as collateral, the counterparty must place an equivalent amount of additional securities in safekeeping in the name of the FHLBank or the dollar value of the resale agreement will be decreased accordingly.

Note 5—Held-to-Maturity Securities

Major Security Types. Held-to-maturity securities as of December 31, 2001, were as follows (dollar amounts in millions):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
U.S. Treasury obligations	\$ 206	\$ 9		\$ 215
Commercial paper	5,107			5,107
U.S. agency obligations	5,558	111	(12)	5,657
State or local housing agency obligations	4,551	65	(49)	4,567
Other	906	11	(8)	909
	<u>16,328</u>	<u>196</u>	<u>(69)</u>	<u>16,455</u>
Mortgage-backed securities	80,968	1,382	(141)	82,209
Total	<u>\$97,296</u>	<u>\$1,578</u>	<u>\$ (210)</u>	<u>\$98,664</u>

Federal funds sold as of December 31, 2001, which are separately classified on the statements of condition, were as follows (dollar amounts in millions):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Federal funds sold	\$48,394	\$ 4	\$	\$48,398

Held-to-maturity securities as of December 31, 2000, were as follows (dollar amounts in millions):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
U.S. Treasury obligations	\$ 232	\$ 1	\$	\$ 233
Commercial paper	8,933		(1)	8,932
U.S. agency obligations	12,449	141	(79)	12,511
State or local housing agency obligations	3,907	41	(98)	3,850
Other	536		(1)	535
	<u>26,057</u>	<u>183</u>	<u>(179)</u>	<u>26,061</u>
Mortgage-backed securities	81,054	750	(378)	81,426
	<u>107,111</u>	<u>933</u>	<u>(557)</u>	<u>107,487</u>
Deferred gains on terminated or redesignated interest- rate exchange agreements	(4)			(4)
	<u>107,107</u>	<u>933</u>	<u>(557)</u>	<u>107,483</u>
Associated interest-rate exchange agreements, net	79	88	(288)	(121)
Total	<u>\$107,186</u>	<u>\$1,021</u>	<u>\$ (845)</u>	<u>\$107,362</u>

Federal funds sold as of December 31, 2000, which are separately classified on the statements of condition, were as follows (dollar amounts in millions):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Federal funds sold	\$55,263	\$3	\$ (3)	\$55,263
Associated interest-rate exchange agreements, net		4		4
Total	<u>\$55,263</u>	<u>\$7</u>	<u>\$ (3)</u>	<u>\$55,267</u>

Redemption Terms. The amortized cost and estimated fair value of held-to-maturity securities, excluding associated interest-rate exchange agreements, as of December 31, 2001 and 2000, by contractual maturity, are shown below (dollar amounts in millions). Expected maturities of some securities and mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

<u>Year of Maturity</u>	<u>2001</u>		<u>2000</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ 5,593	\$ 5,594	\$ 9,607	\$ 9,606
Due after one year through five years	4,919	5,035	7,058	7,092
Due after five through ten years	1,452	1,462	3,359	3,343
Due after ten years	4,364	4,364	6,033	6,020
	<u>16,328</u>	<u>16,455</u>	<u>26,057</u>	<u>26,061</u>
Mortgage-backed securities	<u>80,968</u>	<u>82,209</u>	<u>81,054</u>	<u>81,426</u>
Total	<u>\$97,296</u>	<u>\$ 98,664</u>	<u>\$107,111</u>	<u>\$107,487</u>

The amortized cost of the FHLBanks' mortgage-backed securities classified as held-to-maturity includes net discounts of \$2,375 million and \$103 million at December 31, 2001 and 2000.

Interest-Rate Payment Terms. The following table details additional interest-rate payment terms for investment securities classified as held-to-maturity at December 31, 2001 and 2000, and interest-rate exchange agreements associated with these securities at December 31, 2000 (dollar amounts in millions):

	<u>2001</u>	<u>2000</u>
Amortized cost of held-to-maturity securities other than mortgage-backed securities:		
Fixed-rate	\$13,754	\$ 24,010
Variable-rate	<u>2,574</u>	<u>2,047</u>
	<u>16,328</u>	<u>26,057</u>
Amortized cost of held-to-maturity mortgage-backed securities:		
Pass-through securities:		
Fixed-rate	8,696	11,684
Variable-rate	<u>1,843</u>	<u>4,785</u>
Collateralized mortgage obligations:		
Fixed-rate	54,595	48,743
Variable-rate	<u>15,834</u>	<u>15,842</u>
	<u>80,968</u>	<u>81,054</u>
Total	<u>\$97,296</u>	<u>\$107,111</u>
Notional principal of interest-rate exchange agreements by class type associated with held-to-maturity securities:		
Interest-rate swaps		\$ 11,524
Interest-rate caps purchased		8,056
Interest-rate floors purchased		1,548
Other		<u>1,065</u>
Total		<u>\$ 22,193</u>

Note 6—Available-for-Sale Securities

Major Security Types. Available-for-sale securities as of December 31, 2001, were as follows (dollar amounts in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	\$1,600	\$	\$	\$1,600
U.S. agency obligations	3,792	126	(51)	3,867
Other	350		(4)	346
	<u>5,742</u>	<u>126</u>	<u>(55)</u>	<u>5,813</u>
Mortgage-backed securities	1,494	98	(2)	1,590
Total	<u>\$7,236</u>	<u>\$224</u>	<u>\$(57)</u>	<u>\$7,403</u>

The FHLBanks have recorded \$155 million of unrealized gains associated with hedging activities related to available-for-sale securities for the year ended December 31, 2001.

Available-for-sale securities as of December 31, 2000, were as follows (dollar amounts in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	\$2,718	\$	\$	\$2,718
U.S. agency obligations	1,475	13	(14)	1,474
State or local housing agency obligations ..				
Other	36	5		41
	<u>4,229</u>	<u>18</u>	<u>(14)</u>	<u>4,233</u>
Mortgage-backed securities	209		(1)	208
	<u>4,438</u>	<u>18</u>	<u>(15)</u>	<u>4,441</u>
Associated interest-rate exchange agreements, net		14	(21)	(7)
Total	<u>\$4,438</u>	<u>\$ 32</u>	<u>\$(36)</u>	<u>\$4,434</u>

Redemption Terms. The amortized cost and estimated fair value of available-for-sale securities, excluding associated interest-rate exchange agreements, as of December 31, 2001 and 2000, by contractual maturity, are shown below (dollar amounts in millions). Expected maturities of some securities and mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

Year of Maturity	2001		2000	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$1,676	\$1,678	\$2,953	\$2,953
Due after one year through five years	450	481	330	334
Due after five through ten years	936	937	912	907
Due after ten years	2,680	2,717	34	39
	<u>5,742</u>	<u>5,813</u>	<u>4,229</u>	<u>4,233</u>
Mortgage-backed securities	1,494	1,590	209	208
Total	<u>\$7,236</u>	<u>\$7,403</u>	<u>\$4,438</u>	<u>\$4,441</u>

The amortized cost of the FHLBank's mortgage-backed securities classified as available-for-sale includes net premiums of \$3 million and \$2 million at December 31, 2001 and 2000.

Interest-Rate Payment Terms. The following table details additional interest-rate payment terms for investment securities classified as available-for-sale at December 31, 2001 and 2000, and interest-rate exchange agreements associated with these securities at December 31, 2000 (dollar amounts in millions):

	<u>2001</u>	<u>2000</u>
Amortized cost of available-for-sale securities other than mortgage-backed securities:		
Fixed-rate	\$5,544	\$4,078
Variable-rate	198	151
	<u>5,742</u>	<u>4,229</u>
Amortized cost of available-for-sale mortgage-backed securities:		
Pass-through securities:		
Fixed-rate	1,243	
Variable-rate	118	205
Collateralized mortgage obligations:		
Fixed-rate	133	
Variable-rate		4
	<u>1,494</u>	<u>209</u>
Total	<u>\$7,236</u>	<u>\$4,438</u>
Notional principal of interest-rate exchange agreements by class type associated with available-for-sale securities:		
Interest-rate swaps		\$1,480
Interest-rate caps purchased		50
Interest-rate floors purchased		
Other		
Total		<u>\$1,530</u>

Gains and losses. The FHLBanks realized \$797 million and \$2 million in gains on the sale of available-for-sale securities for 2001 and 2000. The FHLBanks realized \$794 million in gross losses on the sale of available-for-sale securities in 2001 and no gross losses in 2000. Gains and losses on the sale of available-for-sale securities were netted with gains (losses) incurred on interest-rate exchange agreements designated against available-for-sale securities during the years ended December 31, 2000, and 1999. In 2001, after adopting SFAS 133, realized gains and losses on interest-rate exchange agreements were included in the separate line on the income statement entitled net gain (loss) on derivatives and hedging activities.

Note 7—Securities Held at Fair Value

Major Security Types. Securities held at fair value as of December 31, 2001, were as follows (dollar amounts in millions):

	<u>Estimated Fair Value</u>
U.S. agency obligations	\$5,645
State or local housing agency obligations	59
	<u>5,704</u>
Mortgage-backed securities	4,176
Total investments	<u>\$9,880</u>

Net gain on securities held at fair value during the year ended December 31, 2001, included a change in net unrealized holding gain of \$87 million for securities held on December 31, 2001.

Note 8—Advances

Redemption Terms. At December 31, 2001 and 2000, the FHLBanks had advances outstanding, including AHP advances (see Note 9), at interest rates ranging from 0 percent to 10.51 percent, as summarized below (dollar amounts in millions). Advances with interest rates of 0 percent are AHP-subsidized advances.

Year of Maturity	2001		2000	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Overdrawn demand deposit accounts	\$ 98		\$ 100	
2001			187,084	6.53%
2002	149,202	3.13%	56,282	6.50%
2003	71,300	4.07%	45,830	6.28%
2004	49,504	3.77%	24,195	6.13%
2005	39,036	4.97%	33,807	6.42%
2006	27,583	3.50%	4,201	6.50%
Thereafter	122,958	5.23%	84,470	5.72%
Index amortizing advances	3,660	5.40%	1,924	6.29%
Total par value	<u>463,341</u>	4.10%	<u>437,893</u>	6.31%
Unamortized commitment fees	(1)		(1)	
Discount on AHP advances	(46)		(43)	
Premium on advances	1			
SFAS 133 hedging adjustments	9,437			
Deferred net losses on terminated interest-rate exchange agreements			1	
	<u>472,732</u>		<u>437,850</u>	
Associated interest-rate exchange agreements, net			11	
Total	<u>\$472,732</u>		<u>\$437,861</u>	

Index amortizing advances require repayment according to predetermined amortization schedules linked to the level of various indices. Usually, as market interest rates rise (fall), the maturity of an index amortizing advance extends (contracts).

Many of the FHLBanks' advances are callable at the member's option. However, the FHLBanks charge a prepayment fee when members terminate certain advances. Members may repay other advances on pertinent dates (call dates) without incurring prepayment fees (callable advances). At December 31, 2001 and 2000, the FHLBanks had callable advances outstanding totaling \$38,623 million and \$11,692 million.

The following table summarizes advances at December 31, 2001 and 2000, by year of maturity or next call date for callable advances (dollar amounts in millions):

Year of Maturity or Next Call Date	2001	2000
Overdrawn demand deposit accounts	\$ 98	\$ 100
2001		192,463
2002	159,086	55,126
2003	68,975	44,876
2004	46,268	24,364
2005	38,392	33,096
2006	26,706	3,594
Thereafter	120,156	82,350
Index amortizing advances	3,660	1,924
Total par value	<u>\$463,341</u>	<u>\$437,893</u>

The FHLBanks also offer convertible advances. With a convertible advance, the FHLBanks effectively purchase a put option from the member that allows the FHLBank to convert the advance

from fixed to floating rate if interest rates increase or to terminate the advance and extend additional credit on new terms. At December 31, 2001 and 2000, the FHLBanks had convertible advances outstanding totaling \$145,754 million and \$100,275 million.

The following table summarizes advances at December 31, 2001 and 2000, by year of maturity or next put date (dollar amounts in millions):

<u>Advances by Year of Maturity or Next Put Date</u>	<u>2001</u>	<u>2000</u>
Overdrawn demand deposit accounts	\$ 98	\$ 100
2001		248,966
2002	244,025	74,308
2003	92,231	57,570
2004	52,981	20,225
2005	25,464	17,318
2006	27,408	3,540
Thereafter	17,474	13,942
Index amortizing advances	3,660	1,924
Total par value	<u>\$463,341</u>	<u>\$437,893</u>

Security Terms. The individual FHLBanks lend to financial institutions involved in housing finance within their districts according to Federal statutes, including the FHLBank Act. The FHLBank Act requires the FHLBanks to obtain sufficient collateral on advances to protect against losses and to accept only certain U.S. government or government agency securities, residential mortgage loans, deposits in the applicable FHLBank, and other real estate-related assets as collateral on such advances. Community financial institutions may pledge secured loans for small businesses or agriculture as collateral for advances. Borrowing members pledge their capital stock of the FHLBanks as additional collateral for advances. Until the Finance Board approves and an FHLBank implements its approved capital plan, the FHLBank Act requires that total advances from an FHLBank to a member not exceed 20 times the member's capital stock in the FHLBank. At December 31, 2001 and 2000, the FHLBanks had rights to collateral with an estimated value greater than outstanding advances. Based upon the financial condition of the member, an FHLBank:

- Allows a member to retain possession of the collateral assigned to the FHLBank, if the member executes a written security agreement and agrees to hold such collateral for the benefit of the FHLBank; or
- Requires the member specifically to assign or place physical possession of collateral with the FHLBank or its safekeeping agent.

Beyond these provisions, Section 10(e) of the FHLBank Act affords any security interest granted by a member to an FHLBank priority over the claims or rights of any other party. The only two exceptions are claims that would be entitled to priority under otherwise applicable law or perfected security interests.

Credit Risk. The FHLBanks have experienced no credit losses on advances to members since the FHLBank System was founded, nor does the management of any FHLBank anticipate any credit losses on advances to members. Accordingly, the FHLBanks have not provided any allowances for losses on advances.

The FHLBanks' potential credit risk from advances is concentrated in commercial banks and savings institutions. At year end 2001, 72 members held advances that exceeded \$1 billion per member. As of December 31, 2001, the FHLBanks had advances of \$291.8 billion outstanding to these 72 members, and this represented 61.7 percent of total advances outstanding. The FHLBanks held sufficient collateral to cover the advances to these institutions, and the FHLBanks do not expect to incur any credit losses on these advances.

Interest-Rate Payment Terms. The following table details additional interest-rate payment terms for advances at December 31, 2001 and 2000, and the notional amount of interest-rate exchange agreements associated with advances at December 31, 2000 (dollar amounts in millions):

	2001	2000
Par amount of advances:		
Fixed-rate	\$330,295	\$297,708
Variable-rate	133,046	140,185
Total	<u>\$463,341</u>	<u>\$437,893</u>
Notional principal of interest-rate exchange agreements by class type associated with advances:		
Interest-rate swaps		\$184,107
Interest-rate caps purchased		1,395
Interest-rate floors purchased		569
Other		126
Total		<u>\$186,197</u>

Note 9—Affordable Housing Program

Section 10(j) of the FHLBank Act requires each FHLBank to establish an AHP. Each FHLBank provides subsidies to members who use the funds to assist the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. The AHP liability represents funds accrued in 2001 to be awarded in 2002 and the portion of previously approved awards that the member has not yet used.

Annually, the FHLBanks must set aside for the AHPs the greater of \$100 million or 10 percent of the current year's income before charges for AHP (but after expenses for REFCORP) (see Note 14). The FHLBanks charge the amount set aside to income and recognize it as a liability. As members use subsidies, the FHLBanks relieve the AHP liability. If the result of the aggregate 10 percent calculation described above is less than \$100 million, then the FHLBank Act requires the shortfall to be allocated among the FHLBanks based on the ratio of each FHLBank's income before AHP and REFCORP to the sum of the income before AHP and REFCORP of the 12 FHLBanks. There was no shortfall in 2001, 2000, and 1999. The FHLBanks had outstanding principal in AHP-related advances of \$244 million at December 31, 2001.

Note 10—Mortgage Loans

Under two programs, the FHLBanks hold single-family mortgage loans that are originated through or by, credit-enhanced by, and serviced by members. The Finance Board has authorized different and much smaller mortgage loan purchase programs not confined to single-family mortgage loans at the FHLBanks of New York, Atlanta, and Seattle. The following table presents information as of December 31, 2001 and 2000 on mortgage loans held by all FHLBanks under all programs (dollar amounts in millions):

	2001	2000
Real Estate:		
Fixed medium-term* single-family mortgages	\$ 2,721	\$ 577
Fixed long-term single-family mortgages	24,681	15,287
Multifamily mortgages	157	221
Nonresidential mortgages	3	3
Unamortized premiums	65	52
Deferred loan costs, net	25	12
Associated interest-rate exchange agreements, net	(2)	
Total mortgage loans	<u>\$27,650</u>	<u>\$16,152</u>

* Medium-term is defined as a term of 15 years or less.

The par value of mortgage loans outstanding at December 31, 2001, and December 31, 2000, was comprised of government-guaranteed loans totaling \$13,336 million and \$12,507 million and conventional loans totaling \$14,206 million and \$3,563 million, respectively.

The allowances for credit losses were as follows (dollar amounts in millions):

	<u>2001</u>	<u>2000</u>
Balance, beginning of year	\$ 3	\$ 1
Provision for credit losses	<u>4</u>	<u>2</u>
Balance, end of year	<u>\$ 7</u>	<u>\$ 3</u>

The estimated fair value of the mortgage loans held as of December 31, 2001 and 2000 are reported in Note 17.

At year end 2001, the FHLBanks had no investments in impaired mortgage loans.

Note 11—Deposits

The FHLBanks offer demand and overnight deposits for members and qualifying nonmembers. In addition, the FHLBanks offer short-term deposit programs to members. A member that services mortgage loans may deposit in an FHLBank the funds collected in connection with the mortgage loans pending disbursement of such funds to the owners of the mortgage loans; the FHLBanks classify these items as other deposits on the Statements of Condition.

The following table shows the notional amount of interest-rate exchange agreements associated with deposits at December 31, 2000 (dollar amounts in millions):

	<u>2000</u>
Notional principal of interest-rate exchange agreements by class type associated with deposits:	
Interest-rate caps purchased	\$350
Other	<u>150</u>
Total	<u>\$500</u>

Note 12—Borrowings

Securities Sold Under Repurchase Agreements. Certain FHLBanks have entered into sales of securities under repurchase agreements. The amounts received under these agreements represent borrowings and are liabilities on the Statements of Condition. The FHLBanks have delivered securities sold under agreements to repurchase to the primary dealer. Should the market value of the underlying securities fall below the market value required as collateral, the FHLBanks must deliver additional securities to the dealer. The FHLBanks had \$800 million of securities sold under repurchase agreements outstanding at December 31, 2001.

Note 13—Consolidated Obligations

Consolidated obligations are the joint-and-several obligations of the FHLBanks and consist of consolidated bonds and discount notes. Through December 31, 2000, the Finance Board issued consolidated bonds through the Office of Finance primarily to raise intermediate- and long-term funds for the FHLBanks. Effective January 2, 2001, and in accordance with final rules adopted by the Finance Board on June 2, 2000, the Finance Board discontinued issuing the debt; instead, the FHLBanks began issuing joint debt through the Office of Finance as their agent. Usually, the maturity of consolidated bonds ranges from 1 year to 10 years, but they are not subject to any statutory or regulatory limits on maturity. The FHLBanks, through the Office of Finance, issue consolidated discount notes to raise short-term funds sold at less than the notes' face amount and redeems them at par value when they mature.

The book value of outstanding consolidated obligations for all of the FHLBanks, including consolidated obligations held by other FHLBanks that have been eliminated in combination, was

approximately \$623,740 million and \$594,562 million at December 31, 2001 and 2000. Regulations require the 12 FHLBanks to maintain unpledged Qualifying Assets equal to the consolidated obligations outstanding. Qualifying Assets are defined as cash; secured advances; assets with an assessment or rating at least equivalent to the current assessment or rating of the consolidated obligations; obligations, participations, mortgages, or other securities of or issued by the United States or an agency of the United States; and such securities as fiduciary and trust funds may invest in under the laws of the State in which the FHLBank is located.

On June 2, 2000, the Finance Board adopted a final rule amending the FHLBanks' leverage limit requirements. Effective July 1, 2000, each FHLBank's leverage limit is based on a ratio of assets to capital, rather than a ratio of liabilities to capital. The Finance Board's former regulations prohibited the issuance of consolidated obligations if such issuance would bring the FHLBanks' outstanding consolidated obligations and other unsecured senior liabilities above 20 times the FHLBanks' total capital. The Finance Board's Financial Management Policy also applied this limit on an FHLBank-by-FHLBank basis. The new rule deletes the FHLBank System-wide leverage limit from the regulations, but limits each FHLBank's assets generally to no more than 21 times its capital. Nevertheless, an FHLBank whose non-mortgage assets, after deducting deposits and capital, do not exceed 11 percent of its assets may have total assets in an amount not greater than 25 times its capital.

To provide the holders of consolidated obligations issued before January 29, 1993 (prior bondholders), the protection equivalent to that provided under the FHLBanks' previous leverage limit of 12 times FHLBanks' capital stock, prior bondholders have a claim on a certain amount of the Qualifying Assets (Special Asset Account (SAA)) if capital stock is less than 8.33 percent of consolidated obligations. At December 31, 2001 and 2000, the FHLBanks' capital stock was 6.7 percent and 5.0 percent of the par value of consolidated obligations outstanding, and the SAA balance was approximately \$28 million and \$37 million. Further, the regulations require each FHLBank to transfer Qualifying Assets in the amount of its allocated share of the FHLBanks' SAA to a trust for the benefit of the prior bondholders if its capital-to-assets ratio falls below 2 percent.

General Terms. Consolidated obligations have either fixed-rate coupon payment terms or variable-rate coupon payment terms that use a variety of indices for interest-rate resets including the London Interbank Offered Rate (LIBOR), Constant Maturity Treasury (CMT), 11th District Cost of Funds (COFI), and others. In addition, to meet the expected specific needs of certain investors in consolidated obligations, both fixed-rate bonds and variable-rate bonds may also contain certain features, which may result in complex coupon payment terms and call or put options. Contemporaneous with the issuance of such bonds, an FHLBank enters an interest-rate exchange agreement containing offsetting features that effectively convert the terms of the bond to those of a simple variable-rate bond or a fixed-rate bond.

Consolidated obligations, beyond having fixed-rate or simple variable-rate coupon payment terms, may also have the following broad terms regarding either principal repayment or coupon payment terms:

- Indexed principal redemption bonds (index amortizing notes) repay principal according to predetermined amortization schedules that are linked to the level of a certain index. As of December 31, 2001 and 2000, most of the index amortizing notes had fixed-rate coupon payment terms. Usually, as market interest rates rise (fall), the maturity of the index amortizing notes extends (contracts); and
- Optional principal redemption bonds (callable bonds) may be redeemed by the FHLBank in whole or in part at its discretion on predetermined call dates according to terms of bond offerings. Callable bonds may be priced at or close to par or at a deep discount (zero-coupon bonds).

With respect to interest payments, consolidated bonds may also have the following terms:

- Step-up bonds generally pay interest at increasing fixed rates for specified intervals over the life of the bond. These bonds generally contain provisions enabling the FHLBanks to call bonds at their option on the step-up dates;
- Inverse floating bonds have coupons that increase as an index declines and decrease as an index rises;
- Conversion bonds have coupons that the FHLBank may convert from fixed to floating, or floating to fixed, or from one U.S. or other currency index to another, at its discretion;
- Range bonds pay interest at variable rates provided a specified index is within a specified range. The computation of the variable interest rate differs for each bond issue, but the bond generally pays zero interest if the specified index is outside the specified range; and
- Comparative index bonds have coupon rates determined by the difference between two or more market indices, typically CMT and LIBOR.
- Zero-coupon bonds are long-term discounted instruments that earn a fixed yield to maturity or the optional principal redemption date. All principal and interest are paid at maturity or on the optional principal redemption date, if exercised prior to maturity.

Redemption Terms. The following is a summary of consolidated bonds outstanding at December 31, 2001 and 2000, by year of maturity (dollar amounts in millions):

Year of Maturity	2001		2000	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2001	\$		\$129,256	6.03%
2002	122,514	4.56%	94,035	6.25%
2003	107,622	4.12%	57,546	6.07%
2004	75,321	4.98%	41,465	6.31%
2005	38,765	5.59%	24,923	6.78%
2006	45,820	5.27%	9,575	6.46%
Thereafter	103,889	5.95%	90,337	6.59%
Index amortizing notes	819	5.72%	2,948	6.12%
Total par value	494,750	4.97%	450,085	6.27%
Concessions	(216)		(107)	
Bond premium	497		192	
Bond discount	(16,239)		(18,544)	
SFAS 133 hedging adjustments	2,866			
Forward exchange contracts associated with bonds denominated in foreign currencies			120	
Deferred net gains on terminated interest-rate exchange agreements	(11)		(14)	
	481,647		431,732	
Bonds held in treasury	(60)		(60)	
Associated interest-rate exchange agreements	4		64	
Total	\$481,591		\$431,736	

Consolidated bonds outstanding at December 31, 2001 and 2000, include callable bonds totaling \$220,793 million and \$224,452 million. The FHLBanks use fixed-rate callable debt to finance callable advances (see Note 8) and mortgage-backed securities. Contemporaneous with such a debt issue, an FHLBank may also enter an interest-rate exchange agreements (in which the

FHLBank pays variable and receives fixed) with a call feature that mirrors the option embedded in the debt (a sold callable swap). The combined sold callable swap and callable debt allows an FHLBank to provide members attractively priced variable-rate advances, while converting its own payment to a variable rate.

The FHLBanks' consolidated bonds outstanding include (dollar amount in millions):

	<u>2001</u>	<u>2000</u>
Par amount of consolidated bonds:		
Non-callable/non-putable	\$273,410	\$225,087
Callable	220,793	224,452
Putable	547	546
Total par value	<u>\$494,750</u>	<u>\$450,085</u>

The following table summarizes consolidated bonds outstanding at December 31, 2001 and 2000, by year of maturity or next call date (dollar amounts in millions):

<u>Year of Maturity or Next Call Date</u>	<u>2001</u>	<u>2000</u>
2001	\$	\$273,931
2002	250,862	82,156
2003	126,317	39,164
2004	57,279	14,715
2005	15,415	12,692
2006	17,766	4,213
Thereafter	26,292	20,266
Index amortizing notes	819	2,948
Total par value	<u>\$494,750</u>	<u>\$450,085</u>

Interest-Rate Payment Terms. The following table details interest-rate payment terms for consolidated bonds at December 31, 2001 and 2000, and the notional amount of interest-rate exchange agreements associated with consolidated bonds at December 31, 2000 (dollar amounts in millions). Range bonds are classified as comparative-index bonds.

	<u>2001</u>	<u>2000</u>
Par amount of consolidated bonds:		
Fixed rate	\$403,984	\$386,511
Step-up	10,813	3,901
Simple variable-rate	54,420	31,502
Inverse floating rate	174	447
Fixed that converts to variable	608	849
Variable that converts to fixed	179	99
Comparative-index	2,466	864
Zero-coupon	21,410	25,573
Other	696	339
Total par value	<u>\$494,750</u>	<u>\$450,085</u>

Notional principal of interest-rate exchange agreements by class type associated with consolidated obligations:

Interest-rate swaps	\$338,044
Interest-rate caps purchased	1,178
Interest-rate floors purchased	1,456
	<u>\$340,678</u>

Bonds Denominated in Foreign Currencies. The Finance Board issues consolidated bonds denominated in foreign currencies. Contemporaneous with these issuances, the Finance Board requires that the FHLBanks exchange the interest and principal payment obligations related to the issues for equivalent amounts denominated in U.S. dollars. Bonds denominated in foreign currencies and the related forward exchange contracts have been translated into U.S. dollars at the exchange rate as of December 31, 2001 and 2000, in the preceding tables that presented these bonds by year of maturity, by year of maturity or next call date, and by interest-rate payment terms.

Bonds denominated in foreign currencies as of December 31, 2001 and 2000, are as follows (dollar amounts in millions):

	Amount Denominated in Foreign Currency		Year of Maturity	Par in Dollars	Interest Rate
	2001	2000			
British Pounds	300	300	2002	\$488.7	6.88%
British Pounds	400	400	2003	677.2	5.63%

Discount Notes. The FHLBanks' consolidated discount notes, all of which are due within one year, are as follows (dollar amounts in millions):

	Book Value	Par Value	Weighted Average Interest Rate
December 31, 2001	<u>\$139,502</u>	<u>\$139,844</u>	<u>2.08%</u>
December 31, 2000	<u>\$159,870</u>	<u>\$161,209</u>	<u>6.35%</u>

The FHLBank Act authorizes the Secretary of the Treasury, at his or her discretion, to purchase consolidated obligations of the FHLBanks aggregating not more than \$4 billion. The terms, conditions, and interest rates are determined by the Secretary of the Treasury. There were no such purchases by the U.S. Treasury during the two years ended December 31, 2001.

Extraordinary Item—Early Retirement of Debt. During 2001, 2000, and 1999, the FHLBanks retired consolidated bonds by purchasing consolidated bonds in the open market. Further, some of these bonds had associated interest-rate exchange agreements, which were terminated or marked to market at the date of the extinguishment. The FHLBanks netted the resulting gain or loss with the gain or loss on the early retirement of the debt. The FHLBanks retired consolidated bonds with net (losses) gains on associated interest-rate exchange agreements of \$(34) million, \$7 million, and \$1 million for the years ended December 31, 2001, 2000, and 1999. The corresponding principal retired for these three years was \$1,136 million, \$5,634 million, and \$2,307 million.

Note 14—Capital

The GLB Act will lead to a number of changes in the capital structure of the FHLBanks. The final rule was published on January 30, 2001 and required each FHLBank to submit a capital structure plan to the Finance Board by October 29, 2001, for approval. The FHLBanks have all submitted their proposed capital plan. The current capital structure of an FHLBank will remain in place until the Finance Board has approved the capital structure plan of the FHLBank and that plan is effective. The effective date of the capital plan is when the FHLBank first issues Class A or Class B stock under the plan. Before the effective date, an FHLBank's members must purchase stock equal to the greater of 1 percent of its mortgage-related assets or 5 percent of its outstanding FHLBank advances. After the effective date, each FHLBank must comply with the minimum leverage and risk-based capital requirements specified in the Finance Board's new capital regulations. If an FHLBank would not be in compliance with the capital requirements as of the effective date, it must come into compliance within a transition period of up to three years. During that period, the existing leverage limit established by Finance Board regulations will continue to apply.

Under the GLB Act, members can redeem Class A stock by giving six months notice, and members can redeem Class B stock by giving five years notice. Only "permanent" capital, defined as retained earnings and the amounts paid-in for the Class B stock, can satisfy the risk-based capital requirement. In addition, the GLB Act requires each FHLBank to maintain total capital equal to at least 5 percent of assets, when total capital is calculated after multiplying the permanent capital by 1.5, and equal to at least 4 percent of assets when total capital is calculated without weighting the permanent capital.

The GLB Act made membership voluntary for all members. A member must give written notice of its intent to withdraw from membership, and the membership terminates as of the end of the longest stock redemption period, *i.e.*, six months if a member has only Class A stock or five years if the member has Class B stock. Members that withdraw from membership may not be readmitted to membership for five years.

On June 22, 2000, the Finance Board rescinded its dividend policy applicable to the FHLBanks. This action has the effect of no longer requiring an FHLBank to hold as restricted retained earnings that portion of prepayment fee income that, if prorated over the maturity of the advances prepaid, would be allocated to future dividends. An FHLBank's board of directors may declare and pay, in either cash or capital stock, dividends only from retained earnings or current net earnings.

Before the GLB Act, the FHLBanks were required to pay \$300 million annually through 2030 to fund part of the interest on REFCORP debt. Before paying dividends, each Bank was assessed up to 20 percent of its net income after AHP contributions to meet these required payments. These payments were charged directly to retained earnings for years through December 31, 1999.

The GLB Act changed these required payments to 20 percent of annual net earnings for each FHLBank without the \$300 million aggregate limit, with the final payment date to be adjusted by the Finance Board so that the aggregate payments made by all 12 FHLBanks would be equivalent to a \$300 million annual annuity whose final maturity date is April 15, 2030. The Finance Board will shorten or lengthen the period during which the FHLBanks must make payments to REFCORP depending on actual payments relative to the referenced annuity. The cumulative amount to be paid to REFCORP by any FHLBank is not determinable at this time because the value is dependent on the future earnings of each FHLBank, as well as on future interest rates. As a result of these statutory changes, the REFCORP payment is presented as an expense on the Combined Statement of Income for years after 1999.

At December 31, 2001, the 10 largest holders of capital stock held 25.6 percent of the aggregate capital stock of the FHLBanks. Washington Mutual Bank, FA, and its affiliates Washington Mutual Bank, Washington Mutual Bank, FSB, and First Community Industrial Bank together held 11.6 percent of FHLBanks' capital. On January 7, 2002, Washington Mutual, Inc., finalized its acquisition of the parent company of Dime Savings Bank of New York. If the merger had been effective at December 31, 2001, Washington Mutual, Inc., through its various affiliates, would have held 12.9 percent of total FHLBank capital stock.

Note 15—Employee Retirement Plans

The FHLBanks, except for the FHLBank of San Francisco, participate in the Financial Institutions Retirement Fund (FIRF), a defined-benefit plan. The plan covers substantially all officers and employees of the FHLBanks. The FHLBanks' contributions to FIRF through June 30, 1987, represented the normal cost of the plan. The plan reached the full-funding limitation, as defined by the Employee Retirement Income Security Act, for the plan year beginning July 1, 1987, because of favorable investment and other actuarial experience during previous years. As a result, FIRF suspended employer contributions for all plan years ending after June 30, 1987. Contributions to the plan will resume when the plan is no longer in full-funding status based on annual determinations by FIRF. FIRF does not segregate its assets, liabilities, or costs by participating employer. As a result, disclosure of the accumulated benefit obligations, plan assets, and the components of annual pension expense attributable to the FHLBanks cannot be made.

The FHLBanks, except for the FHLBanks of Atlanta and Seattle, also participate in the Financial Institutions Thrift Plan, a defined-contribution plan. The FHLBanks of Atlanta and Seattle have similar defined-contribution plans. The FHLBanks' contributions are equal to a percentage of participants' compensation and a matching contribution equal to a percentage of voluntary employee contributions, subject to certain limitations. The FHLBanks contributed \$5.0 million, \$5.1 million, and \$4.6 million in the years ended December 31, 2001, 2000 and 1999.

In addition, several FHLBanks maintain deferred compensation plans, available to all employees, which are, in substance, unfunded supplemental retirement plans. The plans' liability consists of the accumulated compensation deferrals and accrued earnings on the deferrals. The FHLBanks' minimum obligations from these plans at December 31, 2001 and 2000 were \$23.7 million and \$19.8 million.

Note 16—Interest-Rate Exchange Agreements

The contractual or notional amount of interest-rate exchange agreements reflects the involvement of an FHLBank in the various classes of financial instruments. The notional amount of interest-rate exchange agreements does not measure the credit-risk exposure of an FHLBank. The maximum credit exposure of an FHLBank is much less than the notional amount. The maximum credit risk is the estimated cost of replacing favorable interest-rate swaps, forward agreements, and purchased caps and floors if the counterparty defaults, and the related collateral, if any, is of no value to the FHLBank.

At December 31, 2001 and 2000, the FHLBanks' maximum credit risk, as defined above, was approximately \$2,529 million and \$2,272 million. These totals include \$1,312 million and \$1,645 million of net accrued interest receivable. In determining maximum credit risk, the FHLBanks consider accrued interest receivables and payables, and the legal right to offset assets and liabilities by counterparty. The FHLBanks held securities and cash with a fair value of \$1,175 million and \$815 million as collateral as of December 31, 2001 and 2000.

The FHLBanks transact most of their interest-rate exchange agreements with large banks and major broker-dealers. Some of these banks and dealers or their affiliates buy, sell, and distribute consolidated obligations. Note 18 discusses assets pledged by the FHLBanks to these counterparties.

Intermediation. Interest-rate exchange agreements in which an FHLBank is an intermediary may arise when the FHLBank: (1) enters into offsetting interest-rate exchange agreements with members and other counterparties to meet the needs of their members, (2) enters into interest-rate exchange agreements to offset the economic effect of other interest-rate exchange agreements that are no longer designated to either advances, investments, or consolidated obligations, or (3) purchases consolidated obligations of other FHLBanks that have interest-rate exchange agreements associated with them either by the FHLBank that issued the bond or by the FHLBank that purchased the bond.

The notional principal of interest-rate exchange agreements in which the FHLBanks are intermediaries is \$4,778 million and \$3,388 million as of December 31, 2001 and 2000.

Note 17—Estimated Fair Values

Cash and due from banks. The estimated fair value approximates the recorded book balance.

Investments. The FHLBanks determine the fair value of investments based on quoted prices, excluding accrued interest, as of the last business day of the year.

Federal funds sold. The estimated fair value is determined by calculating the present value of the future cash flows for instruments with more than three months to maturity. The discount rates used in these calculations are the rates for Federal funds with similar terms. The estimated fair value approximates the recorded book balance of Federal funds with three months or less to maturity.

Advances and other loans. The FHLBanks determine the estimated fair value of advances with fixed-rates and more than three months to maturity and advances with complex floating-rates by calculating the present value of expected cash flows from the advances and reducing this amount

for accrued interest receivable. The discount rates used in these calculations are the replacement advance rates for advances with similar terms. Following the Finance Board's advances regulations, advances with a maturity or repricing period greater than six months require a prepayment fee sufficient to make an FHLBank financially indifferent to the borrower's decision to prepay the advances. Therefore, the estimated fair value of advances does not assume prepayment risk. The estimated fair value approximates the recorded book balance of advances with floating rates and fixed rates with three months or less to maturity or repricing.

Mortgage Loans. The estimated fair values for mortgage loans have been determined based on quoted prices of similar mortgage loans available in the market. These prices, however, are highly dependent upon the prepayment assumptions that are used. Changes in the prepayment rates used often have a material effect on the fair value estimates. Since these estimates are made as of a specific point in time, they are susceptible to material near-term changes.

Accrued interest receivable and payable. The estimated fair value approximates the recorded book value.

Derivative Assets/Liabilities. The FHLBanks base the estimated fair values of interest-rate exchange agreements with similar terms or available market prices including accrued interest receivable and payable. However, active markets do not exist for many types of financial instruments. Consequently, fair values for these instruments must be estimated using techniques such as discounted cash-flow analysis and comparisons to similar instruments. Estimates developed using these methods are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Changes in these judgments often have a material effect on the fair value estimates. Since these estimates are made as of a specific point in time, they are susceptible to material near term changes. The fair values are netted by counterparty where such legal right exists. If these netted amounts are positive, they are classified as an asset and if negative, a liability.

Deposits. The FHLBanks determine fair values of deposits with fixed-rates and more than three months to maturity by calculating the present value of expected future cash flows from the deposits and reducing this amount for accrued interest payable. The discount rates used in these calculations are the cost of deposits with similar terms. The estimated fair value approximates the recorded book balance for deposits with floating-rates and fixed-rates with three months or less to maturity or repricing.

Consolidated obligations. The FHLBanks daily determine the estimated cost of issuing comparable-term debt based on the secondary market for debt of government-sponsored enterprises and other indications from the Office of Finance and securities dealers. The estimated cost of issuing debt includes non-interest selling costs.

Borrowings. The FHLBanks determine the estimated fair value of borrowings with fixed-rates and more than three months to maturity by calculating the present value of expected future cash flows from the borrowings and reducing this amount for accrued interest payable. The discount rates used in these calculations are the cost of borrowings with similar terms. For borrowings with floating-rates and fixed-rates with three months or less to maturity or repricing, the estimated fair value approximates the recorded book balance.

Commitments. The estimated fair value of the FHLBanks' commitments to extend credit, including letters of credit, was immaterial at December 31, 2001 and 2000.

The carrying values and estimated fair values of the FHLBanks' financial instruments at December 31, 2001 and 2000, are as follows (dollar amounts in millions):

2001 FAIR VALUE SUMMARY TABLE

<u>Financial Instruments</u>	<u>Carrying Value</u>	<u>Net Unrealized Gains (Losses)</u>	<u>Estimated Fair Value</u>
Assets:			
Cash and due from banks	\$ 319	\$	\$ 319
Interest-bearing deposits in banks	19,141	3	19,144
Securities purchased under resale agreements	7,950		7,950
Held-to-maturity securities	97,296	1,368	98,664
Available-for-sale securities	7,403		7,403
Securities held at fair value	9,880		9,880
Federal funds sold	48,394	4	48,398
Advances	472,732	1,990	474,722
Mortgage loans	27,650	377	28,027
Allowance for credit losses	(7)	3	(4)
Mortgage loans, net	<u>27,643</u>	<u>380</u>	<u>28,023</u>
Accrued interest receivable	3,106		3,106
Derivative assets	2,728		2,728
Liabilities:			
Deposits	(25,661)	(2)	(25,663)
Securities sold under repurchase agreements	(800)	6	(794)
Other borrowings	(350)		(350)
Consolidated obligations			
Discount notes	(139,502)	(109)	(139,611)
Bonds	(481,591)	(3,689)	(485,280)
Accrued interest payable	(5,751)		(5,751)
Derivative liabilities	(7,814)		(7,814)
Other:			
Standby letters of credit	934	3	937
Commitments to extend credit	4	1	5

2000 FAIR VALUE SUMMARY TABLE

<u>Financial Instruments</u>	<u>Carrying Value</u>	<u>Net Unrealized Gains (Losses)</u>	<u>Estimated Fair Value</u>
ASSETS			
Cash and due from banks	\$ 752	\$	\$ 752
Interest-bearing deposits in banks	18,138	(8)	18,130
Securities purchased under resale agreements	1,416		1,416
Held-to-maturity securities	107,107	376	107,483
Interest-rate exchange agreements associated with held-to-maturity securities	79	(200)	(121)
Held-to-maturity securities, net	<u>107,186</u>	<u>176</u>	<u>107,362</u>
Available-for-sale securities	4,441		4,441
Interest-rate exchange agreements associated with available-for-sale securities	(7)		(7)
Available-for-sale securities, net	<u>4,434</u>		<u>4,434</u>
Federal funds sold	55,263		55,263
Interest-rate exchange agreements associated with available-for-sale securities		4	4
Federal funds sold, net	<u>55,263</u>	<u>4</u>	<u>55,267</u>
Advances	437,850	3,115	440,965
Interest-rate exchange agreements associated with advances	11	(2,447)	(2,436)
Advances, net	<u>437,861</u>	<u>668</u>	<u>438,529</u>
Mortgage loans	16,152	245	16,397
Allowance for credit losses	(3)	3	
Mortgage loans, net	<u>16,149</u>	<u>248</u>	<u>16,397</u>
Accrued interest receivable	12,137		12,137
Interest-rate exchange agreements used in asset-liability management	25	(8)	17
LIABILITIES			
Deposits	(17,100)	18	(17,082)
Consolidated obligations:			
Bonds	(431,672)	(902)	(432,574)
Discount notes	(159,870)	(64)	(159,934)
Interest-rate exchange agreements associated with consolidated obligations	(64)	(9)	(73)
Consolidated obligations, net	<u>(591,606)</u>	<u>(975)</u>	<u>(592,581)</u>
Accrued interest payable	(12,331)		(12,331)
OTHER			
Interest-rate exchange agreements in which the FHLBanks are intermediaries	(1)		(1)
Standby letters of credit		3	3
Commitments to extend credit		1	1

2000 FAIR VALUE SUPPLEMENTAL TABLE

Total by Class Type of All Interest-rate Exchange Agreements	Notional Amount	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Interest-rate swaps:					
Non-cancelable:					
FHLBanks pay fixed, receive variable	\$ 68,731	\$(21)	\$ 175	\$ (602)	\$ (448)
FHLBanks pay variable, receive fixed	125,237	25	667	(434)	258
FHLBanks pay variable, receive variable	55,317	17	37	(216)	(162)
Cancelable by counterparty:					
FHLBanks pay fixed, receive variable	110,544	6	137	(2,385)	(2,242)
FHLBanks pay variable, receive fixed	173,717	31	866	(974)	(77)
FHLBanks pay variable, receive variable	4,006	(2)	7	(29)	(24)
Cancelable by FHLBank:					
FHLBanks pay fixed, receive variable	4,416	11	25	(69)	(33)
FHLBanks pay variable, receive variable	25	2	—	(1)	1
Subtotal	541,993	69	1,914	(4,710)	(2,727)
Interest-rate caps purchased	13,531	47	5	(39)	13
Interest-rate floors purchased	4,522	45	25	(4)	66
Interest-rate caps sold	676	(2)	1	—	(1)
Interest-rate floors sold	50	—	—	(1)	(1)
Forward and futures contracts	2,884	—	—	(2)	(2)
Other	2,071	4	1	(1)	4
Total	<u>\$565,727</u>	<u>\$163</u>	<u>\$1,946</u>	<u>\$ (4,757)</u>	<u>\$ (2,648)</u>

Note 18—Commitments and Contingencies

As described in Note 13, all FHLBanks have joint-and-several liability for the consolidated obligations issued. Accordingly, should one or more of the FHLBanks be unable to repay their participation in the consolidated obligations, each of the other FHLBanks could be called upon to repay all or part of such obligations. Notes 9, 14, and 16 discuss other commitments and contingencies.

Commitments that legally bind and unconditionally obligate the FHLBanks for additional advances totaled approximately \$13,640 million and \$12,265 million at December 31, 2001 and 2000. Commitments generally are for periods up to 12 months. Outstanding standby letters of credit were approximately \$7,044 million and \$4,886 million at December 31, 2001 and 2000. Based on management's credit analyses and collateral requirements, the FHLBanks do not deem it necessary to have any allowance for credit losses on these commitments and letters of credit. Commitments and letters of credit are fully collateralized at the time of issuance (see Note 8).

Commitments which obligate the FHLBanks to purchase participating interests in mortgage loans totaled \$1,862 million at December 31, 2001, and \$7,439 million at December 31, 2000. Unused line of credit and other commitments totaled \$2,844 million at December 31, 2001, and \$3,402 million at December 31, 2000.

The FHLBanks generally execute interest-rate exchange agreements with major banks and broker-dealers and generally enter bilateral collateral agreements. As of December 31, 2001, the FHLBanks had pledged as collateral securities and cash of \$3,705 million to broker-dealers who have market-risk exposure from the FHLBanks related to interest-rate exchange agreements.

The FHLBanks charged to operating expenses net rental costs of approximately \$18 million for the year ended December 31, 2001 and \$16 million for the years ended December 31, 2001 and 2000. Future minimum rentals at December 31, 2001, are as follows (dollar amounts in millions):

<u>Year</u>	<u>Equipment</u>	<u>Premises</u>	<u>Total</u>
2002	\$ 13	\$3	\$ 16
2003	13	2	15
2004	13	1	14
2005	13		13
2006	13		13
Thereafter	<u>58</u>	<u>—</u>	<u>58</u>
Total	<u>\$123</u>	<u>\$6</u>	<u>\$129</u>

Lease agreements for FHLBank premises generally provide for increases in the basic rentals resulting from increases in property taxes and maintenance expenses. Such increases are not expected to have a material effect on the FHLBanks.

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FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CONDITION
DECEMBER 31, 2001

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
ASSETS						
Cash and due from banks	\$ 319	\$	\$ 10	\$ 13	\$ 44	\$ 77
Interest-bearing deposits in banks	19,141		75	5,915	1,181	1,177
Deposits for mortgage loan programs with other FHLBanks		(21)		1	7	5
Securities purchased under resale agreements	7,950		1,550			
Federal funds sold	48,394		3,780	1,434	1,127	7,492
Held-to-maturity securities	97,296	(1,619)	6,022	11,800	5,078	12,609
Available-for-sale securities	7,403	(499)	1,036		120	
Securities held at fair value	9,880	(529)	769		3,551	2,617
Advances	472,732		24,361	60,962	29,315	71,986
Mortgage loans	27,650		330	425	1,839	510
Less: allowance for credit losses on mortgages loans	7					1
Mortgage loans, net	27,643		330	425	1,839	509
Loans to other FHLBanks		(175)		50		
Accrued interest receivable	3,106	(46)	165	378	532	486
Premises and equipment, net	132		7	8	10	29
Derivative assets	2,728		64	782	94	340
Other assets	350		11	26	16	42
Total assets	<u>\$697,074</u>	<u>\$(2,889)</u>	<u>\$38,180</u>	<u>\$81,794</u>	<u>\$42,914</u>	<u>\$97,369</u>
LIABILITIES						
Deposits:						
Demand and overnight	\$ 23,720	\$	\$ 2,502	\$ 2,725	\$ 1,692	\$ 4,715
Term	1,115		34	132	13	25
Deposits from other FHLBanks for mortgage loan programs		(21)				
Other	826		8	5	13	267
Total deposits	25,661	(21)	2,544	2,862	1,718	5,007
Borrowings:						
Other FHLBanks		(175)				
Securities sold under repurchase agreements	800					
Other borrowings	350					
Total borrowings	1,150	(175)				
Consolidated obligations:						
Discount notes	139,502		8,059	22,790	11,070	791
Bonds	481,591	(2,647)	24,811	49,823	27,201	83,913
Total consolidated obligations	621,093	(2,647)	32,870	72,613	38,271	84,704
Accrued interest payable	5,751	(46)	325	632	340	960
Affordable Housing Program	696		37	105	40	97
Payable to REFCORP	161		4	21	6	20
Derivative liabilities	7,814		329	1,603	538	2,133
Other liabilities	530		38	48	23	147
Total liabilities	662,856	(2,889)	36,147	77,884	40,936	93,068
CAPITAL						
Capital stock outstanding (\$100 par value)	33,289		1,985	3,733	1,889	4,127
Retained earnings	932		47	177	87	174
Accumulated other comprehensive income:						
Net unrealized gains (losses) on available-for sale securities	176		(11)		1	
Net change during period related to hedging activities	(179)		12		1	
Total capital	34,218		2,033	3,910	1,978	4,301
Total liabilities and capital	<u>\$697,074</u>	<u>\$(2,889)</u>	<u>\$38,180</u>	<u>\$81,794</u>	<u>\$42,914</u>	<u>\$97,369</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 10 3,146	\$ 37 296	\$ 2	\$ 64 135	\$ 47	\$ 2 2,010	\$ 2 4,487	\$ 11 719
				8			
		50	4,000			2,150	200
11,310	3,096	3,165	1,470	2,181	1,721	8,445	3,173
8,998	4,826	5,254	4,013	5,119	5,946	16,544	12,706
1,600	1,131		214	3,801			
30	96	1,826	148	434	170	528	240
35,223	26,399	21,902	20,756	32,491	22,830	102,255	24,252
566	395	16,574	3,745	1,438	100		1,728
		3	3				
<u>566</u>	<u>395</u>	<u>16,571</u>	<u>3,742</u>	<u>1,438</u>	<u>100</u>		<u>1,728</u>
100						25	
222	125	242	56	157	110	419	260
3	11	19	7	29	1	5	3
72	52	150	210	246	176	479	63
14	31	5	12	168	7	17	1
<u>\$61,294</u>	<u>\$36,495</u>	<u>\$49,186</u>	<u>\$34,827</u>	<u>\$46,119</u>	<u>\$33,073</u>	<u>\$135,356</u>	<u>\$43,356</u>
\$ 1,450 117	\$ 1,516	\$ 1,506 110	\$ 1,817 161	\$ 2,495 12	\$ 1,293 31	\$ 444 36	\$ 1,565 444
		21					
68	28	123			42	272	
<u>1,635</u>	<u>1,544</u>	<u>1,760</u>	<u>1,978</u>	<u>2,507</u>	<u>1,366</u>	<u>752</u>	<u>2,009</u>
			50		125		
		800				200	150
		<u>800</u>	<u>50</u>		<u>125</u>	<u>200</u>	<u>150</u>
24,778	9,419	8,995	7,316	6,587	6,637	21,283	11,777
30,383	22,653	34,273	23,439	33,920	22,678	104,657	26,487
<u>55,161</u>	<u>32,072</u>	<u>43,268</u>	<u>30,755</u>	<u>40,507</u>	<u>29,315</u>	<u>125,940</u>	<u>38,264</u>
379	261	447	294	471	295	1,080	313
75	33	37	27	40	27	127	51
12	8	18	7	8	6	37	14
776	790	331	129	215	478	373	119
16	14	22	5	155	14	38	10
<u>58,054</u>	<u>34,722</u>	<u>46,683</u>	<u>33,245</u>	<u>43,903</u>	<u>31,626</u>	<u>128,547</u>	<u>40,930</u>
3,198 42	1,741 33	2,395 110	1,539 43	2,143 71	1,396 51	6,752 62	2,391 35
	(1)			186	1		
		(2)		(184)	(1)	(5)	
<u>3,240</u>	<u>1,773</u>	<u>2,503</u>	<u>1,582</u>	<u>2,216</u>	<u>1,447</u>	<u>6,809</u>	<u>2,426</u>
<u>\$61,294</u>	<u>\$36,495</u>	<u>\$49,186</u>	<u>\$34,827</u>	<u>\$46,119</u>	<u>\$33,073</u>	<u>\$135,356</u>	<u>\$43,356</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CONDITION
DECEMBER 31, 2000

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
ASSETS						
Cash and due from banks	\$ 752	\$	\$ 10	\$ 25	\$ 441	\$ 46
Interest-bearing deposits in banks	18,138		100	8,020	1,192	617
Securities purchased under resale agreements	1,416		100			
Federal funds sold	55,263		7,102	3,028	5,467	6,073
Held-to-maturity securities	107,186	(2,553)	8,823	11,308	8,349	13,437
Available-for-sale securities	4,434	(403)	37		370	
Advances	437,861		21,594	52,396	25,946	58,249
Mortgage loans	16,152		17	528	1,910	423
Less: allowance for credit losses on mortgage loans . .	3					
Mortgage loans, net	16,149		17	528	1,910	423
Loans to other FHLBanks		(50)		50		
Accrued interest receivable	12,137	(31)	486	1,226	1,362	1,749
Premises and equipment, net	123		2	11	13	30
Other assets	228		11	8	13	17
Total assets	<u>\$653,687</u>	<u>\$ (3,037)</u>	<u>\$38,282</u>	<u>\$76,600</u>	<u>\$45,063</u>	<u>\$80,641</u>
LIABILITIES						
Deposits:						
Demand and overnight	\$ 15,859	\$	\$ 1,248	\$ 1,990	\$ 1,330	\$ 3,196
Term	755		58	167	9	38
Other	486		4	5	105	58
Total deposits	17,100		1,310	2,162	1,444	3,292
Borrowings:						
Other FHLBanks		(50)				
Total borrowings		(50)				
Consolidated obligations:						
Discount notes	159,870		13,587	28,431	1,699	6,057
Bonds	431,736	(2,956)	20,835	41,132	38,734	65,285
Total consolidated obligations	591,606	(2,956)	34,422	69,563	40,433	71,342
Accrued interest payable	12,331	(31)	496	982	945	2,134
Affordable Housing Program	618		34	89	44	85
Payable to REFCORP	146		10	19	10	20
Other liabilities	621		104	38	13	119
Total liabilities	<u>622,422</u>	<u>(3,037)</u>	<u>36,376</u>	<u>72,853</u>	<u>42,889</u>	<u>76,992</u>
CAPITAL						
Capital stock outstanding (\$100 par value)	30,537		1,858	3,626	2,065	3,506
Retained earnings	729		47	121	110	143
Accumulated other comprehensive income:						
Net unrealized (losses) gains on available-for-sale securities	(1)		1		(1)	
Total capital	<u>31,265</u>		<u>1,906</u>	<u>3,747</u>	<u>2,174</u>	<u>3,649</u>
Total liabilities and capital	<u>\$653,687</u>	<u>\$ (3,037)</u>	<u>\$38,282</u>	<u>\$76,600</u>	<u>\$45,063</u>	<u>\$80,641</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 12	\$ 36	\$ 4	\$ 72	\$ 95	\$ 1	\$ 5	\$ 5
3,301			270		1,141	2,698	799
	45	46	800			400	25
8,245	2,410	2,397	3,955	2,605	1,619	8,376	3,986
8,615	4,754	5,780	5,264	8,656	5,916	15,525	13,312
2,985	1,445						
31,935	24,073	18,462	21,158	30,195	17,582	110,031	26,240
31	36	8,104	3,297	1,383	5		418
		1	2				
<u>31</u>	<u>36</u>	<u>8,103</u>	<u>3,295</u>	<u>1,383</u>	<u>5</u>		<u>418</u>
478	567	578	685	784	513	3,137	603
3	10	12	6	30		4	2
10	15	7	26	95	10	14	2
<u>\$55,615</u>	<u>\$33,391</u>	<u>\$35,389</u>	<u>\$35,531</u>	<u>\$43,843</u>	<u>\$26,787</u>	<u>\$140,190</u>	<u>\$45,392</u>
\$ 994	\$ 736	\$ 1,654	\$ 1,048	\$ 1,455	\$ 1,023	\$ 348	\$ 837
93		155	87	3	6	29	110
49	21	201			43		
<u>1,136</u>	<u>757</u>	<u>2,010</u>	<u>1,135</u>	<u>1,458</u>	<u>1,072</u>	<u>377</u>	<u>947</u>
			50				
			50				
27,096	6,057	4,949	8,084	7,606	5,484	32,097	18,723
23,978	24,285	25,953	24,014	31,680	18,488	97,366	22,942
<u>51,074</u>	<u>30,342</u>	<u>30,902</u>	<u>32,098</u>	<u>39,286</u>	<u>23,972</u>	<u>129,463</u>	<u>41,665</u>
385	661	664	429	836	427	3,888	515
66	27	32	28	37	25	110	41
13	9	9	8	8	7	25	8
100	14	71	10	52	17	35	48
<u>52,774</u>	<u>31,810</u>	<u>33,688</u>	<u>33,758</u>	<u>41,677</u>	<u>25,520</u>	<u>133,898</u>	<u>43,224</u>
2,789	1,550	1,631	1,744	2,127	1,218	6,268	2,155
53	31	70	29	39	49	24	13
(1)							
<u>2,841</u>	<u>1,581</u>	<u>1,701</u>	<u>1,773</u>	<u>2,166</u>	<u>1,267</u>	<u>6,292</u>	<u>2,168</u>
<u>\$55,615</u>	<u>\$33,391</u>	<u>\$35,389</u>	<u>\$35,531</u>	<u>\$43,843</u>	<u>\$26,787</u>	<u>\$140,190</u>	<u>\$45,392</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2001

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
INTEREST INCOME						
Advances	\$20,679	\$	\$1,206	\$2,574	\$1,182	\$2,974
Interest-bearing deposits in banks	710		4	266	37	39
Deposits for mortgage loan programs with other FHLBanks		(2)			2	
Securities purchased under resale agreements	190		30			
Federal funds sold	2,292		198	198	94	329
Held-to-maturity securities	5,737	(89)	358	794	381	764
Available-for-sale securities	290	(26)	36		11	
Securities held at fair value	417	(30)	61		125	123
Mortgage loans	1,378		9	34	133	34
Loans to other FHLBanks		(5)		3		
Other	3	(2)				
Total interest income	31,696	(154)	1,902	3,869	1,965	4,263
INTEREST EXPENSE						
Consolidated obligations	27,632	(145)	1,640	3,353	1,688	3,616
Deposits	951		92	106	61	203
Deposits from other FHLBanks for mortgage loan programs		(2)				
Borrowings from other FHLBanks		(7)	1	1	2	
Securities sold under resale agreements	6		1			
Other borrowings	7			1	2	
Total interest expense	28,596	(154)	1,734	3,461	1,753	3,819
NET INTEREST INCOME BEFORE MORTGAGE						
LOAN LOSS PROVISION	3,100		168	408	212	444
Mortgage loan loss provision	4					1
NET INTEREST INCOME AFTER MORTGAGE LOAN						
LOSS PROVISION	3,096		168	408	212	443
OTHER INCOME						
Net unrealized gains (losses) on securities held at fair value	66		10		16	(4)
Net gains (losses) on derivatives and hedging activities	83		(7)	3	(64)	28
Service fees	40		2	4	12	3
Gains (losses) on sale of securities held at fair value, net	7		2		6	
Other, net	123		34	9	2	9
Total other income	319		41	16	(28)	36
OTHER EXPENSE						
Operating expenses	369		25	35	44	46
Finance Board and Office of Finance expenses	33		2	4	2	4
Other, net	18					7
Total other expenses	420		27	39	46	57
INCOME BEFORE ASSESSMENTS						
Affordable Housing Program	239		13	32	10	33
REFCORP	538		28	71	24	75
Total assessments	777		41	103	34	108
INCOME BEFORE EXTRAORDINARY ITEM AND						
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING						
PRINCIPLE	2,218		141	282	104	314
Losses on early retirement of debt, net	(34)		(25)			
Cumulative effect of change in accounting principle	(30)		(3)	3	(9)	(16)
NET INCOME	\$ 2,154	\$	\$ 113	\$ 285	\$ 95	\$ 298

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$1,498 114	\$1,179 6	\$ 882	\$1,012 6	\$1,350	\$ 870 67	\$4,736 142	\$1,216 29
	1	2	86			64	7
481	89	97	117	98	104	349	138
545	312	279	220	240	334	829	770
67	57		2	141	2		
2	6	51	9	30	7	28	5
14	7	724	259	104	3		57
				5	1	1	
<u>2,721</u>	<u>1,657</u>	<u>2,035</u>	<u>1,711</u>	<u>1,968</u>	<u>1,388</u>	<u>6,149</u>	<u>2,222</u>
2,393 55	1,410 56	1,741 80 2	1,522 72 3	1,713 86	1,197 64	5,579 16	1,925 60
		1					4
2				2			
<u>2,450</u>	<u>1,466</u>	<u>1,824</u>	<u>1,597</u>	<u>1,801</u>	<u>1,261</u>	<u>5,595</u>	<u>1,989</u>
271	191	211 2	114 1	167	127	554	233
<u>271</u>	<u>191</u>	<u>209</u>	<u>113</u>	<u>167</u>	<u>127</u>	<u>554</u>	<u>233</u>
1	2	(5)	1	31	6	8	
1	(3)	63		(13)	(5)	64	16
1	6	1	4	3	1	1	2
				(1)			
7	4	3	25	1	3	9	17
<u>10</u>	<u>9</u>	<u>62</u>	<u>30</u>	<u>21</u>	<u>5</u>	<u>82</u>	<u>35</u>
20	24	38	23	29	16	49	20
4	2	2	2	2	1	6	2
		11					
<u>24</u>	<u>26</u>	<u>51</u>	<u>25</u>	<u>31</u>	<u>17</u>	<u>55</u>	<u>22</u>
<u>257</u>	<u>174</u>	<u>220</u>	<u>118</u>	<u>157</u>	<u>115</u>	<u>581</u>	<u>246</u>
21	14	18	9	13	9	47	20
47	31	41	20	28	22	106	45
<u>68</u>	<u>45</u>	<u>59</u>	<u>29</u>	<u>41</u>	<u>31</u>	<u>153</u>	<u>65</u>
189	129	161	89	116	84	428	181
(1)	(4)	1	(8) 1	(1)	4	(1) (2)	(3)
<u>\$ 188</u>	<u>\$ 125</u>	<u>\$ 162</u>	<u>\$ 82</u>	<u>\$ 115</u>	<u>\$ 88</u>	<u>\$ 425</u>	<u>\$ 178</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2000

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
INTEREST INCOME						
Advances	\$26,987	\$	\$1,519	\$3,040	\$2,118	\$3,405
Interest-bearing deposits in banks	855		5	435	66	22
Securities purchased under resale agreements	165		30			
Federal funds sold	3,062		252	202	236	354
Held-to-maturity securities	6,696	(170)	497	721	515	879
Available-for-sale securities	326	(23)	3		81	
Mortgage loans	714			26	65	17
Loans to other FHLBanks		(7)		3		1
Other	175					
Total interest income	<u>38,980</u>	<u>(200)</u>	<u>2,306</u>	<u>4,427</u>	<u>3,081</u>	<u>4,678</u>
INTEREST EXPENSE						
Consolidated obligations	34,805	(193)	2,018	3,906	2,762	4,067
Deposits	817		66	105	56	170
Borrowings from other FHLBanks		(5)		1	1	
Securities sold under repurchase agreements	17					
Other borrowings	28	(2)		5		1
Total interest expense	<u>35,667</u>	<u>(200)</u>	<u>2,084</u>	<u>4,017</u>	<u>2,819</u>	<u>4,238</u>
NET INTEREST INCOME BEFORE MORTGAGE						
LOAN LOSS PROVISION	3,313		222	410	262	440
Mortgage loan loss provision	2					
NET INTEREST INCOME AFTER MORTGAGE						
LOAN LOSS PROVISION	<u>3,311</u>		<u>222</u>	<u>410</u>	<u>262</u>	<u>440</u>
OTHER INCOME						
Service fees	44		1	6	16	3
Gains on sale of available-for-sale securities, net	2				2	
Other, net	19		1			5
Total other income	<u>65</u>		<u>2</u>	<u>6</u>	<u>18</u>	<u>8</u>
OTHER EXPENSE						
Operating expenses	333		23	34	43	34
Finance Board and Office of Finance expenses	29		2	3	2	4
Other, net	11			2		5
Total other expenses	<u>373</u>		<u>25</u>	<u>39</u>	<u>45</u>	<u>43</u>
INCOME BEFORE ASSESSMENTS						
Affordable Housing Program	246		16	31	19	33
REFCORP	553		37	69	44	74
Total assessments	<u>799</u>		<u>53</u>	<u>100</u>	<u>63</u>	<u>107</u>
INCOME BEFORE EXTRAORDINARY ITEM						
Gains (losses) on early retirement of debt, net	2,204		146	277	172	298
	7				1	
NET INCOME	<u>\$ 2,211</u>	<u>\$</u>	<u>\$ 146</u>	<u>\$ 277</u>	<u>\$ 173</u>	<u>\$ 298</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$1,958	\$1,363	\$1,186	\$1,427	\$1,766	\$1,085	\$6,431	\$1,689
124	9		9	2	29	131	23
	3	4	25		2	94	7
628	164	155	203	151	124	549	44
494	320	409	380	577	351	898	825
169	96						
	1	360	180	56			9
		1			1	1	
				12			163
<u>3,373</u>	<u>1,956</u>	<u>2,115</u>	<u>2,224</u>	<u>2,564</u>	<u>1,592</u>	<u>8,104</u>	<u>2,760</u>
3,042	1,727	1,797	1,984	2,278	1,401	7,524	2,492
48	42	106	48	75	43	13	45
			3				
				5		12	
2				1			21
<u>3,092</u>	<u>1,769</u>	<u>1,903</u>	<u>2,035</u>	<u>2,359</u>	<u>1,444</u>	<u>7,549</u>	<u>2,558</u>
281	187	212	189	205	148	555	202
			2				
<u>281</u>	<u>187</u>	<u>212</u>	<u>187</u>	<u>205</u>	<u>148</u>	<u>555</u>	<u>202</u>
1	7	1	4	3	1	1	
3	2		1		1	4	2
4	9	1	5	3	2	5	2
19	22	30	21	34	14	43	16
3	1	2	2	2	1	5	2
		4					
<u>22</u>	<u>23</u>	<u>36</u>	<u>23</u>	<u>36</u>	<u>15</u>	<u>48</u>	<u>18</u>
<u>263</u>	<u>173</u>	<u>177</u>	<u>169</u>	<u>172</u>	<u>135</u>	<u>512</u>	<u>186</u>
22	14	14	14	15	11	42	15
48	32	32	31	32	25	94	35
70	46	46	45	47	36	136	50
193	127	131	124	125	99	376	136
		(2)		4		1	3
<u>\$ 193</u>	<u>\$ 127</u>	<u>\$ 129</u>	<u>\$ 124</u>	<u>\$ 129</u>	<u>\$ 99</u>	<u>\$ 377</u>	<u>\$ 139</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1999

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
INTEREST INCOME						
Advances	\$17,721	\$ 8	\$1,063	\$1,937	\$1,584	\$2,063
Advances participated other FHLBanks		(8)			4	
Interest-bearing deposits in banks	445			180	42	40
Securities purchased under resale agreements	177		21			
Federal funds sold	2,620		230	122	159	359
Held-to-maturity securities	5,193	(115)	411	520	422	711
Available-for-sale securities	262	(22)	1		70	
Mortgage loans	88			1		3
Loans to other FHLBanks		(4)		3		1
Other	14					
Total interest income	<u>26,520</u>	<u>(141)</u>	<u>1,726</u>	<u>2,763</u>	<u>2,281</u>	<u>3,177</u>
INTEREST EXPENSE						
Consolidated obligations	23,043	(137)	1,492	2,364	1,984	2,664
Deposits	910		61	107	73	178
Borrowings from other FHLBanks		(4)			1	
Securities sold under repurchase agreements	24					
Other borrowings	9		3	2	1	
Total interest expense	<u>23,986</u>	<u>(141)</u>	<u>1,556</u>	<u>2,473</u>	<u>2,059</u>	<u>2,842</u>
NET INTEREST INCOME BEFORE MORTGAGE LOAN LOSS PROVISION	2,534		170	290	222	335
Mortgage loan loss provision	<u>1</u>					
NET INTEREST INCOME AFTER MORTGAGE LOAN LOSS PROVISION	<u>2,533</u>		<u>170</u>	<u>290</u>	<u>222</u>	<u>335</u>
OTHER INCOME						
Service fees	43		1	7	14	3
Other, net	64	24	2	3		2
Total other income	<u>107</u>	<u>24</u>	<u>3</u>	<u>10</u>	<u>14</u>	<u>5</u>
OTHER EXPENSE						
Operating expenses	282		21	30	33	26
Finance Board and Office of Finance expenses	29		2	3	2	3
Other, net	3					2
Total other expenses	<u>314</u>		<u>23</u>	<u>33</u>	<u>35</u>	<u>31</u>
INCOME BEFORE ASSESSMENTS	2,326	24	150	267	201	309
Affordable Housing Program	199		13	23	17	27
Total assessments	<u>199</u>		<u>13</u>	<u>23</u>	<u>17</u>	<u>27</u>
INCOME BEFORE EXTRAORDINARY ITEM	2,127	24	137	244	184	282
Gains on early retirement of debt, net	<u>1</u>					
NET INCOME	<u>\$ 2,128</u>	<u>\$ 24</u>	<u>\$ 137</u>	<u>\$ 244</u>	<u>\$ 184</u>	<u>\$ 282</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$1,204	\$ 882	\$ 871	\$1,055	\$1,246	\$ 637	\$3,970	\$1,201
49	11		9	2	4	68	35
	2	23	11		9	111	9
443	180	137	241	131	132	355	131
365	262	352	338	456	288	525	658
127	86						
	1	82	1				
				14			
<u>2,188</u>	<u>1,424</u>	<u>1,465</u>	<u>1,655</u>	<u>1,849</u>	<u>1,070</u>	<u>5,029</u>	<u>2,034</u>
1,928	1,229	1,128	1,443	1,624	916	4,628	1,780
56	45	168	46	69	42	12	53
			3				
	1			11	1	2	9
<u>1</u>	<u>1</u>			<u>1</u>			
<u>1,985</u>	<u>1,276</u>	<u>1,296</u>	<u>1,492</u>	<u>1,705</u>	<u>959</u>	<u>4,642</u>	<u>1,842</u>
203	148	169	163	144	111	387	192
		1					
<u>203</u>	<u>148</u>	<u>168</u>	<u>163</u>	<u>144</u>	<u>111</u>	<u>387</u>	<u>192</u>
1	6	1	4	3	1	1	1
5	3	1		1	1	19	3
<u>6</u>	<u>9</u>	<u>2</u>	<u>4</u>	<u>4</u>	<u>2</u>	<u>20</u>	<u>4</u>
17	18	24	21	27	13	39	13
3	2	2	2	2	1	5	2
		1					
<u>20</u>	<u>20</u>	<u>27</u>	<u>23</u>	<u>29</u>	<u>14</u>	<u>44</u>	<u>15</u>
<u>189</u>	<u>137</u>	<u>143</u>	<u>144</u>	<u>119</u>	<u>99</u>	<u>363</u>	<u>181</u>
<u>16</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>10</u>	<u>9</u>	<u>32</u>	<u>16</u>
<u>16</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>10</u>	<u>9</u>	<u>32</u>	<u>16</u>
173	125	131	132	109	90	331	165
						1	
<u>\$ 173</u>	<u>\$ 125</u>	<u>\$ 131</u>	<u>\$ 132</u>	<u>\$ 109</u>	<u>\$ 90</u>	<u>\$ 332</u>	<u>\$ 165</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999
(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
CAPITAL STOCK SHARES (In millions)						
BALANCE, DECEMBER 31, 1998	223		15	23	17	23
Proceeds from sale of capital stock	88		4	8	16	19
Redemption of capital stock	(35)		(1)	(1)	(10)	(9)
Capital stock dividends	<u>8</u>					
BALANCE, DECEMBER 31, 1999	284		18	30	23	33
Proceeds from sale of capital stock	66		4	8	9	13
Redemption of capital stock	(55)		(3)	(2)	(11)	(11)
Capital stock dividends	<u>10</u>					
BALANCE, DECEMBER 31, 2000	305		19	36	21	35
Proceeds from sale of capital stock	92		2	8	33	13
Redemption of capital stock	(74)		(1)	(7)	(35)	(7)
Capital stock dividends	<u>9</u>					
BALANCE, DECEMBER 31, 2001	<u>332</u>		<u>20</u>	<u>37</u>	<u>19</u>	<u>41</u>
CAPITAL STOCK—PAR VALUE						
BALANCE, DECEMBER 31, 1998	\$22,287	\$	\$1,499	\$2,288	\$ 1,755	\$2,350
Proceeds from sale of capital stock	8,851		392	788	1,577	1,921
Redemption of capital stock	(3,478)		(62)	(53)	(1,014)	(943)
Capital stock dividends	<u>701</u>					
BALANCE, DECEMBER 31, 1999	28,361		1,829	3,023	2,318	3,328
Proceeds from sale of capital stock	6,636		434	755	809	1,322
Redemption of capital stock	(5,470)		(405)	(152)	(1,062)	(1,144)
Capital stock dividends	<u>1,010</u>					
BALANCE, DECEMBER 31, 2000	30,537		1,858	3,626	2,065	3,506
Proceeds from sale of capital stock	9,236		200	843	3,364	1,307
Redemption of capital stock	(7,431)		(73)	(736)	(3,540)	(686)
Capital stock dividends	<u>947</u>					
BALANCE, DECEMBER 31, 2001	<u>\$33,289</u>	<u>\$</u>	<u>\$1,985</u>	<u>\$3,733</u>	<u>\$ 1,889</u>	<u>\$4,127</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
19	12	13	15	15	9	44	18
3	2	4	9	4	4	13	2
		(2)	(2)	(2)	(2)	(6)	
<u>2</u>	<u> </u>	<u> </u>	<u> </u>	<u>1</u>	<u>1</u>	<u>3</u>	<u>1</u>
24	14	15	22	18	12	54	21
5	1	4	3	4	3	10	2
(3)		(4)	(8)	(3)	(3)	(5)	(2)
<u>2</u>	<u> </u>	<u>1</u>	<u> </u>	<u>2</u>	<u> </u>	<u>4</u>	<u>1</u>
28	15	16	17	21	12	63	22
2	2	11	5	4	3	7	2
		(4)	(7)	(5)	(1)	(6)	(1)
<u>2</u>	<u> </u>	<u>1</u>	<u> </u>	<u>1</u>	<u> </u>	<u>4</u>	<u>1</u>
<u>32</u>	<u>17</u>	<u>24</u>	<u>15</u>	<u>21</u>	<u>14</u>	<u>68</u>	<u>24</u>
\$1,907	\$1,156	\$1,264	\$1,498	\$1,511	\$ 860	\$4,401	\$1,798
341	280	352	893	446	398	1,294	169
(34)	(17)	(166)	(162)	(247)	(179)	(575)	(26)
<u>147</u>	<u> </u>	<u> </u>	<u> </u>	<u>89</u>	<u>68</u>	<u>254</u>	<u>143</u>
2,361	1,419	1,450	2,229	1,799	1,147	5,374	2,084
536	171	474	329	443	293	976	94
(294)	(40)	(407)	(814)	(268)	(222)	(499)	(163)
<u>186</u>	<u> </u>	<u>114</u>	<u> </u>	<u>153</u>	<u> </u>	<u>417</u>	<u>140</u>
2,789	1,550	1,631	1,744	2,127	1,218	6,268	2,155
226	193	1,064	491	424	299	665	160
(16)	(2)	(422)	(696)	(491)	(121)	(568)	(80)
<u>199</u>	<u> </u>	<u>122</u>	<u> </u>	<u>83</u>	<u> </u>	<u>387</u>	<u>156</u>
<u>\$3,198</u>	<u>\$1,741</u>	<u>\$2,395</u>	<u>\$1,539</u>	<u>\$2,143</u>	<u>\$1,396</u>	<u>\$6,752</u>	<u>\$2,391</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999—(Continued)
(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
RESTRICTED RETAINED EARNINGS						
BALANCE, DECEMBER 31, 1998	\$ 77	\$	\$ 1	\$ 4	\$ 2	\$ 1
Transfers (from) to unrestricted retained earnings	(8)	—	1	(1)	—	—
BALANCE, DECEMBER 31, 1999	69	—	2	3	2	1
Transfers (from) to unrestricted retained earnings	(69)	—	(2)	(3)	(2)	(1)
BALANCE, DECEMBER 31, 2000	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
UNRESTRICTED RETAINED EARNINGS						
BALANCE, DECEMBER 31, 1998	\$ 391	\$(24)	\$ 30	\$ 34	\$ 70	\$ 76
Net Income	2,128	24	137	244	184	282
Transfers from (to) restricted retained earnings	8	—	(1)	1	—	—
Dividends on capital stock:						
Cash	(935)	—	(110)	(177)	(132)	(213)
Stock	(701)	—	—	—	—	—
Capital distributions to REFCORP	(300)	—	(19)	(35)	(26)	(40)
BALANCE, DECEMBER 31, 1999	591	—	37	67	96	105
Net Income	2,211	—	146	277	173	298
Transfers from (to) restricted retained earnings	69	—	2	3	2	1
Dividends on capital stock:						
Cash	(1,132)	—	(138)	(226)	(161)	(261)
Stock	(1,010)	—	—	—	—	—
BALANCE, DECEMBER 31, 2000	729	—	47	121	110	143
Net Income	2,154	—	113	285	95	298
Dividends on capital stock:						
Cash	(1,004)	—	(113)	(229)	(118)	(267)
Stock	(947)	—	—	—	—	—
BALANCE, DECEMBER 31, 2001	<u>\$ 932</u>	<u>\$</u>	<u>\$ 47</u>	<u>\$ 177</u>	<u>\$ 87</u>	<u>\$ 174</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 17	\$ 1	\$ 2	\$ 6	\$ 4	\$	\$ 31	\$ 8
<u>(10)</u>	<u> </u>	<u>(2)</u>	<u>(2)</u>	<u>(1)</u>	<u>1</u>	<u>8</u>	<u>(2)</u>
7	1		4	3	1	39	6
<u>(7)</u>	<u>(1)</u>	<u> </u>	<u>(4)</u>	<u>(3)</u>	<u>(1)</u>	<u>(39)</u>	<u>(6)</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
\$ 28	\$ 22	\$ 33	\$ 22	\$ 55	\$ 34	\$ 3	\$ 8
173	125	131	132	109	90	332	165
10		2	2	1	(1)	(8)	2
	(103)	(92)	(108)				
(147)				(89)	(68)	(254)	(143)
<u>(25)</u>	<u>(18)</u>	<u>(19)</u>	<u>(17)</u>	<u>(16)</u>	<u>(13)</u>	<u>(48)</u>	<u>(24)</u>
39	26	55	31	60	42	25	8
193	127	129	124	129	99	377	139
7	1		4	3	1	39	6
	(123)		(130)		(93)		
<u>(186)</u>	<u> </u>	<u>(114)</u>	<u> </u>	<u>(153)</u>	<u> </u>	<u>(417)</u>	<u>(140)</u>
53	31	70	29	39	49	24	13
188	125	162	82	115	88	425	178
	(123)		(68)		(86)		
<u>(199)</u>	<u> </u>	<u>(122)</u>	<u> </u>	<u>(83)</u>	<u> </u>	<u>(387)</u>	<u>(156)</u>
<u>\$ 42</u>	<u>\$ 33</u>	<u>\$ 110</u>	<u>\$ 43</u>	<u>\$ 71</u>	<u>\$ 51</u>	<u>\$ 62</u>	<u>\$ 35</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999 — (Continued)

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustment</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
TOTAL RETAINED EARNINGS						
BALANCE, DECEMBER 31, 1998	\$ 468	\$(24)	\$ 31	\$ 38	\$ 72	\$ 77
Net Income	2,128	24	137	244	184	282
Dividends on capital stock:						
Cash	(935)		(110)	(177)	(132)	(213)
Stock	(701)					
Capital distributions to REFCORP	(300)	—	(19)	(35)	(26)	(40)
BALANCE, DECEMBER 31, 1999	660		39	70	98	106
Net Income	2,211		146	277	173	298
Dividends on capital stock:						
Cash	(1,132)		(138)	(226)	(161)	(261)
Stock	(1,010)	—				
BALANCE, DECEMBER 31, 2000	729		47	121	110	143
Net Income	2,154		113	285	95	298
Dividends on capital stock:						
Cash	(1,004)		(113)	(229)	(118)	(267)
Stock	(947)	—				
BALANCE, DECEMBER 31, 2001	<u>\$ 932</u>	<u>\$</u>	<u>\$ 47</u>	<u>\$ 177</u>	<u>\$ 87</u>	<u>\$ 174</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME						
BALANCE, DECEMBER 31, 1998	\$ (3)	\$	\$	\$	\$ (4)	\$
Other Comprehensive Income:						
Net unrealized (losses) gains on available- for-sale securities	(3)	—	1	—	1	—
BALANCE, DECEMBER 31, 1999	(6)		1	—	(3)	—
Other Comprehensive Income:						
Net unrealized gains on available-for-sale securities	5	—	—	—	2	—
BALANCE, DECEMBER 31, 2000	(1)		1	—	(1)	—
Other Comprehensive Income:						
Net unrealized gains (losses) on available- for-sale securities	177		(12)		2	
Cumulative effect of change in accounting principle	(2)		14		1	
Net unrealized losses related to hedging activities	(204)					
Reclassification adjustment in net income ..	27		(2)			
BALANCE, DECEMBER 31, 2001	<u>\$ (3)</u>	<u>\$</u>	<u>\$ 1</u>	<u>\$</u>	<u>\$ 2</u>	<u>\$</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 45	\$ 23	\$ 35	\$ 28	\$ 59	\$ 34	\$ 34	\$ 16
173	125	131	132	109	90	332	165
	(103)	(92)	(108)				
(147)				(89)	(68)	(254)	(143)
<u>(25)</u>	<u>(18)</u>	<u>(19)</u>	<u>(17)</u>	<u>(16)</u>	<u>(13)</u>	<u>(48)</u>	<u>(24)</u>
46	27	55	35	63	43	64	14
193	127	129	124	129	99	377	139
	(123)		(130)		(93)		
<u>(186)</u>	<u> </u>	<u>(114)</u>	<u> </u>	<u>(153)</u>	<u> </u>	<u>(417)</u>	<u>(140)</u>
53	31	70	29	39	49	24	13
188	125	162	82	115	88	425	178
	(123)		(68)		(86)		
<u>(199)</u>	<u> </u>	<u>(122)</u>	<u> </u>	<u>(83)</u>	<u> </u>	<u>(387)</u>	<u>(156)</u>
<u>\$ 42</u>	<u>\$ 33</u>	<u>\$ 110</u>	<u>\$ 43</u>	<u>\$ 71</u>	<u>\$ 51</u>	<u>\$ 62</u>	<u>\$ 35</u>
\$ 1	\$	\$	\$	\$	\$	\$	\$
<u>(5)</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(4)							
<u>3</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(1)							
1	(1)			186	1		
						(17)	
		(20)		(184)	(1)	12	
<u> </u>	<u> </u>	<u>18</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>\$</u>	<u>\$ (1)</u>	<u>\$ (2)</u>	<u>\$</u>	<u>\$ 2</u>	<u>\$</u>	<u>\$ (5)</u>	<u>\$</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999 — (Continued)
(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustment</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
TOTAL CAPITAL						
BALANCE, DECEMBER 31, 1998	\$22,752	\$ (24)	\$1,530	\$2,326	\$ 1,823	\$2,427
Proceeds from sale of capital stock	8,851		392	788	1,577	1,921
Redemption of capital stock	(3,478)		(62)	(53)	(1,014)	(943)
Comprehensive income:						
Net Income	2,128	24	137	244	184	282
Other Comprehensive Income:						
Net unrealized (losses) gains on available-for-sale securities	(3)		1		1	
Total Comprehensive Income	<u>\$ 2,125</u>	<u>\$ 24</u>	<u>\$ 138</u>	<u>\$ 244</u>	<u>\$ 185</u>	<u>\$ 282</u>
Dividend on Capital Stock:						
Cash	(935)		(110)	(177)	(132)	(213)
Capital distributions to REFCORP	<u>(300)</u>		<u>(19)</u>	<u>(35)</u>	<u>(26)</u>	<u>(40)</u>
BALANCE, DECEMBER 31, 1999	\$29,015	\$	\$1,869	\$3,093	\$ 2,413	\$3,434
Proceeds from sale of capital stock	6,636		434	755	809	1,322
Redemption of capital stock	(5,470)		(405)	(152)	(1,062)	(1,144)
Comprehensive income:						
Net Income	2,211		146	277	173	298
Other Comprehensive Income:						
Net unrealized gains on available-for- sale securities	5				2	
Total Comprehensive Income	<u>\$ 2,216</u>	<u>\$</u>	<u>\$ 146</u>	<u>\$ 277</u>	<u>\$ 175</u>	<u>\$ 298</u>
Dividend on Capital Stock:						
Cash	<u>(1,132)</u>		<u>(138)</u>	<u>(226)</u>	<u>(161)</u>	<u>(261)</u>
BALANCE, DECEMBER 31, 2000	\$31,265	\$	\$1,906	\$3,747	\$ 2,174	\$3,649
Proceeds from sale of capital stock	9,236		200	843	3,364	1,307
Redemption of capital stock	(7,431)		(73)	(736)	(3,540)	(686)
Comprehensive income:						
Net Income	2,154		113	285	95	298
Other Comprehensive Income:						
Net unrealized gains (losses) on available-for-sale securities	177		(12)		2	
Cumulative effect of change in accounting principle	(2)		14		1	
Net unrealized losses related to hedging activities	(204)					
Reclassification adjustment in net income	27		(2)			
Total Comprehensive Income	<u>\$ 2,152</u>	<u>\$</u>	<u>\$ 113</u>	<u>\$ 285</u>	<u>\$ 98</u>	<u>\$ 298</u>
Dividend on Capital Stock:						
Cash	<u>(1,004)</u>		<u>(113)</u>	<u>(229)</u>	<u>(118)</u>	<u>(267)</u>
BALANCE, DECEMBER 31, 2001	<u>\$34,218</u>	<u>\$</u>	<u>\$2,033</u>	<u>\$3,910</u>	<u>\$ 1,978</u>	<u>\$4,301</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 1,953	\$1,179	\$1,299	\$1,526	\$1,570	\$ 894	\$4,435	\$1,814
341	280	352	893	446	398	1,294	169
(34)	(17)	(166)	(162)	(247)	(179)	(575)	(26)
173	125	131	132	109	90	332	165
(5)							
<u>\$ 168</u>	<u>\$ 125</u>	<u>\$ 131</u>	<u>\$ 132</u>	<u>\$ 109</u>	<u>\$ 90</u>	<u>\$ 332</u>	<u>\$ 165</u>
	(103)	(92)	(108)				
(25)	(18)	(19)	(17)	(16)	(13)	(48)	(24)
\$ 2,403	\$1,446	\$1,505	\$2,264	\$1,862	\$1,190	\$5,438	\$2,098
536	171	474	329	443	293	976	94
(294)	(40)	(407)	(814)	(268)	(222)	(499)	(163)
193	127	129	124	129	99	377	139
3							
<u>\$ 196</u>	<u>\$ 127</u>	<u>\$ 129</u>	<u>\$ 124</u>	<u>\$ 129</u>	<u>\$ 99</u>	<u>\$ 377</u>	<u>\$ 139</u>
	(123)		(130)		(93)		
\$ 2,841	\$1,581	\$1,701	\$1,773	\$2,166	\$1,267	\$6,292	\$2,168
226	193	1,064	491	424	299	665	160
(16)	(2)	(422)	(696)	(491)	(121)	(568)	(80)
188	125	162	82	115	88	425	178
1	(1)			186	1		
						(17)	
		(20)		(184)			
		18			(1)	12	
<u>\$ 189</u>	<u>\$ 124</u>	<u>\$ 160</u>	<u>\$ 82</u>	<u>\$ 117</u>	<u>\$ 88</u>	<u>\$ 420</u>	<u>\$ 178</u>
	(123)		(68)		(86)		
<u>\$ 3,240</u>	<u>\$1,773</u>	<u>\$2,503</u>	<u>\$1,582</u>	<u>\$2,216</u>	<u>\$1,447</u>	<u>\$6,809</u>	<u>\$2,426</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
OPERATING ACTIVITIES						
Net income	\$ 2,154	\$	\$ 113	\$ 285	\$ 95	\$ 298
Extraordinary losses on early retirement of debt, net	34		25			
Cumulative effect of change in accounting principle	30		3	(3)	9	16
Income before extraordinary item and cumulative effect of change in accounting principle	2,218		141	282	104	314
Adjustments to reconcile income before extraordinary item and cumulative effect of change in accounting principle to net cash provided by operating activities:						
Depreciation and amortization:						
Net premiums and discounts on consolidated obligations, investments, and deferred costs and fees received on interest-rate exchange agreements	3,857		503	(2)	204	282
Concessions on consolidated obligations	221		4	8	12	53
Deferred losses (gains) on interest-rate exchange agreements, net	11					2
Premises and equipment	23		2	2	3	2
Net premiums and discounts on mortgage loans	51			1	9	
Other	(3)					
Provision for credit losses on mortgage loans	4					1
Net realized gains on held-to-maturity securities	(3)			(3)		
(Increase) decrease in securities held at fair value, net of transfers and transition adjustments	(1,744)	(118)	343		(2,086)	(37)
(Gain) loss due to change in net fair value adjustment on derivative and hedging activities	(357)		7	1	47	(28)
Decrease in accrued interest receivable	8,863	(45)	321	854	830	1,263
Increase in derivative asset-accrued interest	(1,443)		(26)	(369)	(47)	(131)
(Decrease) increase in derivative liability-accrued interest	(70)		(46)	222	(50)	(146)
(Increase) decrease in other assets	(130)		(2)	(18)	(3)	(25)
Increase (decrease) in Affordable Housing Program (AHP) liability and discount on AHP advances	83		3	16	(4)	12
Decrease in accrued interest payable	(6,520)	45	(171)	(350)	(605)	(1,174)
Increase (decrease) in REFCORP liability	15		(6)	2	(4)	
Increase (decrease) in other liabilities	67		(6)	10	10	28
Total adjustments	2,925	(118)	926	374	(1,684)	102
Net cash provided by (used in) operating activities ..	5,143	(118)	1,067	656	(1,580)	416
INVESTING ACTIVITIES						
Net (increase) decrease in interest-bearing deposits in banks ..	(1,038)		25	2,105	(19)	(565)
Net decrease (increase) in federal funds sold	6,869		3,322	1,594	4,340	(1,419)
Net (increase) decrease in securities purchased under resale agreements	(6,534)		(1,450)			
Net decrease (increase) in short-term held-to maturity securities	3,097		1,539		197	100
Proceeds from sales of long-term held-to-maturity securities ...	6,822			80		5,343
Proceeds from maturities of long-term held-to-maturity securities	30,676	(2,400)	1,298	2,863	3,093	
Purchases of long-term held-to-maturity securities	(43,028)	2,300	(1,989)	(3,432)	(1,500)	(7,158)
Proceeds from sales of available-for-sale securities	124		124			
Proceeds from maturities of available-for-sale securities	60,266	(204)	1		251	
Purchases of available-for-sale securities	(58,748)	28	(338)			
Principal collected on advances	3,732,858		474,620	1,032,747	570,136	65,399
Advances made	(3,758,305)		(476,967)	(1,040,022)	(572,669)	(76,572)
Principal collected on mortgage loans	7,881		16	317	964	159
Mortgage loans purchased	(19,418)		(330)	(215)	(886)	(245)
Principal collected on other loans	1		1			
Net decrease (increase) in deposits to other FHLBanks for mortgage loan programs		(16)		1	23	
Net increase in loans to other FHLBanks		125				
(Increase) decrease in premises and equipment	(27)		(5)	1		(1)
Net cash (used in) provided by investing activities	(38,504)	(167)	(133)	(3,961)	3,930	(14,959)

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 188	\$ 125	\$ 162	\$ 82	\$ 115	\$ 88	\$ 425	\$ 178
1	4	(1)	8 (1)	1	(4)	1 2	3
189	129	161	89	116	84	428	181
926	511	297	281	11	248	(78)	674
7	21	6	12	17	19	50	12
1	1	(2) 5	1 1	4		10 2	
(1)	(2)	32	7				2
		2	1				
17	(3)	6	56	185	113	(8)	(212)
(1)	3	(291)	(48)	(20)	18	(46)	1
256	442	336	629	627	289	2,718	343
(21)	(25)	(27)	(271)	(163)	(108)	(231)	(24)
(44)	2	(29)	(16)	(57)	(31)	144	(19)
(4)	(16)	2	14	(76)		(3)	1
14	6	5	(1)	3	2	17	10
(6)	(400)	(217)	(135)	(365)	(132)	(2,808)	(202)
(1)	(1)	9	(1)		(1)	12	6
5		(49)	(8)	103	5	3	(34)
1,148	539	85	522	269	422	(218)	558
1,337	668	246	611	385	506	210	739
155	(296)		135		(869)	(1,789)	80
(3,065)	(686)	(768)	2,485	424	(102)	(69)	813
	45	(4)	(3,200)			(1,750)	(175)
		(49)	(61)	(579)	(27)	1,593	384
				1,359	40		
4,067	1,601	1,983	2,176		1,800	4,922	9,273
(4,581)	(1,755)	(3,239)	(1,054)	(1,525)	(2,142)	(7,907)	(9,046)
59,286	628			279	25		
(57,837)	(274)		(223)	(104)			
357,375	68,662	23,060	50,903	471,382	237,538	343,438	37,598
(359,721)	(70,246)	(26,017)	(50,163)	(473,534)	(242,188)	(334,746)	(35,460)
25	13	3,903	1,619	675	6		184
(561)	(371)	(12,406)	(2,074)	(735)	(100)		(1,495)
				(8)			
(100)				(3)	(1)	(25) (3)	(1)
(4,957)	(2,680)	(13,549)	542	(2,369)	(6,020)	3,664	2,155

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS—(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2001

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
FINANCING ACTIVITIES						
Net increase (decrease) in deposits.....	\$ 8,594	\$ (1)	\$ 1,229	\$ 700	\$ 273	\$ 1,715
Net increase other borrowings	1,150					
Net decrease in deposits to other FHLBanks for mortgage loan programs		17				
Net increase-loans from other FHLBanks		(125)				
Net proceeds from sale of consolidated obligations:						
Discount notes	4,665,348		183,082	739,091	717,361	50,785
Bonds.....	415,410	(2,328)	14,453	31,219	15,764	84,614
Payments for maturing and retiring consolidated obligations:						
Discount notes	(4,689,707)		(189,066)	(744,732)	(708,232)	(56,294)
Bonds.....	(368,653)	2,722	(10,631)	(22,863)	(27,619)	(66,600)
Proceeds from issuance of capital stock	9,236		200	843	3,364	1,307
Payments for redemption of capital stock	(7,431)		(73)	(736)	(3,540)	(686)
Cash dividends paid	(1,019)		(128)	(229)	(118)	(267)
Net cash provided by (used in) financing activities ..	<u>32,928</u>	<u>285</u>	<u>(934)</u>	<u>3,293</u>	<u>(2,747)</u>	<u>14,574</u>
Net (decrease) increase in cash and cash equivalents	(433)			(12)	(397)	31
Cash and cash equivalents at beginning of period	752		10	25	441	46
Cash and cash equivalents at end of period	<u>\$ 319</u>	<u>\$</u>	<u>\$ 10</u>	<u>\$ 13</u>	<u>\$ 44</u>	<u>\$ 77</u>
Supplemental Disclosures:						
Interest paid	\$ 30,098		\$ 1,781	\$ 3,590	\$ 2,088	\$ 4,132
Stock dividends issued	\$ 947					

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 499	\$ 787	\$ (233) 800	\$ 843	\$ 1,049	\$ 296	\$ 375 200	\$ 1,062 150
		(17)			125		
1,035,806 18,476	422,821 18,792	377,412 47,661	152,059 21,522	229,666 33,713	287,557 17,601	196,443 92,898	273,265 21,025
(1,039,117) (12,256) 226 (16)	(419,966) (20,489) 193 (2) (123)	(373,662) (39,302) 1,064 (422)	(153,056) (22,256) 491 (696) (68)	(230,704) (31,721) 424 (491)	(286,663) (13,493) 299 (121) (86)	(207,285) (86,605) 665 (568)	(280,930) (17,540) 160 (80)
3,618	2,013	13,301	(1,161)	1,936	5,515	(3,877)	(2,888)
(2)	1	(2)	(8)	(48)	1	(3)	6
12	36	4	72	95	1	5	5
\$ 10	\$ 37	\$ 2	\$ 64	\$ 47	\$ 2	\$ 2	\$ 11
\$ 1,482 \$ 199	\$ 1,153	\$ 1,742 \$ 122	\$ 1,493	\$ 1,966 \$ 83	\$ 1,393	\$ 7,135 \$ 387	\$ 2,143 \$ 156

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2000

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
OPERATING ACTIVITIES						
Net income	\$ 2,211	\$	\$ 146	\$ 277	\$ 173	\$ 298
Extraordinary (gains) losses on early retirement of debt, net	(7)	—	—	—	(1)	—
Income before extraordinary item	2,204	—	146	277	172	298
Adjustments to reconcile income before extraordinary item to net cash provided by operating activities:						
Depreciation and amortization:						
Net premiums and discounts on consolidated obligations and investments, and deferred costs and deferred fees received on interest-rate exchange agreements	5,147	—	900	(8)	170	279
Concessions on consolidated obligations	78	—	1	3	10	19
Deferred loss (gain) on interest-rate exchange agreements, net	24	—	15	—	(8)	—
Premises and equipment	16	—	1	1	3	1
Net premiums and discounts on mortgage loans	5	—	—	—	—	—
Other	(1)	—	—	—	—	—
Provision for credit losses on mortgage loans	2	—	—	—	—	—
Loss due to change in net mark to market adjustment for interest-rate exchange agreements in which the FHLBanks are intermediaries	5	—	—	—	—	—
Net realized gains on available-for-sale securities	(2)	—	—	—	(2)	—
(Increase) decrease in accrued interest receivable	(2,504)	(13)	(19)	(422)	(243)	(272)
Decrease (increase) in other assets	257	—	(1)	(1)	(5)	(9)
Increase in Affordable Housing Program (AHP) liability and discount on AHP advances	100	—	7	22	5	13
Increase (decrease) in accrued interest payable	2,335	13	24	271	(13)	271
Increase in REFCORP liability	71	—	5	11	5	8
(Decrease) increase in other liabilities	(223)	—	19	12	2	(66)
Total adjustments	5,310	—	952	(111)	(76)	244
Net cash provided by operating activities	7,514	—	1,098	166	96	542
INVESTING ACTIVITIES						
Net (increase) decrease in interest-bearing deposits in banks	(8,184)	—	(100)	(3,679)	213	114
Net decrease (increase) in federal funds sold	2,947	—	(1,362)	(2,133)	(3,405)	1,431
Net decrease (increase) in securities purchased under resale agreements	1,339	—	(100)	—	—	—
Net decrease (increase) in short-term held-to-maturity securities	1,208	—	(990)	—	467	2,067
Proceeds from sales of long-term held-to-maturity securities	20	—	—	—	—	—
Proceeds from maturities of long-term held-to-maturity securities	13,596	(858)	1,058	1,557	1,052	1,731
Purchases of long-term held-to-maturity securities	(24,182)	471	(1,090)	(3,585)	(2,206)	(2,446)
Proceeds from sales of available-for-sale securities	750	—	—	—	750	—
Proceeds from maturities of available-for-sale securities	21,656	(110)	1	—	363	—
Purchases of available-for-sale securities	(22,134)	—	—	—	—	—
Principal collected on advances	4,637,522	—	532,276	1,044,957	368,169	76,788
Advances made	(4,679,644)	—	(531,382)	(1,052,944)	(357,589)	(89,822)
Principal collected on mortgage loans	469	—	—	40	36	12
Mortgage loans purchased	(14,600)	—	(17)	(340)	(1,943)	(351)
Principal collected on other loans	(1,225)	—	1	—	—	—
Net increase in loans to other FHLBanks	—	1	(1)	—	—	—
Increase in premises and equipment	(44)	—	(1)	(5)	(6)	(1)
Net cash (used in) provided by investing activities	(70,506)	(496)	(1,707)	(16,132)	5,901	(10,477)

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 193	\$ 127	\$ 129	\$ 124	\$ 129	\$ 99	\$ 377	\$ 139
		2		(4)		(1)	(3)
<u>193</u>	<u>127</u>	<u>131</u>	<u>124</u>	<u>125</u>	<u>99</u>	<u>376</u>	<u>136</u>
1,337	354	319	564	290	329	(253)	866
1	1	7	1	10	2	14	9
		1	1			14	1
1	1	2	1	4		1	
		4	1				
(1)			2				
			5				
(121)	(200)	(17)	(56)	(56)	(59)	(1,037)	11
(2)	(4)	(3)	(14)	305	(9)		
16	3	5	3	6	2	18	
37	249	90	(32)	34	92	1,282	17
8	4	4	4	4	4	14	
(3)	(40)	60	(109)	32	(182)	1	51
<u>1,273</u>	<u>368</u>	<u>472</u>	<u>371</u>	<u>629</u>	<u>179</u>	<u>54</u>	<u>955</u>
<u>1,466</u>	<u>495</u>	<u>603</u>	<u>495</u>	<u>754</u>	<u>278</u>	<u>430</u>	<u>1,091</u>
(2,606)	255		(20)	200	(1,086)	(996)	(479)
1,537	1,419	773	2,720	(157)	1,716	260	148
		5	(800)			2,159	75
	7	473	832	500	(359)	(1,130)	(659)
							20
1,091	689	1,017	833	996	877	1,844	1,709
(2,536)	(1,193)	(658)	(1)	(1,050)	(1,442)	(5,556)	(2,890)
21,263	139						
(22,134)							
1,176,639	40,426	31,172	86,248	747,311	164,914	316,901	51,721
(1,180,444)	(45,066)	(32,467)	(84,456)	(750,472)	(166,904)	(336,420)	(51,678)
	1	253	96	27			4
(31)	(31)	(6,742)	(3,314)	(1,404)	(5)		(422)
							(1,226)
	(1)	(7)	(1)	(20)		(1)	(1)
<u>(7,221)</u>	<u>(3,355)</u>	<u>(6,181)</u>	<u>2,137</u>	<u>(4,069)</u>	<u>(2,289)</u>	<u>(22,939)</u>	<u>(3,678)</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS—(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2000

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combined Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
FINANCING ACTIVITIES						
Net increase (decrease) in deposits	\$ 5	\$	\$ 238	\$ (492)	\$ 191	\$ (112)
Net decrease in securities sold under agreements to repurchase	(543)					
Net decrease in other borrowings	(1)	(1)				
Net proceeds from sale of consolidated obligations:						
Discount notes	4,090,586		363,117	749,344	222,959	145,243
Bonds	217,297	(471)	8,010	23,430	5,320	24,247
Payments for maturing and retiring consolidated obligations:						
Discount notes	(4,077,439)		(365,349)	(740,708)	(224,815)	(143,576)
Bonds	(170,223)	968	(5,525)	(18,871)	(9,119)	(15,753)
Proceeds from issuance of capital stock	6,636		434	755	809	1,322
Payments for redemption of capital stock	(5,470)		(405)	(152)	(1,062)	(1,144)
Cash dividends paid	(1,151)		(131)	(226)	(161)	(260)
Net cash provided by (used in) financing activities ...	59,697	496	389	13,080	(5,878)	9,967
Net (decrease) increase in cash and cash equivalents ...	(3,295)		(220)	(2,886)	119	32
Cash and cash equivalents at beginning of period	4,047		230	2,911	322	14
Cash and cash equivalents at end of period	<u>\$ 752</u>	<u>\$</u>	<u>\$ 10</u>	<u>\$ 25</u>	<u>\$ 441</u>	<u>\$ 46</u>
Supplemental Disclosures:						
Interest paid	\$ 30,571		\$ 2,060	\$ 3,707	\$ 2,649	\$ 3,693
Stock dividends issued	\$ 1,010					

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 117	\$ (54)	\$ (867)	\$ 221	\$ 130	\$ 423	\$ 49	\$ 161
	(19)			(124)			(400)
762,621	520,474	350,489	73,508	80,533	286,847	252,743	282,708
11,736	11,116	36,697	9,871	8,544	10,873	54,750	13,174
(756,921)	(523,770)	(352,419)	(75,352)	(76,804)	(287,894)	(251,340)	(278,491)
(12,065)	(4,871)	(28,399)	(10,374)	(9,336)	(8,216)	(34,166)	(14,496)
536	171	474	329	443	293	976	94
(294)	(40)	(407)	(814)	(268)	(222)	(499)	(163)
	(123)	(27)	(130)		(93)		
5,730	2,884	5,541	(2,741)	3,118	2,011	22,513	2,587
(25)	24	(37)	(109)	(197)		4	
37	12	41	181	292	1	1	5
\$ 12	\$ 36	\$ 4	\$ 72	\$ 95	\$ 1	\$ 5	\$ 5
\$ 1,594	\$ 1,157	\$ 1,490	\$ 1,616	\$ 2,515	\$ 1,352	\$ 6,197	\$ 2,541
\$ 186		\$ 114		\$ 153		\$ 417	\$ 140

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1999

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
OPERATING ACTIVITIES						
Net income	\$ 2,128	\$ 24	\$ 137	\$ 244	\$ 184	\$ 282
Extraordinary gains on early retirement of debt, net	(1)					
Income before extraordinary item	2,127	24	137	244	184	282
Adjustments to reconcile income before extraordinary item to net cash provided by operating activities:						
Depreciation and amortization:						
Net premiums and discounts on consolidated obligations and investments, and deferred costs and deferred fees received on interest-rate exchange agreements	3,283		654	(9)	75	146
Concessions on consolidated obligations	120		1	3	2	50
Deferred loss (gain) on interest-rate exchange agreements, net	15		(1)		1	1
Premises and equipment	12		1	1	2	1
Other						
Provision for credit losses on mortgage loans	1					
Loss due to change in net mark to market adjustment for interest-rate exchange agreements in which FHLBanks are intermediaries	9		1			
Gain on disposal of premises and equipment	(5)					
(Increase) decrease in accrued interest receivable	(2,946)	(92)	(69)	(161)	(456)	(569)
(Increase) decrease in other assets	(281)	(24)	2	(1)	5	5
Increase in Affordable Housing Program (AHP) liability and discount on AHP advances	64		5	12	7	6
Increase (decrease) in accrued interest payable	3,329	92	83	265	354	781
(Decrease) increase in other liabilities	(537)		(5)	(1)	(16)	(373)
Total adjustments	3,064	(24)	672	109	(26)	48
Net cash provided by (used in) operating activities	5,191		809	353	158	330
INVESTING ACTIVITIES						
Net (increase) decrease in interest-bearing deposits in banks	(5,238)			(1,696)	(1,355)	(590)
Net (increase) decrease in federal funds sold	(9,687)		2,066	1,645	282	(2,874)
Net decrease (increase) in securities purchased under resale agreements	1,234		150			
Net (increase) decrease in short-term held-to-maturity securities	(3,260)		(274)		(216)	(1,438)
Proceeds from sales of long-term held-to-maturity securities	8					
Proceeds from maturities of long-term held-to-maturity securities	24,806	(596)	1,789	1,915	2,040	3,140
Purchases of long-term held-to-maturity securities	(40,868)	48	(3,026)	(4,124)	(2,962)	(6,262)
Proceeds from sales of available-for-sale securities	303					
Proceeds from maturities of available-for-sale securities	43,119	(400)	1		456	
Purchases of available-for-sale securities	(43,759)		(37)		(926)	
Principal collected on advances	2,469,535	320	177,277	681,877	339,365	47,904
Principal collected on advances participated from another FHLBank		(320)			(280)	
Advances made	(2,577,096)		(184,346)	(694,769)	(349,842)	(59,559)
Principal collected on mortgage loans	110				7	7
Mortgage loans purchased	(1,166)			(222)	(4)	(74)
Principal collected on other loans	1		1			
Net decrease in loans to other FHLBanks		(325)		150		75
Decrease (increase) in premises and equipment	65		(1)	(3)	(2)	
Net cash used in investing activities	(141,893)	(1,273)	(6,400)	(15,227)	(13,437)	(19,671)

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 173	\$ 125	\$ 131	\$ 132	\$ 109	\$ 90	\$ 332	\$ 165
<u>173</u>	<u>125</u>	<u>131</u>	<u>132</u>	<u>109</u>	<u>90</u>	<u>(1)</u> <u>331</u>	<u>165</u>
596	321	271	457	138	215	(130)	549
4	1	8	1	29	1	8	12
1	1	1	1	(1)		13	1
(1)		1	1	1		2	
		1					
			8			(5)	
(180)	(73)	70	(250)	(178)	(149)	(578)	(261)
(1)	(2)	15	(3)	(303)		26	
12	1	5		2	4	10	
170	88	(51)	186	223	160	787	191
	52	2	(102)	(83)		(15)	4
<u>601</u>	<u>389</u>	<u>323</u>	<u>299</u>	<u>(172)</u>	<u>231</u>	<u>118</u>	<u>496</u>
<u>774</u>	<u>514</u>	<u>454</u>	<u>431</u>	<u>(63)</u>	<u>321</u>	<u>449</u>	<u>661</u>
(261)	(135)		(125)	(200)	119	(1,300)	305
(2,453)	(657)	(904)	(1,902)	(1,015)	(695)	(3,742)	562
	(45)	802	309		100	(332)	250
	431	(830)	(265)	(521)	21	(867)	699
							8
1,908	1,299	1,735	1,425	2,187	1,680	1,614	4,670
(3,519)	(2,196)	(2,203)	(2,018)	(2,924)	(2,261)	(3,000)	(6,421)
42,947	303						
(42,493)	115						
467,743	(303)	25,651	60,244	342,194	60,233	195,964	36,773
	33,990						
(478,006)	(39,034)	(27,919)	(64,521)	(347,036)	600	(222,490)	(41,906)
	(1)	96	(76)	(3)	(67,668)		
		(786)					
					50		50
(1)	(1)	(5)		(13)		91	
<u>(14,135)</u>	<u>(6,234)</u>	<u>(4,363)</u>	<u>(6,929)</u>	<u>(7,331)</u>	<u>(7,821)</u>	<u>(34,062)</u>	<u>(5,010)</u>

FEDERAL HOME LOAN BANKS
COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS—(Continued)
FOR THE YEAR ENDED DECEMBER 31, 1999

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combined Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
FINANCING ACTIVITIES						
Net decrease in deposits	\$ (7,739)	\$	\$ (699)	\$ (328)	\$ (1,020)	\$ (695)
Net (decrease) increase in securities sold under repurchase agreements	(105)					
Net decrease in other borrowings	(336)					
Net decrease in loans from other FHLBanks		325				
Net proceeds from sale of consolidated obligations:						
Discount notes	2,883,705		180,871	436,946	56,349	34,747
Bonds	244,700	(48)	8,433	28,154	23,129	31,692
Payments for maturing and retiring consolidated obligations:						
Discount notes	(2,861,458)		(179,261)	(439,139)	(56,088)	(33,974)
Bonds	(122,854)	996	(3,737)	(8,406)	(9,456)	(13,218)
Proceeds from issuance of capital stock	8,849		391	788	1,578	1,921
Payments for redemption of capital stock	(3,480)		(62)	(53)	(1,014)	(943)
Cash dividends paid	(919)		(102)	(177)	(132)	(213)
Cash distributions to REFCORP	(300)		(19)	(35)	(26)	(37)
Net cash provided by financing activities	<u>140,063</u>	<u>1,273</u>	<u>5,815</u>	<u>17,750</u>	<u>13,320</u>	<u>19,280</u>
Net increase (decrease) in cash and cash equivalents ..	3,361		224	2,876	41	(61)
Cash and cash equivalents at beginning of period	686		6	35	281	75
Cash and cash equivalents at end of period	<u>\$ 4,047</u>	<u>\$</u>	<u>\$ 230</u>	<u>\$ 2,911</u>	<u>\$ 322</u>	<u>\$ 14</u>
Supplemental Disclosures:						
Interest paid	\$ 19,166		\$ 1,473	\$ 2,088	\$ 1,631	\$ 1,929
Stock dividends	\$ 701					

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ (570)	\$ (414)	\$ (1,277)	\$ (638)	\$ (432)	\$ (690)	\$ (151)	\$ (825)
	19			(167)		(150)	193
		(200)	(130)			(6)	
			(175)			(150)	
628,670	455,549	291,673	123,981	41,865	229,032	159,964	244,058
17,454	9,565	9,259	15,001	26,755	10,197	50,946	14,163
(624,862)	(453,488)	(289,228)	(125,086)	(45,010)	(229,120)	(140,822)	(245,380)
(7,587)	(5,675)	(6,368)	(6,965)	(15,585)	(2,186)	(36,690)	(7,977)
340	280	351	893	446	398	1,294	169
(34)	(17)	(166)	(162)	(247)	(180)	(576)	(26)
	(103)	(85)	(107)				
(27)	(17)	(19)	(19)	(16)	(12)	(48)	(25)
13,384	5,699	3,940	6,593	7,609	7,439	33,611	4,350
23	(21)	31	95	215	(61)	(2)	1
14	33	11	86	77	62	3	3
<u>\$ 37</u>	<u>\$ 12</u>	<u>\$ 42</u>	<u>\$ 181</u>	<u>\$ 292</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 4</u>
\$ 1,222	\$ 855	\$ 1,079	\$ 940	\$ 1,688	\$ 800	\$ 3,810	\$ 1,651
\$ 147				\$ 89	\$ 68	\$ 254	\$ 143

FEDERAL HOME LOAN BANKS
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BUSINESS

General

The FHLBanks serve the public through member institutions by providing members liquidity and by enhancing the availability of residential mortgage and community investment credit. They provide a readily available, low-cost source of funds to members and a means of liquefying home mortgages. The FHLBanks are cooperatives; only members may own the stock of each FHLBank, and the members receive dividends on their investment. Regulated depositories and insurance companies engaged in housing finance can apply for membership. Each member must own stock in its district FHLBank.

The FHLBanks have a unique role in housing finance. The FHLBanks make loans, called advances, to their members and eligible housing associates on the security of mortgages and other collateral that the members pledge. Advances generally support mortgage originations, provide term funding for portfolio lending, and may be used to provide funds to any member "community financial institution" for loans to small business, small farms, and small agri-business. Since portfolio lenders may originate loans that they are unwilling or unable to sell in the secondary mortgage market, FHLBank advances can serve as a funding source for a variety of conforming and nonconforming mortgages. This flexibility allows FHLBank advances to support important housing markets, including those focused on low- and moderate-income households. For those members that choose to securitize their mortgages, FHLBank advances can provide interim funding.

FHLBank advances can provide funding to smaller lenders that lack diverse funding sources. Smaller community lenders very often do not have access to many of the funding alternatives available to larger financial entities, including repurchase agreements, commercial paper, and brokered deposits. The FHLBanks give these lenders access to competitively priced wholesale funding.

FHLBank credit products also help members in asset-liability management. FHLBanks offer advances matched to the maturity and prepayment characteristics of mortgage loans. Such advances can reduce a member's interest-rate risk associated with holding long-term fixed-rate mortgages. Alternatively, members can enter interest-rate exchange agreements directly with an FHLBank to reduce their exposure to interest-rate risk.

The FHLBanks help members meet their Community Reinvestment Act (CRA) responsibilities. Through Community Investment Cash Advance programs such as the AHP and the Community Investment Program (CIP), members have access to subsidized and other low-cost funding to create affordable rental and home ownership opportunities, and for commercial and economic development activities that benefit low- and moderate-income neighborhoods, thus contributing to the revitalization of these communities.

The FHLBanks serve as a source of liquidity for their members. Access to FHLBank advances for liquidity purposes can reduce the amount of low-yielding liquid assets a member would otherwise need to hold. Some FHLBanks also provide correspondent services, such as the purchase, sale, and safekeeping of securities on behalf of and at the direction of their members.

Consolidated obligations are the principal funding source for the FHLBanks. To a lesser extent, member deposits, FHLBank capital stock, and retained earnings also provide funding. The FHLBanks have traditionally used these sources of funds to make advances to members.

Advances

Advances are the largest category of the FHLBanks' assets. Each FHLBank develops its own advances programs, as authorized in the FHLBank Act and regulations established by the Finance Board, to meet the particular needs of its members.

Flexible advances policies have helped to satisfy the short-term and long-term business objectives of the FHLBanks' members. Beyond providing funding for housing finance, advances also give members a supplementary source of funds for expansion and liquidity during seasonal imbalances in savings deposits and mortgage loan disbursements. Additionally, specialized advances programs provide funds for community investment and affordable housing programs.

Prepayment Fees. The FHLBanks price advances based on each FHLBank's marginal cost of raising matching-maturity funds and related administrative and operating costs. Advances with a maturity or repricing period greater than six months generally require a fee sufficient to make the FHLBank financially indifferent should the borrower decide to prepay the advance.

Collateral. On June 29, 2000, the Finance Board adopted a final rule that implemented the collateral provisions of the GLB Act.

The FHLBank Act, as amended, requires each FHLBank, at the time it originates or renews an advance, to obtain and maintain a security interest in collateral eligible in one or more of the following categories:

- fully disbursed, whole first mortgages on improved residential property (not more than 90 days delinquent) or securities representing a whole interest in such mortgages;
- securities issued, insured, or guaranteed by the U.S. Government or any of its agencies (including, without limitation, mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac, or the Government National Mortgage Association (Ginnie Mae));
- cash or deposits in an FHLBank;
- other real estate-related collateral acceptable to the FHLBank, provided such collateral has a readily ascertainable value and the FHLBank can perfect a security interest in such property; or
- in the case of any "community financial institution," which is an FDIC-insured institution with assets of \$517 million or less for 2001, secured loans for small business, agriculture, or securities representing a whole interest in such secured loans.

Each FHLBank retains the right to require additional collateral at any time (whether or not such additional collateral would be eligible to originate an advance) or substitutions of collateral by the borrower. As additional security for a member's indebtedness, an FHLBank has a statutory lien upon that member's FHLBank stock.

The FHLBank Act affords any security interest granted to an FHLBank by any member of an FHLBank or any affiliate of any such member priority over the claims and rights of any party (including any receiver, conservator, trustee, or similar party having rights of a lien creditor). The only two exceptions are claims and rights that would be entitled to priority under otherwise applicable law or are held by actual bona fide purchasers for value or by parties that are secured by actual perfected security interests.

Residential mortgage loans are the principal form of collateral for advances. The FHLBanks perfect the security interests granted to them if the financial condition of a particular borrower so warrants. In addition, the FHLBanks must take any steps necessary to ensure that the security interest in all collateral pledged by non-depository institutions for an advance is as secure as the security interest in collateral pledged by depository institutions.

None of the FHLBanks has ever recorded a credit loss on an advance to a member. Based on repayment history and collateral held as security on advances, no FHLBank believes any allowance for losses on advances is necessary.

Letters of Credit. The FHLBanks also issue letters of credit for members. Members must collateralize letters of credit.

Housing Associates. Section 10(b) of the FHLBank Act permits the FHLBanks to make advances to nonmembers that are approved mortgagees under Title II of the National Housing Act. Eligible housing associates must also be chartered under law and have succession, be subject to inspection and supervision by some governmental agency, and lend their own funds as their principal activity in the mortgage field. Housing associates are not subject to certain provisions applicable to members in the FHLBank Act. For example, they do not purchase capital stock in an FHLBank. However, the same regulatory lending requirements generally apply to them as apply to members.

Commitments for Advances. An FHLBank may make commitments for advances to a member covering a predefined period. This program aids members and the FHLBanks in their cash-flow planning and enables members to reduce their funding risk.

Investments

FHLBank Statutory Investment Authority. Subject to such regulations, restrictions, and limitations as the Finance Board may impose, the FHLBanks are authorized by statute to hold the following investments in their portfolios:

- obligations of the United States;
- deposits in banks or trust companies;
- obligations, participations, or other instruments of or issued by Fannie Mae or Ginnie Mae;
- mortgages, obligations, or other securities that are, or ever have been, sold by Freddie Mac pursuant to 12 U.S.C. §§ 1454 or 1455;
- stock, obligations, or other securities of any small business investment company (SBIC) formed pursuant to 15 U.S.C. § 681(d) (when made for the purpose of aiding FHLBank members); and
- such securities as fiduciary and trust funds may be invested in under the laws of the State in which the FHLBank is located.

Financial Management Policy. Until July 17, 2000, the Finance Board's Financial Management Policy regulated and primarily limited the FHLBanks' statutory investment authority. Section II.B of the Financial Management Policy contains a list of specific investments, falling within the parameters of the investment authority set forth in the FHLBank Act, that FHLBanks were permitted to hold in their portfolios. To the extent specifically authorized under the Act, or to the extent an FHLBank determined that they are securities that a fiduciary or trust fund may purchase under the laws of the State in which the FHLBank is located, these permissible investments were as follows:

- overnight and term fund placements, having maturities not exceeding 271 days, with eligible financial institutions;
- overnight and term resale agreements, having maturities not exceeding 271 days, with eligible counterparties, using for collateral securities that are eligible investments under the investment guidelines and FHA-insured and VA-guaranteed mortgages;
- deposits, having a term to maturity of not more than 271 days, placed with eligible financial institutions;
- commercial paper, having a term to maturity of not more than 271 days, issued in the domestic market by financial companies rated P-1 by Moody's or A-1 by Standard & Poor's;
- bankers' acceptances, having a term to maturity of not more than 271 days, drawn on and accepted by eligible financial institutions;
- marketable direct obligations of the United States;

- marketable direct obligations of U.S. government-sponsored agencies and instrumentalities (including consolidated obligations of other FHLBanks) for which such institutions have pledged their credit for repayment of both principal and interest;
- securities representing an interest in pools of mortgages issued, guaranteed, or fully insured by Ginnie Mae, Freddie Mac, or Fannie Mae, and collateralized mortgage obligations (CMOs), including real estate mortgage investment conduits (REMICs), backed by mortgage securities issued, guaranteed, or fully insured by Ginnie Mae, Freddie Mac, or Fannie Mae;
- nonfederal agency mortgage-backed securities rated Aaa by Moody's or AAA by Standard & Poor's;
- asset-backed securities collateralized by manufactured housing loans or home equity loans rated Aaa by Moody's or AAA by Standard & Poor's;
- marketable direct obligations of State or local governments or agencies, rated at least Aa by Moody's or AA by Standard & Poor's, where the purchase of such obligations by an FHLBank provides the issuer the customized terms, necessary liquidity, or favorable pricing required to generate needed funding for housing or community development; and
- other investments that support housing and community development, if, before entering such investments, the FHLBank:
 - ensures the appropriate levels of expertise, establishes policies, procedures, and controls, and provides for any reserves required to limit and manage risk exposure and preserve the triple-A credit rating on consolidated obligations;
 - ensures its involvement in such investment activity helps in providing housing and community development financing that is not generally available, or that is available at lower levels or under less attractive terms;
 - ensures that such investment activity promotes (or at the very least, does not detract from) the cooperative nature of the FHLBanks;
 - provides a complete description of the contemplated investment activity to the Finance Board; and
 - receives written confirmation from the Finance Board, before entering such investments, that the FHLBank has met the eligibility standards and requirements.

Section II.C of the Financial Management Policy further limits FHLBank investment in MBS and asset-backed securities. This provision requires that the total book value of MBS owned by an FHLBank not exceed 300 percent of the FHLBank's previous month end capital on the day it purchases the securities. In addition, section II.C prohibits the FHLBanks from purchasing:

- interest-only or principal-only stripped MBS;
- residual-interest or interest-accrual classes of CMOs and REMICs;
- fixed-rate MBS or floating-rate MBS that on the trade date are at rates equal to their contractual cap and that have average lives that vary more than 6 years under an assumed instantaneous interest rate change of 300 basis points; and
- non-U.S. dollar denominated securities.

New Investment Regulation. On July 17, 2000, a new Finance Board regulation governing FHLBank investments, which largely supersedes section II.B of the Financial Management Policy, became effective. Unlike the Financial Management Policy, which provides a finite list of specific investments that the FHLBanks are permitted to make, the new regulation generally permits the FHLBanks to make any of the investments that are authorized under the FHLBank Act. However,

the new regulation sets forth several specific limitations on this general authority, which prohibit the FHLBanks from investing in:

- instruments, such as common stock, that represent an ownership interest in an entity, other than stock in SBICs, or certain investments targeted to low-income persons or communities;
- instruments issued by non-United States entities, other than those issued by United States branches and agency offices of foreign commercial banks;
- non-investment-grade debt instruments, other than certain investments targeted to low-income persons or communities and instruments that were downgraded after purchase by the FHLBank;
- whole mortgages or other whole loans, other than: those acquired under the FHLBanks' Acquired Member Asset programs; certain investments targeted to low-income persons or communities; certain marketable direct obligations of State, local, or tribal government units or agencies, having at least the second highest credit rating from a nationally-recognized statistical rating organization; MBS or asset-backed securities backed by manufactured housing loans or home equity loans; and certain foreign housing loans authorized under section 12(b) of the FHLBank Act (which are no longer made, but which the FHLBanks may still hold in their portfolios).

Under the new investment regulation, all requirements and restrictions regarding specific investments that are set forth in the Financial Management Policy (for example, maturity limits, investment grade requirements and the limitations on MBS contained in section II.C) remain in effect. In addition, the new regulation requires that an FHLBank provide notice to the Finance Board before undertaking any investment of a type that the FHLBank has not previously made, or that involves risks not previously and regularly managed by the FHLBank.

Mortgage Loans

All 12 of the FHLBanks have established member mortgage asset programs to further assist their members. The programs all involve the investment by the FHLBank in loans originated through or by members. The Finance Board authorized all of the FHLBanks to hold acquired member assets, such as assets acquired under the MPF® program developed by the FHLBank of Chicago. Under these programs, the FHLBank acquires mortgage assets from or through members or housing associates, and the members or housing associates continue to bear a significant portion of the credit risk. By their very nature, these assets may have more credit risk than advances, even though the member or housing associate provides credit enhancement. All credit is enhanced by members to a level equivalent to at least an investment-grade rating, although neither the member credit enhancements nor loans are rated. An FHLBank must hold risk-based capital against acquired member assets that have an implied credit rating less than double-A. All of the FHLBanks except Seattle and Cincinnati offer MPF® to their members, and these two FHLBanks, along with the FHLBank of Indianapolis, have developed an alternative mortgage purchase plan. All of the FHLBanks participating in these programs have established appropriate loan loss allowances.

The acquired member asset rule specifies that assets must be either whole loans eligible to secure advances (excluding mortgages above the conforming loan limit), whole loans secured by manufactured housing, or State and local housing finance agency bonds. In addition, the rule mandates a member or housing associate nexus requirement. All pools of acquired member assets must have a credit-risk-sharing arrangement with a member, housing associate or third-party mortgage insurance that limits the FHLBank's credit-risk exposure to no less than investment grade, as determined by a formal rating or a comparable methodology. Furthermore, an FHLBank must hold risk-based capital against all pools not rated double-A or higher.

Debt Financing—Consolidated Obligations

The primary source of funds for the FHLBanks is the sale of debt securities, known as consolidated obligations, in the capital markets. Consolidated obligations are the joint-and-several obligations of the FHLBanks, backed only by the financial resources of the 12 FHLBanks. Consolidated obligations are not obligations of the United States, and the United States does not guarantee them. Moody's has rated consolidated obligations Aaa/P-1, and Standard & Poor's has rated them AAA/A-1+.

The Finance Board adopted final rules on June 2, 2000, to govern the issuance of debt on behalf of the FHLBanks and related activities. Through December 31, 2000, the Finance Board issued consolidated obligations, on which the FHLBanks are jointly and severally liable, through the Office of Finance as agent for the Finance Board under the authority of section 11(c) of the FHLBank Act. The final rule authorizes the FHLBanks to issue consolidated obligations, through the Office of Finance as their agent under the authority of section 11(a) of the FHLBank Act. All of the FHLBanks will continue to be jointly and severally liable for the consolidated obligations issued under section 11(a). No FHLBank will be permitted to issue individual debt under section 11(a) without Finance Board approval. The final rule represents a technical change in the issuer of FHLBank debt. The change ends the anomaly of having the Finance Board, the safety-and-soundness regulator, issue the debt of the entities it regulates. The FHLBanks started to issue debt in their own name through the Office of Finance on January 2, 2001.

Leverage Limits. In conjunction with the final rule transferring the debt-issuance function to the FHLBanks, the Finance Board adopted a final rule amending the FHLBanks' leverage limit requirements.

In addition to the Finance Board leverage limits, the FHLBanks must maintain the following types of assets free from any lien or pledge in an amount at least equal to the amount of consolidated obligations outstanding:

- cash;
- obligations of, or fully guaranteed by, the United States;
- secured advances;
- mortgages, which have any guaranty, insurance, or commitment from the United States or any agency of the United States;
- investments described in Section 16(a) of the FHLBank Act, which, among other items, includes securities that a fiduciary or trust fund may purchase under the laws of the State in which the FHLBank is located; and
- other securities that are rated Aaa by Moody's or AAA by Standard & Poor's.

The Office of Finance, a joint office of the FHLBanks, has responsibility for facilitating and executing the issuance of the consolidated obligations. It also services all outstanding debt, provides the FHLBanks with credit information, serves as a source of information for the FHLBanks on capital market developments, and administers REFCORP and the Financing Corporation (FICO), and manages the FHLBanks' relationship with the rating agencies.

With prior Finance Board approval, an FHLBank may issue its own obligations. However, as of the date of this Report, the Finance Board has not granted such approval, and no individual FHLBank obligations are outstanding.

Consolidated Bonds. FHLBank consolidated bonds satisfy term funding requirements. Typically, the maturity of these securities ranges from 1 year to 10 years, but their maturity is not subject to any statutory or regulatory limit. Consolidated bonds can be issued and distributed through negotiated or competitively bid transactions with approved underwriters or selling group members.

On July 1, 1999, the FHLBanks commenced the TAP issue program for fixed-rate, non-callable (bullet) bonds. This program uses specific maturities that may be reopened daily during a three-month period through competitive auctions. The goal of the TAP program is to aggregate frequent smaller issues into a larger bond issue that may have greater market liquidity.

Consolidated Discount Notes. The Office of Finance also sells consolidated discount notes to provide short-term funds for advances to members for seasonal and cyclical fluctuations in savings flows and mortgage financing, short-term investments, and variable-rate and putable or convertible advance programs. These securities have maturities up to 360 days, and are offered daily through a 16-member consolidated discount-note selling group. Discount notes are sold at a discount and mature at par. Daily discount note issuances have increased significantly since 1993 with the advent of discount notes with original maturities less than 30 days.

Interest-Rate Exchange Agreements. Certain securities dealers and banks and their affiliates engage in transactions with and perform services for the FHLBanks, including the purchase and sale of investment securities. In connection with the sale of any particular issue of consolidated obligations, the FHLBank(s) receiving the proceeds may enter into interest-rate exchange agreements or other transactions with or arranged by the applicable securities dealer, bank, or affiliate, or an unaffiliated third party.

Deposits

The FHLBank Act allows the FHLBanks to accept deposits from their members, from any institution for which they are providing correspondent services, from other FHLBanks, or from other government instrumentalities. Deposit programs provide some of the FHLBanks' funding resources, while also giving members a low-risk earning asset that satisfies their regulatory liquidity requirements. The FHLBanks offer several types of deposit programs to their members including demand, overnight, and term deposits.

Liquidity Requirements. To support its member deposits, the FHLBank Act requires each FHLBank to have an amount equal to the current deposits invested in obligations of the United States, deposits in eligible banks or trust companies, or advances with a maturity not exceeding five years. In addition, the liquidity guidelines in the Finance Board's Financial Management Policy require each FHLBank to maintain an average daily liquidity level each month in an amount not less than the sum of:

- 20 percent of the sum of its daily average demand and overnight deposits and other overnight borrowings, and
- 10 percent of the sum of its daily average term deposits, consolidated obligations, and other borrowings that mature within one year.

Assets eligible for meeting these liquidity requirements include:

- overnight funds and overnight deposits placed with eligible financial institutions;
- overnight and term resale agreements with eligible counterparties, which mature in 271 days or less, using for collateral securities that are eligible investments under the investment guidelines, and FHA-insured and VA-guaranteed mortgages;
- negotiable certificates of deposit placed with eligible financial institutions, bankers' acceptances drawn on and accepted by eligible financial institutions, and commercial paper issued in U.S. financial markets and rated P-1 by Moody's or A-1 by Standard & Poor's, all having a remaining term to maturity of not more than 271 days;
- marketable direct obligations of the United States that mature in 36 months or less;
- marketable direct obligations of U.S. government-sponsored agencies and instrumentalities that mature in 36 months or less for which the credit of such institution is pledged for repayment of both principal and interest; and

- cash and collected balances held at a Federal Reserve Bank and other eligible financial institutions, net of member pass-throughs.

A security pledged under a repurchase agreement cannot satisfy liquidity requirements.

Capitalization

The Gramm-Leach-Bliley Act (GLB Act) and the implementing final rule define total capital for each FHLBank as the sum of the FHLBank's permanent capital, plus the amounts paid-in by its members for Class A stock (which is redeemable on six months written notice); any general loss allowance, if consistent with GAAP and not established for specific assets; and other amounts from sources determined by the Finance Board as available to absorb losses. The GLB Act defines permanent capital as the amount paid-in for the Class B stock (which is redeemable on five years written notice), plus the amount of an FHLBank's retained earnings, as determined in accordance with GAAP.

Until the new capital plans are implemented by the FHLBanks, the pre-GLB Act capital rules will remain in effect. The final rule was published on January 30, 2001 and the required each FHLBank to submit a capital structure plan to the Finance Board by October 29, 2001, for approval. The FHLBanks have all submitted their proposed capital plan. On March 13, 2002, the Finance Board approved the capital structure plan of the FHLBank of Seattle.

Under the current capitalization, members are required to purchase capital stock equal to the greater of 1 percent of their mortgage-related assets or 5 percent of outstanding FHLBank advances. Members may, at the FHLBank's discretion, redeem at par value any capital stock greater than their statutory requirement or sell it to other FHLBank members at par value. All members of the FHLBanks are voluntary members, and may withdraw from membership and redeem their capital after giving six months notice to do so. Members that withdraw from membership may not be readmitted to membership for 5 years.

Voting Rights. Members holding capital stock at December 31 of the preceding year can participate in the annual election process for FHLBank directors. Their year-end minimum required stock holdings determine the voting rights of members. Eligible members may nominate and elect representatives from members in their State to serve three-year terms on the board of directors of their FHLBank.

Dividends

The FHLBanks may pay dividends from retained earnings after providing for all reserves and charge-offs required under the FHLBank Act.

Interest-Rate Exchange Agreements

The Finance Board's Financial Management Policy establishes guidelines for interest-rate exchange agreements. The FHLBanks can use interest-rate swaps, swaptions, interest-rate cap and floor agreements, calls, puts, and futures and forward contracts as part of their interest-rate risk management and funding strategies. The Financial Management Policy prohibits speculative use of these instruments and limits credit risk arising from these instruments. The FHLBanks do not trade derivatives for short-term profit.

Oversight, Audits, and Examinations

The Government Corporation Control Act provides that, before a government corporation issues and offers obligations to the public, the Secretary of the Treasury shall prescribe the form, denomination, maturity, interest rate, and conditions of the obligations; the way and time issued; and the selling price. The FHLBank Act also authorizes the Secretary of the Treasury, at his or her discretion, to purchase consolidated obligations up to an aggregate principal amount of \$4 billion. No borrowings under this authority have been outstanding since 1977. The U.S. Department of the

Treasury receives the Finance Board's annual report to the Congress, monthly reports reflecting securities transactions of the FHLBanks, and other reports reflecting the operations of the FHLBanks.

Each FHLBank and the Office of Finance has an internal audit department and audit committee, and an independent public accounting firm audits the annual financial statements of each FHLBank and the annual combined financial statements as prepared by the Office of Finance. The independent accountant conducts these audits following generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General. The FHLBanks, the Finance Board, and the Congress all receive the audit reports. The FHLBanks must submit annual management reports to the Congress, the President, the Office of Management and Budget, and the Comptroller General. These reports include a statement of financial condition, a statement of operations, a statement of cash flows, a statement of internal accounting and administrative control systems, and the report of the independent public accountants on the financial statements. In addition, the Finance Board conducts an annual on-site examination of each FHLBank and the Office of Finance and off-site reviews of their financial operations.

The Comptroller General has authority under the FHLBank Act to audit or examine the Finance Board and the FHLBanks and to decide the extent to which they fairly and effectively fulfill the purposes of the FHLBank Act. Furthermore, the Government Corporation Control Act provides that the Comptroller General may review any audit of the financial statements conducted by an independent public accounting firm. If the Comptroller General conducts such a review, then he must report the results and provide his recommendations to the Congress, the Office of Management and Budget, and the FHLBank in question. The Comptroller General may also conduct his own audit of any financial statements of an FHLBank.

Tax Status

Although the FHLBanks are exempt from all Federal, State, and local taxation except for real property taxes, they are obligated to make payments to REFCORP in the amount of 20 percent of net earnings after operating expenses and AHP expense. In addition, annually the FHLBanks must set aside for the AHPs the greater of an aggregate of \$100 million or 10 percent of their current year's income before charges for AHP (but after expenses for REFCORP). All FHLBank dividends received by members, however, are taxable; dividends received by members do not benefit from the corporate dividends received exclusion.

FHLBANKS' REGULATOR

The FHLBanks are regulated by the Finance Board, an independent agency in the executive branch of the U.S. Government. The Finance Board's purpose is to ensure that the FHLBanks operate in a safe and sound manner. In addition, the Finance Board ensures that the FHLBanks carry out their housing finance and community investment mission and remain adequately capitalized and able to raise funds in the capital markets. The FHLBank Act requires the Finance Board to conduct annual examinations and obtain reports of condition of the FHLBanks. The Finance Board assesses the FHLBanks for the costs of operating the Finance Board.

A five-member board of directors manages the Finance Board. The secretary of the Department of Housing and Urban Development (HUD) serves *ex officio* as a director of the Finance Board. The President appoints the other four directors, with the advice and consent of the Senate. Members of the board of directors hold office for terms of seven years. The President designates one of the four appointed directors to serve as chairman of the Finance Board. Each of the four appointed directors must have experience or training in housing finance or a commitment to providing specialized housing credit. Not more than three directors may be members of the same political party. At least one director must come from an organization with more than a two-year history of representing consumer or community interests in banking services, credit needs, housing, or financial consumer protections. The directors serve on a full-time basis.

At December 31, 2001, the directors of the Finance Board were Chairman John T. Korsmo, Mel Martinez, Secretary of HUD, (HUD secretary designee; John C. Weicher), Franz S. Leichter, Allan I. Mendelowitz, and J. Timothy O'Neill.

FHLBANK MANAGEMENT AND COMPENSATION

FHLBank Directors. The FHLBank Act provides that a board of at least 14 directors will govern each FHLBank. Directors elected by the members to three-year terms are a majority of the directors at each FHLBank. However, the Finance Board appoints at least six public-interest directors to three-year terms. Before the passage of the GLB Act, elected directors served two-year terms and appointed directors served four-year terms. At least two of the directors of each FHLBank appointed by the Finance Board must come from organizations with more than a two-year history of representing consumer or community interests in banking services, credit needs, housing, or financial consumer protections.

The board of directors of each FHLBank has the responsibility to monitor that FHLBank's compliance with Finance Board regulations and to establish policies and programs that carry out the FHLBank's housing finance mission. Each board of directors adopts and reviews policies governing the FHLBank's credit, investment, and funding activities, and oversees the implementation of these policies. The directors also must adopt policies to manage the FHLBank's exposure to credit, liquidity, and interest-rate risk.

Beginning with 2000, the GLB Act requires that each FHLBank's board of directors elects a chair and vice chair from among its members to two-year terms.

The following persons served as chair and vice chair of the FHLBanks during 2001 or are serving in 2002:

William P. Morrissey, 75, was elected chair of the FHLBank of Boston effective January 1, 2002. He is also senior vice president of Central Bank headquartered in Somerville, Massachusetts. He is a member of the Federal Liaison Committee of the Massachusetts Bankers Association and vice-president and director of McLaughlin House of Charlestown, a transitional housing program for women in recovery. He formerly served as executive vice-president at Boston Five Cents Savings Bank, vice president of Atlantic Savings Bank and deputy commissioner of banking for the Commonwealth of Massachusetts.

Charles W. Smith, 58, served as chair of the FHLBank of Boston in 2001. He is chairman and chief executive officer of Granite Bank, Keene, New Hampshire, and of its holding company, Granite State Bankshares, Inc. He is past chairman of the New Hampshire Bankers Association. Before joining Granite Bank, Mr. Smith served as executive vice president and treasurer, Raritan Savings Bank, Raritan, New Jersey. He has served as president of the Greater Keene Chamber of Commerce and the Keene Downtown Revitalization Corporation.

Kathleen N. Sullivan, 47, was elected vice chair of the FHLBank of Boston effective January 1, 2002. She is an attorney with the firm of Wadleigh, Starr & Peters in Manchester, New Hampshire. Ms. Sullivan serves as chair of the New Hampshire Democratic Party and as trustee of the Manchester Public Library. She is a former member of Manchester Charter Commission, the New Hampshire Juvenile Parole Board and director of the Manchester YWCA.

Elizabeth H. Mitchell, 61, served as vice chair of the FHLBank of Boston in 2001. A former state representative, Ms. Mitchell was speaker of the House of Maine from 1996—1998. From 1986—1990, she was chair and director of the Maine State Housing Authority. She is the former director of the Maine Homeless Coalition and Home Resources of Maine and a former chair of the FHLBank of Boston.

James J. Florio, 64, is chair of the FHLBank of New York and has served in that position in 1999, 2000 and 2001. Mr. Florio is also the chairman and CEO of XSPAND, an asset management company; and in addition to being of counsel in the law firm of Fischbein, Badillo, Wagner and

Harding, he is a University professor for Public Policy and Administration at Rutgers, the State University of New Jersey. He serves on the U.S. Secretary of Energy's Advisory Board and is a member of the Trade and Environment Policy Advisory Committee (TEPAC) to the U.S. Trade Representative. Mr. Florio was governor of New Jersey from 1990 through 1994. He was a member of the U.S. House of Representatives from 1974 through 1990. Before that, he served three terms in the New Jersey General Assembly.

Dennis A. James, 51, serves as vice chair of the FHLBank of New York and has been a director since 1996. He is president and chief executive officer of Sturdy Savings Bank in Cape May County, New Jersey. Mr. James is chairman of the New Jersey League Community and Savings Bankers' Legislative and Regulatory Affairs Committee. His prior experience includes the firm of Deloitte & Touche. Mr. James was a U.S. Navy Seabee and a trustee of the Wetlands Institute.

John T. Connelly, 66, is chair of the FHLBank of Pittsburgh effective January 2002, having served as vice chair from 1998 to 2001. He has been in banking for 40 years, most recently with the First National Bank of Leesport, Leesport, Pennsylvania (now the Leesport Bank), where he was president and chief executive officer from 1976 until 1998, when he became chairman of the board. Retired as an active officer on August 31, 1999, he now serves on the Leesport Bank's board of directors and chairs its executive committee. A graduate of Williams College, he is a past president of the Pennsylvania Bankers Association and is active in many civic organizations in Berks County, Pennsylvania. He has served as an elected director of the FHLBank of Pittsburgh since 1996.

David W. Curtis, 46, serves as vice chair of the FHLBank of Pittsburgh. Appointed as a public interest director of the FHLBank in 1996 and serving as the FHLBank's chair from 1999 to 2001, Mr. Curtis is the executive vice president of Leon N. Weiner & Associates, Inc., a multi-faceted real estate development firm providing housing to individuals and families of moderate means. He is also the president of Arbor Management, LLC, a multifamily residential management company with a portfolio of more than 5,000 units. Mr. Curtis holds a Master of Arts Degree from the University of Delaware's College of Urban Affairs.

Rita I. Fair, 65, assumed the chair of the FHLBank of Atlanta on July 1, 1997. Ms. Fair served as managing director of the Finance Board from April 1994 to March 1997. Before that, she was managing director of the Secura Group, a financial institutions consulting firm in Washington. Ms. Fair was formerly senior vice president for regulatory operations at the U.S. League of Savings Institutions and chief of staff of the Federal Home Loan Bank Board, and served in a number of positions at HUD.

J. Edward Norris, III, 51, was elected vice chair of the FHLBank of Atlanta effective January 1, 2002. Mr. Norris joined the board of directors in 1996. He serves as chairman, president and chief executive officer of America's Community Bankers and chairs the ACB's FHLB System Capital Committee. He also serves on the ACB's governmental affairs council and the Audit/Finance Committee.

Joseph S. Bracewell, III, 55 served as vice chair of the FHLBank of Atlanta for 2001. Mr. Bracewell left the board of directors effective December 31, 2001. Mr. Bracewell was chairman and chief executive officer of Century National Bank in Washington, D.C. He also served as a director of the Independent Bankers Association of America, Hankey Oil Company, and Hadron, Inc.

Paul Tipps, 65, is chairman of the FHLBank of Cincinnati and has served in that capacity since January 1, 2000. He has served as a director since 1997. He brings over 30 years of public policy expertise to the Cincinnati Bank board. Mr. Tipps is a principal and co-founder of State Street Consultants, Ohio's premiere government affairs firm. Headquartered in Columbus, State Street Consultants has affiliates throughout Ohio. Mr. Tipps is past chair of the Ohio Democratic Party. Mr. Tipps is a past member of the Wright State University Board of Trustees. He currently sits on the board of directors of Janus Hotels & Resorts and is a member of the board of directors of the John Glenn Institute for Public Service and Public Policy at The Ohio State University. Prior to his

career as a government affairs consultant, Mr. Tipps was involved in the development and management of 10,000 multi-family units in seven states. A Cincinnati native, Mr. Tipps graduated with a bachelor's degree from the University of Dayton and served as a First Lieutenant in the U.S. Army.

Buckner Woodford, 57, assumed the position of vice chair of the FHLBank of Cincinnati on January 1, 2002. He has served as a director since 1996. In addition, Mr. Woodford is president and chief executive officer of Kentucky Bank, Paris, Kentucky, with which he has been associated since 1971. Mr. Woodford is a past president of The Kentucky Banker's Association. He has also served as president of Bluegrass Tomorrow and the Paris Bourbon County YMCA. He is a past chairman of Bourbon General Hospital and has served as a member of the Small Bank Advisory Committee of The Federal Reserve Bank of Cleveland.

Michael R. Melvin, 57, was vice chair of the FHLBank of Cincinnati from 1999 through 2001. He has been a director since 1995. In addition, he is president, chief executive officer, and a director of Perpetual Federal Savings Bank, Urbana, Ohio, with which he has been associated since 1969. Mr. Melvin served as chairman of the Ohio League of Financial Institutions in 1994 and continues to serve on the trade association's board and their insurance trust board. Mr. Melvin also serves as a trustee of the Urbana University Endowment Scholarship Fund, director of Springfield-Clark County Chamber of Commerce, and secretary-treasurer of the board of the Rotary Manor Senior Housing Project.

William R. White, 48, is chair of the FHLBank of Indianapolis. He served as vice chair from 1999 through 2001. He is the chairman and president of Dearborn Federal Savings Bank, Dearborn, Michigan. Before his current appointment, Mr. White served the bank in the positions of president, executive vice president, and treasurer. Mr. White is a certified public accountant, having worked 13 years with Deloitte & Touche, LLP, primarily serving financial institution clients. He is involved in many professional and community organizations, including: Michigan League of Community Banks, Dearborn Chamber of Commerce, West Dearborn Downtown Development Authority, Henry Ford Community College Foundation Board, Financial Managers Society, and the President's Advisory Council for Henry Ford Museum and Greenfield Village.

Carolyn Sparks Hutting, 55, was chair of the FHLBank of Indianapolis, and served in that position in 1999 through 2001. She serves as the director of corporate relations for Earth Force, a national non-profit organization that works with young people to teach environmental stewardship and community action. Ms. Hutting has held numerous positions in both Kentucky and Michigan State governments including executive assistant to Michigan Governor James Blanchard, chief of staff for State Senator Jim Berryman, and communications analyst for House Speaker Curtis Hertel. She also served as operations director of the Michigan Democratic Party.

Michael J. Hannigan, Jr., 57, is vice chair of the FHLBank of Indianapolis. He is executive vice president of The Precedent Companies, a holding company with divisions in residential, commercial, and industrial development. From 1986 to 1996, he served as president of Precedent Financial Corporation, a corporation he co-founded that grew into a regional mortgage banking company with seven branches and wholesale operations in 15 states. Prior to that, he was senior vice president of Waterfield Financial Corp/Union Federal Savings Bank from 1971 to 1986. Mr. Hannigan is president of the Builders Association of Greater Indianapolis, and a director of the Indiana Builders Association and the National Association of Homebuilders. He is a trustee of the St. Mary's Child Center Endowment and a director of Junior Achievement of Central Indiana and The Indy Partnership.

Douglas J. Timmerman, 61, chairman of the FHLBank of Chicago, was re-elected to a three-year term as a director commencing on January 1, 2001. Mr. Timmerman is the chairman, president, and chief executive officer of AnchorBank, FSB, Madison, Wisconsin. He is a trustee of the University of Wisconsin Research Park. Mr. Timmerman served as vice chair of the FHLBank of Chicago in 1998-1999.

Mindy W. Turbov, 45, served as vice chair of the FHLBank of Chicago for 2000-2001, and was re-appointed to a three-year term as a director commencing on January 1, 2001. Ms. Turbov is president of Turbov Associates, a Chicago, Illinois, based community development consulting firm. Previously, she served as special assistant to the chairman of the Finance Board and as a special assistant to the HUD Secretary. Ms. Turbov was formerly a vice president of McCormack Baron & Associates, a real estate development firm, and a senior associate at Shorebank Corporation. She also served as deputy commissioner for development for Chicago's Department of Housing. Ms. Turbov served as chair of the FHLBank of Chicago in 1998-1999.

Dale Torpey, 56, chair of the board of the FHLBank of Des Moines, was first elected to the board of directors in 1996. He is president of Washington Federal Savings Bank in Washington, Iowa and has been a leader in the banking world for 30 years. As a six-year Home Loan Bank director, he served as Audit Committee Chair for three years before serving his first term as chair of the board in 2000. Mr. Torpey is currently the chairman of the Lending Committee for the Independent Community Bankers of America and has also served on the Operations Committee and chaired the Lending Subcommittee. He teaches "*Analyzing Bank Financial Statements*" classes at the Iowa School of Banking.

Joe Du Bray, 57, vice-chair of the board of the FHLBank of Des Moines, was first appointed to the board of directors in 1996 and is serving his second three-year term. He also serves as Chair of the Compensation, Diversity and Governance Committee of the FHLBank's board. Mr. Du Bray is the senior vice president, general counsel and board secretary for Wellmark, Inc., d.b.a. Wellmark Blue Cross and Blue Shield of Iowa. He is also general counsel and board secretary for Wellmark of South Dakota, Inc., d.b.a. Wellmark Blue Cross and Blue Shield of South Dakota.

Linda R. Cottingham, 53, served as vice chair of the FHLBank of Des Moines in 2000 through May 2001. Ms. Cottingham was the vice president, Strategic Planning and Business Development for Mercy Health Network, Des Moines, Iowa before she moved to the West Coast to pursue personal interests in May 2001. She was formerly a partner with Watson Wyatt Worldwide and the regional managing director of consulting for Deloitte & Touche, Des Moines, Iowa. Ms. Cottingham's community service includes being a member of the board of directors of the Greater Des Moines Partnership, a member of the City of Des Moines Strategic Planning Committee and co-chair of the Governor's Housing Task Force. She was first appointed to the board in 1995.

Henry Flores, 46, has been chair of the FHLBank of Dallas since January 1995 and a community interest director on the board since January 1994. Mr. Flores currently serves as the president of The West Companies. This firm is a builder/developer of multifamily communities, single-family subdivisions, and retail shopping center projects in the Southwest, with its business primarily focused on multifamily construction and acquisition/rehabilitation in the affordable housing sector. Before this position, he served as a principal with Flores, Elizondo and Associates, a company specializing in real estate development, public/private investment partnerships, tax-credit syndication, and property management. Mr. Flores is a past executive director of the Texas Department of Housing and Community Affairs. He also serves on the executive boards of the Austin Housing Authority, Texas Housing Finance Corporation, National Housing Trust, and was a founding member and first president of the National Hispanic Housing Council.

Fred Miller, Jr., 52, began his term as vice chair of the FHLBank of Dallas in January 2002. He has been a director since 1997. Mr. Miller is president and CEO of Bank of Anguilla, a \$75 million dollar institution in the Mississippi Delta. He is a graduate of Louisiana State University, The Graduate School of Banking of the South, and the Mississippi School of Banking. He is a past president of the Mississippi Bankers Association and is currently a member of the association's Executive Committee. Mr. Miller has served on various state banking association committees as chairman and has served on national committees for the American Bankers Association and the Independent Community Bankers of America. He currently is serving on the ABA's Agriculture and Rural Bankers Committee. Mr. Miller was also on the ABA's Task Force for 21st Century Agricultural Banking

George W. Mitchell, 58, was vice chair of the FHLBank of Dallas and served in that position in 2000 and 2001. He has been a director since 1995. Mr. Mitchell is chairman of the board, president, and a director of Pioneer Savings Bank, Roswell, New Mexico. During his tenure with Pioneer, which began in 1977, Mitchell has been very active in local and state civic activities which include: the Governor's Task Force Commission on Interstate Banking, president of the New Mexico League of Financial Institutions, president of the Roswell Rotary Club, director of the Roswell Chamber of Commerce, president of the Conquistador Council of Boy Scouts of America, and president of the Spectacular Air Show New Mexico.

Ron Wente, 51, is chair of the FHLBank of Topeka and served in that position in 2001 and will continue to serve in that position in 2002. He is president and chief executive officer of Golden Belt Bank, FSA, Hays, Kansas. He joined Golden Belt Bank in 1973 after graduating from Fort Hays State University. He began serving as president and CEO the following year. He is past chairman of the Heartland Community Bankers Association and serves on the board of directors of the Ellis County Economic Development Corp.

David W. Herlinger, 65, is vice chair of the FHLBank of Topeka and began serving in that position in 2002. He has served as chair of the FHLBank's Affordable Housing Advisory Council. He was appointed to the board in 1996. He is president of Puma Housing Investments in Denver, Colo. Before that, he was with the Colorado Housing and Finance Authority from 1974 to 2001, heading that agency's efforts to increase housing finance opportunities in Colorado. Before joining CHFA, he served as a director of Colorado Housing Inc. and the community development division of Metro Housing Center in Denver. He earned a bachelor's degree from Colgate University, Hamilton, N.Y., in 1958 and a master's degree in urban and regional planning from the University of Colorado, Boulder, in 1972. He is a past president of the National Council of State Housing Agencies and serves on the Downtown Denver Housing Committee and the Federal National Mortgage Association's housing impact advisory council.

Paul Barru, 76, was vice chair of the FHLBank of Topeka and served in that position in 2000 and 2001. He is president of BHI, Inc., Littleton, Colorado, and is a builder, developer, and affordable housing advocate. He was appointed to the Bank's board in 1995 as a public interest director. An ordained Presbyterian minister, he earned a theology degree from Harvard University Divinity School. He has a bachelor's degree in humanities from Michigan State University and business administration and accounting degrees from New York University School of Commerce. He is a past director of the National Association of Home Builders and has been named to that organization's Housing Hall of Fame. Mr. Barru served as chair of the FHLBank of Topeka in 1999.

Mary Lee Widener, 63, is chair of the FHLBank of San Francisco, and she served in that position in 2001 and will continue to serve in that position in 2002. She is chief executive officer of Neighborhood Housing Services of America, Inc., in Oakland, California. She developed, co-founded and administers this nonprofit secondary market program to provide liquidity to community loan funds nationally. She serves on the board of The PMI Group, Inc., Social Compact, the S. H. Cowell Foundation, and the Advisory Board of the Pew Partnership for Civic Change. She also is trustee emeritus of The San Francisco Foundation and Partners for Livable Communities.

D. Tad Lowrey, 50, is vice chair of the FHLBank of San Francisco and began serving in that position in 2002. He is chairman, president and chief executive officer of Jackson Federal Bank in Brea, California, a federally chartered savings bank with approximately \$1.5 billion in assets. Mr. Lowrey formerly served as a director of the FHLBank of San Francisco from January 1996 to September 1998. He currently serves as a director of America's Community Bankers, and he is a former Chairman of the Western League of Savings Institutions. Mr. Lowrey is also involved as Treasurer, director and a member of the executive committee of the Pasadena Playhouse State Theatre of California, and is a member of the Board of Trustees of the University of La Verne. He has also served on the Savings Association Industry Advisory Committee to the FDIC.

J. Lance Erikson, 58, was vice chair of the FHLBank of San Francisco and served in that position in 2000 and 2001. He is an officer of Washington Mutual Bank, FA, Stockton, California.

He was formerly executive vice president, secretary, and general counsel of Great Western Financial Corporation and its principal subsidiary, Great Western Bank, which Washington Mutual acquired in July 1997. Mr. Erikson joined Great Western in 1982 and was named to the company's executive management committee in 1987.

Michael P. Radway, 47, is chair of the council of Federal Home Loan Banks and has served as chair of the FHLBank of Seattle since 1999. Mr. Radway is also a strategic planning and legislative strategy consultant to Sallie Mae. He was Legislative Director from 1985 to 1999 for U.S. Representative Paul Kanjorski (D-PA) and served from 1995 through 1999 as the Democratic staff of the Subcommittee on Capital Markets, Securities and Government Sponsored Enterprises for the House Banking Committee. On that subcommittee, Mr. Radway worked on legislation to modernize the Federal Home Loan Bank System. Mr. Radway is also former Deputy Staff Director of the Subcommittee on Economic Growth and Credit Formation for the House Banking Committee.

Richard Swanson, 51, is vice chair of the FHLBank of Seattle, and began serving in that position in 2002. Mr. Swanson is chair of HomeStreet Bank, formerly Continental Savings Bank, Seattle, Washington. Prior to that he served as president, executive vice president and general counsel. Mr. Swanson serves on the board of governors of the Mortgage Bankers Association of America, a director of the Washington Financial League, a Trustee of the Greater Seattle Chamber of Commerce, and a director of the Washington Roundtable. He is a member of the Fannie Mae National Advisory Council, a former member of the Advisory Panel for the Washington State Department of Financial Institutions, a Trustee of Lakeside School, and a member of the Advisory Board of the University of Washington's Business and Economic Development Program. He belongs to Seattle Rotary, and is a past-president of the Washington Mortgage Lenders Association and the Woodland Park Zoological Society. He is a former partner of Real Estate Finance practice group of the Seattle law firm of Hillis, Clark, Martin & Peterson. Mr. Swanson holds a bachelor's degree from Harvard and graduate degrees from Cambridge University in England and Stanford Law School.

Kerry K. Killinger, 52, served as vice chair of the FHLBank of Seattle in 2001. He has served on the board since January 1994. Mr. Killinger has been chairman of Washington Mutual, Inc. and its predecessor, Washington Mutual Savings Bank, since January 1991. He joined Washington Mutual as an executive vice president in 1982, and became its chief executive officer in 1990. Mr. Killinger currently serves on the boards of directors for numerous community and industry organizations, including the Washington Financial League, America's Community Bankers, Greater Seattle Chamber of Commerce, Seattle Foundation, the Alliance for Education and the Washington Roundtable.

Compensation of Directors. Beginning with 2000, the GLB Act limits the annual compensation to \$25,000 for a chair, \$20,000 for a vice chair, and \$15,000 for all other directors. Beginning with 2001, the Finance Board must adjust these amounts based on the percentage annual increase in the Consumer Price Index. The compensation limits for 2001 were \$25,850 for a chair, \$20,680 for a vice chair, and \$15,510 for all other directors.

FHLBank Presidents. Each FHLBank president is responsible to that FHLBank's board of directors. The FHLBank president's responsibilities include the management of the FHLBank, the administration of the FHLBank's programs and of FHLBank objectives set forth in the FHLBank Act, and the execution of the regulations and policies of the Finance Board. Each FHLBank president participates in regular meetings with the other FHLBank presidents.

The following persons served as presidents of the FHLBanks during 2001:

Michael A. Jessee, 55, has been president and chief executive officer of the FHLBank of Boston since May 1989. Before that, he served 12 years with the FHLBank of San Francisco as executive vice president and chief operating officer; executive vice president, economics and corporate policy; senior vice president and chief economist; and assistant vice president and director of research.

Mr. Jessee also worked as an economist with the Federal Reserve Bank of New York and in corporate planning and correspondent banking with the Bank of Virginia.

Alfred A. DelliBovi, 55, has been president of the FHLBank of New York since December 1992. His experience includes 11 years of executive service with the U.S. Government. From June 1989 to November 1992, he served as the deputy secretary and chief operating officer of HUD. Before that, he worked at the U.S. Department of Transportation's Urban Mass Transportation Administration as administrator and regional administrator. Mr. DelliBovi was also a member of, and worked for, the New York State Assembly.

James D. Roy, 61, has been president of the FHLBank of Pittsburgh since November 1987. Before that, he spent 25 years with Mellon Bank, N.A., serving as the senior vice president, finance; as vice president and manager, corporate financial planning and control; and in various management positions within the finance department. Mr. Roy currently serves on the board of directors of the FHLBank Office of Finance.

Raymond R. Christman, 52, became president of the FHLBank of Atlanta on July 1, 1999. He had been a community interest director and chair of the FHLBank of Pittsburgh since 1994. Mr. Christman was president of the Pittsburgh Technology Council, a business association that fosters the growth of the technology industry in southwestern Pennsylvania. He also served as president of a related organization, the Southwestern Pennsylvania Industrial Resource Center, which is a not-for-profit economic development organization that provides technical consulting, financing assistance, and workforce development services to small- and medium-sized manufacturing companies.

Charles L. Thiemann, 64, has been president of the FHLBank of Cincinnati since January 1976. Before that, he spent 12 years with the FHLBank of Cincinnati as the executive vice president; senior vice president; vice president, director of research; and economist. Mr. Thiemann also worked as an economist with the Federal Reserve Bank of St. Louis where he served as an advisor to the president and the board of directors. He serves as a Director and Treasurer of the Habitat for Humanity International Board and as a member of the Board of Trustees of Bellarmine University in Louisville, Kentucky.

Martin L. Heger, 56, has been president of the FHLBank of Indianapolis since February, 1992. During the previous 12 years, he served as the FHLBank of Indianapolis' executive vice president and chief operating officer, and vice president and division head for the Michigan division. Earlier, Mr. Heger spent 13 years in various management positions with the National Bank of Detroit.

Alex J. Pollock, 58, has been president of the FHLBank of Chicago since September 1991. Before that, he was a visiting scholar at the Federal Reserve Bank of St. Louis and served as president and chief executive officer of the Community Federal Savings and Loan Association in St. Louis; president of Marine Bank, Milwaukee; and senior vice president of Continental Illinois National Bank, where he served in various capacities in Europe and the United States. He is a past president of the International Union for Housing Finance and the Bankers Club of Chicago; a Life Member of the Banking Research Center of Northwestern University; a director of the Great Lakes Higher Education Corporation and the Great Books Foundation; and a trustee of the Illinois Council on Economic Education. Mr. Pollock is an honors graduate of Williams College and holds masters degrees from the University of Chicago in philosophy and Princeton University in international relations.

Patrick J. Conway, 51, became president of the FHLBank of Des Moines in October 1999. Before that, he served as executive vice president of Finance and Banking at the FHLBank of San Francisco. He joined the San Francisco Bank in 1975 and held a variety of finance and management positions before being named executive vice president. Earlier, Mr. Conway spent six years with Merrill Lynch. Mr. Conway currently serves as vice chairman of the Bank President's Conference and on the boards of directors of the Financial Institutions Thrift Plan and the FHLBanks' Office of Finance.

Terry Smith, 45, became president of the FHLBank of Dallas in August 2000 after serving as executive vice president and chief operating officer since 1991. In that capacity, Mr. Smith was responsible for financial and risk management, credit and collateral, financial services, accounting, and information systems functions, among others. Mr. Smith originally joined the FHLBank in 1986 to coordinate the FHLBank's hedging and asset/liability management functions, and was promoted to chief financial officer in 1988. He served in that capacity until his appointment as chief operating officer. Mr. Smith graduated from Southern Methodist University with degrees in Economics, Mathematics and History. After completing his Ph.D. studies in Economics at the University of Chicago, he was an assistant professor of Finance at the Edwin L. Cox School of Business at SMU.

Frank A. Lowman, 62, has been president of the FHLBank of Topeka since April 1989. Before that, he spent six years as president and chief operating officer of Fourth Financial Corporation/BANK IV Wichita, and 14 years as president and chief executive officer of Heritage Savings Association in Hays, Kansas.

Dean M. Schultz, 54, has been president of the FHLBank of San Francisco since April 1991. His experience includes serving seven years as executive vice president of the FHLBank of New York; four years as senior vice president, general counsel, and director of corporate services and human resources for First Federal Savings and Loan Association in Rochester, New York; and seven years with the law firm of Robinson, Williams and Angeloff in Rochester.

Norman B. Rice, 58, has served as president of the FHLBank of Seattle since February 1, 1999. Before that he served as the FHLBank's executive vice president. Mr. Rice was mayor of Seattle from 1990 through 1997. During his tenure, Mr. Rice also served as president of the U.S. Conference of mayors. Prior to entering public life, he was manager of corporate contributions and social policy at Rainier National Bank (now part of Bank of America). Mr. Rice holds a Bachelor of Arts degree in communications and a master's degree in public administration from the University of Washington. Currently, Mr. Rice is a member of the Bretton Woods Committee. He serves on the board of directors for the YMCA, Regence Blue Shield, and SAFECO Corporation.

Managing Director, FHLBanks' Office of Finance. *John K. Darr*, 57, has served as managing director of the Office of Finance since July 1992. Before joining the Office of Finance, he served as president of Ryland Acceptance Advisors, managing director of Prudential Bache Capital Funding, executive vice president of administration and finance of the Student Loan Marketing Association (Sallic Mac), and treasurer of the FHLBank of San Francisco, among other positions.

FHLBanks' Office of Finance Board of Directors. At December 31, 2001, the directors of FHLBanks' Office of Finance were John T. McEvoy, Patrick J. Conway, FHLBank of Des Moines, and James D. Roy, FHLBank of Pittsburgh.

John T. McEvoy, 64, an attorney, was appointed an Office of Finance board member in April 1995 and its chair in September 1998. From 1989 to 2001, he was executive director of the National Council of State Housing Agencies, which represents the nation's state housing finance agencies in Washington. From 1981 to 1989, he headed the Department of Federal Policy in the law firm of Kutak, Rock & Campbell and was a managing partner of that firm's Washington office. Between 1962 and 1980 he served on the staffs of the Secretary of the Army, the Secretary of Defense, and the US Senate, including six years as chief counsel and then staff director of the Senate Committee on the Federal Budget, during the first six years of the Congressional Budget Process reform Congress enacted in 1974.

Regulations Governing the Selection and Compensation of FHLBank Employees

Historically, the FHLBank Act required the Finance Board to be involved in varying degrees in the corporate governance of the FHLBanks, typically by requiring Finance Board approval of various FHLBank practices. However, the GLB Act repealed most of those requirements, thereby transferring many governance responsibilities from the Finance Board to the FHLBanks. The GLB Act devolved responsibility for FHLBank employee compensation to the FHLBanks by removing

the requirement that the Finance Board approve FHLBank compensation. As a result of this amendment to the FHLBank Act, the Finance Board rescinded its compensation regulation for compensation years starting after December 21, 1999. (The Finance Board's interim final rule, Devolution of Corporate Governance Responsibilities, in connection with the compensation of FHLBank officers and employees, was effective on December 21, 1999.) As a consequence of the devolution of FHLBank employee compensation to the FHLBanks, tables showing FHLBank presidents' base salary caps and maximum total compensation are inapplicable for years subsequent to 1999.

Before the enactment of the GLB Act, the FHLBank Act provided that an FHLBank may select, employ, and fix the compensation of such officers and employees as may be necessary for the transaction of its business, subject to the approval of the Finance Board. Pursuant to this statutory authority, the Finance Board promulgated regulations governing the selection and compensation of FHLBank employees, described below, which were in effect through December 31, 1999.

Selection of FHLBank Employees. The FHLBanks were authorized to hire officers and employees without prior Finance Board approval. However, the Finance Board prohibited the FHLBanks from entering into employment contracts with their employees.

Compensation of FHLBank Employees. Each FHLBank set the base salary of its president, subject to a salary cap established annually by the Finance Board. The Finance Board's regulations provided for the salary cap for each FHLBank president, based upon the average base salary of a chief executive officer of a subsidiary financial institution in the FHLBank's primary metropolitan statistical area with an asset size comparable to that of the FHLBank, as of June of the prior year, reduced by 5 percent and rounded to the nearest \$5,000. The Finance Board established salary caps for the FHLBank presidents for 1999 based on nationwide salary survey data.

In addition to base salary, each FHLBank was authorized to make an incentive payment to its president up to an amount equal to the difference between the president's base salary and 125 percent of the president's base salary cap. At least 50 percent of a president's incentive payment was based on the extent to which the FHLBank met reasonable numerical performance targets established by the FHLBank's board of directors related to the FHLBank's achievement of its housing finance mission.

In November 1998, the Finance Board adopted the Community Investment Cash Advance Programs regulation, which amended, effective in 1999, the elements upon which an FHLBank's board of directors must base the FHLBank president's numerical performance targets for incentive compensation. These targets included substantial consideration of innovative products directed at unmet credit needs, Community Investment Cash Advances (including Community Investment Program advances), non-advance credit support, and risk-management products for members, as well as advances, including long-term advances. No incentive payment could be made to an FHLBank president if the most recent examination of the FHLBank by the Finance Board identified an unsafe or unsound practice or condition.

The FHLBanks could set compensation levels for officers and employees below the level of president without prior Finance Board approval. The base salaries and any incentive compensation for such employees were required to be reasonable and comparable with the base salaries and incentive compensation of employees of other FHLBanks and other similar businesses (including financial institutions) with similar duties and responsibilities.

The following table shows the 1999 FHLBank presidents' base salary caps and maximum total compensation (125 percent of base salary cap) as set by the Finance Board.

**Federal Home Loan Bank Presidents
1999 Base Salary Caps and Maximum Total Compensation**

<u>FHLBank</u>	<u>President</u>	<u>Base Salary Cap</u>	<u>Maximum Total Compensation(1)</u>
Boston	Michael A. Jessee	\$345,000	\$431,250
New York	Alfred A. DelliBovi	\$345,000	\$431,250
Pittsburgh	James D. Roy	\$345,000	\$431,250
Atlanta	Raymond R. Christman	\$345,000	\$431,250
Cincinnati	Charles L. Thiemann	\$345,000	\$431,250
Indianapolis	Martin L. Heger	\$345,000	\$431,250
Chicago	Alex J. Pollock	\$345,000	\$562,500(2)
Des Moines	Patrick J. Conway	\$345,000	\$431,250
Dallas	George M. Barclay	\$345,000	\$431,250
Topeka	Frank A. Lowman	\$345,000	\$431,250
San Francisco	Dean M. Schultz	\$375,000	\$468,750
Seattle	Norman B. Rice	\$345,000	\$431,250

(1) 125 percent of base salary cap.

(2) The FHLBank of Chicago's board received Finance Board approval to pay its president a supplemental retention payment of \$105,000, which increased his incentive compensation opportunity to \$112,500 and his maximum total compensation opportunity to \$562,500.

Regulations Governing Selection and Compensation of Office of Finance Employees

The Finance Board exercises similar supervisory and examination authority over the Office of Finance and its board of directors that it exercises over an FHLBank and its board of directors. In 2000, the Finance Board amended its regulations governing the operations of the Office of Finance. The final rule, which took effect July 1, 2000, requires the Office of Finance board of directors to select, employ, determine the compensation for, and assign the duties of the managing director/chief executive officer. Before this change, the Finance Board regulations governing the Office of Finance made selection and employment of the managing director a responsibility of the Office of Finance board of directors, subject to Finance Board approval. In 1999, the managing director's compensation was governed by the \$345,000 base salary cap and \$431,250 cap on total compensation that applied to the FHLBank presidents other than the president of the FHLBank of San Francisco.

The following table presents information on the compensation of the FHLBank presidents and the managing director of the Office of Finance for 2001, 2000 and 1999.

**Federal Home Loan Bank Presidents
Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation			Long Term Compensation			All Other Compensation (\$)(2)
		Salary(\$)	Incentive Payment(\$)	Other Annual Compensation \$(1)	Awards		Payouts	
					Restricted Stock Awards(\$)	Securities Underlying Options/ SARs(#)	LTIP Payouts (\$)	
Michael A. Jessee	2001	450,000	86,985	85,110				39,681(3)(4)
President, FHLBank of Boston	2000	400,000	202,600					33,559(3)(4)
	1999	335,600	95,650					26,609(3)(4)
Alfred A. DelliBovi	2001	459,000	298,889					30,015(5)(6)
President, FHLBank of New York	2000	425,000	239,160					27,675(5)(6)
	1999	345,000	86,250					23,011(5)(6)
James D. Roy	2001	440,000	155,971					32,491(7)
President, FHLBank of Pittsburgh	2000	400,000	101,520					29,293(7)
	1999	337,296	93,954					25,381(7)
Raymond R. Christman	2001	450,000	214,650					11,779(7)
President, FHLBank of Atlanta(8)	2000	360,000	176,400					6,650(7)
	1999	162,500	53,125					1,181(7)
Charles L. Thiemann	2001	510,000	275,293	51,374				46,464(7)
President, FHLBank of Cincinnati	2000	435,000	276,209					37,543(7)
	1999	345,000	86,250					26,152(7)
Martin L. Heger	2001	420,030	320,813				(12)	25,202(7)
President, FHLBank of Indianapolis	2000	379,600	197,917					22,776(7)
	1999	312,338	108,352					18,740(7)
Alex J. Pollock	2001	525,000	224,490					31,500(7)
President, FHLBank of Chicago	2000	500,000	250,000					30,000(7)
	1999	397,500	112,500					21,000(7)
Patrick J. Conway	2001	414,167	178,187					35,541(7)
President, FHLBank of Des Moines(9)	2000	331,667	98,610					25,817(7)
	1999	169,869	82,500					9,422(7)
Terry Smith	2001	368,604	71,186					21,180(7)
President, FHLBank of Dallas(10)	2000	282,408	169,196					16,600(7)
Frank A. Lowman	2001	425,000	201,151					33,135(7)
President, FHLBank of Topeka	2000	360,000	127,292					28,486(7)
	1999	287,750	99,763					20,758(7)
Dean M. Schultz	2001	460,000	215,600					27,600(7)
President, FHLBank of San Francisco	2000	420,000	210,000					34,811(7)
	1999	360,000	99,100					28,478(7)
Norman B. Rice	2001	360,000	101,800					12,825(7)
President, FHLBank of Seattle(11)	2000	325,000	75,600					6,500(7)
	1999	270,833	54,200					4,419(7)
John K. Darr	2001	425,000	199,750					34,493(7)
Managing Director, Office of Finance	2000	375,000	149,888					28,575(7)
	1999	330,000	101,250					25,172(7)

(1) Perquisite and other personal benefits, securities or property are only reported with respect to a person named in the Summary Compensation Table ("Named Person") if they exceed the lesser of \$50,000 or 10 percent of the total of annual salary and incentive payment for the year.

- (2) Except as indicated in notes (4) and (6) below, the dollar value of premiums paid for group term life insurance is not reported because the plans under which these benefits are provided do not discriminate in scope, terms, or operation in favor of executive officers or directors of the FHLBank or the Office of Finance and are available generally to all salaried employees.
- (3) Includes \$37,356, \$31,539 and \$24,861 in contributions or other allocations made by the FHLBank to qualified and/or non-qualified vested and unvested defined contribution plans in 2001, 2000 and 1999, and \$2,325, \$2,020 and \$1,748 in insurance premiums paid by, or on behalf of, the FHLBank with respect to term life insurance for the benefit of the president in 2001, 2000 and 1999.
- (4) To match and fund the FHLBank's Benefit Equalization Plan liability, the FHLBank is providing a collateral assignment split-dollar life insurance policy in which the president has rights to a cash surrender value, not to exceed the present value of his benefit under the Benefit Equalization Plan. To the extent the cash value offsets a liability under the Benefit Equalization Plan, the liability under the Plan will be reduced. The premium of the term-life component of the policy has been separately disclosed in note (3) above. The benefits under the Benefit Equalization Plan are reported below.
- (5) Includes \$27,540, \$25,500 and \$20,700 in contributions or other allocations made by the FHLBank to qualified and/or non-qualified vested and unvested contribution plans in 2001, 2000 and 1999, and \$2,475, \$2,175 and \$2,311 in insurance premiums paid by, or on behalf of, the FHLBank with respect to term life insurance for the benefit of the president in 2001, 2000 and 1999.
- (6) To fund the FHLBank's Benefit Equalization Plan liability, the FHLBank obtained a collateral assignment of each split-dollar life insurance policy in which the president has rights to a cash surrender value, not to exceed the present value of his benefit under the Benefit Equalization Plan. To the extent the assigned cash value offsets a liability under the Benefit Equalization Plan, the liability under the Plan will be reduced. The benefits under the Benefit Equalization Plan are reported below.
- (7) Represents contributions or other allocations made by the FHLBank with whom the Named Person is employed or the Office of Finance to qualified and/or non-qualified vested and unvested defined contribution plans.
- (8) Mr. Christman became president of the FHLBank of Atlanta in July 1999.
- (9) Mr. Conway became president of the FHLBank of Des Moines in October 1999. Before that, he served as acting interim president beginning in April 1999.
- (10) Mr. Smith became president of the FHLBank of Dallas in August 2000.
- (11) Mr. Rice became president of the FHLBank of Seattle in February 1999. Before that, he served as executive vice president beginning March 1, 1998.
- (12) During 2001, the FHLBank of Indianapolis implemented a key employee severance agreement for Mr. Heger (executive). Under the terms of the agreement, if a termination occurs under certain specified circumstances, the executive is entitled to 2.99 times the average of the three preceding years' base salary, bonus and other cash compensation, salary deferrals and matching contributions to the qualified and non-qualified plans, compensation for loss of use of company vehicle, continued medical and dental plan coverage and a gross up amount to cover the increased tax liability.

FHLBank Presidents and Managing Director of the Office of Finance Pension Plans and Benefit Equalization Plans

All of the FHLBank presidents and the managing director of the Office of Finance, except the president of the FHLBank of San Francisco, participate in the Financial Institutions Retirement Fund (FIRF), a tax-qualified defined-benefit plan. All of the FHLBank presidents and the managing director of the Office of Finance, except the president of the FHLBank of Dallas, have retirement Benefit Equalization Plans (BEP), a non-qualified retirement plan. A BEP ensures, among other things, that participants receive the full amount of benefits to which they would have been entitled under their pension plans in the absence of limits on benefit levels imposed by the Internal Revenue Service (IRS).

The following tables show estimated annual benefits payable from FIRF and BEP combined upon retirement at age 65 and calculated in accordance with the formula currently in effect for specified years-of-service and remuneration classes for the FHLBank presidents participating in both plans and the managing director of the Office of Finance. The table for the president of the FHLBank of Dallas shows estimated annual benefits payable from FIRF only. Retirement benefits are not subject to any offset provision for Social Security benefits that are received in the defined-benefit plans. Following each table, the formula for calculating annual benefits, the credited years of

service for each president and the managing director as of December 31, 2000, and any other information relevant to understanding the table are set forth.

President, FHLBank of Boston

<u>Remuneration</u>	<u>Years of Service</u>				
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>
\$125,000	\$ 44,531	\$ 59,375	\$ 74,219	\$ 89,063	\$103,906
\$150,000	\$ 53,438	\$ 71,250	\$ 89,063	\$106,875	\$124,688
\$175,000	\$ 62,344	\$ 83,125	\$103,906	\$124,688	\$145,469
\$200,000	\$ 71,250	\$ 95,000	\$118,750	\$142,500	\$166,250
\$225,000	\$ 80,156	\$106,875	\$133,594	\$160,313	\$187,031
\$250,000	\$ 89,063	\$118,750	\$148,438	\$178,125	\$207,813
\$300,000	\$106,875	\$142,500	\$178,125	\$213,750	\$249,375
\$400,000	\$142,500	\$190,000	\$237,500	\$285,000	\$332,500
\$450,000	\$160,313	\$213,750	\$267,188	\$320,625	\$374,063
\$500,000	\$178,125	\$237,500	\$296,875	\$356,250	\$415,625

- Formula: 2.375 percent x high three-year average compensation x credited years of service.
- Compensation is the highest three-year compensation (base and incentive) paid in the year.
- Credited years of service as of December 31, 2001, is 24 years.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

President, FHLBank of New York

<u>Remuneration</u>	<u>Years of Service</u>				
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>
\$125,000	\$ 46,875	\$ 62,500	\$ 78,125	\$ 93,750	\$ 93,750
\$150,000	\$ 56,250	\$ 75,000	\$ 93,750	\$112,500	\$112,500
\$175,000	\$ 65,625	\$ 87,500	\$109,375	\$131,250	\$131,250
\$200,000	\$ 75,000	\$100,000	\$125,000	\$150,000	\$150,000
\$225,000	\$ 84,375	\$112,500	\$140,625	\$168,750	\$168,750
\$250,000	\$ 93,750	\$125,000	\$156,250	\$187,500	\$187,500
\$300,000	\$112,500	\$150,000	\$187,500	\$225,000	\$225,000
\$400,000	\$150,000	\$200,000	\$250,000	\$300,000	\$300,000
\$450,000	\$168,750	\$225,000	\$281,250	\$337,500	\$337,500
\$500,000	\$187,500	\$250,000	\$312,500	\$375,000	\$375,000

- Formula: 2.5 percent x years of benefit service (not to exceed 30) x high three-year average salary.
- Salary includes basic annual salary rate plus incentive payments.
- Credited years of service as of December 31, 2001, is 8 years and 9 months.
- The regular form of retirement benefits is a straight-life annuity with a death benefit equal to 12 times the annual retirement allowance less the sum of such allowance payments made before death.

President, FHLBank of Pittsburgh

<u>Remuneration</u>	<u>Years of Service</u>				
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>
\$125,000	\$ 37,500	\$ 50,000	\$ 62,500	\$ 75,000	\$ 87,500
\$150,000	\$ 45,000	\$ 60,000	\$ 75,000	\$ 90,000	\$105,000
\$175,000	\$ 52,500	\$ 70,000	\$ 87,500	\$105,000	\$122,500
\$200,000	\$ 60,000	\$ 80,000	\$100,000	\$120,000	\$140,000
\$225,000	\$ 67,500	\$ 90,000	\$112,500	\$135,000	\$157,500
\$250,000	\$ 75,000	\$100,000	\$125,000	\$150,000	\$175,000
\$300,000	\$ 90,000	\$120,000	\$150,000	\$180,000	\$210,000
\$400,000	\$120,000	\$160,000	\$200,000	\$240,000	\$280,000
\$450,000	\$135,000	\$180,000	\$225,000	\$270,000	\$315,000
\$500,000	\$150,000	\$200,000	\$250,000	\$300,000	\$350,000

- Formula: 2 percent x years of benefit service x high three-year average compensation (base salary and short term incentive).
- Compensation covered includes annual base salary plus incentive compensation without regard to IRS limitations.
- Credited years of service as of December 31, 2001, is 14 years.
- The regular form of retirement benefits provides a life annuity; a lump-sum option is also available.

President, FHLBank of Atlanta

<u>Remuneration</u>	<u>Years of Service</u>				
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>
\$125,000	\$ 46,875	\$ 62,500	\$ 78,125	\$ 93,750	\$ 93,750
\$150,000	\$ 56,250	\$ 75,000	\$ 93,750	\$112,500	\$112,500
\$175,000	\$ 65,625	\$ 87,500	\$109,375	\$131,250	\$131,250
\$200,000	\$ 75,000	\$100,000	\$125,000	\$150,000	\$150,000
\$225,000	\$ 84,375	\$112,500	\$140,625	\$168,750	\$168,750
\$250,000	\$ 93,750	\$125,000	\$156,250	\$187,500	\$187,500
\$300,000	\$112,500	\$150,000	\$187,500	\$225,000	\$225,000
\$400,000	\$150,000	\$200,000	\$250,000	\$300,000	\$300,000
\$450,000	\$168,750	\$225,000	\$281,250	\$337,500	\$337,500
\$500,000	\$187,500	\$250,000	\$312,500	\$375,000	\$375,000

- Formula: 2.5 percent x years of service (not to exceed 30 years) x high three-year average salary.
- Compensation includes salary and incentive compensation.
- Credited years of service as of December 31, 2001, is 3 years.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

President, FHLBank of Cincinnati

Remuneration	Years of Service				
	15	20	25	30	35
\$125,000	\$ 46,875	\$ 62,500	\$ 78,125	\$ 93,750	\$109,375
\$150,000	\$ 56,250	\$ 75,000	\$ 93,750	\$112,500	\$131,250
\$175,000	\$ 65,625	\$ 87,500	\$109,375	\$131,250	\$153,125
\$200,000	\$ 75,000	\$100,000	\$125,000	\$150,000	\$175,000
\$225,000	\$ 84,375	\$112,500	\$140,625	\$168,750	\$196,875
\$250,000	\$ 93,750	\$125,000	\$156,250	\$187,500	\$218,750
\$300,000	\$112,500	\$150,000	\$187,500	\$225,000	\$262,500
\$400,000	\$150,000	\$200,000	\$250,000	\$300,000	\$350,000
\$450,000	\$168,750	\$225,000	\$281,250	\$337,500	\$393,750
\$500,000	\$187,500	\$250,000	\$312,500	\$375,000	\$437,500

- Formula: 2.5 percent x years of benefit service x high three-year average salary.
- Salary is defined as the basic annual salary rate plus overtime and incentive. Salary is recognized annually on a paid basis versus an earned basis.
- Credited years of service as of December 31, 2001, is 37 years.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

President, FHLBank of Indianapolis

Remuneration	Years of Service				
	15	20	25	30	35
\$125,000	\$ 46,875	\$ 62,500	\$ 78,125	\$ 93,750	\$109,375
\$150,000	\$ 56,250	\$ 75,000	\$ 93,750	\$112,500	\$131,250
\$175,000	\$ 65,625	\$ 87,500	\$109,375	\$131,250	\$153,125
\$200,000	\$ 75,000	\$100,000	\$125,000	\$150,000	\$175,000
\$225,000	\$ 84,375	\$112,500	\$140,625	\$168,750	\$196,875
\$250,000	\$ 93,750	\$125,000	\$156,250	\$187,500	\$218,750
\$300,000	\$112,500	\$150,000	\$187,500	\$225,000	\$262,500
\$400,000	\$150,000	\$200,000	\$250,000	\$300,000	\$350,000
\$450,000	\$168,750	\$225,000	\$281,250	\$337,500	\$393,750
\$500,000	\$187,500	\$250,000	\$312,500	\$375,000	\$437,500

- Formula: 2.5 percent x years of benefit service x high three-year average compensation.
- The remuneration covered by the plan includes salary, bonus, and any other compensation, that is reflected on the Internal Revenue Service Form W-2 (exclusive of any compensation deferred from a prior year).
- Credited years of service as of December 31, 2001, is 21 years.
- The retirement benefits are computed on a straight-life annuity basis.

President, FHLBank of Chicago

Remuneration	Years of Service				
	15	20	25	30	35
\$125,000	\$ 42,188	\$ 56,250	\$ 70,313	\$ 84,375	\$ 98,438
\$150,000	\$ 50,625	\$ 67,500	\$ 84,375	\$101,250	\$118,125
\$175,000	\$ 59,063	\$ 78,750	\$ 98,438	\$118,125	\$137,813
\$200,000	\$ 67,500	\$ 90,000	\$112,500	\$135,000	\$157,500
\$225,000	\$ 75,938	\$101,250	\$126,563	\$151,875	\$177,188
\$250,000	\$ 84,375	\$112,500	\$140,625	\$168,750	\$196,875
\$300,000	\$101,250	\$135,000	\$168,750	\$202,500	\$236,250
\$400,000	\$135,000	\$180,000	\$225,000	\$270,000	\$315,000
\$450,000	\$151,875	\$202,500	\$253,125	\$303,750	\$354,375
\$500,000	\$168,750	\$225,000	\$281,250	\$337,500	\$393,750

- Formula: 2.25 percent x years and months of benefit service x high three-year average salary.
- Salary equals basic annual salary rate plus overtime and incentives.
- Credited years of service as of December 31, 2001, is 9 years.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

President, FHLBank of Des Moines

Remuneration	Years of Service				
	15	20	25	30	35
\$125,000	\$ 42,188	\$ 56,250	\$ 70,313	\$ 84,375	\$ 98,438
\$150,000	\$ 50,625	\$ 67,500	\$ 84,375	\$101,250	\$118,125
\$175,000	\$ 59,063	\$ 78,750	\$ 98,438	\$118,125	\$137,813
\$200,000	\$ 67,500	\$ 90,000	\$112,500	\$135,000	\$157,500
\$225,000	\$ 75,938	\$101,250	\$126,563	\$151,875	\$177,188
\$250,000	\$ 84,375	\$112,500	\$140,625	\$168,750	\$196,875
\$300,000	\$101,250	\$135,000	\$168,750	\$202,500	\$236,250
\$400,000	\$135,000	\$180,000	\$225,000	\$270,000	\$315,000
\$450,000	\$151,875	\$202,500	\$253,125	\$303,750	\$354,375
\$500,000	\$168,750	\$225,000	\$281,250	\$337,500	\$393,750

- Formula: 2.25 percent x years of benefit service x high three-year average compensation.
- The compensation covered by each plan is base salary plus incentive compensation (as paid in a calendar year).
- Credited years of service as of December 31, 2001, is 22 years.
- Benefits are computed on the basis of a modified cash refund form of annuity with a death benefit equal to 12 times the annual retirement allowance less the sum of such allowance payments made before death.

President, FHLBank of Dallas

Remuneration	Years of Service				
	15	20	25	30	35
\$125,000	\$56,250	\$ 75,000	\$ 93,750	\$112,500	\$112,500
\$150,000	\$67,500	\$ 90,000	\$112,500	\$135,000	\$135,000
\$175,000	\$76,500	\$102,000	\$127,500	\$153,000	\$153,000
\$200,000	\$76,500	\$102,000	\$127,500	\$153,000	\$153,000
\$225,000	\$76,500	\$102,000	\$127,500	\$153,000	\$153,000
\$250,000	\$76,500	\$102,000	\$127,500	\$153,000	\$153,000
\$300,000	\$76,500	\$102,000	\$127,500	\$153,000	\$153,000
\$400,000	\$76,500	\$102,000	\$127,500	\$153,000	\$153,000
\$450,000	\$76,500	\$102,000	\$127,500	\$153,000	\$153,000
\$500,000	\$76,500	\$102,000	\$127,500	\$153,000	\$153,000

- Formula: 3 percent x years of service x high three-year average salary.
- Salary equals W-2 earnings up to the maximum IRS compensation limit, which is currently \$200,000. The plan limits the maximum years of benefit service to 30 years.
- Credited years of service as of December 31, 2001, is 15 years.
- The regular form of retirement benefits is a straight-life annuity that includes a lump-sum death benefit. The normal retirement age is 65, but the plan does provide for an unreduced retirement benefit beginning at age 60.

President, FHLBank of Topeka

Remuneration	Years of Service				
	15	20	25	30	35
\$125,000	\$ 83,750	\$ 83,750	\$ 83,750	\$ 84,375	\$ 84,375
\$150,000	\$100,500	\$100,500	\$100,500	\$101,250	\$101,250
\$175,000	\$117,250	\$117,250	\$117,250	\$118,125	\$118,125
\$200,000	\$134,000	\$134,000	\$134,000	\$135,000	\$135,000
\$225,000	\$150,750	\$150,750	\$150,750	\$151,875	\$151,875
\$250,000	\$167,500	\$167,500	\$167,500	\$168,750	\$168,750
\$300,000	\$201,000	\$201,000	\$201,000	\$202,500	\$202,500
\$350,000	\$234,500	\$234,500	\$234,500	\$236,250	\$236,250
\$400,000	\$268,000	\$268,000	\$268,000	\$270,000	\$270,000
\$450,000	\$301,500	\$301,500	\$301,500	\$303,750	\$303,750
\$500,000	\$335,000	\$335,000	\$335,000	\$337,500	\$337,500

- Formula: FIRF Benefit = 2.25 percent x years of benefit service x high three-year average salary (the table does not reflect compensation and benefit limits imposed by law on qualified defined benefit plans)
BEP Benefit = 15.25 percent of high three-year average salary after 5 years of benefit service to 67 percent of high-three-year average salary for benefit service in excess of 13 years, less the applicable FIRF benefit
- The salary definition for both FIRF and BEP is comprised of base salary plus incentive compensation and any overtime paid, except that the FIRF plan does not recognize salary and incentive deferred under the nonqualified deferral option of the BEP. Benefit service begins one year after employment for both plans.
- Credited years of service as of December 31, 2001, is 11 years.
- FIRF and BEP benefits are computed based on a straight-life annuity with 10 years certain. There are no benefit offsets other than that the BEP benefit is based on a total benefit less the applicable FIRF benefit.

President, FHLBank of San Francisco

The FHLBank of San Francisco (FHLBSF or the Bank) provides a retirement pension to its president with benefits provided under two plans (which are also available to all employees): (i) the Cash Balance Plan, a qualified plan consisting of a transition benefit account component and a cash balance account component; and (ii) the Benefit Equalization Plan, a non-qualified plan, which restores benefits lost under the transition benefit account and the cash balance account of the qualified plan due to limitations under the Internal Revenue Code.

Prior to January 1, 1996, the FHLBSF participated in FIRF, a qualified pension plan. Effective December 31, 1995, the FHLBSF withdrew from FIRF and adopted the Cash Balance Plan. The full value of benefits earned under the FIRF at age 65 calculated as of December 31, 1995, is preserved and vested for those employees who participated in the FIRF prior to January 1, 1996 (the "frozen FIRF benefit account"), including its president. The FIRF benefits were based on the highest three consecutive year average pay multiplied by credited years of benefit service multiplied by 2 percent.

The transition benefit account is designed to supplement the frozen FIRF benefit by maintaining the employee's percentage ratio of his or her frozen FIRF annuity payments to the employee's highest three consecutive year average pay, calculated as of December 31, 1995 (the "annuity ratio"). At December 31, 1995, the FHLBSF president's annuity ratio was 22 percent. Upon retirement, the employee will receive benefits equal to his or her highest three consecutive year average pay multiplied by his or her annuity ratio. The benefits would be paid from the frozen FIRF benefit account plus the transition benefit account.

If its president terminated his service at the Bank as of December 31, 2001, with approximately 17 years of service, its president's pension annuity payments would be \$120,524 per year beginning in 2012 (at age 65), which is equal to his highest three consecutive year average pay of \$547,837 multiplied by 22 percent. The qualified annuity payments paid from the frozen FIRF benefit account would be \$48,004 annually, with the remainder paid from the transition benefit account under the Benefit Equalization Plan. If its president continues his service at the Bank until he reaches age 65 and assuming: (i) he receives an annual base salary of \$479,904 for 2001 (which consists of a base salary of \$460,000 and \$19,904 in accrued vacation cash-out) and incentive pay of \$210,000 in 2001 (earned in 2000); and (ii) his annual base salary increases by 4 percent each year and he receives an annual incentive pay of 45 percent of his prior year's base salary for 11 years until the year 2012, his annuity payment would be \$206,470 per year.

The cash balance account provides its president with benefits comprised of a service credit equal to 6 percent of its president's total annual pay (base salary plus incentive pay) and an interest credit equal to 6 percent of the opening balance at the beginning of each plan year. Its president may withdraw this amount in a lump sum or convert the amount into an annuity. Its president will have a balance of \$214,696 in his cash balance account as of December 31, 2001. If its president terminated his service at the Bank as of December 31, 2001, and annuitized his cash balance account, his annuity payments would be \$36,291 per year beginning in 2012. If its president continues his service at the Bank until he reaches age 65 and assuming: (i) he receives an annual base salary of \$479,904 for 2001 and incentive pay of \$210,000 in 2001 (earned in 2000); and (ii) his annual base salary increases by 4 percent each year and he receives an annual incentive pay of 45 percent of his prior year's base salary for 11 years until the year 2012, his annuity payments would be \$98,631 per year beginning in 2012.

The benefits under the Cash Balance Plan and the Benefit Equalization Plan vest 20 percent per year and are fully vested after completing 5 years of service.

President, FHLBank of Seattle

Remuneration	Years of Service				
	15	20	25	30	35
\$125,000	\$ 46,875	\$ 62,500	\$ 78,125	\$ 93,750	\$109,375
\$150,000	\$ 56,250	\$ 75,000	\$ 93,750	\$112,500	\$131,250
\$175,000	\$ 65,625	\$ 87,500	\$109,375	\$131,250	\$153,125
\$200,000	\$ 75,000	\$100,000	\$125,000	\$150,000	\$175,000
\$225,000	\$ 84,375	\$112,500	\$140,625	\$168,750	\$196,875
\$250,000	\$ 93,750	\$125,000	\$156,250	\$187,500	\$218,750
\$300,000	\$112,500	\$150,000	\$187,500	\$225,000	\$262,500
\$400,000	\$150,000	\$200,000	\$250,000	\$300,000	\$350,000
\$450,000	\$168,750	\$225,000	\$281,250	\$337,500	\$393,750
\$500,000	\$187,500	\$250,000	\$312,500	\$375,000	\$437,500

- Formula: 2.5 percent x years of benefit service (less 1 year waiting period) x high three-year average salary.
- Compensation includes base salary and incentive compensation.
- Credited years of service as of December 31, 2001, is 3 years.
- The regular form of retirement benefit is a straight-life annuity including a lump-sum retirement death benefit, which is 12 times the annual retirement allowance less the sum of such allowance payments made before death.

Managing Director, Office of Finance

Remuneration	Years of Service				
	15	20	25	30	35
\$125,000	\$ 46,875	\$ 62,500	\$ 78,125	\$ 93,750	\$109,375
\$150,000	\$ 56,250	\$ 75,000	\$ 93,750	\$112,500	\$131,250
\$175,000	\$ 65,625	\$ 87,500	\$109,375	\$131,250	\$153,125
\$200,000	\$ 75,000	\$100,000	\$125,000	\$150,000	\$175,000
\$225,000	\$ 84,375	\$112,500	\$140,625	\$168,750	\$196,875
\$250,000	\$ 93,750	\$125,000	\$156,250	\$187,500	\$218,750
\$300,000	\$112,500	\$150,000	\$187,500	\$225,000	\$262,500
\$400,000	\$150,000	\$200,000	\$250,000	\$300,000	\$350,000
\$450,000	\$168,750	\$225,000	\$281,250	\$337,500	\$393,750
\$500,000	\$187,500	\$250,000	\$312,500	\$375,000	\$437,500

- Formula: 2.50 percent x years of benefit service x high three-year average compensation.
- Compensation includes base salary and incentive compensation.
- Credited years of service as of December 31, 2001, is 14 years.
- The regular form of retirement benefit is a straight-life annuity including a lump-sum retirement death benefit.

FIVE LARGEST CAPITAL STOCK HOLDERS OF AND BORROWERS FROM EACH FHLBANK

The following table identifies the five largest holders of capital stock of each FHLBank and their holdings at December 31, 2001.

Federal Home Loan Banks Top 5 Capital Stock Holding Members by FHLBank at December 31, 2001

<u>FHLBank</u>	<u>Name</u>	<u>City</u>	<u>State</u>	<u>Capital Stock (\$Millions)</u>	<u>Percent of FHLBank Capital Stock</u>
Boston	Fleet National Bank	Providence	RI	\$ 270.1	13.6%
	Webster Bank	Waterbury	CT	126.6	6.4%
	First Massachusetts Bank, NA	Worcester	MA	102.0	5.1%
	People's Bank	Bridgeport	CT	89.9	4.5%
	Bank of New Hampshire, NA	Farmington	NH	63.6	3.2%
				<u>\$ 652.2</u>	<u>32.8%</u>
New York	Dime Savings Bank of New York, FSB*	New York	NY	\$ 426.9	11.4%
	HSBC Bank, USA	New York	NY	278.4	7.5%
	Astoria FS&LA*	Lake Success	NY	250.5	6.7%
	GreenPoint Bank	New York	NY	232.5	6.2%
	Manufacturers & Traders Trust Company*	Buffalo	NY	180.2	4.8%
				<u>\$1,368.5</u>	<u>36.6%</u>
Pittsburgh	Sovereign Bank, FSB	Wyomissing	PA	\$ 301.9	16.0%
	Lehman Brothers Bank, FSB	Wilmington	DE	216.3	11.5%
	PNC Bank, NA	Pittsburgh	PA	211.2	11.2%
	Waypoint Bank	Harrisburg	PA	92.1	4.9%
	Chase Manhattan Bank USA, NA	Wilmington	DE	85.3	4.5%
				<u>\$ 906.8</u>	<u>48.1%</u>
Atlanta	BB&T of NC	Winston-Salem	NC	\$ 422.2	10.2%
	SunTrust Bank, Atlanta	Atlanta	GA	350.1	8.5%
	Regions Bank	Birmingham	AL	239.5	5.8%
	AmSouth Bank	Birmingham	AL	232.1	5.6%
	SouthTrust Bank, NA	Birmingham	AL	212.5	5.1%
				<u>\$1,456.4</u>	<u>35.2%</u>
Cincinnati	Charter One Bank FSB*	Cleveland	OH	\$ 567.7	17.8%
	US Bank, NA	Cincinnati	OH	341.1	10.7%
	Fifth Third Bank	Cincinnati	OH	258.1	8.1%
	Union Planters National Bank	Memphis	TN	195.6	6.1%
	Ohio Savings Bank	Cleveland	OH	129.8	4.1%
				<u>\$1,492.3</u>	<u>46.8%</u>
Indianapolis	Standard Federal Bank, NA*	Troy	MI	\$ 334.0	19.2%
	Flagstar Bank, FSB	Troy	MI	128.4	7.4%
	National City Bank of Indiana	Indianapolis	IN	116.6	6.7%
	Fifth Third Bank*	Indianapolis	IN	100.2	5.8%
	Fifth Third Bank	Grand Rapids	MI	89.2	5.1%
				<u>\$ 768.4</u>	<u>44.2%</u>
Chicago	LaSalle Bank, NA*	Chicago	IL	\$ 245.0	10.2%
	Mid America Bank, FSB*	Clarendon Hills	IL	121.4	5.1%
	The Northern Trust Company	Chicago	IL	101.2	4.2%
	American National Bank and Trust Company of Chicago	Chicago	IL	100.0	4.2%
	The Private Bank and Trust Company	Chicago	IL	92.4	3.9%
				<u>\$ 660.0</u>	<u>27.6%</u>

<u>FHL Bank</u>	<u>Name</u>	<u>City</u>	<u>State</u>	<u>Capital Stock (\$Millions)</u>	<u>Percent of FHLBank Capital Stock</u>
Des Moines	Wells Fargo Bank Minnesota, NA	Minneapolis	MN	\$ 307.8	20.0%
	Superior Guaranty Insurance Co.	Minneapolis	MN	81.4	5.3%
	TCF National Bank	Minneapolis	MN	76.1	4.9%
	Transamerica Life Insurance Company	Cedar Rapids	IA	45.0	2.9%
	Bank Midwest	Kansas City	MO	38.6	2.5%
				<u>\$ 548.9</u>	<u>35.6%</u>
Dallas	Washington Mutual Bank, FA(1)	Stockton	CA	\$ 396.0	18.5%
	World Savings Bank, FSB	Austin	TX	352.4	16.4%
	Guaranty Bank*	Austin	TX	195.7	9.1%
	Hibernia National Bank	New Orleans	LA	58.8	2.7%
	International Bank of Commerce	Laredo	TX	53.9	2.5%
				<u>\$1,056.8</u>	<u>49.2%</u>
Topeka	Commercial Federal Bank, FSB	Omaha	NE	\$ 252.1	18.1%
	MidFirst Bank	Oklahoma City	OK	198.1	14.2%
	Capitol Federal Savings Bank	Topeka	KS	162.0	11.6%
	Local Oklahoma Bank, NA	Oklahoma City	OK	38.4	2.8%
	Security Life of Denver Ins. Co.	Denver	CO	35.5	2.5%
				<u>\$ 686.1</u>	<u>49.2%</u>
San Francisco	Washington Mutual Bank, FA*	Stockton	CA	\$2,747.4	40.7%
	California Federal Bank, AFSB*	San Francisco	CA	1,446.6	21.4%
	World Savings Bank, FSB*	Oakland	CA	753.4	11.2%
	Citibank, FSB	San Francisco	CA	243.5	3.6%
	Downey S&LA	Newport Beach	CA	113.1	1.7%
				<u>\$5,304.0</u>	<u>78.6%</u>
Seattle	Washington Mutual Bank*	Seattle	WA	\$ 669.3	28.0%
	Bank of America Oregon, NA	Portland	OR	320.7	13.4%
	Washington Federal Savings	Seattle	WA	126.6	5.3%
	Zions First National Bank*	Salt Lake City	UT	108.8	4.6%
	First Hawaiian Bank*	Honolulu	HI	90.9	3.8%
				<u>\$1,316.3</u>	<u>55.1%</u>

* An asterisk indicates that an officer of the member was an FHLBank director in 2001.

- (1) The amount relates to the outstanding capital stock of Bank United, a former member of the FHLBank of Dallas, which was acquired by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco during 2001. The outstanding capital stock of the FHLBank of Dallas owned by Washington Mutual Bank, FA, results from the acquisition.

The information presented on capital stock in the table is for individual FHLBank members. The data is not aggregated to the holding-company level. Some of the institutions listed are affiliates of the same holding company, and some of the institutions listed may have affiliates that are members but that are not listed in the tables.

The following table presents information on the five largest borrowers by FHLBank at December 31, 2001.

**Federal Home Loan Banks
Top 5 Advance Holding Members by FHLBank
at December 31, 2001**

<u>FHLBank</u>	<u>Name</u>	<u>City</u>	<u>State</u>	<u>Advances (\$Millions)</u>	<u>Percent of FHLBank Advances(3)</u>
Boston	Webster Bank	Waterbury	CT	\$ 2,532.0	10.4%
	People's Bank	Bridgeport	CT	1,324.4	5.4%
	Bank of New Hampshire, NA	Farmington	NH	870.0	3.6%
	First Massachusetts Bank, NA	Worcester	MA	804.6	3.3%
	Investors Bank & Trust Company	Boston	MA	780.0	3.2%
				<u>\$ 6,311.0</u>	<u>25.9%</u>
New York	Dime Savings Bank of New York*	New York	NY	\$ 8,537.4	14.0%
	Astoria FS&LA*	Lake Success	NY	4,859.0	8.0%
	GreenPoint Bank	New York	NY	4,500.0	7.4%
	Manufacturers & Traders Trust Company*	Buffalo	NY	3,093.2	5.1%
	North Fork Bank	Melville	NY	2,728.6	4.5%
				<u>\$23,718.2</u>	<u>39.0%</u>
Pittsburgh	Sovereign Bank, FSB	Wyomissing	PA	\$ 6,034.9	20.6%
	Lehman Brothers Bank, FSB	Wilmington	DE	3,970.0	13.5%
	PNC Bank, NA	Pittsburgh	PA	2,042.9	7.0%
	Waypoint Bank	Harrisburg	PA	1,842.9	6.3%
	National City Bank of Pennsylvania	Pittsburgh	PA	855.3	2.9%
				<u>\$14,746.0</u>	<u>50.3%</u>
Atlanta	BB&T of NC	Winston-Salem	NC	\$ 8,443.2	11.7%
	SunTrust Bank, Atlanta	Atlanta	GA	7,000.0	9.7%
	Regions Bank	Birmingham	AL	4,770.9	6.6%
	AmSouth Bank	Birmingham	AL	4,642.0	6.4%
	SouthTrust Bank, NA	Birmingham	AL	4,220.6	5.9%
				<u>\$29,076.7</u>	<u>40.3%</u>
Cincinnati	Charter One Bank FSB*	Cleveland	OH	\$ 7,772.5	22.1%
	US Bank, NA	Cincinnati	OH	6,732.0	19.1%
	Fifth Third Bank	Cincinnati	OH	2,379.8	6.8%
	Union Planters National Bank	Memphis	TN	1,602.2	4.5%
	National Bank of Commerce	Memphis	TN	1,441.9	4.1%
				<u>\$19,928.4</u>	<u>56.6%</u>
Indianapolis	Standard Federal Bank, NA*	Troy	MI	\$ 6,329.9	24.0%
	Flagstar Bank, FSB	Troy	MI	1,970.5	7.5%
	Fifth Third Bank-Indiana*	Indianapolis	IN	1,760.9	6.7%
	Fifth Third Bank	Grand Rapids	MI	1,601.7	6.1%
	National City Bank of Indiana	Indianapolis	IN	1,387.4	5.3%
				<u>\$13,050.4</u>	<u>49.6%</u>
Chicago	LaSalle Bank National Association*	Chicago	IL	\$ 3,351.7	15.3%
	American National Bank and Trust Company of Chicago	Chicago	IL	2,000.0	9.1%
	MidAmerica Bank, FSB*	Clarendon Hills	IL	1,405.5	6.4%
	M&I Marshall and Ilsley Bank	Milwaukee	WI	845.7	3.9%
	Associated Bank, NA	Green Bay	WI	815.7	3.7%
				<u>\$ 8,418.6</u>	<u>38.4%</u>

FHLBank	Name	City	State	Advances (\$Millions)	Percent of FHLBank Advances(3)
Des Moines	Wells Fargo Bank Minnesota, NA	Minneapolis	MN	\$ 6,155.0	29.7%
	TCF National Bank	Minneapolis	MN	1,153.5	5.6%
	Transamerica Life Insurance Company	Cedar Rapids	IA	900.0	4.3%
	Bank Midwest	Kansas City	MO	662.3	3.2%
	US Bank, NA(2)	Minneapolis	MN	439.3	2.1%
				<u>\$ 9,310.1</u>	<u>44.9%</u>
Dallas	Washington Mutual Bank, FA(1)	Seattle	WA	\$ 7,592.5	23.4%
	World Savings Bank, FSB	Austin	TX	7,000.0	21.5%
	Guaranty Bank*	Austin	TX	3,422.6	10.5%
	Hibernia National Bank	New Orleans	LA	1,043.0	3.2%
	CoastalBanc, SSB	Houston	TX	690.9	2.1%
				<u>\$19,749.0</u>	<u>60.7%</u>
Topeka	Commercial Federal Bank, FSB	Omaha	NE	\$ 4,898.8	21.5%
	MidFirst Bank	Oklahoma City	OK	3,356.6	14.7%
	Capitol Federal Savings Bank	Topeka	KS	3,220.0	14.1%
	Local Oklahoma Bank, NA	Oklahoma City	OK	728.2	3.2%
	Security Life of Denver Ins. Co.	Denver	CO	709.0	3.1%
				<u>\$12,912.6</u>	<u>56.6%</u>
San Francisco	Washington Mutual Bank, FA*	Stockton	CA	\$45,647.0	44.6%
	California Federal Bank AFSB*	San Francisco	CA	22,323.0	21.8%
	World Savings Bank, FSB*	Oakland	CA	11,037.5	10.8%
	Citibank, FSB	San Francisco	CA	3,718.4	3.6%
	IndyMac Bank, FSB	Pasadena	CA	1,999.9	2.0%
				<u>\$84,725.8</u>	<u>82.8%</u>
Seattle	Washington Mutual Bank*	Seattle	WA	\$ 7,321.8	30.2%
	Bank of America Oregon, NA	Portland	OR	5,995.5	24.7%
	Washington Federal Savings	Seattle	WA	1,550.0	6.4%
	American Savings Bank, FSB	Honolulu	HI	1,032.8	4.3%
	Pacific Northwest Bank	Oak Harbor	WA	714.5	2.9%
				<u>\$16,614.6</u>	<u>68.5%</u>

* An asterisk indicates that an officer of the member was an FHLBank director in 2001.

- (1) The amount relates to the outstanding advances of Bank United, a former member of the FHLBank of Dallas, which was acquired by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco during 2001. The outstanding advances of Bank United with the FHLBank of Dallas result from the acquisition.
- (2) The amount relates to the outstanding advances of US Bank, NA, a former member of FHLBank of Des Moines, which merged with US Bank, NA (Firststar), a member of FHLBank of Cincinnati during 2001. The outstanding advances of US Bank, NA from the FHLBank of Des Moines result from the acquisition.

The information presented on advances in the table is for individual FHLBank members. The data is not aggregated to the holding-company level. Some of the institutions listed are affiliates of the same holding company, and other members listed may have affiliates that are members but that are not listed in the tables.

- (3) Member advance amounts are at par and total advance amounts are at book value. The difference between the par and book value amounts relates to basis adjustments arising from hedges under SFAS 133 for book purposes. The difference is immaterial and has no material impact on the calculated percentage amounts.

AUDIT FEES

The following table sets forth the aggregate fees billed to FHLBanks for the year ended December 31, 2001 by their external accounting firm PricewaterhouseCoopers LLP (Dollar amounts in millions):

	<u>2001</u>
Audit fees	\$2.4
All other fees	<u>0.7</u>
Total fees	<u>\$3.1</u>

No fees were paid to the external accounting firm for financial information system design and implementation. The Office of Finance Board annually considers whether the services identified under the caption "All other fees" are compatible with maintaining the principal accountants' independence.

AUDIT COMMITTEE REPORT

By Finance Board regulation, the Office of Finance (OF) Board performs the duties of an audit committee in connection with the oversight of the preparation of the FHLBanks' annual combined financial report. The OF Board is appointed by the Finance Board and is comprised of two FHLBank Presidents and an appointee with demonstrated expertise in financial markets. In connection with its duties as an audit committee, the OF Board has adopted a written charter, which is presented on page 136. The OF Board members are not required to satisfy any express qualification or independence standards governing their service as an "audit committee"; however, each FHLBank's board of directors has established an audit committee, the members of which are required to meet express qualification and independence standards established by the Finance Board. See "Explanatory Statement about FHLBanks Combined Financial Report".

The OF Board has reviewed and discussed the audited financial statements with senior management of the Office of Finance, and discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended.

The OF Board has also received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1, and has discussed with the independent accountants the independent accountants' independence.

Based on the review and discussions referred to above, the OF Board recommended that the combined audited financial statements be included in the FHLBanks' 2001 Financial Report.

James D. Roy, Chair
Patrick J. Conway
John T. McEvoy

AUDIT COMMITTEE CHARTER, COMBINED FINANCIAL REPORTS

Mission Statement

The Office of Finance (OF) Board acts as an audit committee in connection with the oversight of the preparation of the FHLBanks' annual and quarterly combined financial reports, which shall include the combined financial statements of the FHLBanks. In that role, the OF Board shall review the combined financial statements. To achieve this objective, the OF Board will direct senior management of the Office of Finance to maintain the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the OF.

In accordance with guidance from the Federal Housing Finance Board, the OF Board shall not be responsible for the underlying financial statements and other data of the FHLBanks contained in the combined financial reports, and is entitled to rely on those financial statements and other data as submitted by the individual FHLBanks. Furthermore, the combined financial reports and combined financial statements are the responsibility of the OF and its senior management and the OF Board can only review the material in an oversight capacity.

Roles and Responsibilities

In connection with the financial reports and consistent with Finance Board guidance, the OF Board is responsible for:

- Reviewing the FHLBanks' combined financial statements, the external auditor's opinion on the annual combined financial statements, and the combined annual and quarterly financial reports, including the nature and extent of any significant changes in accounting principles or the application thereof.
- Ensuring that policies are in place that are reasonably designed to achieve disclosure and transparency regarding the FHLBanks' financial performance on a combined basis.
- Reviewing the scope of audit services required, significant accounting policies, significant risks and exposures, audit activities and audit findings with respect to the combined financial statements of the FHLBanks.
- Reviewing the activities and organizational structure of the OF's Department of Accounting Policy & Financial Reporting.
- Monitoring the accomplishments of the Director, Accounting Policy & Financial Reporting's goals and objectives.
- Approving the external auditor's annual engagement letter, which shall require the external auditor to review the FHLBanks' combined financial statements prior to their inclusion in the FHLBanks' quarterly combined financial reports.
- Reviewing and approving audit plans of the external auditors relating to the combined financial statements.
- Reviewing the performance of the FHLBanks' external auditor.
- Making determinations regarding the appointment, renewal, or termination of the external auditor.
- Providing an independent, direct communication channel between the OF Board and the OF's Director, Internal Audit & Compliance, the FHLBanks' external auditors and Finance Board examiners.
- Conducting or authorizing investigations into any matters within the OF Board's scope or responsibilities as it relates to the FHLBanks' combined financial reports.

- Reviewing the programs and policies of the OF designed to ensure compliance with applicable laws, regulations and policies relating to the disclosure process supporting the FHLBanks' joint debt issuance programs and monitoring the results of these compliance efforts.
- Determining that no restrictions are imposed on combined audit scope.
- Determining the extent to which internal auditors review computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of a systems breakdown.
- Obtaining reasonable assurance that significant findings and recommendations made by the Director, Internal Audit & Compliance and external auditors relating to the FHLBanks' combined financial reports are received and discussed on a timely basis, including evaluating management's response to the findings and reports.
- Coordinating the OF's response to Finance Board examination reports as they relate to the FHLBanks' combined financial reports.
- Considering such other matters in relation to the preparation and publication of the FHLBanks' combined financial reports as the OF Board may, in its discretion, determine to be advisable.
- Prepare a report for inclusion in the FHLBanks' combined annual financial report describing the discharge of its responsibilities in this capacity, to the extent required by law.

Interaction with External Auditors

The continued independence of the independent auditors in accordance with professional auditing standards and Securities and Exchange Commission ("SEC") requirements, as practicable, shall be reviewed periodically with management, as well as with the external auditors. The Committee shall require annually the written statement and letter from the external auditors disclosing relationships between the system and the external auditors, consistent with Independence Standards Board Standard No. 1, and shall discuss with the external auditors their independence in fact, as well as consulting and other non-audit services provided by the external auditors, to determine any potential impact on independence.

Subsequent to each audit, the OF Board shall meet with the external auditors to review and discuss accounting and audit matters, including, but not limited to:

- Significant auditing or accounting areas of concern,
- New or unusual transactions, balances or financial statement disclosures of significance,
- The external auditors' judgments about the quality of the FHLBanks' combined accounting principles as applied,
- The representation letters provided to the external auditors by the FHLBanks,
- The level of support provided by each FHLBank's management, accounting and internal audit personnel, and
- Any other matters required to be discussed by Statement of Auditing Standards (SAS) 61 (as amended by SAS 90) and other concerns the external auditors have with respect to positions taken in the combined financial statements.

The OF Board shall also review and discuss any matters that the external auditors are required under professional auditing standards to communicate to the OF Board, such as:

- Significant audit adjustments,
- Disagreements with management, and
- Any irregularities or illegal acts detected during the audit.

The OF Board will also review the responses of management with regard to these matters.

Prior to release to the public, the annual combined audited financial statements of the FHLBanks shall be reviewed by the OF Board and discussed with management and the external auditors. The purpose of the review shall be to determine whether to accept the audited financial statements presented to it for publication in the annual financial report. The OF Board shall inquire about the following:

- Significant variations in financial information between reporting periods.
- Consistency of the Discussion and Analysis of Financial Condition and Results of Operations section of the annual financial report with information reflected in the combined financial statements.
- Changes or proposed changes in accounting standards or rules issued by the Financial Accounting Standards Board or the SEC or the Finance Board that have an impact on the financial statements.
- Significant reporting or operational issues affecting the combined financial statements.
- Accounting accruals, reserves and estimates made by management of the FHLBanks having a material impact on the financial statements.

The above responsibilities of the OF Board will be discharged through review of combined audit reports and discussions with the external auditors, and the Director, Accounting Policy & Financial Reporting. The Director, Internal Audit & Compliance and external auditors shall have access to the OF Board on matters concerning the financial reports without the need for any prior management knowledge or approval.

Charters

The OF Board shall review, assess the adequacy of, and, where appropriate, amend the Charter of the OF Board acting as “Audit Committee” in connection with the financial report function on an annual basis. Amendments to the Charter can be adopted and approved at any time. This Charter shall be re-adopted and re-approved not less often than every three years.

Meetings

The OF Board shall meet at least twice annually with the OF’s Director, Accounting Policy & Financial Reporting. The OF Board shall meet in executive session with each of the Director, Internal Audit & Compliance, Director, Accounting Policy and Financial Reporting, the external auditors and other senior management of the OF at least annually to review the matters which are the subject of this charter. Written minutes shall be prepared for each meeting. The OF Board, or its chairman, shall also meet with the external auditors, the Director, Accounting Policy & Financial Reporting, and other senior management of the OF quarterly to review each quarterly financial report prior to its publication.