FEDERAL HOME LOAN BANKS

2005

COMBINED FINANCIAL REPORT

This Combined Financial Report provides financial information on the Federal Home Loan Banks. You should use this Combined Financial Report, together with the other information expressly provided by the Federal Home Loan Banks for this purpose, when considering whether or not to purchase the consolidated bonds and consolidated discount notes (collectively referred to in this Combined Financial Report as consolidated obligations) of the Federal Home Loan Banks.

The Securities Act of 1933, as amended, does not require the registration of consolidated obligations. No registration statement has been filed with the Securities and Exchange Commission with respect to the consolidated obligations. None of the Securities and Exchange Commission, the Federal Housing Finance Board, or 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 Combined 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. Prior to investing in consolidated obligations you should consult your financial and legal advisors about the risks of investing in any particular issue of consolidated obligations.

The financial information contained in this Combined Financial Report is as of and for periods ended on or before December 31, 2005. This document is available on the Federal Home Loan Banks' Office of Finance web site at: www.fhlb-of.com.

You should direct questions about the Federal Home Loan Banks' Combined Financial Report to the Federal Home Loan Banks' Office of Finance, Senior 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 & Corporate Communications Division. The address is Federal Home Loan Banks' Office of Finance, 11921 Freedom Drive, Suite 1000, Reston, VA 20190, (703) 467-3600, and the web site is www.fhlb-of.com. The Office of Finance will provide additional copies of this Combined Financial Report upon request. Please contact the Office of Finance if you want to receive subsequent annual and quarterly financial reports.

You should not assume, based on the delivery of this Combined Financial Report, that there has been no change in the financial condition of the Federal Home Loan Banks since December 31, 2005.

The date of this Combined Financial Report is November 8, 2006.

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Consolidated obligations issued under the Federal Home Loan Banks' Global Debt Program may be listed on the Euro MTF market of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange has allocated the number 2306 to the Federal Home Loan Banks' Global Debt Program for listing purposes. Under the Federal Home Loan Banks' agreement with the underwriter(s) of a particular series of consolidated obligations, any series of consolidated obligations listed on the Luxembourg Stock Exchange may be delisted if the continuation of the listing has become unduly onerous in the opinion of the issuer, and the issuer has agreed with the underwriter(s) that it will use reasonable efforts to list the consolidated obligations on another stock exchange.

EXPLANATORY STATEMENT ABOUT FHLBANKS COMBINED FINANCIAL REPORT

The Office of Finance assumed responsibility for the preparation of the combined financial reports of the Federal Home Loan Banks (FHLBanks) in 2001, which previously had been prepared by the Federal Housing Finance Board (Finance Board). The Office of Finance does not have the same access to information about the FHLBanks as the Finance Board does in its capacity as regulator of the FHLBanks. In connection with its responsibilities in preparing combined financial reports, the Office of Finance is responsible for combining the financial information it receives from each of the FHLBanks. Each FHLBank is responsible for the financial information it provides to the Office of Finance.

The combined financial reports of the FHLBanks are intended to be used by investors who invest in the consolidated bonds and consolidated discount notes of the FHLBanks. These consolidated obligations are the joint and several obligations of the FHLBanks. This means that each individual FHLBank is responsible to the registered holders of the consolidated obligations for the payment of principal of and interest on all consolidated obligations issued by the FHLBanks.

Even though the consolidated obligations are the joint and several obligations of all of the FHLBanks, each FHLBank is a separately chartered entity. Each has its own board of directors and management. This is the case 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, which periodically examines their operations.

Although each FHLBank has publicly available financial information, the financial information relating to the FHLBanks is presented to investors in consolidated obligations on a "combined" basis because this is considered more convenient for investors than providing financial information on each FHLBank on a stand-alone basis only. You should note, however, that this combined presentation describes a combination of assets and liabilities for this purpose only. This combined presentation in no way indicates that these assets and liabilities are under joint management and control. Each individual FHLBank manages its operations independently and with only minimal consideration as to how the transactions it enters into might affect the combined financial results.

The FHLBanks engage in transactions in which one FHLBank transfers its direct liability on outstanding consolidated bonds to another FHLBank that assumes the direct liability on those outstanding consolidated bonds. By engaging in these transactions, two FHLBanks are able to better match their funding needs. Excess funds held by one FHLBank are transferred to another FHLBank that needs them. These transfers generally result in costs for the FHLBank that assumes the liability for the debt that are equal to or lower than those available for a similarly-sized transaction in the capital markets at that time. Because the consolidated bonds are the joint and several obligation of all 12 FHLBanks, these interbank transactions have no effect on the holders of the consolidated bonds. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Interbank Transfers of Liability on Outstanding Consolidated Bonds and Their Effect on Combined Net Income" and Note 1 to the accompanying combined financial statements.)

AVAILABLE INFORMATION ON INDIVIDUAL FHLBANKS

The FHLBanks provide information on their operations on an ongoing basis.

Pursuant to a Finance Board regulation, each FHLBank is subject to certain reporting requirements of the 1934 Act and must file certain periodic reports and other information with the Securities and Exchange Commission (SEC). These periodic reports and other information filed pursuant to the Securities Exchange Act of 1934 (1934 Act), including each FHLBank's description of the risk factors applicable to that FHLBank, may be inspected without charge and copied at prescribed rates at the public reference facilities of the SEC's principal office at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the SEC's public reference facilities by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site at: http://www.sec.gov that will contain the periodic reports and other information filed by the FHLBanks with the SEC.

As of August 8, 2006, all twelve FHLBanks registrations were effective. Each FHLBank prepares individual financial reports containing financial information relating to its financial condition and results of operations and files this information annually with the SEC on Form 10-K and quarterly on Form 10-Q. All of this information is made available on the respective web sites of the FHLBanks and through the Office of Finance. The web site of the Office of Finance is located at www.fhlb-of.com. This site also contains links to the web site of each individual FHLBank.

Please note that we are providing all of the web site addresses and the identification of available information above solely as a matter of convenience. These web site addresses are not intended to be active links and their contents and the other available information are not a part of this report and are not intended to be incorporated by reference into this report.

FEDERAL HOME LOAN BANKS

SUMMARY FINANCIAL DATA
(Dollar amounts in millions)

	2005	2004*	2003* (As Restated)	2002* (As Restated)	2001* (As Restated)
At December 31,					
Advances	$619,880	$581,216	$514,037	$489,338	$472,540
Mortgage loans held for portfolio, net	105,240	113,922	113,438	60,455	27,641
Investments(1)	266,435	224,895	189,547	206,383	190,259
Total assets	997,415	924,751	822,418	763,052	696,254
Deposits and borrowings	21,737	21,165	23,255	29,906	26,969
Consolidated obligations, net(2)	915,903	845,738	740,721	673,383	621,003
Mandatorily redeemable capital stock	1,451	1,153			
Capital stock–Class B putable(3)	37,786	31,819	15,082	7,733	
Capital stock–Class A putable(3)	498	326			
Capital stock–Preconversion putable(3)	3,759	7,947	22,621	27,453	33,288
Total capital stock putable(4)(5)	42,043	40,092	37,703	35,186	33,288
Retained earnings(2)	2,600	1,744	1,098	716	749
Total capital(4)	44,480	41,863	38,980	36,200	34,096
Average balances for the year ended December 31,					
Advances	607,581	551,928	501,942	476,529	456,675
Mortgage loans held for portfolio, net	109,940	114,434	88,959	39,749	19,809
Investments(1)	229,817	208,362	195,777	203,054	186,543
Total assets	954,839	881,476	794,976	728,366	671,642
Deposits and borrowings	20,094	21,947	30,312	29,473	26,236
Consolidated obligations(2)	873,519	799,459	703,570	644,841	599,174
Mandatorily redeemable capital stock	1,342	805			
Capital stock–Class B putable(3)	33,289	22,546	12,000	981	
Capital stock–Class A putable(3)	394	68			
Capital stock-Preconversion putable(3)	7,378	16,232	24,646	33,190	31,631
Total capital stock putable(4)(5)	41,061	38,846	36,646	34,171	31,631
Retained earnings(2)	2,232	1,489	969	911	869
Operating results for the year ended December 31,					
Net interest income(5)(6)	4,206	4,171	3,877	3,722	3,446
Net income(2)(5)	2,525	1,994	1,885	1,507	1,970
Cash and stock dividends(5)	1,669	1,348	1,503	1,540	1,952
Weighted-average dividend rate(5)(7)	4.06%	3.47%	4.10%	4.51%	6.17%
Return on average equity	5.84%	4.93%	4.97%	4.28%	6.05%
Return on average assets	0.26%	0.23%	0.24%	0.21%	0.29%
Net interest margin(6)(8)(5)	0.45%	0.48%	0.49%	0.52%	0.52%
At December 31,					
Total capital ratio(5)(9)	4.46%	4.53%	4.74%	4.74%	4.90%
Leverage ratio(10)	21.7:1	21.5:1	21.1:1	21.1:1	20.4:1

* The combined financial statements of the 12 FHLBanks have been restated as of and for the years ended December 31, 2003, 2002 and 2001 as a result of restatements at seven of the 12 FHLBanks. The effects of the FHLBanks' restatements are reflected in this annual report for the periods affected. The Office of Finance did not previously publish the 2004 Combined Financial Report. Accordingly, the 2004 combined financial statements are not considered restated (even though six of the 12 FHLBanks restated their financial statements as of and for the year ended December 31, 2004) because they are presented here for the first time. See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Restatement of Prior Year Combined Financial Statements" and Note 2 to the accompanying combined financial statements.

These restatements were due primarily to technical misapplications and interpretations of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (SFAS 133), and arose mainly from the rigorous accounting reviews undertaken during the SEC registration process. The majority of the FHLBanks' hedges involved in the restatements were economically highly effective and would have been eligible for hedge accounting if they had been appropriately documented at hedge inception. However, the provisions of SFAS 133 generally do

not allow an entity to retroactively apply the long-haul method or reevaluate effectiveness/valuation methodologies, resulting in a one-sided mark-to-market due to the loss of hedge accounting. The net cumulative effect of these restatements resulted in a $168 million reduction in retained earnings as of December 31, 2004, of which approximately $130 million related to the reversal of cumulative unrealized gains (net of assessments) attributable to the hedged risk of certain available-for-sale securities held by the FHLBank of Dallas. These gains were subsequently recognized in earnings in 2005 upon the sale of the subject securities.

(1) Investments consist of:
a) held-to-maturity securities;
b) available-for-sale securities;
c) trading securities;
d) interest-bearing deposits;
e) securities purchased under agreements to resell; and
f) Federal funds sold.

(2) See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Interbank Transfers of Liabilities on Outstanding Consolidated Bonds and Their Effect on Combined Net Income" and "Explanatory Statement about FHLBanks Combined Financial Report."

(3) The Federal Home Loan Banks of Cincinnati, Pittsburgh and Seattle each implemented their respective capital plans during 2002. The Federal Home Loan Banks of Indianapolis, Des Moines and Dallas each implemented their respective capital plans during 2003. The Federal Home Loan Banks of Atlanta, Boston, San Francisco and Topeka each implemented their respective capital plans during 2004. The Federal Home Loan Bank of New York implemented its capital plan in 2005. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Legislative and Regulatory Developments" and Note 16 to the accompanying combined financial statements.)

(4) Federal Home Loan Bank capital stock is redeemable at the request of a member subject to the statutory redemption periods and other conditions and limitations. (See "Business—Capital, Capital Rules and Dividends" and Note 16 to the accompanying combined financial statements.)

(5) Effective as of January 1, 2004, the Federal Home Loan Banks reclassified $946 million of their outstanding capital stock to "mandatorily redeemable capital stock" in the liability section of the Statement of Condition as a result of adopting Statement of Financial Accounting Standards (SFAS) No. 150, *Accounting for Certain Financial Instruments and Characteristics of both Liabilities and Equity* (SFAS 150). Upon adoption, the Federal Home Loan Banks also recorded estimated dividends earned as a part of the carrying value of the mandatorily redeemable capital stock. The difference between the prior carrying amount and the mandatorily redeemable capital stock of $1 million was recorded as a cumulative effect of a change in accounting principle in the Statement of Income. For the years ended December 31, 2005 and 2004, dividends on mandatorily redeemable capital stock in the amounts of $48 million and $22 million were recorded as interest expense. Although the mandatorily redeemable capital stock is not included in capital for financial reporting purposes, it is considered capital for regulatory purposes. (See Note 16 to the accompanying combined financial statements for information on the significant restrictions on stock redemption.)

(6) Net interest income is net interest income before (reversal) provision for credit losses. For the years ended December 31, 2002 and 2001, the Federal Home Loan Banks have reclassified realized gains and losses (e.g., net interest payments) on stand-alone derivative instruments used in economic hedges. Previously, realized gains and losses on stand-alone derivatives used in economic hedges were classified within net interest income after (reversal) provision for credit losses, while unrealized gains (losses) on these derivatives were recorded in net gains (losses) on derivatives and hedging activities within other income. To be consistent with the current presentation, these amounts have been reclassified and are now included in net gains (losses) on derivatives and hedging activities within other income for the years ended December 31, 2002 and 2001. For the years ended December 31, 2003, 2002, and 2001, the Federal Home Loan Banks reclassified prepayment fee income from other income to net interest income to be consistent with the current presentation. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Reclassifications" and Note 1 to the accompanying combined financial statements.)

(7) Weighted average dividend rates are cash and stock dividends divided by the average of capital stock eligible for dividends.

(8) Net interest margin is net interest income before (reversal) provision for credit losses, represented as a percentage of average earning assets.

(9) Total capital ratio is capital stock plus retained earnings and accumulated other comprehensive income, represented as a percentage of total assets at period end. This capital ratio is computed on a U.S. Generally Accepted Accounting Principles (GAAP) basis.

(10) Effective January 1, 2004, capital for the leverage ratio calculation is based on GAAP plus mandatorily redeemable capital stock as described below in Note 16 to the accompanying combined financial statements.

BUSINESS

General Information

The 12 Federal Home Loan Banks (FHLBanks) are government-sponsored enterprises 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 the issuance and servicing of the consolidated obligations of the FHLBanks and to prepare this financial report. The Finance Board is an independent agency within the executive branch of the U.S. government charged with the regulation of the FHLBanks and the Office of Finance.

The primary purpose of the FHLBanks is to enable their member financial institutions (members) to assure the flow of credit and other services for housing and community development. The FHLBanks serve the general public by providing liquidity to members, thereby increasing the availability of credit for residential mortgages and community investments. The FHLBanks provide a readily available, low-cost source of funds to their members. In addition, most of the FHLBanks provide members with a means of enhancing liquidity by buying member home mortgages through mortgage purchase programs developed for their members. Under these programs, members are offered the opportunity to sell qualifying mortgage loans to an FHLBank. Members can also borrow from an FHLBank to fund low-income housing, helping the members satisfy their regulatory requirements under the Community Reinvestment Act (CRA). Finally, the FHLBanks offer their members a variety of services such as: correspondent banking; cash management; security safekeeping; wire transfers; letters of credit; and settlements.

The FHLBanks fund their assets and operations principally through the sale of debt instruments to the public, known as consolidated obligations, through the Office of Finance. Each FHLBank is jointly and severally liable with the other FHLBanks for all consolidated obligations issued. Consolidated obligations are not obligations of the United States, and the U.S. government does not guarantee them. Additional funds are provided by:

— deposits;

— other borrowings; and

— the issuance of capital stock.

The FHLBanks are cooperatives, which means that only members and former members own the capital stock in each of the FHLBanks and receive dividends on their investment in capital stock from the earnings of their respective FHLBank. Membership is limited to regulated depositories and insurance companies engaged in housing finance. A table identifying members of the FHLBanks by type of financial institution is included on page 112. Each member must own capital stock in the FHLBank located in the member's district. Each FHLBank is privately-owned and has its own board of directors, management and employees. Membership is voluntary.

Historical Perspective

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

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). As a result, 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 significant cost to the American taxpayer of resolving failed thrift institutions, Congress restructured the home mortgage financing system in 1989 by passing the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA). Congress reaffirmed the housing finance mission of the FHLBanks, and expanded membership eligibility in the FHLBanks to include commercial banks and credit unions with a commitment to housing finance.

Advances

The FHLBanks make loans, called "advances," to their members and eligible housing associates on the security of mortgages and other collateral pledged by the borrowing member or housing associate. Advances are the largest category of assets of the FHLBanks on a combined basis, representing 62.1 percent of total assets as of December 31, 2005 and 62.9 percent of total assets as of December 31, 2004. Advances generally support mortgages held in member portfolios. Because 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. FHLBank advances support important housing markets, including those focused on low- and moderate-income households. For those members that choose to sell or securitize their mortgages, FHLBank advances can provide interim funding.

Each FHLBank develops its program of advances so as to meet the particular needs of its members. The FHLBanks offer a wide array of fixed- and adjustable-rate advances, with maturities ranging from one day to 30 years. The FHLBanks offer both standard and customized advance structures. The more standard advances include the following:

- *Fixed-Rate Advances.* Fixed-rate advances have maturities from one day to 30 years. The FHLBanks also offer convertible fixed-rate advances, which allow the FHLBanks to convert to open-line advances or other structures after an agreed upon lockout period. In addition, the FHLBanks offer putable fixed-rate advances, which allow FHLBanks to put or extinguish their fixed-rate advances and borrowers to enter into new advances. Maturities of convertible fixed-rate advances generally range from one month to 15 years.
- *Variable-Rate Advances.* Variable-rate advances include advances with maturities less than 30 days to 10 years, with the interest rates reset periodically at a fixed spread to LIBOR or other standardized indices. Depending upon the plan selected, the member can have a cap or prepay the advance with or without a prepayment fee.
- *Open-Line Advances.* Open-line advances are designed to provide flexible funding to meet borrowers' daily liquidity needs and can be withdrawn for one day. These advances are automatically renewed until the member pays down the advances. Rates are set daily at the end of business.
- *Fixed Amortizing Advances.* Fixed amortizing advances have final maturities that range from one year to 30 years, with the principal repaid over the term of the advances with monthly, quarterly, annual or semi-annual amortization periods.
- *Variable to Fixed Convertible Advances.* Variable to fixed convertible advances have maturities that range from two years to 10 years, with a defined lockout period during which the interest rates adjust based on a spread to LIBOR. At the end of the lockout period, these advances may convert to fixed-rate advances. The interest rates on the converted advances are set at origination.

Customized advances may include:

— advances with non-standard indices;

— advances with embedded options (such as interest rate caps, floors and collars, and call and put options);

— advances with standard indices that are averaged;

— amortizing advances; and

— advances with partial prepayment symmetry. (Partial prepayment symmetry means that the FHLBank may charge the member a prepayment fee or pay the member a prepayment fee, depending on certain factors such as movements in interest rates, when the advance is prepaid.)

Pursuant to the FHLBank Act, the FHLBanks are permitted to make advances to non-members that are approved mortgagees under Title II of the National Housing Act (housing associates). In addition, to be eligible for advances from an FHLBank, 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 under 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.

FHLBank advances can also 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 wholesale funding at competitive prices.

FHLBank credit products also help members in the management of their assets and liabilities. The FHLBanks can offer advances that are matched to the maturity and prepayment characteristics of mortgage loans. These advances can reduce a member's interest-rate risk associated with holding long-term, fixed-rate mortgages. Alternatively, members can also enter into interest-rate exchange agreements directly with an FHLBank to reduce their exposure to interest-rate risk. In addition, an FHLBank may make commitments for advances to a member covering a pre-defined period. This program aids members and the FHLBanks in their cash flow planning and enables members to reduce their funding risk.

The FHLBanks help members meet their responsibilities under the CRA. Through the Affordable Housing Program (AHP), the Community Investment Program (CIP) and the Community Investment Cash Advance (CICA) programs, members have access to subsidized and other low-cost funding to create affordable rental and homeownership opportunities and for commercial and economic development activities that benefit low- and moderate-income neighborhoods, thereby contributing to the revitalization of these communities.

From the establishment of the CIP in 1990 through 2005, $34.7 billion in FHLBank-supported lending for housing development has financed over 609 thousand housing units. In addition to housing developments, over $9.3 billion in FHLBank-supported community lending has helped finance thousands of local economic community development projects.

For 15 years, the AHP has provided significant resources for housing development across the 50 states and U.S. territories. The FHLBanks awarded AHP subsidies of $229 million in 2005 for projects designed to provide approximately 36 thousand housing units. From the inception of the AHP in 1990 through 2005, the FHLBanks have awarded over $2.1 billion in AHP subsidies to facilitate development of affordable housing projects designed to create approximately 466 thousand units for low- and moderate-income families. The FHLBanks are one of the largest sources of private funding for affordable housing in the nation. (See Note 10 to the accompanying combined financial statements.)

The FHLBanks serve as a source of liquidity for their members. Access to FHLBank advances can reduce the amount of low-yielding liquid assets a member would otherwise need to hold to ensure the same amount of liquidity. The FHLBanks' members are required to pledge collateral to secure their advances, which is described in more detail in "Risk Management—Credit Risk—Managing Credit Risk—Advances."

Acquired Member Asset Programs—Mortgage Loans Held for Portfolio

The FHLBank of Chicago and the four MPP FHLBanks have developed programs to purchase mortgage loans from Participating Financial Institutions (PFIs). The primary programs are the Mortgage Partnership Finance (MPF®) Program[1] and the Mortgage Purchase Program (MPP). Under the MPF Program, loans are funded through or purchased from PFIs.

The current MPF FHLBanks are the FHLBanks of Atlanta, Boston, Chicago, Dallas, Des Moines, New York, Pittsburgh, San Francisco and Topeka. On October 6, 2006, the FHLBank of San Francisco announced that it will no longer offer new master commitments to purchase mortgage loans from its PFIs under the MPF Program. The FHLBank of Chicago acts as "MPF Provider" and provides programmatic and operational support to the MPF FHLBanks and their PFIs.

The current MPP FHLBanks are Cincinnati, Indianapolis, Seattle and Atlanta. In March 2005, the FHLBank of Seattle announced that it is exiting its MPP by ceasing to enter into new master commitment contracts under the MPP, and plans to eliminate existing MPP assets over time.

MPF Loans and MPP Loans. Many members who originate mortgage loans choose to sell these loans into the secondary market rather than holding them in their own portfolios. Under the MPF Program and MPP, the FHLBanks principally invest in qualifying five-year to 30-year conventional conforming and government-guaranteed (i.e., FHA-insured and VA-guaranteed) fixed-rate mortgage loans and participations in pools of such mortgage loans, secured by one-to-four family residential properties, by purchasing them from participating members. Mortgage loans held for portfolio represented 10.6 percent of total assets at December 31, 2005 and 12.3 percent of total assets at December 31, 2004. Under the MPF Program, one or more MPF FHLBanks may participate in all or a portion of the acquired mortgage loans obtained from a PFI of any MPF FHLBank. The FHLBanks may also provide funding for the mortgage loans.

Under the mortgage programs, an FHLBank manages the interest-rate risk, prepayment option risk and liquidity risk of the fixed-rate mortgage loans in which it holds an interest, while the corresponding member manages the origination and servicing activities. Each FHLBank holding an interest in a mortgage loan and the member selling the mortgage loan share in the credit risk of the mortgage loans pursuant to a master agreement and master commitment contract. Under these programs, a participating member, referred to as a PFI, provides a measure of credit-loss protection to the FHLBank(s) holding interests in loans generated by the PFI. In the case of the MPF Program, the selling PFI receives a credit-enhancement fee, and in the case of MPP, the selling PFI benefits from the Lender Risk Account. In the case of the MPF Program, all loss allocations to a PFI and its FHLBank are covered by each master commitment contract between that PFI and its FHLBank. In the case of MPP, all loss allocations to a PFI and its FHLBank are based upon individual pools of loans covered by each master commitment contract between that PFI and its FHLBank.

As of December 31, 2005, the FHLBanks had invested in MPF Loans and MPP loans in all fifty states, the District of Columbia and Puerto Rico.

A more detailed discussion of the credit enhancement and risk-sharing arrangements, and loan product information for the MPF Program and MPP is included under "Risk Management—Credit

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[1] "Mortgage Partnership Finance," "MPF," "MPF Shared Funding" and "eMPF" are registered trademarks of the FHLBank of Chicago.

Risk—Managing Credit Risk—Mortgage Loans Held for Portfolio" below and in the "Supplemental Information" section.

MPF Loan Product Information/MPP Product Information. A variety of MPF Loan products have been developed to meet the differing needs of PFIs, but they are all premised on the same risk-sharing concept. The MPP operates with a single structure but also includes FHA-insured mortgage loans.

PRODUCT COMPARISON CHART
MPF PROGRAM AND MPP*

Product Name	FHLBank First Loss Account Size	PFI Credit Enhancement Description	Average Credit Enhancement Amount	Credit Enhancement Fee to PFI	Credit Enhancement Fee Offset(1)	Servicing Fee to PFI
Original MPF	3 to 5 basis points/added each year based on the unpaid balance	Equivalent to "AA"	1.80%	8 to 11 basis points/ year—paid monthly	No	25 basis points/year
MPF 100	100 basis points fixed based on the size of the loan pool at closing	After First Loss Account to "AA"	0.50%	7 to 11 basis points/ year—paid monthly; performance-based after 2 or 3 years	Yes—after first 2 to 3 years	25 basis points/year
MPF 125	100 basis points fixed based on the size of the loan pool at closing	After First Loss Account to "AA"	0.92%	7 to 10 basis points/ year—paid monthly; performance-based	Yes	25 basis points/year
MPF Plus	Sized to equal expected losses	0 to 20 basis points after First Loss Account and Supplemental Mortgage Insurance (SMI) to "AA"	1.34%	6.5 to 8.5 basis points/year—plus 8 to 10 basis points/ year performance-based (delayed for 1 year); all fees paid monthly	Yes	25 basis points/year
Original MPF for FHA/VA	N/A	Not applicable (Unreimbursed servicing expenses)	N/A	N/A	N/A	44 basis points/year plus 2 basis points/year—paid monthly (U.S. Government loan fee)
MPP	30 to 50 basis points based on pool risk factors and expected losses	After First Loss Account to "AA" using SMI	N/A	N/A	N/A	25 basis points/year
MPP FHA	N/A	Unreimbursed servicing expenses	N/A	N/A	N/A	44 basis points/year

* Current as of December 31, 2005

(1) May not exceed the First Loss Account amount for the life of the pool.

MPF Shared Funding Program. Several FHLBanks participate in the MPF Shared Funding Program, which is administered by an unrelated third party. This program allows mortgage loans originated through the MPF Program to be sold to a third party-sponsored trust and "pooled" into securities. The FHLBank of Chicago purchases the Acquired Member Asset eligible securities, which are rated at least AA, and are either retained or partially sold to other FHLBanks. The investments are classified as held-to-maturity securities and are reported at amortized cost of

$556 million and $694 million as of December 31, 2005 and 2004. These securities are not publicly traded and are not guaranteed by any of the FHLBanks.

Investments

The FHLBanks maintain portfolios of investments for liquidity purposes, to manage excess stock repurchases and redemptions and to provide additional earnings. This investment income also bolsters the FHLBanks' capacity to meet their commitment to affordable housing and community investment, to cover operating expenses and to satisfy the Resolution Funding Corporation (REFCORP) assessment, as discussed in more detail in the "Business-Tax Status" section. To ensure the availability of funds to meet the credit needs of their members, the FHLBanks maintain portfolios of short-term investments issued by highly-rated institutions, which include:

— overnight Federal funds;

— term Federal funds;

— interest-bearing certificates of deposits; and

— commercial paper.

The FHLBanks also enhance interest income by maintaining longer-term investment portfolios. These include mortgage-backed securities issued by government-sponsored mortgage agencies and enterprises or those that carry the highest ratings from Moody's Investors Service (Moody's) or Standard & Poor's Ratings Services (S&P) at the time of purchase and securities issued by U.S. government-sponsored agencies and instrumentalities. The long-term investment portfolios provide the FHLBanks with higher returns than those available in the short-term money markets. Investments represented 26.7 percent of total assets at December 31, 2005 and 24.3 percent of total assets at December 31, 2004.

Finance Board regulations prohibit the FHLBanks from investing in certain types of securities and limit the FHLBanks' investment in MBS and asset-backed securities. These restrictions and limitations are set out in more detail in "Risk Management—Credit Risk—Managing Credit Risk—Investments."

Debt Financing—Consolidated Obligations

Consolidated obligations, consisting of bonds and discount notes, are the principal funding source for the FHLBanks and are the joint and several obligations of the 12 FHLBanks. Consolidated obligations represent the primary source of liabilities used by the FHLBanks to fund advances, the mortgage programs and investments. All consolidated obligations are issued through the Office of Finance. Regardless of the method of issuance, the Office of Finance can only issue consolidated obligations when an FHLBank provides a request for and agrees to accept the funds.

Consolidated obligations represented an amount equal to 91.8 percent of total assets as of December 31, 2005 and 91.5 percent of total assets at December 31, 2004. The capital markets have traditionally considered the FHLBanks' obligations as "Federal agency" debt. As a result, although the U.S. government does not guarantee the FHLBanks' debt, the FHLBanks have traditionally had ready access to funding at relatively favorable rates. The FHLBanks' ability to access the capital markets through the sale of consolidated obligations, across the entire maturity spectrum and through a variety of debt structures, allows the FHLBanks to manage their balance sheets effectively and efficiently.

Consolidated obligations are currently rated Aaa/P-1 by Moody's Investor Service and AAA/A-1+ by Standard & Poor's Ratings Services. These are the highest ratings available for such debt from a Nationally Recognized Statistical Rating Organization (NRSRO). These ratings indicate that the FHLBanks have an extremely strong capacity to meet their commitments to pay principal and interest on consolidated obligations and that the consolidated obligations are judged to be of the highest quality with minimal credit risk. The ratings on the FHLBanks consolidated obligations also

reflect the FHLBank System's status as a government-sponsored enterprise (GSE). These ratings were not affected by rating actions taken with respect to individual FHLBanks. You should note that a rating issued by an NRSRO is not a recommendation to buy, sell or hold securities and that the ratings may be revised or withdrawn by the NRSRO at any time. You should evaluate the rating of each NRSRO independently.

Consolidated obligations are generally issued with either fixed-rate payment terms or variable-rate payment terms that use a variety of indices to reset interest rates. The indices include:

— the London Interbank Offered Rate (LIBOR);

— the Constant Maturity Treasury (CMT); and

— the 11th District Cost of Funds Index (COFI).

In connection with the sale of any particular issue of consolidated obligations, any FHLBank receiving the proceeds may enter into interest-rate exchange agreements or other transactions with or arranged by the applicable securities dealer, bank, affiliate, or an unaffiliated third party. Certain securities dealers and banks and their affiliates also engage in other transactions with and perform services for the FHLBanks. These services include the purchase and sale of investment securities. In some cases, some or all of the net proceeds from an issue of consolidated obligations may be loaned to a member that is affiliated with the securities dealer involved in underwriting that issue.

Among the 12 FHLBanks, each FHLBank is primarily liable for that portion of consolidated obligations corresponding to the proceeds it receives. Each FHLBank is also jointly and severally liable with the other 11 FHLBanks for the payment of principal and interest on all consolidated obligations. Each FHLBank, individually and together with the other FHLBanks, must ensure that the timely payment of principal and interest on all consolidated obligations is given priority over, and is paid in full in advance of, any payment to or any redemption of shares from any shareholder. The Finance Board, in its discretion, may require any FHLBank to make principal or interest payments due on any consolidated obligations at any time, whether or not an actual default has occurred.

To the extent that an FHLBank makes a payment on a consolidated obligation on behalf of another FHLBank, the paying FHLBank will be entitled to reimbursement from the FHLBank otherwise responsible for the payment. If the Finance Board determines that the responsible FHLBank is unable to satisfy its obligations, the Finance Board may allocate the outstanding liability among the other FHLBanks. The Finance Board may make this allocation among the other FHLBanks on a pro-rata basis (in proportion to each FHLBank's ownership of all of the consolidated obligations outstanding at that time) or on any other basis it may determine.

Finance Board regulations require that each FHLBank maintain the following types of assets, free from any lien or pledge, in an amount at least equal to the amount of that FHLBank's participation in the total 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 U.S. or any agency of the United States;

— Investments described in Section 16(a) of the FHLBank Act (e.g., 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 assigned a rating or assessment by an NRSRO that is equivalent or higher than the rating or assessment assigned by that NRSRO to consolidated obligations.

In addition, each FHLBank must adhere to the leverage limits set by the Finance Board. As of December 31, 2005, each FHLBank was in compliance with these requirements.

Discount Notes. On a daily basis, FHLBanks may request that specific amounts of discount notes with specific maturity dates be offered by the Office of Finance for sale through certain securities dealers. One or more other FHLBanks may also request that amounts of discount notes with the same maturities be offered for sale for their benefit on the same day. The Office of Finance commits to issue discount notes on behalf of the participating FHLBanks when dealers submit orders for the specific discount notes offered for sale. The FHLBanks receive funding based on the time of the request, the rate requested for issuance, the trade date, the settlement date and the maturity date. If all terms of the request are the same except for the time of the request, then the FHLBank may receive from zero to 100 percent of the proceeds of the sale of the discount notes issued depending on the time of the request, the maximum costs the FHLBank or other FHLBanks, if any, participating in the same issuance of discount notes are willing to pay for the discount notes, and the amount of orders for the discount notes submitted by dealers.

Twice weekly, FHLBanks may also request that specific amounts of discount notes with fixed maturity dates ranging from four to 26 weeks be offered by the Office of Finance through competitive auction conducted with securities dealers in the discount note selling group. One or more of the FHLBanks may also request that amounts of those same discount notes be offered for sale for their benefit through the same auction. The discount notes offered for sale through competitive auction are not subject to a limit on the maximum costs the FHLBanks are willing to pay. The FHLBanks receive funding based on their requests at a weighted-average rate of the winning bids from the dealers. If the bids submitted are less than the total of the FHLBanks' requests, an FHLBank receives funding based on that FHLBank's capital relative to the capital of other FHLBanks offering discount notes.

These discount notes presently have a maturity range of up to 365 days. They are sold at a discount and mature at par.

Consolidated Bonds. Consolidated bonds are issued primarily to raise intermediate and long-term funds. They can be issued and distributed through negotiated or competitively bid transactions with approved underwriters or selling group members. Consolidated bonds generally carry fixed- or variable-rate payment terms and have maturities ranging from one to 30 years, although there is no statutory or regulatory limitation as to their maturity.

To meet the specific needs of certain investors in consolidated obligations, both fixed-rate bonds and variable-rate bonds issued by the FHLBanks may contain certain embedded features, which can result in complex coupon payment terms and call features. When consolidated obligations with these kinds of features are issued, the FHLBank concurrently enters into interest-rate exchange agreements that contain offsetting features, which effectively alter the terms of the bond to a straight-forward variable-rate bond tied to an index.

The FHLBanks also use the TAP Issue Program to issue fixed-rate, noncallable (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 Issue Program is to aggregate frequent smaller issues into a larger bond issue that may have greater market liquidity.

Debt Financing—Subordinated Notes

Under Section 11(a) of the FHLBank Act, no FHLBank is permitted to issue individual debt unless it has received approval from the Finance Board. As approved by the Finance Board, on June 13, 2006, the FHLBank of Chicago issued $1 billion of its 10-year subordinated notes. These subordinated notes are the sole obligation of the FHLBank of Chicago and not consolidated obligations.

Deposits

The FHLBanks offer demand, overnight and term deposit programs to their members and to qualifying non-members. The FHLBank Act allows each FHLBank to accept deposits from:

— its members;

— any institution for which it is providing correspondent services;

— other FHLBanks; or

— other U.S. government instrumentalities.

Deposit programs provide some of the funding resources for the FHLBanks. To a lesser extent than consolidated obligations, deposits also provide funding for advances and investments. At the same time, they offer members a low-risk earning asset that satisfies their regulatory liquidity requirements. Deposits represented an amount equal to 1.9 percent of total assets of the FHLBanks as of December 31, 2005 and 2.0 percent of total assets at December 31, 2004.

The following table presents term deposits issued in amounts of $100,000 or more at December 31, 2005 and 2004 (dollar amounts in millions):

	December 31, 2005	December 31, 2004
3 months or less	$370	$770
Over 3 through 6 months	40	100
Over 6 through 12 months	14	18
Over 12 months	20	26
Total	$444	$914

Capital, Capital Rules and Dividends

The capital stock and retained earnings of the FHLBanks are also a source of funding. At December 31, 2005, approximately 4.48 percent of the assets of the FHLBanks were funded by capital stock and retained earnings. Total capital under GAAP, which includes accumulated other comprehensive income, represented an amount equal to 4.46 percent of total assets as of December 31, 2005.

Pre-Gramm-Leach-Bliley (GLB) Act Capital Structure. Until an FHLBank implements its new capital plan, the pre-GLB Act capital rules will remain in effect for that FHLBank. Under these pre-GLB Act rules, each member is required to purchase capital stock equal to the greater of $500, 1 percent of its mortgage-related assets or 5 percent of its outstanding FHLBank advances. A member could, at the discretion of its FHLBank, redeem at par value any capital stock greater than its statutory requirement or sell this capital stock to other members of its FHLBank at par value. Capital stock outstanding under the pre-GLB Act rules is redeemable at the option of a member upon six months notice if the member withdraws from the FHLBank.

Effective July 1, 2000, until an FHLBank has fully implemented its new capital plan, its leverage limit is based on a ratio of assets to capital, pursuant to a final rule issued by the Finance Board. Effective January 1, 2004, capital for the leverage ratio calculation is based on GAAP plus mandatorily redeemable capital stock. This ratio generally limits the FHLBank's assets to no more than 21 times its capital. If the non-mortgage assets of an FHLBank, excluding deposits and capital, do not exceed 11 percent of its assets, its total assets are limited to no more than 25 times its capital. As of December 31, 2005, the combined asset-based leverage of all of the FHLBanks was 21.7 to 1. As of December 31, 2004, the combined asset-based leverage of all of the FHLBanks was 21.5 to 1. As of December 31, 2005, only the FHLBank of Chicago had not yet implemented a new capital plan and therefore it continues to operate under the pre-GLB Act capital model, as modified by its regulatory supervisory agreement. As of December 31, 2005, the FHLBank of Chicago had a

leverage ratio of less than 21.0 to 1. (See Note 16 to the accompanying combined financial statements.)

Post-GLB Act Capital Structure. 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 Finance Board's final rule implementing a new capital structure for the FHLBanks had the following effects:

— it established risk-based and leverage capital requirements for the FHLBanks;

— it permitted the FHLBanks to issue different classes of stock with different rights and preferences; and

— it required each FHLBank to submit, by October 29, 2001, a capital plan for approval by the Finance Board.

As of July 18, 2002, the Finance Board had approved a capital structure plan for each FHLBank. The capital rule provides a transition period that grants each FHLBank up to three years from the effective date of its capital plan to comply with its new capital structure. The FHLBanks of Cincinnati, Pittsburgh and Seattle implemented their respective new capital plans during 2002. The FHLBanks of Indianapolis, Des Moines and Dallas implemented their respective new capital plans during 2003. The FHLBanks of Atlanta, Boston, San Francisco and Topeka implemented their respective new capital plans during 2004. The FHLBank of New York implemented its new capital plan during 2005. Each of these FHLBanks was in compliance with its capital plan as of the effective date of its plan. The FHLBank of Chicago will delay implementation of a new capital structure until a time mutually agreed upon with the Finance Board. Also, the FHLBank of Chicago is reassessing the structure of its capital plan, originally approved by the Finance Board on June 12, 2002, and may propose amendments for approval by the Finance Board based on the review. On October 11, 2006, the Finance Board approved a number of changes to the capital plan of the FHLBank of Seattle (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Legislative and Regulatory Developments" and Note 21 to the accompanying combined financial statements).

Capital Adequacy and Form Rules. The GLB Act permits each FHLBank to issue one or more of two classes of stock, each with sub-classes. Class A stock is redeemable on six months written notice from a member and Class B stock is redeemable on five years written notice from a member. Each class of stock is subject to certain conditions and limitations that may limit the ability of an FHLBank to affect these redemptions. Under the GLB Act, membership in an FHLBank became voluntary for all members. If a member withdraws its membership from an FHLBank, it may not acquire shares of any FHLBank for five years after the date on which its divestiture of capital stock is completed. This restriction does not apply if the member is transferring its membership from one FHLBank to another. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy." Additionally, see "Financial Discussion and Analysis of Financial Condition and Results of Operations—Legislative and Regulatory Developments" for discussion regarding a proposed Finance Board rule to change the capital requirements and dividend payment practices of the FHLBanks.)

The GLB Act defines "permanent capital" for each FHLBank as the amount paid-in for the Class B stock, plus the amount of an FHLBank's retained earnings, as determined in accordance with GAAP. Under the GLB Act and the final rule implementing it, "total capital" for regulatory capital adequacy purposes for each FHLBank operating under a new capital plan is defined as the sum of the FHLBank's permanent capital; *plus*

— the amounts paid-in by the members for Class A stock;

— 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.

Under the GLB Act and the implementing final rule, an FHLBank is subject to risk-based capital rules under its new capital structure plan once the plan is fully implemented. Only permanent capital (as previously defined) can satisfy the risk-based capital requirement. In addition, the GLB Act specifies a 5 percent minimum leverage ratio based on total capital, which includes a 1.5 weighting factor applicable to permanent capital, and a 4 percent minimum capital ratio that does not include the 1.5 weighting factor applicable to the permanent capital. An FHLBank may not redeem or repurchase any of its capital stock without Finance Board approval if the Finance Board or that FHLBank's board of directors determines that the FHLBank has incurred or is likely to incur losses that result in or are likely to result in charges against the capital of that FHLBank. This applies even if that FHLBank is in compliance with its minimum capital requirements. As a result, whether or not a member may redeem its capital stock in an FHLBank at any given time will depend on whether the FHLBank is in compliance with its three regulatory capital requirements (leverage ratio, total capital ratio and risk-based capital). The FHLBank of Seattle, as a result of their supervisory agreement with the Finance Board, operates under certain restrictions, including a 4.25% minimum regulatory capital ratio requirement. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Legislative and Regulatory Developments" for more information.)

For purposes of compliance with the regulatory minimum capital ratio and leverage ratio, capital includes all of the FHLBank members' capital stock and retained earnings, and allowance for losses and any other amount from sources available to absorb losses that the Finance Board has determined by regulation to be appropriate to include in determining total capital. As of January 1, 2004, regulatory capital exceeded capital as determined under GAAP, because regulatory capital includes mandatorily redeemable capital stock. All FHLBanks that were subject to these requirements as of December 31, 2005 were in compliance as of that date.

Once an FHLBank implements a new capital plan under the GLB Act, it becomes subject to the Finance Board's risk-based capital regulations. This regulatory framework requires each FHLBank to maintain sufficient permanent capital to meet its combined credit risk, market risk and operations risk.

The credit risk component of the risk-based capital requirement of an FHLBank is determined by adding together the credit risk capital charges computed for assets, off-balance sheet items and derivative contracts. These computations are based on, among other things, the credit risk percentages assigned to each item as required by the Finance Board.

The market risk component of the risk-based capital requirement of an FHLBank is the sum of:

(1) the market value of its portfolio at risk from movements in interest rates that could occur during times of market stress; plus

(2) any amount by which the current market value of its total capital falls short of 85 percent of book value.

Each FHLBank must calculate the market value of its portfolio at risk and the current market value of its total capital by using either an internal market risk model or internal cash flow model approved by the Finance Board. The Finance Board has approved the models used by the 11 FHLBanks that have implemented their new capital plans. Although each FHLBank models its own market risk, the Finance Board reviewed and approved the modeling approach and underlying assumptions used by each FHLBank. The Finance Board reviews these modeling approaches on an ongoing basis.

The operational risk component of the risk-based capital requirement of an FHLBank is equal to 30 percent of the sum of its credit risk capital and market risk components of the risk-based capital requirement. The Finance Board can approve a reduction in this percentage. For reasons of safety and soundness, the Finance Board may also require an individual FHLBank to maintain

greater permanent capital than is required by the risk-based capital requirements previously described.

Regulatory Capital Requirements
(Dollar amounts in millions)

FHLBank*	Minimum Regulatory Capital Ratio Requirement	At December 31, 2005				
		Minimum Regulatory Capital Requirement	Actual Capital Ratio	Total Regulatory Capital (1)	Permanent Capital (2)	Required Risk-Based Capital
Boston	4.0%	$2,308	4.6%	$2,675	$2,675	$370
New York	4.0%	3,401	4.6%	3,900	3,900	626
Pittsburgh	4.0%	2,916	4.5%	3,289	3,284	499
Atlanta	4.0%	5,730	4.4%	6,225	6,225	760
Cincinnati	4.0%	3,087	5.4%	4,130	4,130	579
Indianapolis	4.0%	1,924	4.9%	2,349	2,349	484
Des Moines	4.0%	1,829	5.1%	2,346	2,346	520
Dallas	4.0%	2,594	4.3%	2,796	2,796	531
Topeka	4.0%	1,878	4.2%	1,990	1,430	426
San Francisco	4.0%	8,944	4.3%	9,698	9,698	862
Seattle	4.0%(3)	2,102	4.3%	2,268	2,268	461

FHLBank*	Minimum Leverage Ratio Requirement	At December 31, 2005		
		Minimum Weighted Leverage Capital Requirement	Actual Leverage Ratio	Actual Weighted Leverage Capital
Boston	5.0%	$ 2,885	7.0%	$ 4,012
New York	5.0%	4,251	6.9%	5,850
Pittsburgh	5.0%	3,645	6.8%	4,931
Atlanta	5.0%	7,162	6.5%	9,337
Cincinnati	5.0%	3,859	8.0%	6,194
Indianapolis	5.0%	2,405	7.3%	3,524
Des Moines	5.0%	2,286	7.7%	3,520
Dallas	5.0%	3,243	6.5%	4,195
Topeka	5.0%	2,348	5.8%	2,705
San Francisco	5.0%	11,180	6.5%	14,547
Seattle	5.0%	2,627	6.5%	3,401

* Only includes FHLBanks that have implemented a new capital plan as of December 31, 2005.

(1) Total regulatory capital is defined as the sum of permanent capital, the amounts paid for Class A capital stock, any general allowance for losses and any other amount from sources available to absorb losses that the Finance Board has determined by regulation to be appropriate to include in determining total capital. Total regulatory capital also includes mandatorily redeemable capital stock.

(2) Permanent capital is defined as retained earnings and regulatory capital Class B stock. The mandatorily redeemable capital stock is considered capital for regulatory purposes.

(3) The FHLBank of Seattle must maintain a minimum regulatory capital ratio of 4.25% under its business plan approved by the Finance Board.

Description of Capital Plans of FHLBanks Converted Through 2005.

The following FHLBanks offer a single class of Class B capital stock. Upon five years' written notice, a member can elect to have the FHLBank redeem its capital stock, subject to certain conditions and limitations. The FHLBank can repurchase a member's excess capital stock at its discretion.

FHLBank	Implementation Date	Description
Boston	April 19, 2004	The FHLBank of Boston requires member institutions to maintain stock based on a percentage of the member's Membership Stock Investment Base and on a percentage of advances, standby letters of credit, intermediated derivative contracts, acquired member assets and certain commitments outstanding with the FHLBank.
San Francisco	April 1, 2004	The FHLBank of San Francisco requires member institutions to maintain stock based on a percentage of the member's membership asset value and on a percentage of advances and member's outstanding loans purchased and held by the FHLBank.
Dallas	September 2, 2003	The FHLBank of Dallas requires member institutions to maintain stock based on a percentage of the member's total assets and on a percentage of advances and acquired member assets outstanding with the FHLBank.
Des Moines	July 1, 2003	The FHLBank of Des Moines requires member institutions to maintain stock based on a percentage of the member's total assets and on a percentage of advances, acquired member assets, standby letters of credit, and certain commitments outstanding with the FHLBank.
Cincinnati	December 30, 2002	The FHLBank of Cincinnati requires member institutions to maintain stock based on a percentage of the member's total assets and on a percentage of advances and acquired member assets outstanding with the FHLBank.
Pittsburgh	December 16, 2002	The FHLBank of Pittsburgh requires member institutions to maintain stock based on a percentage of their outstanding FHLBank borrowings, a percentage of their unused borrowing capacity with the FHLBank and a specified percentage of the principal balance of residential mortgage loans previously sold to the FHLBank and still held by the FHLBank.

The FHLBanks of New York, Atlanta and Indianapolis each offer two sub-classes of Class B capital stock, Class B1 and Class B2. Upon five years' written notice, a member can elect to have the FHLBank redeem its capital stock, subject to certain conditions and limitations. The FHLBanks of New York, Atlanta and Indianapolis can repurchase excess stock of both sub-classes at their discretion.

FHLBank	Implementation Date	Description
New York	December 1, 2005	Class B1 stock is issued to meet membership stock purchase requirements. Class B2 stock is issued to meet activity-based requirements. The FHLBank of New York requires member institutions to maintain Class B1 stock based on a percentage of the member's mortgage-related assets and Class B2 stock-based on a percentage of advances and acquired member assets outstanding with the FHLBank and certain commitments outstanding with the FHLBank. Class B1 and Class B2 stockholders have the same voting rights and dividend rates.
Atlanta	December 17, 2004	Class B1 stock is issued to meet membership stock purchase requirements. The FHLBank of Atlanta requires member institutions to maintain stock based on a percentage of the member's total assets. Each member is required to maintain a minimum investment in Class B2 shares to meet its activity-based stock requirement. A member's activity-based requirement is based on a percentage of outstanding advances, acquired member assets and any targeted debt/equity investment sold by the member to the FHLBank. Class B1 and Class B2 stockholders have the same voting rights and dividend rates.
Indianapolis	January 2, 2003	Class B1 stock is issued to meet membership and activity stock purchase requirements. The FHLBank of Indianapolis requires member institutions to maintain stock based on a percentage of the member's total assets and on a percentage of advances and acquired member assets outstanding with the FHLBank. Class B1 stock is converted into shares of Class B2 stock in the event that a member withdraws from membership; a member is the non-surviving entity in a merger; if a financial institution's membership is terminated involuntarily or as a result of a relocation; or if the stock becomes subject to a redemption request by a member; while the stock is needed to meet the member's stock requirement. Class B1 and Class B2 stockholders have the same voting rights. The only difference between the Class B1 stock and Class B2 stock is that the dividend rate for the Class B2 stock is lower than the dividend rate for the Class B1 stock.

Prior to October 2006, the FHLBank of Seattle offered two sub-classes of Class B capital stock, Class B1 and Class B2. Upon five years' written notice, a member could elect to have the FHLBank redeem its capital stock, subject to certain conditions and limitations. The FHLBank of Seattle could repurchase excess stock of both sub-classes at its discretion.

FHLBank	Implementation Date	Description
Seattle	June 30, 2002	Class B1 stock is issued to meet membership and activity stock purchase requirements. The FHLBank of Seattle requires member institutions to maintain stock based on a percentage of a member's mortgage loans and on a percentage of advances and acquired member assets depending on the amount outstanding with the FHLBank. Excess Class B1 stock above the lesser of $50 million or the total stock purchase requirement converts to Class B2 stock. Class B1 and Class B2 stockholders have the same voting rights. Dividends on Class B1 stock may not exceed the sum of (1) the FHLBank's earnings for that quarter plus (2) net earnings previously retained, less (3) the amount of any dividends that the FHLBank's Board of Directors declares on Class B2 stock. Dividends on Class B2 stock may be declared only at a rate equal to the lower of (A) the Class B1 stock dividend or (B) 73.47% times the sum of the daily average of three-month LIBOR during the quarter minus 0.25%. Any dividends declared must be paid equally to the Class B1 and Class B2 stock, up to the maximum dividends permitted on the Class B2 stock, after which dividends may be paid solely to the Class B1 stockholders. In October 2006, the Finance Board approved a number of changes to the FHLBank of Seattle's capital plan including the consolidation of Class B1 and Class B2 stock into a single Class B stock and the creation of a new Class A stock with a six-month redemption period. The dividend rate that will be declared on Class A stock may differ from the dividend rate declared on Class B stock. Class A and B stockholders will have the same voting rights.

The FHLBank of Topeka offers a single series of Class A capital stock and a single series of Class B capital stock. Upon six months' written notice, a member can elect to have the FHLBank redeem its Class A capital stock, subject to certain conditions and limitations. Upon five years' written notice, a member can elect to have the FHLBank redeem its Class B capital stock, subject to certain conditions and limitations. The FHLBank of Topeka can repurchase any excess capital stock at its discretion.

FHLBank	Implementation Date	Description
Topeka	September 30, 2004	Class A stock is used to meet a member's asset-based stock purchase requirement and Class B capital stock is used to meet a member's activity-based stock purchase requirement. Class A and Class B stock share in dividends equally up to the dividend parity threshold, then the dividend rate for Class B stock can exceed the rate for Class A stock, but the Class A stock dividend rate can never exceed the Class B stock dividend rate. Class A and B stockholders have the same voting rights.

Dividends and Retained Earnings. The FHLBanks may pay dividends from retained earnings and current income. The board of directors of each respective FHLBank may declare and pay dividends out of retained earnings and current-period earnings in either cash or capital stock. The board of directors of each FHLBank has adopted a retained earnings policy that includes a target level of retained earnings as well as a plan that will enable the FHLBank to reach the target level of retained earnings. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Legislative and Regulatory Developments" for discussion regarding a proposed Finance Board rule to change the capital structure of the FHLBanks.)

Other Mission-Related Activities

In addition to supporting residential mortgage lending, one of the core missions of the FHLBanks is to support community development. Set forth below are a number of programs administered by the FHLBanks targeted to fulfill that mission. These programs have provided home ownership opportunities for hundreds of thousands of low- to moderate-income families and strengthened communities across the U.S. and its territories.

Affordable Housing Program (AHP). AHP provides cash grants or subsidizes interest rates on FHLBank loans to members. This creates a pool of lower-cost funds to finance the purchase, construction or rehabilitation of low- to moderate-income, owner-occupied or rental housing. The FHLBanks' AHP contributions are leveraged to make additional funds available for affordable housing.

Community Investment Program (CIP). CIP makes loans available for the purchase or rehabilitation of homes to families whose incomes do not exceed 115 percent of the median in the area. CIP also finances commercial and economic development that benefits low- to moderate-income families and neighborhoods. The FHLBanks provide advances for CIP-based loans to members at cost.

Community Investment Cash Advance (CICA) and Other Housing and Community Economic Development Programs. CICA loans specifically target underserved markets in both rural and urban areas. This includes areas in which normal lending activity has yet to produce the desired effect on housing and community economic development. In addition, each of the FHLBanks has established a number of voluntary housing and community economic development programs specifically developed for its members. The FHLBanks fund these programs separately from AHP. Examples of CICA loans include:

— programs specifically focusing on assisting potential minority homebuyers in response to the need for more homeownership opportunities for minorities;

— first-time low-income homebuyer programs;

— various pre-development and affordable housing capacity initiatives;

— flood and other natural disaster relief assistance programs available for housing rehabilitation and home purchases for families affected by floods and other natural disasters; and

— rural technical assistance programs that help communities address unmet affordable housing needs by establishing rural housing partnerships consisting of city officials, nonprofit housing organizations, social service agencies, banks, builders, developers, rental property owners, real estate businesses and others that work together to expand housing resources.

Use of Interest-Rate Exchange Agreements

The Finance Board's Financial Management Policy and each FHLBank's risk management policy establish guidelines for the use of interest-rate exchange agreements (also referred to as derivatives) by that FHLBank. The FHLBanks can use the following instruments as part of their interest-rate risk management and funding strategies:

— interest-rate swaps;

— swaptions;

— interest-rate cap and floor agreements;

— calls;

— puts; and

— futures and forward contracts.

The Finance Board's Financial Management Policy and each FHLBank's risk management policy prohibit trading in or the speculative use of these derivative instruments and limit credit risk arising from these instruments. The FHLBanks may use derivatives only to reduce funding costs for consolidated obligations and to manage their interest-rate risk, mortgage prepayment risk and foreign currency risk positions.

In general, the FHLBanks use interest-rate exchange agreements in three ways:

(1) by designating them as a fair-value or cash-flow hedge of an underlying financial instrument, a firm commitment or an anticipated transaction;

(2) by acting as an intermediary between members and the capital markets; or

(3) in asset/liability management.

For example, an FHLBank can use interest-rate exchange agreements in its overall interest-rate risk management to adjust the interest-rate sensitivity of consolidated obligations to approximate more closely the interest-rate sensitivity of assets (including advances, investments, and mortgage loans) and/or to adjust the interest-rate sensitivity of advances, investments, and 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-rate terms between assets and liabilities, an FHLBank can also use interest-rate exchange agreements to:

— manage embedded options in assets and liabilities;

— hedge the market value of existing assets, liabilities and anticipated transactions;

— hedge the duration risk of prepayable instruments; and

— to achieve better all-in funding costs.

An FHLBank may enter into interest-rate exchange agreements concurrently with the issuance of consolidated obligations to achieve better all-in funding costs. This allows the FHLBank to create synthetic variable-rate debt at a cost that is lower than the cost of a variable-rate cash instrument issued directly by the FHLBank. This strategy of issuing bonds while simultaneously entering into interest-rate exchange agreements enables the FHLBank to offer a wider range of attractively-priced advances to its members. Whether the debt continues to be attractive depends on price relationships in both the bond market and the interest-rate exchange markets. When conditions in these markets change, an FHLBank may alter the types and/or the terms of consolidated obligations it issues. The FHLBanks may enter into interest-rate exchange agreements and/or other transactions with (or arranged by) the applicable securities dealers, banks, or one or more of their affiliates, or an unaffiliated third party.

The most common ways in which the FHLBanks use derivatives are:

- To reduce funding costs by combining a derivative with a consolidated obligation (the cost of a combined funding structure can be lower than the cost of a comparable consolidated obligation bond);
- To preserve a favorable interest-rate spread between the yield of an asset (e.g., an advance) and the cost of the related liability (e.g., the consolidated obligation bond used to fund the advance). Without the use of derivatives, this interest-rate spread could be reduced or eliminated when a change in the interest rate on the advance does not match a change in the interest rate on the bond;
- To mitigate the adverse earnings effects of the shortening or extension of certain assets (e.g., advances or mortgage assets) and liabilities; and
- To protect the value of existing asset or liability positions or of anticipated transactions.

(See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Accounting for Derivatives" and "Risk Management—Quantitative and Qualitative Disclosures about Market Risk—Qualitative Disclosures about Market Risk—Interest-Rate Exchange Agreements.")

Competition

Advances. Demand for FHLBank advances is affected by, among other things, the cost of other sources of liquidity available to FHLBank members, including deposits. Each FHLBank individually competes with its members' depositors as well as suppliers of secured and unsecured wholesale funding. These competitors may include investment banks, commercial banks and, in certain circumstances, one or more other FHLBanks, when one or more affiliates of their members are members of other FHLBanks. Smaller members may have access to alternative funding sources only through sales of securities under agreements to resell, while larger members may have access to all of the alternatives previously listed. Large members may also have independent access to the national and global credit markets. The availability of alternative funding sources to members can significantly influence the demand for FHLBank advances and this availability can vary as a result of a variety of factors including:

— market conditions;

— products;

— structures;

— members' creditworthiness; and

— availability of collateral.

Mortgage Loans Held for Portfolio. The activities of the FHLBanks' MPF and MPP business are subject to significant competition in purchasing conventional, conforming fixed-rate mortgage

and government-insured loans. The FHLBanks face competition in customer service, the prices paid for these assets, and in ancillary services such as automated underwriting. The most direct competition for mortgages comes from other housing GSEs that also purchase conventional, conforming fixed-rate mortgage loans, specifically Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), as well as from other investors. These investors may seek to hold conventional, conforming fixed-rate mortgage loans. The volume of conventional, conforming fixed-rate mortgages has declined with the rise in interest rates and competitive products, such as hybrid adjustable-rate mortgages, that the FHLBanks do not purchase. This trend could continue and the demand for MPF and MPP products could diminish. In general, the competitive environment may present a challenge for certain FHLBanks in their achievement of their financial goals. The FHLBanks continuously reassess their potential for success in attracting and retaining customers for their products and services.

Debt Issuance. Each FHLBank also competes with the U.S. government, Fannie Mae, Freddie Mac and other government-sponsored enterprises, as well as corporate, sovereign and supranational entities, for funds raised through the issuance of unsecured debt in the national and global debt markets. If the supply of competing debt products increases without a corresponding increase in demand, debt costs may rise or less debt may be issued at the same cost than would otherwise be the case. In addition, regulatory initiatives, which tend to reduce investments by certain depository institutions in unsecured debt with greater price volatility or interest-rate sensitivity than fixed-rate, fixed-maturity instruments of the same maturity, may adversely affect the availability and cost of funds raised through the issuance of certain types of unsecured debt. Although the available supply of funds has kept pace with the funding needs of the FHLBanks' members (as expressed through FHLBank debt issuance), you should not rely on the fact that this will continue to be the case in the future.

Interest-Rate Exchange Agreements. The sale of callable debt and the simultaneous execution of callable interest-rate exchange agreements that mirror the debt sold has been an important source of competitive funding for the FHLBanks. As such, the availability of markets for callable debt and interest-rate exchange agreements may be an important factor in determining the FHLBanks' relative cost of funds. There is considerable competition in the markets for callable debt and for interest-rate exchange agreements among issuers of high credit quality. You should not rely on the fact that the current breadth and depth of these markets will be sustained.

Oversight, Audits and Examinations

The FHLBanks are supervised and regulated by the Finance Board. The Finance Board ensures that the FHLBanks:

— operate in a safe and sound manner;

— remain adequately capitalized and able to raise funds in the capital markets; and

— carry out their housing and community development finance mission.

The Finance Board also establishes regulations governing the operations of the FHLBanks. More detailed information relating to the Finance Board is contained in "Supplemental Information—FHLBanks' Regulator."

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 FHLBanks meet the definition of government corporations under the Government Corporation Control Act. 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. There have been no borrowings outstanding under this authority since 1977. The U.S. Department of the Treasury receives the Finance Board's annual report to Congress,

weekly 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 the board of directors of each FHLBank has an audit committee. An independent public auditing firm audits the annual financial statements of each FHLBank and the annual combined financial statements of the FHLBanks prepared by the Office of Finance. The independent public auditor conducts these audits following generally accepted auditing standards of the United States and *Government Auditing Standards* issued by the Comptroller General. The FHLBanks, the Finance Board, and Congress all receive the audited financial statements. The FHLBanks must submit annual management reports to Congress, the President of the United States, 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 capital;

— a statement of cash flows;

— a statement of internal accounting and administrative control systems; and

— the report of the independent public auditor on the financial statements.

The Comptroller General has the 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, he or she must report the results and provide his or her recommendations to Congress, the Office of Management and Budget, and the FHLBank under review. The Comptroller General may also conduct his or her own audit of any financial statements of any FHLBank.

Tax Status

Although the FHLBanks are exempt from all Federal, state, and local taxation, except for local real estate tax, they are required to make payments to the Resolution Funding Corporation (REFCORP). Each FHLBank is required to pay 20 percent of income calculated in accordance with GAAP after the assessment for AHP, but before the assessment for the REFCORP. In addition, each year the FHLBanks must set aside for the AHP the greater of $100 million or 10 percent of their current year's regulatory income. In 2004, the Finance Board modified the AHP calculation to add back interest expense on mandatorily redeemable capital stock to income before charges for AHP but after assessments for REFCORP. Prior to 2004, assessments for REFCORP and AHP equated to an effective income tax rate of 26.5 percent for the FHLBanks. In 2004 and going forward, assessments for REFCORP and AHP equate to an effective minimum income tax rate of 26.5 percent; this effective rate will be higher for those FHLBanks with interest expense for mandatorily redeemable capital stock. Cash dividends received by FHLBank members are taxable and do not benefit from the exclusion for corporate dividends received.

The combined REFCORP and AHP assessments were $907 million, $730 million, and $708 million for the years ended December 31, 2005, 2004 and 2003.

Office of Finance

The consolidated obligations of the FHLBanks are issued through the Office of Finance. In addition to facilitating and executing the issuance of the consolidated obligations, the Office of Finance also:

— services all outstanding debt;

— prepares the FHLBanks' Quarterly and Annual Combined Financial Reports;

— serves as a source of information for the FHLBanks on capital markets developments;

— administers REFCORP and the Financing Corporation (FICO); and

— manages relationships of the FHLBanks with the rating agencies as they relate to the consolidated obligations.

PROPERTIES AND GEOGRAPHIC DISTRIBUTION

The FHLBanks operate in all 50 states, the District of Columbia and U.S. territories. Each FHLBank generally serves members whose headquarters are located in its specifically-defined geographic district. Each FHLBank's name and address, the states and territories comprising each district, and its number of members, as of December 31, 2005, is as follows:

FHLBank Name and Address	States and Territories	Number of Members
FHLBank of Boston 111 Huntington Avenue Boston, MA 02199 Business number: (617) 292-9600 The FHLBank of Boston leases space at this property.	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	467
FHLBank of New York 101 Park Avenue New York, NY 10178-0599 Business number: (212) 681-6000 The FHLBank of New York leases space at this property.	New Jersey, New York, Puerto Rico, Virgin Islands	297
FHLBank of Pittsburgh 601 Grant Street Pittsburgh, Pennsylvania 15219 Business number: (412) 288-3400 The FHLBank of Pittsburgh leases space at this property.	Delaware, Pennsylvania, West Virginia	334
FHLBank of Atlanta 1475 Peachtree Street, N.E. Atlanta, Georgia 30309 Business number: (404) 888-8000 The FHLBank of Atlanta owns this property.	Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia	1,210
FHLBank of Cincinnati Atrium Two, Suite 1000 221 East Fourth Street Cincinnati, Ohio 45202 Business number: (513) 852-7500 The FHLBank of Cincinnati leases space at this property.	Kentucky, Ohio, Tennessee	742
FHLBank of Indianapolis 8250 Woodfield Crossing Boulevard Indianapolis, Indiana 46240 Business number: (317) 465-0200 The FHLBank of Indianapolis owns this property.	Indiana, Michigan	432

FHLBank Name and Address	States and Territories	Number of Members
FHLBank of Chicago 111 East Wacker Drive, Suite 800 Chicago, Illinois 60601 Business number: (312) 565-5700 The FHLBank of Chicago leases space at this property.	Illinois, Wisconsin	881
FHLBank of Des Moines 907 Walnut Street Des Moines, Iowa 50309 Business number: (515) 243-4211 The FHLBank of Des Moines leases space at this property.	Iowa, Minnesota, Missouri, North Dakota, South Dakota	1,251
FHLBank of Dallas 8500 Freeport Parkway South Suite 600 Irving, Texas 75063 Business number: (214) 441-8500 The FHLBank of Dallas owns this property.	Arkansas, Louisiana, Mississippi, New Mexico, Texas	887
FHLBank Topeka One SW Security Benefit Place Suite 100 Topeka, Kansas 66606 Business number: (785) 233-0507 The FHLBank Topeka leases space at this property.	Colorado, Kansas, Nebraska, Oklahoma	897
FHLBank of San Francisco 600 California Street San Francisco, California 94108 Business number: (415) 616-1000 The FHLBank of San Francisco leases space at this property.	Arizona, California, Nevada	376
FHLBank of Seattle 1501 Fourth Avenue, 19th Floor Seattle, Washington 98101 Business number: (206) 340-2300 The FHLBank of Seattle leases space at this property.	Alaska, American Samoa, Guam, Hawaii, Idaho, Montana, Northern Mariana Islands, Oregon, Utah, Washington, Wyoming	373

FHLBank Name and Address

Federal Home Loan Banks
Office of Finance
11921 Freedom Drive, Suite 1000
Reston, Virginia 20190
Business number: (703) 467-3600
www.fhlb-of.com

The Office of Finance leases space at this property.

Federal Housing Finance Board
1625 Eye Street, N.W.
Fourth Floor
Washington, D.C. 20006
Business number: (202) 408-2500

The FHLBanks and the Office of Finance maintain leased, off-site, back-up facilities.

Individual FHLBank web sites can be accessed from the external link at the Office of Finance web site. All of these web site addresses are provided as a matter of convenience only, and their contents are not made part of this report and are not intended to be incorporated by reference into this report.

EMPLOYEES
(as of December 31, 2005 and 2004)

	December 31, 2005			December 31, 2004			Full-time Employee Increase (Decrease)
	Employees			Employees			
FHLBank	Full-time	Part-time	Total	Full-time	Part-time	Total	
Boston	177	3	180	164	4	168	13
New York	212	9	221	209	1	210	3
Pittsburgh	239	6	245	216	4	220	23
Atlanta	330	9	339	307	10	317	23
Cincinnati	169	4	173	154	2	156	15
Indianapolis	151	7	158	141	7	148	10
Chicago	440	6	446	372	6	378	68
Des Moines	173	12	185	169	16	185	4
Dallas	145		145	133		133	12
Topeka	152	5	157	144	6	150	8
San Francisco	237	5	242	225	5	230	12
Seattle	126		126	191	2	193	(65)
Office of Finance	69	1	70	62	1	63	7

The increase in employees at most FHLBanks is primarily the result of staffing additions to support:

- increased regulatory requirements for risk management,
- SEC registration, and
- Sarbanes-Oxley compliance requirements.

The decrease in employees at the FHLBank of Seattle is primarily the result of staffing reductions due to exiting the MPP.

LEGAL PROCEEDINGS

The FHLBanks are subject to various pending legal proceedings arising in the normal course of business. The FHLBanks and the Office of Finance are not a party to, nor are they subject to, any pending legal proceeding which is likely to have a material adverse effect on the results of operations or financial condition of the FHLBanks.

SUBMISSION OF MATTERS TO VOTE OF CAPITAL STOCKHOLDERS OTHER THAN ELECTION OF DIRECTORS

None.

MARKET FOR FHLBANKS' CAPITAL STOCK AND RELATED STOCKHOLDER MATTERS

As a cooperative, each FHLBank conducts its advances business and acquired member asset programs almost exclusively with its members. There is no established marketplace for the FHLBanks' stock and it is not publicly traded. FHLBank stock is purchased by members at the stated par value of $100 and may be redeemed at its stated par value of $100 per share upon the request of a member subject to applicable redemption periods as well as certain conditions and limitations. As of December 31, 2005, the FHLBanks had 420 million shares of capital stock outstanding. The FHLBanks are not required to register their securities under the Securities Act of 1933 (as amended). Pursuant to a Finance Board regulation, each FHLBank has become an effective SEC registrant and is subject to certain reporting requirements of the Securities Exchange Act of 1934 (as amended).

Voting Rights. Members holding capital stock on December 31 of the preceding year can participate in the annual election process for FHLBank directors. 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. For each directorship to be filled in an election, each member institution that is located in the state to be represented by the directorship is entitled to cast one vote for each share of stock that the member was required to hold as of December 31 of the calendar year immediately preceding the election year; provided, however, that the number of votes that any member may cast for any one directorship shall not exceed the average number of shares of stock that were required to be held by all members located in the state to be represented on that date.

Regulatory Capital Stock.

Top 10 Regulatory Capital Stock Holding Members as of December 31, 2005
(Dollar amounts in millions)

Name	City	State	Capital Stock
Washington Mutual Bank*(1)(2)(3)	Henderson	NV	$ 3,664
Citibank (West), FSB	San Francisco	CA	1,439
World Savings Bank, FSB*	Oakland	CA	1,317
Countrywide Bank, NA	Alexandria	VA	1,211
Sovereign Bank*(4)	Reading	PA	651
Washington Mutual Bank, FSB*	Seattle	WA	590
IndyMac Bank, FSB	Pasadena	CA	556
Charter One Bank, NA*	Cleveland	OH	549
World Savings Bank, FSB (Texas)	Houston	TX	541
Superior Guaranty Insurance Company	Minneapolis	MN	525
			$11,043

* Indicates that an officer of the member was an FHLBank director in 2005.

(1) Includes $309 million in FHLBank of Dallas capital stock from the acquisition of Bank United, a former member of the FHLBank of Dallas.

(2) Includes $5 million in FHLBank of New York capital stock from the acquisition of Dime Savings Bank of New York, FSB, a former member of the FHLBank of New York.

(3) On April 4, 2005, Washington Mutual Bank, FA, changed its name to Washington Mutual Bank.

(4) Includes $8 million in FHLBank of Boston capital stock acquired through a merger with former members of the FHLBank of Boston.

Regulatory capital stock includes all FHLBank members' capital stock plus mandatorily redeemable capital stock, which is reclassified in accordance with SFAS 150. (See Note 16 to the accompanying combined financial statements.)

The information on capital stock presented in the table is for individual FHLBank members. The information is not aggregated to the holding-company level of those members. 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, 2005, please refer to "Supplemental Information—Five Largest Regulatory Capital Stockholders of and Borrowers from Each FHLBank."

RISK FACTORS

The following discussion summarizes certain of the risks and uncertainties facing the FHLBanks as they potentially affect the investors in the consolidated obligations. The list is not exhaustive and there may be other risks and uncertainties that are not described below that may also affect the FHLBanks' businesses. Any of these risks or uncertainties, if realized, could negatively affect the FHLBanks' financial condition or results of operations, which in turn could reduce the value of FHLBank membership. Each FHLBank addresses the risk factors it faces in its business in its periodic reports filed with the SEC. See "Available Information on Individual FHLBanks."

The FHLBanks' funding depends on its ability to access the capital markets.

The FHLBanks' primary source of funds is the sale of FHLBank System consolidated obligations in the capital markets. The FHLBanks' ability to obtain funds through the sale of

consolidated obligations depends in part on prevailing conditions in the capital markets, which are beyond the FHLBanks' control. Accordingly, the FHLBanks may not be able to obtain funding on acceptable terms, if at all. If the FHLBanks cannot access funding when needed on acceptable terms, their ability to support and continue their operations could be adversely affected, which could negatively affect their financial condition and results of operations, and the value of FHLBank membership.

Changes in the credit ratings on FHLBank System consolidated obligations may adversely affect the cost of consolidated obligations, which could adversely affect an FHLBank's financial condition and results of operations and the value of FHLBank membership.

FHLBank System consolidated obligations have been assigned Aaa/P-1 and AAA/A-1+ ratings by Moody's and S&P. Rating agencies may from time to time change a rating or issue negative reports, which may adversely affect the cost of funds of one or more FHLBanks and the ability to issue consolidated obligations on acceptable terms. A higher cost of funds or the impairment of the ability to issue consolidated obligations on acceptable terms could also adversely affect the FHLBanks' financial condition and results of operations and the value of FHLBank membership.

The FHLBanks rely upon derivative instrument transactions to reduce their interest rate risk, and changes in their credit ratings may adversely affect their ability to enter into derivative instrument transactions on acceptable terms.

Each FHLBank's financial strategies are highly dependent on its ability to enter into derivative instrument transactions on acceptable terms to reduce its interest rate risk. Rating agencies may from time to time change a rating or issue negative reports, which may adversely affect an FHLBank's ability to enter into derivative instrument transactions with acceptable parties on satisfactory terms in the quantities necessary to manage its interest rate risk on consolidated obligations. This could negatively affect the FHLBanks' financial condition and results of operations and the value of FHLBank membership.

The FHLBanks are governed by federal laws and regulations, which could change or be applied in a manner detrimental to the FHLBanks' operations.

The FHLBanks are government-sponsored enterprises, organized under the authority of the FHLBank Act, and, as such, are governed by federal laws and regulations of the Finance Board, an independent agency in the executive branch of the federal government. From time to time, Congress has amended the FHLBank Act in ways that have significantly affected the FHLBanks and the manner in which the FHLBanks carry out their housing finance mission and business operations. New or modified legislation enacted by Congress or regulations adopted by the Finance Board could have a negative effect on the FHLBanks' ability to conduct business or their costs of doing business.

Changes in regulatory or statutory requirements or in their application could result in, among other things, changes in the FHLBanks' cost of funds, retained earnings requirements, debt issuance, dividend payment limits, form of dividend payments, capital redemption and repurchase limits, permissible business activities, the size, scope, or nature of the FHLBanks' lending, investment, or mortgage purchase program activities, or increased compliance costs. Changes that restrict dividend payments (such as the proposed Finance Board requirements relating to FHLBank capital, retained earnings and dividends), the growth of the FHLBanks' current business, or the creation of new products or services could negatively affect the FHLBanks' results of operations or financial condition, or the value of FHLBank membership. Further, the regulatory environment affecting members could be changed in a manner that would negatively affect their ability to acquire or own an FHLBank's capital stock or take advantage of an FHLBank's products and services.

Changes in the regulation of GSEs or the FHLBanks' status as GSEs may adversely affect the FHLBanks' business activities, future advance balances, the cost of debt issuance, and the value of FHLBank membership.

Many GSEs, such as Fannie Mae, Freddie Mac, and the FHLBank System, have grown significantly in recent years. As a result of this growth, these GSEs have actively issued debt securities to fund their operations. In addition, negative accounting and other announcements by Fannie Mae and Freddie Mac have created pressure on debt pricing, as investors have perceived their debt instruments as bearing increased risk. Restatements and related announcements by the FHLBanks may contribute to this pressure on FHLBank debt pricing.

As a result of these factors, the FHLBank System may have to pay a higher rate of interest on consolidated obligations to make them attractive to investors. If the FHLBanks maintain their existing pricing on advances, the resulting increase in the cost of issuing consolidated obligations could cause the FHLBanks' advances to be less profitable and reduce their net interest margin (the difference between the interest rate received on advances and the interest rate paid on consolidated obligations). If, in response to this decrease in net interest margin, the FHLBanks change the pricing of their advances, the advances may no longer be attractive to their members, and outstanding advances balances may decrease. In either case, the increased cost of issuing consolidated obligations could negatively affect the FHLBanks' financial condition and results of operations, and the value of FHLBank membership.

Changes in interest rates could significantly affect the FHLBanks' financial condition, results of operations, and the value of FHLBank membership.

The FHLBanks realize income primarily from the spread between interest earned on their outstanding advances and investments and interest paid on their consolidated obligations and other liabilities. Although the FHLBanks use various methods and procedures to monitor and manage their exposure to changes in interest rates, the FHLBanks may experience instances when either their interest-bearing liabilities will be more sensitive to changes in interest rates than their interest-earning assets, or vice versa. In either case, interest rate movements contrary to the FHLBanks' position could negatively affect their financial condition, results of operations, and the value of FHLBank membership. Moreover, the effect of changes in interest rates can be exacerbated by prepayment and extension risk, which is the risk that mortgage-related assets will be refinanced by the mortgagor in low interest-rate environments or will remain outstanding longer then expected at below-market yields when interest rates increase.

A loss or change of business activities with large members could adversely affect the FHLBanks' results of operations, financial condition, and the value of FHLBank membership.

Some FHLBanks have a high concentration of advances and capital with certain members. If these members withdraw from membership in the FHLBank System this could result in a reduction of the FHLBanks' total combined assets, capital, and net income. If one or more of these members were to prepay its advances or repay the advances as they came due, and no other advances were made to replace them, it could result in a reduction of the FHLBanks' total combined assets, capital, and net income. The timing and magnitude of the effect of a reduction in the amount of advances would depend on a number of factors, including:

— the amount and the period over which the advances were prepaid or repaid;

— the amount and timing of any corresponding decreases in activity-based capital;

— the profitability of the advances;

— the size and profitability of the FHLBanks' short- and long-term investments; and

— the extent to which consolidated obligations matured as the advances were prepaid or repaid.

The FHLBanks' financial condition and results of operations, and the value of FHLBank membership, could be adversely affected by FHLBank exposure to credit risk.

The FHLBanks have exposure to credit risk in that the market value of an obligation may decline as a result of deterioration in the creditworthiness of the obligor or the credit quality of a security instrument. In addition, the FHLBanks assume secured and unsecured credit risk exposure associated with the risk that a borrower or counterparty could default and an FHLBank could suffer a loss if it could not fully recover amounts owed to it on a timely basis. A credit loss, if material, could have an adverse effect on the FHLBanks' financial condition and results of operations, and the value of FHLBank membership.

An FHLBank's financial condition and results of operations, and the value of FHLBank membership could be adversely affected by a failure in its pledged collateral protection.

The FHLBanks require that all outstanding advances to their members be fully collateralized. In addition, for mortgage loans purchased under the MPF and MPP programs, the FHLBanks require that the outstanding credit enhancement obligations of their members not covered through the purchase of supplemental mortgage insurance be fully collateralized. The FHLBanks evaluate the types of collateral pledged by their members and assign a borrowing capacity to the collateral, generally based on a percentage of its market value. The devaluation or inability to liquidate the collateral in the event of a default by the obligor could cause a credit loss on advances and adversely affect an FHLBank's financial condition and results of operations, and the value of FHLBank membership.

An FHLBank may not be able to meet its obligations as they come due or meet the credit and liquidity needs of its members in a timely and cost-effective manner.

The FHLBanks seek to be in a position to meet their members' credit and liquidity needs and pay their obligations without maintaining excessive holdings of low-yielding liquid investments or being forced to incur unnecessarily high borrowing costs. In addition, each FHLBank maintains a contingency liquidity plan designed to enable it to meet its obligations and the liquidity needs of members in the event of operational disruptions or short-term disruptions in the capital markets. Each FHLBank's ability to manage its liquidity position or its contingency liquidity plan may not enable it to meet its obligations and the credit and liquidity needs of its members, which could have an adverse effect on the FHLBanks' financial condition and results of operations, and the value of FHLBank membership.

The FHLBanks face competition for advances, loan purchases, and access to funding, which could adversely affect their businesses.

The FHLBanks' primary business is making advances to their members. Each FHLBank competes with other suppliers of wholesale funding, both secured and unsecured, including investment banks, commercial banks and, in certain circumstances, other FHLBanks. The FHLBanks' members have access to alternative funding sources, which may offer more favorable terms than the FHLBanks do on their advances, including more flexible credit or collateral standards. The FHLBanks may make changes in policies, programs, and agreements affecting members from time to time, including, without limitation, policies, programs, and agreements affecting the availability of and conditions for access to advances and other credit products, the MPF Program, the AHP, and other programs, products, and services, could cause members to obtain financing from alternative sources. In addition, many competitors are not subject to the same regulations, which may enable those competitors to offer products and terms that the FHLBanks are not able to offer.

The availability to the FHLBanks' members of alternative funding sources that are more attractive may significantly decrease the demand for the FHLBanks' advances. Lowering the price of the FHLBanks' advances to compete with these alternative funding sources may decrease their

profitability on advances. A decrease in the demand for the FHLBanks' advances or a decrease in the FHLBanks' profitability on advances could adversely affect the FHLBanks' financial condition and results of operations and may adversely affect the value of FHLBank membership.

Most of the FHLBanks also compete, primarily with Fannie Mae and Freddie Mac, for the purchase of mortgage loans from members. Some FHLBanks may also compete with other FHLBanks with which their members have a relationship through affiliates. Most of the FHLBanks offer the MPF Program to their members, and some offer a similar program known as the MPP. Competition among FHLBanks for MPF business may be affected by the requirement that a member and its affiliates can sell loans into the MPF Program through only one FHLBank relationship at a time. Increased competition can result in a reduction in the amount of mortgage loans the FHLBanks are able to purchase and, therefore, lower income from this part of their businesses. Each FHLBank also competes with the U.S. Department of the Treasury, Fannie Mae, Freddie Mac, and other GSEs, as well as corporate, sovereign, and supranational entities, for funds raised through the issuance of unsecured debt in the national and global debt markets. Increases in the supply of competing debt products may, in the absence of increases in demand, result in higher debt costs or lower amounts of debt issued at the same cost than otherwise would be the case. Increased competition could adversely affect the FHLBanks' ability to have access to funding, reduce the amount of funding available to the FHLBanks, or increase the cost of funding available to the FHLBanks. Any of these effects could adversely affect the FHLBanks' financial condition and results of operations, and the value of FHLBank membership.

The FHLBanks' efforts to make advance pricing attractive to their members may affect earnings.

A decision to lower advance prices to gain volume or increase the benefits to borrowing members could result in lower earnings, which could adversely affect the FHLBanks' financial condition and results of operations.

The FHLBanks rely heavily on information systems and other technology.

Each FHLBank relies heavily on its information systems and other technology to conduct and manage its business. If the FHLBanks experience a failure or interruption in any of these systems or other technology, the FHLBanks may be unable to conduct and manage their business effectively, including, without limitation, their advance and hedging activities. Although each FHLBank has implemented a business resumption plan, it may not be able to prevent, timely and adequately address, or mitigate the negative effects of any failure or interruption. Any failure or interruption could adversely affect its member relations, risk management, and profitability, which could negatively affect the FHLBanks' financial condition, and results of operations, and the value of FHLBank membership.

Economic downturns and changes in federal monetary policy could have an adverse effect on the FHLBanks' business and their results of operations.

The FHLBanks' businesses and results of operations are sensitive to general business and economic conditions. These conditions include short- and long-term interest rates, inflation, money supply, fluctuations in both debt and equity capital markets, and the strength of the United States economy and the local economies in which the FHLBanks conduct their business. If any of these conditions worsen, the FHLBanks' businesses and results of operations could be adversely affected. For example, a prolonged economic downturn could result in members becoming delinquent or defaulting on their advances. In addition, the FHLBanks' business and results of operations are significantly affected by the fiscal and monetary policies of the federal government and its agencies, including the Federal Reserve Board, which regulates the supply of money and credit in the United States. The Federal Reserve Board's policies directly and indirectly influence the yield on interest-earning assets and the cost of interest-bearing liabilities.

SELECTED FINANCIAL DATA
(Dollar amounts in millions)

	At December 31,				
	2005	2004*	2003* (As Restated)	2002* (As Restated)	2001* (As Restated)
Balance Sheet					
Advances	$619,880	$581,216	$514,037	$489,338	$472,540
Mortgage loans, net	105,240	113,922	113,438	60,455	27,641
Investments(1)	266,435	224,895	189,547	206,383	190,259
Other assets(2)	5,860	4,718	5,396	6,876	5,814
Total assets	$997,415	$924,751	$822,418	$763,052	$696,254
Deposits and borrowings	$ 21,737	$ 21,165	$ 23,255	$ 29,906	$ 26,969
Consolidated obligations, net	915,903	845,738	740,721	673,383	621,003
Other liabilities(3) (4)	15,295	15,985	19,462	23,563	14,186
Total liabilities	$952,935	$882,888	$783,438	$726,852	$662,158
Total capital stock putable(5)	$ 42,043	$ 40,092	$ 37,703	$ 35,186	$ 33,288
Retained earnings	2,600	1,744	1,098	716	749
Accumulated other comprehensive income	(163)	27	179	298	59
Total capital(4)	$ 44,480	$ 41,863	$ 38,980	$ 36,200	$ 34,096

	For the Year Ended December 31,				
	2005	2004*	2003* (As Restated)	2002* (As Restated)	2001* (As Restated)
Income Statement					
Total interest income	$ 35,420	$ 21,925	$ 19,076	$ 21,476	$ 32,046
Total interest expense(4)	31,214	17,754	15,199	17,754	28,600
Net interest income before (reversal) provision for credit losses(4)	4,206	4,171	3,877	3,722	3,446
(Reversal) provision for credit losses		(5)	(4)	9	10
Net interest income after (reversal) provision for credit losses(4)	4,206	4,176	3,881	3,713	3,436
Net (losses) gains on trading securities	(305)	(106)	(319)	708	66
Net realized (losses) gains from sale of held-to-maturity securities	(1)	13	(158)		
Net losses on derivatives and hedging activities(6)	(22)	(784)	(309)	(1,931)	(325)
Other non-interest income (loss), net(7)	268	(13)	5	12	26
Total other loss	(60)	(890)	(781)	(1,211)	(233)
Operating expenses	657	547	450	393	364
Finance Board	32	26	24	26	20
Office of Finance	24	20	18	16	14
Other	16	19	15	17	16
Total other expense	729	612	507	452	414
Affordable Housing Program	282	225	218	168	220
REFCORP.	625	505	490	375	490
Total assessments	907	730	708	543	710
Cumulative effect of change in accounting principles before assessments(4) (8)	15	50			(109)
Net income(4)	$ 2,525	$ 1,994	$ 1,885	$ 1,507	$ 1,970

* The combined financial statements of the 12 FHLBanks have been restated as of and for the years ended December 31, 2003, 2002 and 2001 as a result of restatements at seven of the 12 FHLBanks. The effects of the FHLBanks' restatements are reflected in this annual report for the periods affected. The Office of Finance did not previously publish the 2004 Combined Financial Report. Accordingly, the 2004 combined financial statements are not considered restated (even though six of the 12 FHLBanks restated their financial statements as of and for the year ended December 31, 2004) because they are presented here for the first time. See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Restatement of Prior Year Combined Financial Statements" and Note 2 to the accompanying combined financial statements.

These restatements were due primarily to technical misapplications and interpretations of SFAS 133, and arose mainly from the rigorous accounting reviews undertaken during the SEC registration process. The majority of the FHLBanks' hedges involved in the restatements were economically highly effective and would have been eligible for hedge accounting if they had been appropriately documented at hedge inception. However, the provisions of SFAS 133 generally do not allow an entity to retroactively apply the long-haul method or reevaluate effectiveness/valuation methodologies, resulting in a one-sided mark-to-market due to the loss of hedge accounting. The net cumulative effect of these restatements resulted in a $168 million reduction in retained earnings as of December 31, 2004, of which approximately $130 million related to the reversal of cumulative unrealized gains (net of assessments) attributable to the hedged risk of certain available-for-sale securities held by the FHLBank of Dallas. These gains were subsequently recognized in earnings in 2005 upon the sale of the subject securities.

(1) Investments include:
   a) held-to-maturity securities;
   b) available-for-sale securities;
   c) trading securities;
   d) interest-bearing deposits;
   e) securities purchased under agreements to resell; and
   f) Federal funds sold.

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

(3) Other liabilities include mandatorily redeemable capital stock, accrued interest payable, accruals for AHP obligations, payable to REFCORP, and derivative liabilities.

(4) Effective as of January 1, 2004, the FHLBanks reclassified $946 million of its outstanding capital stock to "mandatorily redeemable capital stock" in the liability section of the Statement of Condition as a result of adopting SFAS 150. Upon adoption, the FHLBanks also recorded estimated dividends earned as a part of the carrying value of the mandatorily redeemable capital stock. The difference between the prior carrying amount and the mandatorily redeemable capital stock of $1 million was recorded as a cumulative effect of a change in accounting principle in the Statement of Income. For the years ended December 31, 2005 and 2004, dividends on mandatorily redeemable capital stock in the amounts of $48 million and $22 million were recorded as interest expense. Although the mandatorily redeemable capital stock is not included in capital for financial reporting purposes, it is considered capital for regulatory purposes. (See Note 16 to the accompanying combined financial statements for information on the significant restrictions on stock redemption.)

(5) The FHLBanks' capital stock is redeemable at the request of the member subject to statutory redemption periods and certain other conditions and limitations. (See "Business—Capital, Capital Rules and Dividends" and Note 16 to the accompanying combined financial statements.)

(6) For the years ended December 31, 2002 and 2001, the FHLBanks reclassified realized gains and losses (e.g., net interest payments) on stand-alone derivative instruments used in economic hedges. Previously, realized gains and losses on stand-alone derivatives used in economic hedges were classified within net interest income after (reversal) provision for credit losses while unrealized gains (losses) on these derivatives were recorded in net gains (losses) on derivatives and hedging activities within other income. These amounts have been reclassified and are now included in net gains (losses) on derivatives and hedging activities within other income for the years ended December 31, 2002 and 2001 to be consistent with the current presentation. For the years ended December 31, 2003, 2002, and 2001, the FHLBanks also reclassified prepayment fee income from other income to net interest income to be consistent with the current presentation. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Reclassifications" and Note 1 to the accompanying combined financial statements.)

(7) Other non-interest loss, net includes service fees and net realized gains (losses) from sale of available-for-sale securities.

(8) The FHLBanks of Chicago, Pittsburgh, Atlanta, Boston, Dallas, Des Moines, New York, Topeka and Seattle changed their method of accounting per SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating and Acquiring Loans and Initial Direct Costs of Leases,* in 2004 and 2005. (See Note 3 to the accompanying combined financial statements.)

FINANCIAL DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this financial discussion and analysis of financial condition and results of operations together with the combined financial statements and the notes beginning on page 115 of this Combined Financial Report. See "Explanatory Statement about FHLBanks Combined Financial Report" on page 2.

Amounts used to calculate percentage variances are based on numbers in millions. As a result, 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 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. You should note 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:

- changes in the level of interest rates, housing prices, employment rates and the general economy;
- the size and volatility of the residential mortgage market;
- demand for FHLBank advances resulting from changes in FHLBank members' deposit flows and credit demands;
- volatility of market prices, rates, and indices or other factors that could affect the value of investments or collateral held by the FHLBanks as security for the obligations of FHLBank members and counterparties to interest-rate exchange agreements and similar agreements, which could result from the effects of, and changes in, various monetary or fiscal policies and regulations, including those determined by the Federal Reserve Board and the Federal Deposit Insurance Corporation;
- 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, such as changes in the Federal Home Loan Bank Act or Finance Board regulations that affect FHLBank operations, and regulatory oversight (including the Secretary of the Treasury's authority relating to the issuance of consolidated obligations);
- competitive forces, including 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;
- the pace of technological change and the ability to develop and support technology and information systems, including the Internet, sufficient to manage the risks of the FHLBanks' business effectively;
- loss of large members through mergers and similar activities;
- changes in investor demand for consolidated obligations and/or the terms of interest-rate exchange agreements and similar agreements, including changes in the relative attractiveness of consolidated obligations as compared to other investment opportunities;

- the availability, from acceptable counterparties, of derivative financial instruments of the types and in the quantities needed for risk management purposes;
- timing and volume of market activity;
- volatility of reported results due to changes in the fair value of certain instruments/assets;
- the ability to introduce new FHLBank products and services and successfully manage the risks associated with those products and services, including new types of collateral used to secure advances;
- the FHLBanks' ability to identify, manage, mitigate and/or remedy internal control weaknesses and other operational risks;
- the FHLBanks' ability to implement business process improvements;
- risk of loss arising from litigation filed against one or more of the FHLBanks;
- significant business disruptions resulting from natural or other disasters, acts of war or terrorism;
- the effect of new accounting standards, including the development of supporting systems; and
- inflation/deflation.

Business Overview

Financial Performance. As cooperatives, the FHLBanks seek to maintain a balance between their public policy mission and their ability 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 and by paying dividends. In view of their cooperative nature, the FHLBanks' financial strategies are designed to enable the FHLBanks to expand and contract in response to the credit needs of their members.

The FHLBanks invest their capital in high-quality, short- and intermediate-term financial instruments. This strategy allows the FHLBanks to maintain liquidity to satisfy member demand for short- and long-term funds, repay maturing consolidated obligations, and meet other obligations. This strategy also reduces the risk of loss when investments are liquidated if an FHLBank elects to repurchase excess capital stock. The dividends paid by an FHLBank are largely the result of the FHLBank's earnings on invested member capital, net earnings on member credit and investment returns on mortgage loans and investments. These are offset by the FHLBank's operating expenses and assessments. The board of directors and management of each FHLBank determine the pricing of member credit and the FHLBank's dividend policies based on the needs of its members.

Different FHLBank Business Strategies. Each FHLBank is operated as a separate entity with its own management, employees and board of directors but under the supervisory and regulatory framework of the Finance Board. However, the management and board of directors of each FHLBank determine the best approach for meeting the FHLBank's business objectives and serving its members. As such, the management and board of directors of each FHLBank have developed their own business strategies and initiatives to fulfill the FHLBank's mission and they reevaluate these strategies and initiatives from time to time. For example, some FHLBanks have actively pursued the purchase of mortgage loans from their members through the acquired member asset programs, while other FHLBanks have offered a program to their members but have not actively marketed the program or their members have not demonstrated significant interest in the programs. As of December 31, 2005, mortgage loans purchased through the acquired member asset programs as a percentage of total assets varied from a high of 49 percent for the FHLBank of Chicago to a low of less than 1 percent for the FHLBank of Dallas. In addition, in March 2005, the FHLBank of Seattle announced that it plans to develop an exit strategy from its MPP and in October 2006, the FHLBank of San Francisco announced it will no longer offer new master commitments to purchase mortgage loans from its PFIs under the MPF Program.

Restatement of Prior Year Combined Financial Statements

During 2004, the Finance Board issued a regulation requiring the individual FHLBanks to register with the SEC. Each FHLBank filed a registration statement on Form 10 on various dates during 2005 and 2006. During the review process with the SEC, six FHLBanks determined that corrections needed to be made in the way they had applied SFAS 133. The following table lists these FHLBanks and the corresponding financial statements that were restated.

FHLBank	Restated FY 2004 Financial Statements:	Restated FY 2003 Financial Statements:	Restated FY 2002 Financial Statements:	Restated FY 2001 Financial Statements:	2002 and 2001 Restatement Reflected as Cumulative Catch-Up to Retained Earnings at January 1, 2003
Atlanta	√	√	√	√	√
Dallas	√	√	√	√	√
Des Moines	√	√	√	√	√
Indianapolis	√	√	√	√	√
Pittsburgh	√	√	√	√	√
Topeka		√	√	√	√

Management at each of the six FHLBanks above has concluded that the inadvertent misapplication of GAAP that led to their FHLBank's restatement constituted a material weakness in their internal controls over financial reporting. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Please refer to the individual FHLBank's public filings for detailed restatement information and additional information regarding the specific control deficiencies that existed at each FHLBank and the remediation procedures that were instituted in order to address these deficiencies.

These restatements were due primarily to technical misapplications and interpretations of SFAS 133, and arose mainly from the rigorous accounting reviews undertaken during the SEC registration process. The majority of the FHLBanks' hedges involved in the restatements were economically highly effective and would have been eligible for hedge accounting if they had been appropriately documented at hedge inception. However, the provisions of SFAS 133 generally do not allow an entity to retroactively apply the long-haul method or reevaluate effectiveness/valuation methodologies, resulting in a one-sided mark-to-market due to the loss of hedge accounting. Therefore, the restating FHLBanks cannot record the changes in market value of both sides of the transaction but must recognize in income the market value changes in the derivative and not the hedged item as a result of the loss of hedge accounting. This one-sided mark can lead to significant income statement volatility during the periods affected. The loss of hedge accounting and resulting required restatement by these FHLBanks of their financial results for the periods from January 1, 2001, when SFAS 133 was initially adopted, through the year ended December 31, 2004, has introduced significant volatility to the reported combined financial results. However, the cumulative adjustment is not expected to be material as the income effect reverses itself over the life of the transaction because the derivative and hedged item were highly effective. The net cumulative effect of these restatements resulted in a $168 million reduction in retained earnings as of December 31, 2004, of which approximately $130 million related to the reversal of cumulative unrealized gains (net of assessments) attributable to the hedged risk of certain available-for-sale securities held by the FHLBank of Dallas. These gains were subsequently recognized in earnings in 2005 upon the sale of the subject securities.

Additionally, as a result of reviewing its hedging activities, pursuant to an agreement entered into with the Finance Board effective June 30, 2004, the FHLBank of Chicago determined that for certain hedging transactions, it applied a method of hedge accounting deemed to be inconsistent with the application of SFAS 133. The FHLBank of Chicago corrected its accounting to conform to SFAS 133 and restated its financial statements as of December 31, 2003 and 2002, and for the periods ended December 31, 2003, 2002 and 2001.

See Note 2 to the accompanying combined financial statements for additional information regarding these restatements.

Comparative Highlights

Financial Highlights.

(Dollar amounts in millions)	For the Years Ended December 31,			For the Year Ended 2005 vs. 2004		For the Year Ended 2004 vs. 2003	
	2005	2004	2003 (As Restated)	$	%	$	%
NET INTEREST INCOME AFTER (REVERSAL) PROVISION FOR CREDIT LOSSES	$4,206	$4,176	$3,881	$ 30	0.7%	$295	7.6%
NET INCOME	2,525	1,994	1,885	531	26.6%	109	5.8%

Net income increased in 2005 over 2004 due to higher interest income on advances and investment income as a result of increases in advances and investments and the affect of higher yields on advances and investments. The increase in advances is driven by member demand. The yield on advances was higher due to the increase in short- and long-term interest rates during 2005. Interest income on investments also increased primarily due to higher interest rates. The increase in net income was primarily caused by the increase in net interest income and reduction in total other loss in other income, partially offset by increases in other expenses and assessments. The reduction in total loss in other income resulted from lower losses on derivatives and hedging activities and lower net losses on investments.

Net income increased in 2004 over 2003 due to higher interest income on advances as a result of significant increases in advances and slightly higher yields on advances. The increase in advances is driven by member demand. The yield on advances was higher due to the increase in short- and long-term interest rates during 2004. Interest income on mortgage loans held for portfolio also increased despite the 2004 year-end balance remaining flat compared to the 2003 year-end balance. This was the result of an average higher volume outstanding during 2004, as compared to the significant growing balance during 2003. The increase in net income was primarily caused by the increase in net interest income, partially offset by increases in total other loss in other income and other expenses.

	For the Year Ended December 31,			Percentage Increase	
	2005	2004	2003 (As Restated)	2005 vs. 2004	2004 vs. 2003
Total operating expenses (dollar amounts in millions)	$657	$547	$450	20.1%	21.6%

Operating expenses increased in 2005 and 2004 as a result of an increase in the number of employees to support increased regulatory requirements for risk management, preparation for SEC registration and Sarbanes-Oxley compliance requirements.

	For the Year Ended December 31,		Percentage Increase
	2005	2004	
Daily average total assets (dollar amounts in billions)	$954.8	$881.5	8.3%

The increase in average assets is the result of the growth in the FHLBanks' advances and investment portfolios.

The FHLBanks' hedge accounting strategies and trading securities resulted in the following (dollar amounts in millions):

	For the Years Ended December 31,			2005 vs. 2004 (Decrease) Increase	2004 vs. 2003 Increase (Decrease)
	2005	2004	2003 (As Restated)		
Net losses on trading securities	$(305)	$(106)	$(319)	$(199)	$ 213
Net losses on derivatives and hedging activities	(22)	(784)	(309)	762	(475)

Key amounts as a percentage of total assets are as follows (dollar amounts in billions):

	December 31, 2005		December 31, 2004		2005 vs. 2004
	Amount	Percentage of Total Assets	Amount	Percentage of Total Assets	Percentage Increase (Decrease)
Advances	$619.9	62.1%	$581.2	62.9%	6.7%
Investments	$266.4	26.7%	$224.9	24.3%	18.5%
Mortgage loans held for portfolio, net	$105.2	10.6%	$113.9	12.3%	(7.6)%
Total assets	$997.4		$924.8		7.9%
Total consolidated obligations, net	$915.9		$845.7		8.3%
Total capital	$ 44.5		$ 41.9		6.3%

Investments increased as a percentage of total assets while the advances remained relatively flat. Mortgage loans held for portfolio, however, decreased as a percentage of total assets. Consolidated obligations increased to support the growth in total assets.

The growth in the FHLBanks' advances balance from December 31, 2004 to December 31, 2005 reflects demand by members for wholesale funding. Some of the advances growth over the past several years has been attributable to convertible and putable advances. Convertible advances feature one or more put option(s) sold by a member to an FHLBank that allows the FHLBank to convert the advance from fixed-rate to variable-rate. A convertible advance carries an interest rate lower than a comparable-maturity advance that does not have the conversion feature. With a putable advance, an FHLBank effectively purchases a put option from the member that allows the FHLBank to put or extinguish its fixed-rate advance, which the FHLBank normally would exercise when interest rates increase, and the borrower may elect to enter into a new advance. In addition, some members have taken advantage of the still relatively low interest-rate environment, increasing their demand for advances. Mortgage loans held for portfolio decreased as a result of market conditions including higher long-term rates and member preference for hybrid adjustable-rate and/or interest-only mortgages, which the FHLBanks do not purchase as part of their acquired member asset programs.

The increase in capital in 2005 is attributable to a number of factors including: the growth in the number of FHLBank members from 8,121 to 8,149 and the requirement that each new member must purchase stock in its FHLBank based on each FHLBank's capital stock purchase requirements (See "Business—Capital, Capital Rules and Dividends"), increases in advances, the accumulation of retained earnings, and the payment and use of stock dividends instead of cash dividends. In addition, a number of FHLBanks have increased their accumulated retained earnings as a result of regulatory requirements and to offset the possible effect of temporary income volatility associated with SFAS 133. The FHLBanks' GAAP capital-to-assets ratio was 4.46 percent at December 31, 2005, compared with 4.53 percent at December 31, 2004. See "Legislative and Regulatory Developments" for discussion of a proposed Finance Board rule to change the capital requirements

and dividend payment practices of the FHLBanks, which would require a minimum level of retained earnings and restrict the amount of excess stock that an FHLBank could accumulate.

The return on average assets was 26 basis points in 2005, three basis points higher than in 2004. The return on average equity was 5.84 percent in 2005, which is 91 basis points higher than in 2004. The increase in the return on average assets is due primarily to higher income resulting mainly from higher interest rates. The return on average equity change is due primarily to higher income as a result of the increase in the interest-rate environment on increased advances and investments, partially offset by the increase in the average invested equity balance. The weighted-average dividend rate was 4.06 percent in 2005, compared with 3.47 percent one year earlier. The dividend rate has been affected by each FHLBank's respective retained earnings policies.

Financial Trends

Conditions in Financial Markets. The primary external factors that affect net interest income are market interest rates and the general state of the economy.

The level of interest rates during a reporting period affects the FHLBanks' profitability, due primarily to the short-term structure of earning assets and the affect of higher interest rates on invested capital. As of December 31, 2005 and 2004, the majority of investments, excluding mortgage-backed securities, and approximately 39 and 33 percent of the outstanding advances, had stated maturities of less than one year. Additionally, a significant portion of the FHLBanks' advances has been hedged with interest-rate exchange agreements in which a short-term rate is received. The current level of short-term interest rates, as represented, for example, by the overnight Federal funds target rate, has an effect on the FHLBanks' profitability as measured by net interest income and return on average equity.

The level of interest rates also directly affects the FHLBanks through earnings on invested capital. Because the FHLBanks operate at relatively low net spreads between the yield earned on their assets and the cost of liabilities compared to other financial institutions, generally due to the FHLBanks' cooperative structures, a relatively higher proportion of FHLBank income is generated from the investment of member-supplied capital at the average asset yield as compared to other financial institutions. Consequently, changes in asset yields tend to have a greater effect on FHLBank profitability than on the profitability of financial institutions in general. FHLBank average asset yields and corresponding returns on capital have been driven by longer-term assets, such as mortgage loans purchased through the mortgage loan programs and MBS and CMO-related investment holdings.

Certain capital markets developments may also affect the performance of the FHLBanks. Specifically, the relationships between the mortgage, agency, and derivative markets can affect the attractiveness of mortgage product for the FHLBanks and their cost of debt.

The overall deposit balances of FHLBank member institutions may affect their demand for FHLBank advances.

2005 Compared to 2004. The following table presents information on key average market interest rates for the years ended December 31, 2005 and 2004 and key market interest rates as of December 31, 2005 and 2004.

	Year-to-date December 31, 2005 12-Month Average	Year-to-date December 31, 2004 12-Month Average	December 31, 2005 Ending Rate	December 31, 2004 Ending Rate	YTD Average 2005 vs. 2004 Variance	Ending 2005 vs. 2004 Variance
Federal Funds Rate(1)	3.19%	1.35%	4.25%	2.25%	1.84	2.00
3-month LIBOR(1)	3.57	1.62	4.54	2.56	1.95	1.98
2-year U.S. Treasury(1)	3.84	2.36	4.40	3.07	1.48	1.33
5-year U.S. Treasury(1)	4.04	3.42	4.35	3.61	0.62	0.74
10-year U.S. Treasury(1)	4.28	4.26	4.39	4.22	0.02	0.17
15-year residential mortgage note rate(2)	5.41	5.13	5.74	5.12	0.28	0.62
30-year residential mortgage note rate(2)	5.85	5.78	6.15	5.67	0.07	0.48

(1) Source: Bloomberg.

(2) Average calculated using "The Mortgage Bankers Association Weekly Application Survey." December 31, 2005 ending rate is from the last week in December 2005 and December 31, 2004 ending rate is from the last week in December 2004.

The Federal Reserve Board, through its Federal Open Market Committee, increased the Federal funds rate by 25 basis points eight times during 2005. This resulted in a 200 basis point increase in the Federal funds rate to 4.25 percent. Other short-term interest rates followed the trend of the Federal funds rate. For example, the average 3-month LIBOR rate increased approximately 195 basis points from year-end 2004 to year-end 2005. Additionally, the spread between long-term and short-term rates narrowed, causing the yield curve to flatten and briefly invert near year-end for the first time in five years. This flattening was evidenced by average Treasury rates for 2-year obligations increasing 148 basis points, while 5-year and 10-year obligations increased 62 basis points and 2 basis points. The average interest rate on the 15-year, fixed-rate residential mortgage loan rose to 5.41 percent in 2005, an increase of 28 basis points from the corresponding average interest rate in 2004, while the average interest rate on the 30-year, fixed-rate residential mortgage loan rose to 5.85 percent during 2005, an increase of 7 basis points from the corresponding average interest rate in 2004.

The Bond Market Association's February 2006 "Research Quarterly" noted that new issuance volume in the U.S. bond market totaled $5.52 trillion during 2005, a slight increase of 0.55 percent from the $5.49 trillion issued during 2004. Historically low mortgage rates and median housing price appreciation contributed to a 9.09 percent increase in agency mortgage-backed securities issuance during this twelve-month period. The Bond Market Association's February 2006 "Research Quarterly" noted that agency long-term bond issuance volume in 2005 totaled $669.0 billion, down 24.1 percent from the $881.8 billion issued during 2004. Included in this number is the FHLBanks' long-term bond issuance of $295.3 billion, a 24.2 percent decrease from 2004. During 2005, as a result of slowly increasing long-term interest rates, the redemption of callable FHLBank consolidated obligations slowed, continuing the trend from the previous year.

The mortgage market is undergoing a number of changes. On the supply side, during 2005, many borrowers favored hybrid adjustable-rate and/or interest-only mortgages over 30-year, fixed-rate mortgages. This trend developed even though savings in borrowing rates from hybrid adjustable-rate mortgages declined as the yield curve flattened. Recent higher interest rates have reduced the attractiveness of 15- and 30-year fixed-rate mortgages for home purchases and refinancing, further reducing the supply in this sector of the market. On the demand side, commercial banks and overseas investors have increased mortgage purchases, substituting for purchases that Fannie Mae

and Freddie Mac made in past years. Fannie Mae decreased its mortgage purchases significantly in 2005 as compared to 2004, while Freddie Mac increased its mortgage purchases moderately over the same time period. However, Freddie Mac has not approached its mortgage portfolio growth rate from 2003. These trends are due in part to the continuing regulatory and political scrutiny over these GSEs. Diminished debt issuance by Fannie Mae and limited debt issuance by Freddie Mac has reduced supply in the agency debt markets and allowed the FHLBanks to issue debt at more attractive rates than might otherwise have been the case.

For the year ended December 31, 2005, the FDIC reported that total assets and deposits of all FDIC-insured institutions increased compared to the year ended December 31, 2004. Total assets for all FDIC-insured institutions increased 7.63 percent. Total domestic deposits for all FDIC-insured institutions were $6.22 trillion, an 8.78 percent gain over year-end 2004 balances, while total loans increased 9.76 percent over the same period. The growth in deposits, if sustained, may lower the future demand for advances from the FHLBanks.

2004 Compared to 2003. The following table presents information on key average market interest rates for the years ended December 31, 2004 and 2003 and key market interest rates as of December 31, 2004 and 2003.

	Year-to-date December 31, 2004 12-Month Average	Year-to-date December 31, 2003 12-Month Average	December 31, 2004 Ending Rate	December 31, 2003 Ending Rate	YTD Average 2004 vs. 2003 Variance	Ending 2004 vs. 2003 Variance
Federal Funds Rate(1)	1.35%	1.12%	2.25%	1.00%	0.23	1.25
3-month LIBOR(1)	1.62	1.21	2.56	1.15	0.41	1.41
2-year U.S. Treasury(1)	2.36	1.63	3.07	1.82	0.73	1.25
5-year U.S. Treasury(1)	3.42	2.93	3.61	3.25	0.49	0.36
10-year U.S. Treasury(1)	4.26	4.00	4.22	4.25	0.26	(0.03)
15-year residential mortgage note rate(2)	5.13	5.02	5.12	5.04	0.11	0.08
30-year residential mortgage note rate(2)	5.78	5.68	5.67	5.73	0.10	(0.06)

(1) Source: Bloomberg.

(2) Average calculated using "The Mortgage Bankers Association Weekly Application Survey." December 31, 2004 ending rate is from the last week in December 2004 and December 31, 2003 ending rate is from the last week in December 2003.

The Federal Reserve Board, through its Federal Open Market Committee, increased the Federal funds rate 25 basis points five times during the second half of 2004, beginning on June 30, 2004. This represents a total increase of 125 basis points in 2004. Other short-term interest rates, including short-term LIBOR, increased more than the overnight Federal funds effective rate in anticipation of the Federal Reserve Board's increase in the Federal funds rate. Despite the increases in various rates, at year-end, long-term interest rates were still near historical lows.

The Bond Market Association's February 2005 "Research Quarterly" noted that new issuance volume in the U.S. bond market totaled $5.48 trillion in 2004, a decrease of 19.5 percent from the $6.81 trillion issued in 2003. The interest-rate environment had a significant effect on mortgage-backed securities issuance, which fell by nearly half its record volume during 2003. The Bond Market Association's February 2005 "Research Quarterly" also noted that agency long-term bond issuance volume for 2004 totaled $896.7 billion, down 29.3 percent from the $1.27 trillion issued in 2003. Included in this number is the FHLBanks' long-term bond issuance of $389.7 billion, a 31.5 percent decrease from 2003. During 2004, as a result of relatively steady long-term interest rates, the redemption of callable FHLBank consolidated obligations slowed. This was in contrast to the significant volume of redemptions of callable FHLBank consolidated obligations triggered as a result of the sustained lower interest rates during 2003.

The shape of the LIBOR and U.S. Treasury yield curves, measured as the relationship between short-term interest rates and longer-term interest rates, flattened during much of 2004. Short-term interest rates rose during most of 2004, while long-term rates fell during the second half of the year.

On the supply side of the mortgage market during 2004, many borrowers favored hybrid adjustable-rate and/or interest-only mortgages over 30-year fixed-rate mortgages, even as the savings in borrowing rates from hybrid adjustable-rate mortgages loans declined as the yield curve flattened. Higher interest rates reduced the attractiveness of 15- and 30-year fixed-rate mortgages for home purchases and refinancing, further reducing the supply in this sector of the market. On the demand side, commercial banks and overseas investors increased mortgage purchases, substituting for purchases that Fannie Mae and Freddie Mac made in past years; both GSEs failed to grow their retained portfolios significantly in 2004 as a result of regulatory scrutiny and tight mortgage-to-debt spreads. Lack of debt issuance by these two housing GSEs reduced supply in the agency debt markets and allowed the FHLBanks to issue debt at more attractive rates than might otherwise have been the case.

For the year ended December 31, 2004, the FDIC reported that total assets and deposits of all FDIC-insured institutions increased as compared to 2003. Total assets for all FDIC-insured institutions increased 11.35 percent. Domestic deposits were $5.72 trillion for all FDIC-insured institutions, a 9.69 percent gain over the 2003 balances, while total loans increased 12.61 percent compared to 2003.

Combined Statement of Condition

SFAS 133. SFAS 133 requires that, beginning in 2001, 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 Combined Statement of Condition for 2005 compared to 2004, the SFAS 133 fair value adjustments for advances, available-for-sale securities, mortgage loans held for portfolio and consolidated obligations have been included. All other fair value adjustments were less than one percent of the book value. The SFAS 133 fair value adjustments for advances, available-for-sale securities, mortgage loans held for portfolio and consolidated obligations are as follows.

SFAS 133 Basis Adjustments
(Dollar amounts in millions)

	December 31, 2005	December 31, 2004
Advances at pre-SFAS 133 value	$620,167	$575,816
SFAS 133 basis adjustments	(287)	5,400
Advances at carrying value	$619,880	$581,216
Available-for-sale securities at pre-SFAS 133 value(1)	$ 5,476	$ 11,766
SFAS 133 basis adjustments	123	249
Available-for-sale securities at carrying value	$ 5,599	$ 12,015
Mortgage loans held for portfolio at pre-SFAS 133 value	$105,251	$113,869
SFAS 133 basis adjustments	(1)	63
Mortgage loans held for portfolio at carrying value	$105,250	$113,932
Consolidated obligations at pre-SFAS 133 value	$922,552	$848,375
SFAS 133 basis adjustments	(6,649)	(2,637)
Consolidated obligations at carrying value	$915,903	$845,738

(1) Book value includes fair value adjustments under SFAS No. 115.

The following discussion contains additional information on the major categories of the FHLBanks' Statement of Condition: advances, investments, mortgage loans held for portfolio, consolidated obligations and capital.

Advances. Even with improved liquidity of FHLBank members resulting from increases in deposits, advances have been increasing in recent years reflecting the use of advances by commercial bank members to fund asset growth in excess of deposit growth and the development of advance products tailored to specific member funding needs.

Advances by Redemption Terms
(Dollar amounts in millions)

Redemption Term—Amount	December 31, 2005 Amount	December 31, 2005 Weighted-Average Interest Rate	December 31, 2004 Amount	December 31, 2004 Weighted-Average Interest Rate
Overdrawn demand deposit accounts	$ 49		$ 50	
Due in 1 year or less	242,932	4.04%	218,346	2.45%
Due after 1 year through 2 years	108,014	4.09%	102,330	2.77%
Due after 2 years through 3 years	94,998	4.34%	69,479	2.95%
Due after 3 years through 4 years	38,696	4.37%	47,173	3.74%
Due after 4 years through 5 years	47,236	4.86%	35,696	3.67%
Thereafter	82,722	4.32%	96,384	4.50%
Index amortizing advances	5,727	4.30%	6,604	4.18%
Total par value	620,374	4.22%	576,062	3.11%
Commitment fees	(3)		(4)	
Discount on AHP advances	(58)		(53)	
Premium on advances	26		42	
Discount on advances	(172)		(231)	
SFAS 133 hedging adjustments	(287)		5,400	
Total	$619,880		$581,216	

Advances by Interest Rate Payment Terms
(Dollar amounts in millions)

	December 31, 2005 Amount	December 31, 2005 Percentage of Total	December 31, 2004 Amount	December 31, 2004 Percentage of Total
Par amount of advances:				
Fixed-rate	$357,032	58%	$372,440	65%
Variable-rate	263,342	42%	203,622	35%
Total	$620,374	100%	$576,062	100%

Advance Originations
(Dollar amounts in billions)

	2005	2004	2003	2005 vs. 2004 Increase $	2005 vs. 2004 Increase %	2004 vs. 2003 Increase $	2004 vs. 2003 Increase %
Advance originations	$8,373.6	$7,523.0	$5,726.1	$850.6	11.3%	$1,796.9	31.4%

This generally reflected a significant increase in demand by members for short- and longer-term advances as a result of the interest-rate environment and heavy refinancing activity in advances. (See Note 9 to the accompanying combined financial statements.) Index amortizing advances require repayment in accordance with predetermined amortization schedules linked to various indices. Usually, as market interest rates rise (fall), the maturity of an index amortizing advance extends (contracts).

The FHLBanks make significant use of interest-rate exchange agreements to alter cash flows on certain advances, particularly convertible and putable advances.

Many of the FHLBanks' advances are callable at the option of a member. However, the FHLBanks charge a prepayment fee when members terminate certain advances. Members may repay other advances on specified dates (call dates) without incurring prepayment fees (callable advances).

Advances by Year of Maturity or Next Call Date
(Dollar amounts in millions)

	December 31, 2005		December 31, 2004		Increase	
	Amount	Percentage of Total	Amount	Percentage of Total	$	%
Overdrawn demand deposit accounts	$ 49	0.0%	$ 50	0.0%		
Due in 1 year or less	280,594	45.2%	251,211	43.6%		
Due after 1 year through 2 years	106,422	17.2%	102,690	17.8%		
Due after 2 years through 3 years	90,764	14.6%	65,756	11.4%		
Due after 3 years through 4 years	32,682	5.3%	42,877	7.5%		
Due after 4 years through 5 years	37,720	6.1%	29,584	5.2%		
Thereafter	66,416	10.7%	77,290	13.4%		
Index amortizing advances	5,727	0.9%	6,604	1.1%		
Total par value	$620,374	100.0%	$576,062	100.0%		
Callable advances outstanding	$ 23,608		$ 17,169		$6,439	37.5%

Convertible and Putable Advances Outstanding
(Dollar amounts in millions)

	December 31, 2005		December 31, 2004	
	Amount	Percentage of Total Par Value	Amount	Percentage of Total Par Value
Convertible advances outstanding	$45,686	7.4%	$ 54,582	9.5%
Putable advances outstanding	53,428	8.6%	58,761	10.2%
Convertible and putable advances outstanding	$99,114	16.0%	$113,343	19.7%

The FHLBanks also offer convertible and putable advances. Convertible advances allow the FHLBank to convert the fixed-rate advance to an open-line advance or other structure after an agreed-upon lockout period. A convertible advance carries an interest rate lower than a comparable-maturity advance that does not have a conversion feature. With a putable advance, an FHLBank effectively purchases a put option from the member that allows the FHLBank to put or extinguish its fixed-rate advance, which the FHLBank normally would exercise when interest rates increase, and the borrower may elect to enter into a new advance.

Year of Maturity or Next Put/Convert Date
(Dollar amounts in millions)

	December 31, 2005		December 31, 2004		Increase	
	Amount	Percentage of Total	Amount	Percentage of Total	$	%
Overdrawn demand deposit accounts	$ 49	0.0%	$ 50	0.0%		
Due in 1 year or less	310,654	50.1%	293,855	51.0%		
Due after 1 year through 2 years	118,580	19.1%	109,717	19.1%		
Due after 2 years through 3 years	90,330	14.6%	72,240	12.5%		
Due after 3 years through 4 years	32,971	5.3%	36,872	6.4%		
Due after 4 years through 5 years	29,044	4.7%	28,340	4.9%		
Thereafter	33,019	5.3%	28,384	4.9%		
Index amortizing advances	5,727	0.9%	6,604	1.2%		
Total par value	$620,374	100.0%	$576,062	100.0%	$44,312	7.7%

Investments. All securities are held by the FHLBanks for investment liquidity or asset-liability management purposes. Certain investment securities are classified as trading for liquidity or asset-liability management purposes. Finance Board regulations do not expressly prohibit the FHLBanks from trading in investments, but none of the FHLBanks currently operates security-trading accounts for speculative purposes.

As of December 31, 2005 and 2004, 99.97 percent of the total investments classified on the Statement of Condition as held-to-maturity, available-for-sale or trading securities were rated in the two highest investment rating categories for long-term or short-term investments.

Investments
(Dollar amounts in billions)

	December 31,		Increase	
	2005	2004	$	%
Investments excluding mortgage-backed securities	$144.1	$111.8	$32.3	28.9%
Mortgage-backed securities	122.3	113.1	9.2	8.1%
Total investments	$266.4	$224.9	$41.5	18.5%

Investments
(Dollar amounts in millions)

	December 31, 2005		December 31, 2004		2005 vs. 2004	
	Amount	Percentage of Total Investments	Amount	Percentage of Total Investments	Dollar Variance	Percentage Variance
Held-to-maturity securities	$134,461	50.5%	$123,645	55.0%	$10,816	8.7%
Available-for-sale securities	5,599	2.1%	12,015	5.3%	(6,416)	(53.4)%
Trading securities	7,181	2.7%	8,454	3.8%	(1,273)	(15.1)%
Total investment securities	147,241	55.3%	144,114	64.1%	3,127	2.2%
Interest-bearing deposits	35,342	13.3%	23,289	10.3%	12,053	51.8%
Securities purchased under agreements to resell	3,295	1.2%	2,895	1.3%	400	13.8%
Federal funds sold	80,557	30.2%	54,597	24.3%	25,960	47.5%
Total investments	$266,435	100.0%	$224,895	100.0%	$41,540	18.5%

Investment Securities
(Dollar amounts in millions)

	December 31, 2005		December 31, 2004		2005 vs. 2004	
	Amount	Percentage of Total Investments	Amount	Percentage of Total Investments	Dollar Variance	Percentage Variance
U.S. Treasury obligations	$ 102	0.1%	$ 106	0.1%	$ (4)	(3.8)%
Commercial paper	5,831	4.0%	3,516	2.4%	2,315	65.8%
Other U.S. obligations*	1,133	0.8%	1,717	1.2%	(584)	(34.0)%
Government-sponsored enterprises**	13,431	9.1%	20,211	14.0%	(6,780)	(33.5)%
State or local housing agency obligations	4,002	2.7%	4,806	3.3%	(804)	(16.7)%
Other	414	0.3%	657	0.5%	(243)	(37.0)%
	24,913	17.0%	31,013	21.5%	(6,100)	(19.7)%
Mortgage-backed securities:						
Other U.S. obligations*	756	0.5%	1,342	0.9%	(586)	(43.7)%
Government-sponsored enterprises**	42,465	28.8%	40,811	28.4%	1,654	4.1%
Other	79,107	53.7%	70,948	49.2%	8,159	11.5%
	122,328	83.0%	113,101	78.5%	9,227	8.2%
Total investment securities	$147,241	100.0%	$144,114	100.0%	$ 3,127	2.2%

* Other U.S. obligations primarily consists of Government National Mortgage Association (Ginnie Mae) and/or Small Business Administration (SBA) investment pools.

** Primarily consists of securities issued or guaranteed by Freddie Mac, Fannie Mae and/or the Tennessee Valley Authority, which are not obligations of the U.S. Government.

Mortgage-Backed Securities Investment Portfolio
(Expressed as a percentage of total mortgage-backed securities holdings)
(Dollar amounts in millions)

	December 31, 2005		December 31, 2004	
	Amount	Percentage	Amount	Percentage
Private-label residential mortgage-backed securities	$ 70,109	57.3%	$ 58,111	51.4%
Government-sponsored enterprises residential mortgage-backed securities**	42,465	34.7%	40,331	35.7%
Home equity loans	3,445	2.8%	6,256	5.5%
Private-label commercial mortgage-backed securities	4,596	3.8%	5,404	4.8%
Other U.S. obligations residential mortgage-backed securities*	756	0.6%	1,342	1.2%
Shared Funding Program mortgage-backed certificates	556	0.5%	694	0.6%
Government-sponsored enterprises commercial mortgage-backed securities**		0.0%	480	0.4%
Manufactured housing loans	401	0.3%	483	0.4%
Total mortgage-backed securities	$122,328	100.0%	$113,101	100.0%

* Other U.S. obligations primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

The Finance Board's Financial Management Policy limits additional investments in mortgage-backed securities if an FHLBank's investments in mortgage-backed securities exceed 300 percent of that FHLBank's previous month-end capital on the day it purchases the securities. The Shared Funding Program mortgage-backed certificates, however, are not subject to this 300 percent limit.

Mortgage-Backed Securities to Total Capital Ratio
(Dollar amounts in billions)

	December 31, 2005	December 31, 2004	2005 to 2004 Increase (Decrease)	
			$	%
Mortgage-backed securities	$122.3	$113.1	$ 9.2	8.2%
Shared Funding Program	0.6	0.7	(0.1)	(19.9)%
Mortgage-backed securities (excluding Shared Funding Program)	$121.7	$112.4	9.3	8.3%
Total capital(1)	$ 45.9	$ 43.0	2.9	6.8%
Ratio of mortgage-backed securities (excluding Shared Funding Program) to total capital(1) ratio	2.65	2.61		

(1) Represents the sum of the total capital and mandatorily redeemable capital stock, which is considered capital for regulatory purposes.

The FHLBanks make use of interest-rate exchange agreements to alter the cash flows on certain investment securities. (See Notes 6, 7 and 8 to the accompanying combined financial statements.)

Historically, the FHLBanks have been one of the major providers of Federal funds, allowing the FHLBanks to warehouse and provide balance sheet liquidity to meet unexpected borrowing demands from members. The FHLBanks also invest in U.S. agency obligations, some of which are structured debt issued by other GSEs. The FHLBanks use interest-rate exchange agreements to hedge the interest-rate risk associated with a portion of the investments in debt. (See Notes 6, 7, and 8 to the accompanying combined financial statements.)

Trading Securities.

Trading Securities
(Dollar amounts in millions)

	December 31,	
	2005 Estimated Fair Value	2004 Estimated Fair Value
Government-sponsored enterprises**	$6,590	$6,881
State or local housing agency obligations	61	551
Other	2	2
	6,653	7,434
Mortgage-backed securities:		
Other U.S. obligations*	132	200
Government-sponsored enterprises***	249	597
Other	147	223
	528	1,020
Total	$7,181	$8,454

* Other U.S. obligations primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae and/or the Tennessee Valley Authority, which are not obligations of the U.S. Government.

*** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

Maturity and Yield Characteristics of Non-Mortgage-Backed Securities
within Trading Securities
(Dollar amounts in millions)

	December 31, 2005		December 31, 2004	
Year of Maturity	Estimated Fair Value	Yield	Estimated Fair Value	Yield
Non-mortgage-backed securities				
Due in 1 year or less	$ 295	6.60%	$ 12	5.82%
Due after 1 year through 5 years	3,211	4.88%	1,722	4.16%
Due after 5 years through 10 years	3,097	4.35%	5,382	4.65%
Due after 10 years	50	6.69%	318	5.87%
Total	$6,653		$7,434	

Mortgage-Backed Securities within Trading Securities
(Dollar amounts in millions)

Year of Contractual Maturity	December 31, 2005 Estimated Fair Value	December 31, 2004 Estimated Fair Value
Mortgage-backed securities*		
Due in 1 year or less	$	$ 10
Due after 1 year through 5 years	129	392
Due after 5 years through 10 years	63	84
Due after 10 years	336	534
Total	$528	$1,020

* Mortgage-backed securities were allocated based on contractual principal maturities assuming no prepayment.

Available-for-Sale Securities.

Available-for-Sale Securities
(Dollar amounts in millions)

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury obligations	$ 108	$	$ (6)	$ 102
Commercial paper	1,149	2		1,151
Government-sponsored enterprises*	1,748	2	(10)	1,740
Other	395	8		403
	3,400	12	(16)	3,396
Mortgage-backed securities:				
Government-sponsored enterprises**	901	2	(6)	897
Other	1,305	1		1,306
	2,206	3	(6)	2,203
Total	$5,606	$15	$(22)	$5,599

* Primarily consists of securities issued or guaranteed by Freddie Mac, Fannie Mae and/or the Tennessee Valley Authority, which are not obligations of the U.S. Government.

** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury obligations	$ 110	$	$ (4)	$ 106
Commercial paper	911			911
Other U.S. obligations*	305	5	(5)	305
Government-sponsored enterprises**	6,310	209	(17)	6,502
Other	393		(2)	391
	8,029	214	(28)	8,215
Mortgage-backed securities:				
Government-sponsored enterprises***	2,328	4	(4)	2,328
Other	1,473	1	(2)	1,472
	3,801	5	(6)	3,800
Total	$11,830	$219	$(34)	$12,015

* Other U.S. obligations primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of securities issued or guaranteed by Freddie Mac, Fannie Mae and/or the Tennessee Valley Authority, which are not obligations of the U.S. Government.

*** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

Amortized Cost and Estimated Fair Value of Available-for-Sale Securities by Contractual Maturity (Dollar amounts in millions)

	December 31, 2005		December 31, 2004	
Year of Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$1,831	$1,833	$ 1,438	$ 1,439
Due after 1 year through 5 years	754	745	1,118	1,146
Due after 5 years through 10 years	23	23	3,191	3,217
Due after 10 years	792	795	2,282	2,413
	3,400	3,396	8,029	8,215
Mortgage-backed securities	2,206	2,203	3,801	3,800
Total	$5,606	$5,599	$11,830	$12,015

Expected maturities of certain securities, including 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.

Maturity and Yield Characteristics of Available-for-Sale Non-Mortgage-Backed Securities

Year of Maturity	December 31, 2005	December 31, 2004
Non-mortgage-backed securities		
Due in 1 year or less	3.86%	2.98%
Due after 1 year through 5 years	4.13%	4.05%
Due after 5 years through 10 years	5.85%	4.41%
Due after 10 years	7.27%	6.53%

Maturity of Available-for-Sale Mortgage-Backed Securities
(Dollar amounts in millions)

Year of Contractual Maturity	December 31, 2005 Amortized Cost	December 31, 2005 Estimated Fair Value	December 31, 2004 Amortized Cost	December 31, 2004 Estimated Fair Value
Mortgage-backed securities*				
Due in 1 year or less	$ 22	$ 22	$ 8	$ 8
Due after 1 year through 5 years	817	815	1,050	1,050
Due after 5 years through 10 years	129	130	711	711
Due after 10 years	1,238	1,236	2,032	2,031
Total mortgage-backed securities	$2,206	$2,203	$3,801	$3,800

* Mortgage-backed securities were allocated based on contractual principal maturities assuming no prepayments.

Held-to-Maturity Securities.

Held-to-Maturity Securities
(Dollar amounts in millions)

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 4,680	$ 5	$	$ 4,685
Other U.S. obligations*	1,133	8	(2)	1,139
Government-sponsored enterprises**	5,101	30	(70)	5,061
State or local housing agency obligations	3,941	53	(4)	3,990
Other	9			9
	14,864	96	(76)	14,884
Mortgage-backed securities:				
Other U.S. obligations*	624	4	(5)	623
Government-sponsored enterprises***	41,319	80	(748)	40,651
Other	77,654	166	(1,118)	76,702
	119,597	250	(1,871)	117,976
Total	$134,461	$346	$(1,947)	$132,860

* Other U.S. obligations primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of securities issued or guaranteed by Freddie Mac, Fannie Mae and/or the Tennessee Valley Authority, which are not obligations of the U.S. Government.

*** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 2,605	$	$	$ 2,605
Other U.S. obligations*	1,412	41	(1)	1,452
Government-sponsored enterprises**	6,828	28	(43)	6,813
State or local housing agency obligations	4,255	82	(8)	4,329
Other	264	11		275
	15,364	162	(52)	15,474
Mortgage-backed securities:				
Other U.S. obligations*	1,142	9	(2)	1,149
Government-sponsored enterprises**	37,886	249	(246)	37,889
Other	69,253	565	(450)	69,368
	108,281	823	(698)	108,406
Total	$123,645	$985	$(750)	$123,880

* Other U.S. obligations primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

Amortized Cost and Estimated Fair Value of Held-to-Maturity Securities by Contractual Maturity (Dollar amounts in millions)

	December 31, 2005		December 31, 2004	
Year of Contractual Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 6,799	$ 6,803	$ 7,237	$ 7,234
Due after 1 year through 5 years	3,581	3,525	2,845	2,841
Due after 5 years through 10 years	873	908	1,154	1,216
Due after 10 years	3,611	3,648	4,128	4,183
	14,864	14,884	15,364	15,474
Mortgage-backed securities	119,597	117,976	108,281	108,406
Total	$134,461	$132,860	$123,645	$123,880

Expected maturities of certain securities, including 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.

Maturity and Yield Characteristics of Held-to-Maturity Non-Mortgage-Backed Securities

Year of Maturity	December 31, 2005	December 31, 2004
Non-mortgage-backed securities		
Due in 1 year or less	4.31%	2.89%
Due after 1 year through 5 years	3.65%	3.50%
Due after 5 years through 10 years	5.57%	5.39%
Due after 10 years	4.93%	3.49%

Maturities of Held-to-Maturity Mortgage-Backed Securities
(Dollar amounts in millions)

Year of Contractual Maturity	December 31, 2005 Amortized Cost	December 31, 2005 Estimated Fair Value	December 31, 2004 Amortized Cost	December 31, 2004 Estimated Fair Value
Mortgage-backed securities*				
Due in 1 year or less	$ 16	$ 17	$	$
Due after 1 year through 5 years	2,770	2,846	3,518	3,740
Due after 5 years through 10 years	557	558	568	583
Due after 10 years	116,254	114,555	104,195	104,083
Total mortgage-backed securities	$119,597	$117,976	$108,281	$108,406

* Mortgage-backed securities were allocated based on contractual principal maturities assuming no prepayments.

Mortgage Loans Held for Portfolio.

Mortgage Loans Held for Portfolio
(Dollar amounts in millions)

	December 31, 2005	Percentage of Total	December 31, 2004	Percentage of Total	2005 vs. 2004 (Decrease) Increase $	2005 vs. 2004 (Decrease) Increase %
Real Estate:						
Fixed medium-term* single-family mortgages	$ 30,324	28.96%	$ 33,937	29.99%	$(3,613)	(10.6)%
Fixed long-term single-family mortgages	74,357	71.01%	79,179	69.98%	(4,822)	(6.1)%
Multifamily mortgages	31	0.03%	35	0.03%	(4)	(11.4)%
Nonresidential mortgages	3	0.00%	3	0.00%		0.0%
	104,715	100.00%	113,154	100.00%	(8,439)	(7.5)%
Premiums	831		1,024		(193)	(18.8)%
Discounts	(344)		(371)		27	(7.3)%
Deferred loan costs, net	49		62		(13)	(21.0)%
SFAS 133 hedging adjustments	(1)		63		(64)	(101.6)%
Total mortgage loans held for portfolio	$105,250		$113,932		$(8,682)	(7.6)%

* Medium-term is defined as a term of 15 years or less.

The mortgage loans held for portfolio decreased as a result of higher mortgage interest rates and member movement to hybrid adjustable-rate and interest-only mortgages that the FHLBanks do not purchase. As of December 31, 2005, the FHLBanks of Chicago and Des Moines hold the largest percentage of the mortgage loans held for portfolio balances with 40 percent and 12 percent of the combined mortgage loans held for portfolio balance. No other FHLBank held more than 10 percent of the combined mortgage loans held for portfolio balance as of December 31, 2005. In March 2005, the FHLBank of Seattle announced that it is exiting the MPP and would no longer enter into new master commitment contracts under the MPP. In October 2006, the FHLBank of San Francisco announced that it will no longer offer new master commitments to purchase mortgage loans from its PFIs under the MPF Program.

Mortgage Loans Held for Portfolio by Program Types
(Dollar amounts in millions)

	December 31, 2005		December 31, 2004		December 31, 2005 vs. December 31, 2004	
	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans	Dollar Variance	Percentage Variance
MPF mortgage loans held for portfolio	$ 79,750	75.8%	$ 87,097	76.5%	$(7,347)	(8.4)%
MPP, mortgage loans held for portfolio	25,464	24.2%	26,792	23.5%	(1,328)	(5.0)%
Other mortgage loans	36	0.0%	43	0.0%	(7)	(16.3)%
Total mortgage loans held for portfolio	$105,250	100.0%	$113,932	100.0%	$(8,682)	(7.6)%
Allowance for credit losses — MPF	$ 9	90.0%	$ 9	90.0%	$	0.0%
Allowance for credit losses — MPP		0.0%		0.0%		
Allowance for credit losses — Other	1	10.0%	1	10.0%		0.0%
Total allowance for credit losses	$ 10	100.0%	$ 10	100.0%	$	0.0%
MPF mortgage loans held for portfolio, net	$ 79,741	75.8%	$ 87,088	76.5%	$(7,347)	(8.4)%
MPP, mortgage loans held for portfolio, net	25,464	24.2%	26,792	23.5%	(1,328)	(5.0)%
Other mortgage loans, net	35	0.0%	42	0.0%	(7)	(16.7)%
Total mortgage loans held for portfolio, net	$105,240	100.0%	$113,922	100.0%	$(8,682)	(7.6)%
Net mortgage loans held for portfolio as a percentage of total assets		10.6%		12.3%		
Mortgage loan repayments/prepayments	$ 23,232		$ 23,645			
Mortgage loan purchases/originations	$ 14,741		$ 24,373			

All of the FHLBanks have established an appropriate allowance for credit losses for mortgage loan programs or have determined that no loan loss allowances are necessary, and the management of each FHLBank believes that it has the policies and procedures in place to appropriately manage its mortgage loan credit risk.

The FHLBank of Chicago pioneered the MPF Program in which nine of the 12 FHLBanks currently participate. The FHLBanks of Cincinnati, Indianapolis and Seattle developed and, along with the FHLBank of Atlanta, participate in the MPP; although in March 2005, the FHLBank of Seattle announced that it is exiting its MPP.

The other "Mortgage loans held for portfolio, net" balances relate to the Affordable Multifamily Participation Program (AMPP) established by the FHLBank of Atlanta, and the Community Mortgage Asset (CMA) program balance held by the FHLBank of New York. Through AMPP, members may sell to the FHLBank of Atlanta participations in loans on affordable multifamily

rental properties. These assets do not carry external credit enhancements. Through the CMA program, the FHLBank of New York participates in residential, multifamily and community economic development mortgage loans originated by its members. The FHLBank of Atlanta suspended acquisitions under AMPP in 2006. The FHLBank of New York suspended acquisitions under the CMA program in late 2001.

Mortgage Loans by Loan Type
(Dollar amounts in millions at par value)

	December 31, 2005	Percentage of Total	December 31, 2004	Percentage of Total	2005 vs. 2004 (Decrease)/Increase $	2005 vs. 2004 (Decrease)/Increase %
Government-guaranteed loans	$ 11,799	11.3%	$ 15,701	13.9%	$(3,902)	(24.9)%
Conventional loans	92,899	88.7%	97,448	86.1%	(4,549)	(4.7)%
Other loans	17	0.0%	5	0.0%	12	240.0%
Total par value	$104,715	100.0%	$113,154	100.0%	$(8,439)	(7.5)%

Allowance for Credit Losses on Mortgage Loans
(Dollar amounts in millions)

	2005	2004	2003 (As restated)
Balance, beginning of year	$10	$15	$12
Charge-offs	(1)	(1)	
Recoveries	1	1	
Net charge-offs			
(Reversal) provision for credit losses		(5)	3
Balance, end of year	$10	$10	$15

The FHLBanks' outstanding net mortgage loans held for portfolio, nonperforming loans, loans 90 days or more past due and accruing interest, loans in foreclosure and real estate owned at December 31, 2005, 2004 and 2003 are as follows (dollar amounts in millions):

	December 31, 2005	December 31, 2004	December 31, 2003 (As restated)
Mortgage loans held for portfolio, net	$105,240	$113,922	$113,438
Nonperforming mortgage loans held for portfolio	$ 88	$ 50	$ 80
Mortgage loans held for portfolio past due 90 days or more and still accruing interest(1)	$ 411	$ 290	$ 289
Loans in foreclosure	$ 48	$ 42	$ 36
Real estate owned	$ 25	$ 25	$ 16

(1) Generally, only government-guaranteed loans (e.g., FHA, VA) continue to accrue after delinquency of 90 days or more. However, there are exceptions, such as when a loan is well-secured and in the process of collection (e.g., through credit enhancements), or when a PFI is obligated to remit the contractual mortgage payments on mortgage loans sold to an FHLBank, regardless of whether or not the PFI received payment from the borrower.

The FHLBanks' interest contractually due and actually received for nonperforming loans during the period for the year ended December 31, 2005 and December 31, 2004 are as follows (dollar amounts in millions):

	For the Year Ended December 31, 2005	For the Year Ended December 31, 2004	For the Year Ended December 31, 2003
Interest contractually due during the period	$3.7	$6.1	$5.2
Interest actually received during the period	2.3	3.5	2.0
Shortfall	$1.4	$2.6	$3.2

Realized losses on mortgage loans were $336 thousand in 2005, $302 thousand in 2004 and $23 thousand in 2003.

Consolidated Obligations.

General. Consolidated obligations issued through the Office of Finance are the principal source of funds used by the FHLBanks to make advances, purchase mortgages and make investments. Consolidated obligations consist of consolidated bonds and consolidated discount notes, which differ, among other ways, in their maturities and in some of the intended uses of the funds they provide.

Average Consolidated Obligations Outstanding
(Dollar amounts in billions)

	2005	2004	Increase/ (Decrease) $	Increase/ (Decrease) %
Overnight discount notes	$ 24.1	$ 19.4	$ 4.7	24.2%
Term discount notes	142.6	144.1	(1.5)	(1.0)%
Total discount notes	166.7	163.5	3.2	2.0%
Bonds	728.9	656.5	72.4	11.0%
Total consolidated obligations	$895.6	$820.0	$75.6	9.2%

Consolidated Obligations Outstanding
(Dollar amounts in millions)

	December 31, 2005		December 31, 2004	
	Amount	Percentage of Total Consolidated Obligations, Net	Amount	Percentage of Total Consolidated Obligations, Net
Consolidated obligations, net:				
Discount notes	$179,694	19.6%	$167,962	19.9%
Bonds	736,209	80.4%	677,776	80.1%
Total consolidated obligations, net	$915,903	100.0%	$845,738	100.0%

Consolidated Bonds Outstanding
by Year of Maturity
(Dollar amounts in millions)

	December 31, 2005		December 31, 2004	
Year of Maturity	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Due in 1 year or less	$225,904	3.31%	$195,238	2.43%
Due after 1 year through 2 years	168,696	3.76%	162,878	2.85%
Due after 2 years through 3 years	125,280	3.96%	85,311	3.35%
Due after 3 years through 4 years	55,561	4.06%	68,298	3.57%
Due after 4 years through 5 years	48,875	4.47%	49,673	3.93%
Thereafter	120,159	4.59%	129,403	4.49%
Index amortizing notes	6,943	4.87%	1,100	4.05%
Total par value	751,418	3.87%	691,901	3.25%
Bond premium	458		608	
Bond discount	(9,007)		(12,075)	
SFAS 133 hedging adjustments	(6,650)		(2,635)	
Deferred net losses on terminated interest rate exchange agreements	(5)		(5)	
Subtotal	736,214		677,794	
Bonds held in treasury	(5)		(18)	
Total	$736,209		$677,776	

Consolidated Bonds Outstanding
by Year of Maturity or Next Call Date
(Dollar amounts in millions)

	December 31,	
Year of Maturity or Next Call Date	2005	2004
Due in 1 year or less	$482,834	$430,158
Due after 1 year through 2 years	109,250	122,707
Due after 2 years through 3 years	67,700	42,124
Due after 3 years through 4 years	24,268	35,751
Due after 4 years through 5 years	20,159	19,941
Thereafter	40,264	40,120
Index amortizing notes	6,943	1,100
Total par value	$751,418	$691,901

Consolidated Bonds Outstanding by Redemption Feature
(Dollar amounts in millions)

	December 31,	
	2005	2004
Par amount of consolidated bonds:		
Noncallable/nonputable	$397,083	$355,020
Callable	353,934	336,338
Putable	401	543
Total par value	$751,418	$691,901

Consolidated Bonds Outstanding(1)
By Payment Terms
(Par amounts in billions)

	December 31, 2005		December 31, 2004	
	Amount	Percentage of Total	Amount	Percentage of Total
Fixed-rate, Noncallable	$315.5	41.7%	$274.9	39.1%
Fixed-rate, Callable	300.9	39.7%	273.4	39.0%
Step-Ups/Step-Downs	65.8	8.7%	54.8	7.8%
Single-index Non-capped Floaters	34.8	4.6%	57.5	8.2%
Zero-coupon, Callable	10.8	1.4%	14.8	2.1%
Amortizing Prepayment Linked Securities	7.3	1.0%	1.1	0.2%
Capped Floaters	6.8	1.0%	6.7	1.0%
Range	6.4	0.8%	7.1	1.0%
Conversion	6.4	0.8%	8.1	1.2%
Other	2.4	0.3%	2.6	0.4%
Total	$757.1	100.0%	$701.0	100.0%

(1) Not adjusted for interbank holdings of consolidated obligations totaling $6 billion at December 31, 2005 and $9 billion at December 31, 2004.

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 desired amount of funding and the ability of the FHLBank(s) receiving the proceeds of the bonds issued to hedge the risks. The issuance of a bond with a simultaneously-transacted associated interest-rate exchange agreement usually results in a funding vehicle with a lower cost than the FHLBanks could otherwise achieve. The continued attractiveness of such debt/swap transactions 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 debt/swap transactions is beneficial to the FHLBanks because it:

— diversifies the investor base;

— reduces funding costs; and

— provides additional asset/liability management tools.

(See Notes 15 and 18 to the accompanying combined financial statements.)

Consolidated Discount Notes. Consolidated discount notes are issued primarily to provide short-term funds. The issuance of such notes is intended to satisfy, for example:

- advances with short maturities or repricing intervals due to seasonal and cyclical fluctuations in the flow of savings and mortgage financings;
- convertible advances or callable/putable advance programs;
- variable-rate advance programs; or
- money-market investments.

These discount notes presently have a maturity range of up to 365 days. They are sold at a discount and mature at par.

Debt Financing Activity. Most of the growth in the FHLBanks' assets in 2005 was financed by an 8.3 percent increase in consolidated obligations of $70.2 billion. Most of the increase in the FHLBanks' assets in 2004 was funded by a 14.2 percent increase in consolidated obligations of $105.0 billion. (See Notes 15 and 18 to the accompanying financial statements.)

The FHLBanks have diversified sources and channels of funding as the need for funding from the capital markets has grown. The Global Debt Program provided $117.2 billion and $98.9 billion at par in term funds in 2005 and 2004. In mid-1999, the Office of Finance implemented the TAP Issue Program. This program consolidates the issuance through daily auctions of domestic bullet bonds of common maturities by re-opening previously issued bonds. TAP issues generally remain open for three months, after which they are closed and a new series of TAP issues is opened to replace them. This Program has reduced the number of separate bullet bonds issued, but more importantly has enhanced market awareness through increased issue size, secondary market activity, and utility, while providing enhanced funding diversification for the FHLBanks. Through this program, the Office of Finance seeks to enhance the liquidity of these issues. In 2005, $29.5 billion of bonds were issued through the TAP Issue Program. This represents a decrease of $4.3 billion from 2004. The FHLBanks continue to issue debt that is both competitive and attractive in the marketplace. In addition, the FHLBanks continuously monitor and evaluate their debt issuance practices to ensure that consolidated obligations are efficiently and competitively priced.

Bonds can be negotiated individually or auctioned competitively through approximately 100 underwriters. Bonds offered daily via auction include fixed-rate bullets (through the TAP Issue Program discussed above) and American-style callables. Underwriters may contact the Office of Finance if there is a structure/dollar target they need to meet investor demand, although many times they negotiate directly with the FHLBanks. In either case, dealers receive rapid response to their inquiries, as well as fast execution. Competitively bid transactions are generally initiated by an FHLBank funding need of a particular structure and size. Dealers are invited to bid and the trade is executed.

	Percent of Total Issued in 2005	Percent of Total Issued in 2004
Competitive bid	15.66%	14.99%
Negotiated transactions	84.34%	85.00%
Direct placement	0.00%	0.01%
Total	100.00%	100.00%

	Percent of Total Issued in 2005	Percent of Total Issued in 2004
Fixed-rate, Fixed-term, Noncallable (Bullet)	40.89%	25.74%
Callable	39.68%	49.89%
Step-Ups/Step-Downs	6.15%	8.65%
Single-Index Floaters	7.95%	10.46%
Other	5.33%	5.26%
Total	100.00%	100.00%

Consolidated Bonds Issued at Par Value
(Dollar amounts in billions)

December 31,	
2005	2004
$295.3	$389.7

The decrease in consolidated bonds issued at par occurred because of decreased call activity as a result of the increase in the level of long-term interest rates during 2005. The FHLBanks make extensive use of callable debt. As of December 31, 2005, $356.6 billion of callable debt at par was outstanding (without an interbank holding adjustment of $2.7 billion). This represents 47.1 percent of total bonds outstanding at par.

Consolidated discount notes accounted for 96.1 percent of the proceeds from the sale of consolidated obligations in 2005. Much of the discount note activity reflects the refinancing of overnight discount notes.

Capital.

Total Capital
(Dollar amounts in billions)

December 31, 2005	December 31, 2004	Dollar Variance	Percentage Variance
$44.5	$41.9	$2.6	6.3%

The growth in total capital was due primarily to capital stock purchase requirements related to:

— increases in advances;

— increases in membership;

— the payment and use of stock dividends instead of cash dividends by the FHLBanks of Cincinnati, Indianapolis, Chicago, Dallas, Topeka, 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 faster than total capital. This caused the FHLBanks' GAAP capital-to-assets ratio to decrease to 4.46 percent at year-end 2005, from 4.53 percent at year-end 2004. The FHLBanks of Boston, New York, Pittsburgh, Atlanta, Cincinnati, Indianapolis, Des Moines, Dallas, Topeka, San Francisco and Seattle converted to their new capital structures before year-end 2005. These conversions were treated as capital transactions and were accounted for at par value. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Legislative and Regulatory Developments" and Note 16 to the accompanying combined financial statements.)

Results of Operations

Restatements. Combined net interest income and combined net income for 2004 and 2003 have been significantly affected by the FHLBanks' restatements, thereby affecting comparability of results between years. The loss of hedge accounting and resulting one-sided market value adjustments influence the timing of income recognition related to these highly-effective transactions. The acceleration of income or loss in one period is expected to result in a corresponding reduction or increase in earnings in future periods. The net cumulative effect on combined retained earnings resulting from these timing differences is expected to be immaterial. See Note 2 to the accompanying combined financial statements for additional information regarding the restatements.

Reclassifications. For the year ended December 31, 2003, the FHLBanks reclassified prepayment fee income. The prepayment fees relating to advances were reclassified from a separate line item in other income to a separate line item in interest income as "prepayment fees on advances." The prepayment fees relating to investment securities were reclassified from other, net income line to the appropriate investment securities lines in interest income. Prepayment fees of $131 million were reclassified for the year ended December 31, 2003. This amount represents reclassifications of prepayment fees for FHLBanks that did not restate their 2003 financial statements.

Change in Amortization and Accretion Method of Deferred Premiums and Discounts on Mortgage Loans Held for Portfolio and Mortgage-Backed Securities. Effective January 1, 2004, the FHLBanks of Chicago and Pittsburgh each changed its method of accounting for premiums and discounts and other deferred loan origination fees under SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (SFAS 91) on mortgage loans held for portfolio. In addition, the FHLBank of Pittsburgh changed its method of accounting for premiums and discounts and other deferred loan origination fees under SFAS 91 on mortgage-backed securities. As a result of implementing the change in accounting for amortization and accretion from the retrospective method to the contractual maturity method, the FHLBanks recorded a cumulative effect of a change in accounting principle effective January 1, 2004 resulting in an increase in retained earnings of $41 million for the FHLBank of Chicago and $10 million for the FHLBank of Pittsburgh. (See Note 3 to the accompanying combined financial statements.)

Effective January 1, 2005, the FHLBanks of Boston, Dallas, Des Moines and New York each changed its method of accounting for premiums and discounts and other deferred loan origination fees under SFAS 91 on mortgage loans held for portfolio. In addition, the FHLBanks of Atlanta and Des Moines changed their method of accounting for premiums and discounts and other deferred loan origination fees under SFAS 91 on mortgage-backed securities. As a result of implementing the change in accounting for amortization and accretion from the estimated life method to the contractual maturity method, the FHLBanks recorded a cumulative effect of a change in accounting principle effective January 1, 2005 resulting in a decrease to income before assessments of $3 million for the FHLBank of Atlanta, an increase to income before assessments of $7 million for the FHLBank of Boston, an increase to income before assessments of $1 million for the FHLBank of Dallas, an increase to income before assessments of $9 million for the FHLBank of Des Moines and an increase to income before assessments of $1 million for the FHLBank of New York. (See Note 3 to the accompanying combined financial statements.)

Interbank Transfers of Liability on Outstanding Consolidated Bonds and Their Effect on Combined Net Income. Combined net income of the FHLBanks was affected by interbank transfers of liability on outstanding consolidated bonds. These transactions arise when one FHLBank transfers its direct liability on outstanding consolidated bonds to another FHLBank that assumes the direct liability on those outstanding consolidated bonds. By engaging in these transactions, two FHLBanks are able to better match their funding needs by transferring excess funds held by one FHLBank to another FHLBank that needs funds. Transfer transactions allow the assuming FHLBank to achieve equal or lower funding costs than would be available to it for a similarly sized transaction in the capital markets at the time of the transfer. Because the

consolidated bonds are the joint and several obligation of all twelve FHLBanks, these interbank transactions have no effect on the holders of the consolidated bonds.

Description of the Transactions. As part of its overall asset/liability management strategy, an FHLBank may issue more debt than it needs at the time of issuance to fund its business. This allows the FHLBank to take advantage of favorable funding prices for large-size transactions in anticipation of using the proceeds at a later time to fund the acquisition of assets, such as mortgages or advances. In other cases, an FHLBank may have excess liquidity due to the prepayment of mortgages. Instead of continuing to retain the excess funds for use in its own business, an FHLBank may elect to transfer a portion of its liability to an FHLBank with more immediate funding needs. The funds are transferred to the assuming FHLBank together with the corresponding liability under the consolidated bonds. The assuming FHLBank assumes this liability at fair value which represents an all-in cost equal to or lower than it would have otherwise obtained for the same amount and maturity in the capital markets at that time. In this type of transaction, the FHLBank that transfers a liability for the consolidated bond also unwinds the related portion of any hedge transactions it entered into when the consolidated bond was issued. It can also take other steps in order to manage its interest rate exposure on the debt transferred. For example, it can:

— terminate the interest-rate exchange agreement entered into with respect to the transferred debt; or

— eliminate the underlying assets (e.g., through the sale of investment securities with similar characteristics as those consolidated bonds being offered for transfer or through the prepayment of mortgages).

The transferring FHLBank treats the transfer as a debt extinguishment since that FHLBank has been released from being the primary obligor. Specifically, the release is made effective by the Office of Finance recording the transfer in its records. The Office of Finance provides release by acting within the confines of the Finance Board regulations that govern the determination of which FHLBank is the primary obligor. The assuming FHLBank becomes the primary obligor because it now is directly responsible for repaying the debt. The transferring FHLBank continues to disclose the transferred debt as a contingent liability because it still has a joint and several liability with respect to repaying the transferred consolidated obligation.

The initial carrying amount for the bond is the amount (including any premium or discount) the assuming FHLBank paid the transferring FHLBank. Under this transfer scenario, no transaction with a third party independent of the FHLBanks takes place. Under the principles of combination accounting, combining adjustments are required to reflect the transaction as if the transferring FHLBank still holds the bond for purposes of the combined financial statements of the FHLBanks. This has the following results:

(1) the debt extinguishment transaction (including any gain or loss) is eliminated;

(2) all balance sheet and income statement effects with respect to the premium or discount related to the purchase of the bonds by the assuming FHLBank are eliminated; and

(3) the original premium or discount, concession fees and SFAS 133 basis adjustments of the transferring FHLBank are reinstated and amortized over the life of the bond.

These amounts are eliminated as combining adjustments in the combining schedules accompanying the combined financial statements and will reverse over the remaining term of the consolidated bonds. These transactions do not affect the holders of the consolidated bonds, as the consolidated bonds are the joint and several obligation of all twelve FHLBanks. (See Note 1 to the accompanying combined financial statements and the related FHLBanks combining schedules.)

Net Interest Income.

Changes in Net Interest Income
(Dollar amounts in millions)

	For the Years Ended December 31,			For the Year Ended 2005 vs. 2004 Increase/ (Decrease)		For the Year Ended 2004 vs. 2003 Increase/ (Decrease)	
	2005	2004	2003 (As Restated)	$	%	$	%
INTEREST INCOME							
Advances	$20,782	$9,995	$8,758	$10,787	107.9%	$1,237	14.1%
Prepayment fees on advances	75	184	185	(109)	(59.2)%	(1)	(0.5)%
Mortgage loans held for portfolio	5,416	5,535	4,381	(119)	(2.1)%	1,154	26.3%
Investments and other	9,147	6,211	5,752	2,936	47.3%	459	8.0%
Total interest income	35,420	21,925	19,076	13,495	61.6%	2,849	14.9%
INTEREST EXPENSE							
Consolidated obligations	30,517	17,440	14,870	13,077	75.0%	2,570	17.3%
Other	697	314	329	383	122.0%	(15)	(4.6)%
Total interest expense	31,214	17,754	15,199	13,460	75.8%	2,555	16.8%
NET INTEREST INCOME BEFORE (REVERSAL) PROVISION FOR CREDIT LOSSES	$ 4,206	$4,171	$3,877	$ 35	0.8%	$ 294	7.6%

The increase in net interest income before (reversal) provision for credit losses from 2004 to 2005 is attributable to an increase in interest rates as well as growth in advances and investments during 2005, partially offset by an increase in consolidation obligation expenses. The increase in net interest income before (reversal) provision for credit losses from 2003 to 2004 is attributable to an increase in interest rates as well as growth in advances and mortgage loans outstanding during 2004, partially offset by $22 million of other interest expense as a result of stock and cash dividends paid on mandatorily redeemable capital stock due to the adoption of SFAS 150 during 2004.

The FHLBanks price advances based on their marginal cost of raising matching-maturity funds and on the related administrative and operating costs. They charge their members a prepayment fee if members prepay certain advances before their original maturity. The Finance Board's regulations generally require such a fee on advances with a maturity or repricing period of more than six months. The fee must be sufficient to make the FHLBank financially indifferent to the borrower's decision to prepay the advances. The change in prepayment fees from 2004 to 2005 and from 2003 to 2004 can be attributed to the then-prevailing interest rates, which resulted in a decrease in refinancing activities during 2005 and 2004.

The increase in 2005 investments and other interest income relates primarily to the higher interest-rate environment and higher volume of investments outstanding, compared to 2004. The increase in 2004 investments and other interest primarily relates to higher volume of investments compared to 2003.

Net Income.

Changes in Net Income
(Dollar amounts in millions)

	For the Years Ended December 31,			For the Year Ended 2005 vs. 2004 Increase		For the Year Ended 2004 vs. 2003 Increase	
	2005	2004	2003 (As Restated)	$	%	$	%
NET INCOME	$2,525	$1,994	$1,885	$531	26.6%	$109	5.8%

The increase in net income for 2005 compared to 2004 can be primarily attributed to the effect of higher interest rates when compared to 2004 and a $830 million reduction in total other loss in other income which was partially offset by a $117 million increase in other expenses and a $177 million increase in assessments.

The $830 million decrease in total other loss in other income primarily related to a reduction in net losses on derivatives and hedging activities of $762 million and a $284 million change to net gain on sale of available-for-sale securities partially offset by an increase in net losses on trading securities of $199 million. The one-sided marks on derivatives resulting from the loss of hedge accounting by the restating FHLBanks increased the net losses on derivatives and hedging activities by $493 million for 2004.

The increase in net income for 2004 as compared to 2003 is primarily attributable to the effect of higher volume and slightly higher interest rates, offset in part by an increase in the total losses in other income and other expenses. The FHLBanks had total other losses in other income of $890 million in 2004, as compared to $781 million in 2003 primarily attributable to an increase in net losses on derivatives and hedging activities of $475 million, partially offset by a decrease of $213 million in net losses on trading securities. The one-sided marks on derivatives resulting from the loss of hedge accounting by the restating FHLBanks increased the net losses on derivatives and hedging activities by $268 million for 2003. In addition, the other income included net realized gains from the sale of held-to-maturity securities of $13 million in 2004 compared to net realized losses from the sale of held-to-maturity securities of $158 million in 2003. Sales of held-to-maturity securities that meet certain conditions may be considered as maturities for purposes of this classification in accordance with SFAS 115. (See Note 1 to the accompanying combined financial statements.) In 2003, other loss included a net loss of $189 million, which related to the sale of certain investment securities by the FHLBank of New York. These investment securities were sold after a significant deterioration in their creditworthiness, as compared to the triple-A rating they had when they were originally purchased.

Total operating expenses were $657 million in 2005, compared to $547 million and $450 million in 2004 and 2003. In 2005, AHP and REFCORP assessments were $907 million compared to $730 million and $708 million in 2004 and 2003.

The 2005 combining adjustment for the elimination of the transfers of interbank consolidated bond liabilities and interbank fees and commissions related to the MPF Program resulted in a temporary decrease in other loss of $3 million, a decrease in other expenses of $3 million, and a reduction in interest expense on consolidated obligation bonds of $24 million. This led to a combined net increase in net income of $30 million. This increase is primarily related to the reversal of the interbank bond transfers-related gains previously eliminated.

The 2004 combining adjustment for the elimination of the transfers of interbank consolidated bond liabilities and interbank fees and commissions related to the MPF Program resulted in a temporary increase in other loss of $50 million, a decrease in other expenses of $1 million, and a reduction in interest expense on consolidated obligation bonds of $22 million. This led to a combined temporary net reduction of $27 million. In addition, the 2003 combining adjustment for the

elimination of the transfers of interbank consolidated bond liabilities resulted in a temporary increase in other loss of $84 million and a temporary reduction of interest expense on consolidated obligations of $10 million. This led to a combined temporary net reduction of $74 million. These reductions were results of the fact that hedge losses associated with the transferred bonds recorded were realized, while the gains from the interbank bond transfer were eliminated.

Under SFAS 133, all derivatives are recorded at fair value. 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. SFAS 133, therefore, introduces the potential for a considerable timing difference between income recognition from assets or liabilities and the income effects of hedge instruments entered into to mitigate interest-rate risk and cash-flow variability. The adoption of SFAS 133 has led to more volatility in reported earnings. The loss of hedge accounting and the resulting effect of the one-sided mark has also led to more volatility. Due to changes in market prices and interest rates, an FHLBank may use certain hedge strategies that do not qualify for symmetrical hedge accounting treatment under SFAS 133 accounting rules because these strategies are more economically cost-effective than alternative strategies that would qualify for symmetrical hedge accounting.

Earnings Analysis.

Change in Earnings Components
(Dollar amounts in millions)

	2005 vs. 2004		2004 vs. 2003		2003 vs. 2002	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
					(As Restated)	
Income Statement						
Increase (decrease) in interest income	$13,495	61.6%	$2,849	14.9%	$(2,400)	(11.2)%
Increase (decrease) in total interest expense	13,460	75.8%	2,555	16.8%	(2,555)	(14.4)%
Increase in net interest income before provision (reversal) for credit losses	35	0.8%	294	7.6%	155	4.2%
Change in provision (reversal) for credit losses	5	100.0%	(1)	25.0%	(13)	(144.4)%
Increase in net interest income after provision (reversal) for credit losses	30	0.7%	295	7.6%	168	4.5%
(Decrease) increase in net gains (losses) on trading securities	(199)	(187.7)%	213	66.8%	(1,027)	(145.1)%
Increase (decrease) in net (losses) gains on derivatives and hedging activities	762	97.2%	(475)	(153.7)%	1,622	84.0%
Increase (decrease) in other non-interest income, net	267	n/a	153	100.0%	(165)	(1375.0)%
Increase (decrease) in total non-interest income (loss)	830	93.3%	(109)	(14.0)%	430	(35.5)%
Increase in total other expense	117	19.1%	105	20.7%	55	12.2%
Increase in Affordable Housing Program	57	25.3%	7	3.2%	50	29.8%
Increase in REFCORP.	120	23.8%	15	3.1%	115	30.7%
Increase in total assessments	177	24.2%	22	3.1%	165	30.4%
Change in cumulative effect of change in accounting principles before assessments	(35)	(70.0)%	50	n/a		
Increase in net income	$ 531	26.6%	$ 109	5.8%	$ 378	25.1%

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. This is the interest earned on advances, mortgages, investments and invested capital, *minus* interest paid on consolidated obligations, deposits, and other borrowings.

Spread and Yield Analysis
(Dollar amounts in millions)

	2005			2004			2003 (As Restated)		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield	Average Balance	Interest	Yield
Earning assets:									
Advances	$607,581	$20,857	3.43%	$551,928	$10,179	1.84%	$501,942	$ 8,943	1.78%
Mortgage loans held for portfolio	109,951	5,416	4.93%	114,449	5,535	4.84%	88,974	4,381	4.92%
Investments:									
Interest-bearing deposits and other	25,058	836	3.34%	22,187	319	1.44%	21,925	265	1.21%
Securities purchased under agreements to resell	3,413	115	3.37%	4,051	54	1.33%	4,462	50	1.12%
Federal funds sold	57,509	1,915	3.33%	44,917	625	1.39%	41,932	485	1.16%
Trading securities	8,016	438	5.46%	8,713	444	5.10%	8,680	441	5.08%
Available-for-sale securities	10,122	346	3.42%	12,171	286	2.35%	11,457	256	2.23%
Held-to-maturity securities	125,699	5,497	4.37%	116,323	4,483	3.85%	107,321	4,255	3.96%
Total investments	229,817	9,147	3.98%	208,362	6,211	2.98%	195,777	5,752	2.94%
Total earning assets	$947,349	$35,420	3.74%	$874,739	$21,925	2.51%	$786,693	$19,076	2.42%
Funded by:									
Consolidated obligations	$873,519	$30,517	3.49%	$799,459	$17,440	2.18%	$703,570	$14,870	2.11%
Interest-bearing deposits and other borrowings(1)	21,218	697	3.28%	22,608	314	1.39%	30,162	329	1.09%
Total interest-bearing liabilities	894,737	31,214	3.49%	822,067	17,754	2.16%	733,732	15,199	2.07%
Capital and other non-interest-bearing funds	52,612			52,672			52,961		
Total funding	$947,349	$31,214	3.29%	$874,739	$17,754	2.03%	$786,693	$15,199	1.93%
Spread on:									
Total interest-bearing liabilities			0.25%			0.35%			0.35%
Total funding (net interest margin) (2)			0.45%			0.48%			0.49%

(1) The balances do not include non-interest bearing deposits. The 2005 and 2004 average balances include mandatorily redeemable capital stock balances and related interest expenses.

(2) Net interest margin is net interest income before provision (reversal) for credit losses as a percentage of average earning assets.

A significant portion of net interest income results from earnings on assets funded by non-interest-bearing capital. Average total capital and other non-interest-bearing funds for 2005 was 0.04 percentage point greater than average total capital and other non-interest-bearing funds for 2004. Average total capital and other non-interest-bearing funds for 2004 was 0.46 percentage point less than average total capital and other non-interest-bearing funds for 2003.

The net interest margin and spread on interest-bearing liabilities are affected by the inclusion or exclusion of net interest income/expense associated with the FHLBanks' interest-rate exchange agreements. For example, if the interest-rate exchange agreements qualify for fair-value hedge accounting under SFAS 133, the net interest income/expense associated with the derivative is included in the calculation of the spread on interest-bearing liabilities and net interest margin. If the interest-rate exchange agreements do not qualify for fair-value hedge accounting under SFAS 133 ("economic hedges"), the net interest income/expense associated with the interest-exchange agreements is excluded from the calculation of the spread on interest-bearing liabilities and net interest margin.

The combined spread on interest-bearing liabilities and any spread on net interest margin for 2004 and 2003 have been significantly affected by the FHLBanks' restatements, thereby affecting comparability between years. The loss of hedge accounting and resulting one-sided market value adjustments influence the timing of income recognition related to these highly-effective transactions. The acceleration of income or loss in one period is expected to result in a corresponding reduction or increase in earnings in future periods. The net cumulative effect on combined retained earnings resulting from these timing differences is expected to be immaterial.

The cost of consolidated obligations issued by the FHLBanks is affected by many factors including the issuance volume of Treasury and GSE debt securities, the dollar volume of Treasury and GSE debt outstanding, the portfolio growth trends of the GSEs, domestic and foreign investor demand, market views on the future direction of credit spreads, the level of and spread between short- and long-term interest rates, and fixed-income market volatility.

During 2005, total bond and discount note issuance was 18% higher than the previous year as a result of increased issuance of discount notes. Consolidated obligations outstanding rose by $68 billion, bonds increased by $56 billion and discount notes increased by $12 billion. Compared to the prior year, aggregate weighted-average new-issue funding costs for bonds and auctioned discount notes improved relative to benchmark market indices.

During 2005, short-term interest rates rose and the yield differential between short- and long-term interest rates narrowed. The dollar amount of callable bonds called prior to maturity was lower in 2005 compared with the prior year. Noncallable fixed-rate bonds comprised a larger proportion of bond issuance in 2005 compared with the prior year.

During 2004, total bond and discount note issuance was 14% higher than the previous year as a result of increased issuance of discount notes. Consolidated obligations outstanding rose by $110 billion; bonds accounted for 96% of the increase. Compared to the prior year, aggregate weighted-average new-issue funding costs for bonds increased relative to benchmark market indices.

During the latter half of 2004, short-term interest rates rose and the yield differential between short- and long-term interest rates narrowed. The dollar amount of callable bonds called prior to maturity was lower in 2004 compared with the prior year. As the Federal Reserve began its tightening campaign in the second half of 2004, noncallable fixed-rate bonds comprised a larger proportion of bond issuance.

Changes in both volume and interest rates have a direct influence on changes in net interest income and net interest margin. The following table summarizes changes in interest income and interest expense between 2005 and 2004 and between 2004 and 2003. 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.

Rate and Volume Analysis
(Dollar amounts in millions)

	2005 vs. 2004 Increase (Decrease) Due to			2004 vs. 2003 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Advances	$1,119	$ 9,559	$10,678	$ 914	$ 322	$1,236
Mortgage loans held for portfolio	(220)	101	(119)	1,233	(79)	1,154
Investments	690	2,246	2,936	374	85	459
Total interest income	1,589	11,906	13,495	2,521	328	2,849
Interest Expense:						
Consolidated obligations	1,745	11,332	13,077	2,079	491	2,570
Deposits and other borrowings(1)	(20)	403	383	(93)	78	(15)
Total interest expense	1,725	11,735	13,460	1,986	569	2,555
Changes in net interest income	$ (136)	$ 171	$ 35	$ 535	$(241)	$ 294

(1) The balances used for the calculation do not include non-interest bearing deposits. The 2005 and 2004 balances include cash and stock dividends on mandatorily redeemable capital stock as interest expense.

Other (Loss) Income.

Other (Loss) Income
(Dollar amounts in millions)

	For the Years Ended December 31,		
	2005	2004	2003 (As Restated)
Service fees	$ 27	$ 27	$ 35
Net losses on trading securities	(305)	(106)	(319)
Net realized gains (losses) from sale of available-for-sale securities	267	(17)	(31)
Net realized (losses) gains from sale of held-to-maturity securities	(1)	13	(158)
Net losses on derivatives and hedging activities	(22)	(784)	(309)
Other, net	(26)	(23)	1
Total other loss	$ (60)	$(890)	$(781)

The changes in total other loss from 2004 to 2005 and from 2003 to 2004 relate primarily to the change in derivatives and hedging activities, including the effect of the loss of hedge accounting by the restating FHLBanks, and an FHLBank's loss on the sale of manufactured housing bonds in 2003.

Effect of Hedging Activities on Earnings by Product
(Dollar amounts in millions)

Earnings Effect For the Year Ended December 31, 2005	Advances	Investments	MPF/MPP Loans	COs-Bonds	COs-Discount Notes	Balance Sheet	Total
Amortization/accretion of hedging activities in net margin	$(116)	$ (2)	$ (8)	$ (5)	$(21)	$	$(152)
Net realized and unrealized gains (losses) on derivatives and hedging activities	77	60	(43)	(103)	13	(26)	(22)
Net losses on securities held at fair value		(305)					(305)
Total	$ (39)	$(247)	$(51)	$(108)	$ (8)	$(26)	$(479)

Earnings Effect For the Year Ended December 31, 2004	Advances	Investments	MPF/MPP Loans	COs-Bonds	COs-Discount Notes	Deposits	Balance Sheet	Intermediary Positions	Total
Amortization/accretion of hedging activities in net margin	$(92)	$ 1	$ (31)	$102	$ 24	$(27)	$	$	$ (23)
Net realized and unrealized gains (losses) on derivatives and hedging activities	132	(304)	(565)	122	(55)		(22)	(92)	(784)
Net losses on securities held at fair value		(106)							(106)
Total	$ 40	$(409)	$(596)	$224	$(31)	$(27)	$(22)	$ (92)	$(913)

Earnings Effect for the Year Ended December 31, 2003 (As Restated)	Advances	Investments	MPF/MPP Loans	COs-Bonds	COs-Discount Notes	Deposits	Balance Sheet	Intermediary Positions	Total
Amortization/accretion of hedging activities in net margin	$(67)	$ 2	$ (48)	$217	$ 11	$(11)	$	$	$ 104
Net realized and unrealized gains (losses) on derivatives and hedging activities	39	(59)	(361)	103	(28)		(4)	1	(309)
Net losses on securities held at fair value		(319)							(319)
Total	$(28)	$(376)	$(409)	$320	$(17)	$(11)	$(4)	$1	$(524)

Operating Expenses.

Operating Expenses
(Dollar amounts in millions)

	For the Years Ended December 31,			Percentage Increase	
	2005	2004	2003 (As Restated)	2005 vs. 2004	2004 vs. 2003
Salaries and employee benefits	$368	$316	$268	16.5%	17.9%
Cost of quarters	43	33	29	30.3%	13.8%
Other	246	198	153	24.2%	29.4%
Total operating expenses	$657	$547	$450	20.1%	21.6%
Operating expenses as a percentage of average assets (in basis points)	6.9	6.2	5.1		

The increases in salaries and benefits in 2005 and 2004 primarily reflect the following:

— higher staffing levels to support increased regulatory requirements for risk management, SEC registration and Sarbanes-Oxley compliance requirements;

— general increases in pay and benefits; and

— an increase in pension costs.

The increases in salaries and benefits in 2003 primarily reflect the following:

— higher staffing levels to manage the mortgage programs and the growth and complexity of the balance sheet;

— general increases in pay and benefits; and

— an increase in pension costs.

These expenses include the administrative and operating costs of providing advances, and managing the investment portfolios and mortgage programs, as well as member correspondent services.

(Dollar amounts in millions)	2005	2004	2003 (As Restated)	2005 vs. 2004 Increase/ (Decrease) $	2005 vs. 2004 Increase/ (Decrease) %	2004 vs. 2003 Increase $	2004 vs. 2003 Increase %
Finance Board expenses	$ 32	$ 26	$ 24	$ 6	23.1%	$2	8.3%
Office of Finance expenses	24	20	18	4	20.0%	2	11.1%
Other expenses excluded from operating expenses	16	19	15	(3)	(15.8)%	4	26.7%
Affordable Housing Program expenses	282	225	218	57	25.3%	7	3.2%

Finance Board Expenses. The FHLBanks fund the costs of operating the Finance Board. These costs are under the sole control of the Finance Board. Finance Board expenses are allocated among the FHLBanks based on each FHLBank's percentage of total combined regulatory capital stock plus retained earnings. These expenses have increased due to increases in Finance Board examination and supervision staff and expenditures associated with the development and operation of Finance Board systems for the measurement and monitoring of interest-rate risk at the FHLBanks. These increases are associated with increases in both the size of the FHLBanks and the complexity of their operations.

Office of Finance Expenses. The FHLBanks also fund the costs of the Office of Finance. The Office of Finance, a joint office of the FHLBanks, facilitates issuing and servicing of consolidated obligations, prepares the FHLBanks' combined quarterly and annual financial reports, and fulfills certain other functions. The expenses of the Office of Finance are allocated among the FHLBanks based on each FHLBank's percentage of total capital stock, percentage of consolidated obligations issued, and percentage of consolidated obligations outstanding. The 2005 expenses have increased due to increased marketing and the requirement for the FHLBanks to register their capital stock with the SEC and related Sarbanes-Oxley compliance requirements. The majority of the increase from 2003 to 2004 relates to higher debt issuance volumes and the implementation of new technologies to expedite the issuance and servicing of consolidated obligations.

Other. Other expenses are excluded from operating expenses. The other expenses for 2005, 2004 and 2003 include approximately $16 million, $15 million and $12 million of certain MPF and/or MPP master servicing and custodial fees.

Affordable Housing Program. Annually, the FHLBanks must set aside for the AHP the greater of $100 million or 10 percent of regulatory income, after the assessment for REFCORP. Regulatory income is income before assessments, plus interest expense related to mandatorily redeemable capital stock under SFAS 150, less the assessment for REFCORP. The Finance Board

requires each FHLBank to add back interest expense related to mandatorily redeemable capital stock before the calculation of its AHP assessment. Changes in the AHP assessments for 2005, 2004, and 2003 reflect the overall trend of the FHLBanks' net income. AHP helps members provide subsidized and other low-cost funding to create affordable rental and home ownership opportunities. Funding is also used for commercial and economic development activities that benefit low- and moderate-income neighborhoods, thus contributing to the revitalization of these neighborhoods. All FHLBank operating costs for the AHP are included in operating expenses, so all AHP assessments go directly to support affordable housing projects.

Community Investment Program. As of December 31, 2005, the FHLBanks had $8.9 billion of CIP housing advances and $1.5 billion of CIP commercial and economic development advances outstanding.

Community Investment Cash Advance and Other Housing and Community Economic Development Programs. CICA loans specifically target underserved markets in both rural and urban areas, including those areas in which normal lending activity has yet to have the desired effect. In addition, each of the FHLBanks has established a number of other voluntary housing and community economic development programs specifically developed for its members. These programs are funded by the FHLBanks separate from AHP.

REFCORP Payment

Each FHLBank is required to make payments to REFCORP (20 percent of annual GAAP net income after payment of AHP assessments) 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, selects the appropriate discounting factors used in calculating the annuity.

The REFCORP assessment of the FHLBanks was $153 million (cash payment of $156 million) for the fourth quarter of 2005 and $625 million (cash payment of $550 million) for the year 2005. The cash payments are made based on preliminary GAAP net income amounts due to the timing requirement of the payment. Any FHLBank with a net loss for a quarter is not required to pay the REFCORP assessment for that quarter. The differences between the assessment amount shown in the Statement of Income and the actual cash payments from the FHLBanks for the fourth quarter and the year ended December 31, 2005 represent amounts due to the adoption of SFAS 150. As specified in the Finance Board regulation that implements section 607 of the GLB Act, the amount by which the REFCORP payment for any quarter exceeds 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 $78 million by which the fourth-quarter REFCORP payment exceeded the $75 million quarterly benchmark will fully defease the remaining $14 million portion of the benchmark payment due on April 15, 2018, the benchmark payment due on January 15, 2018, and defease $45 million of the $75 million benchmark payment due on October 15, 2017. The defeased benchmark payments (or portions thereof) can be reinstated if future actual REFCORP payments fall short of the $75 million benchmark in any quarter.

As a result of the REFCORP payments of $550 million made by the FHLBanks in 2005, the overall period during which the FHLBanks must continue to make quarterly payments was shortened to October 15, 2017, effective as of December 31, 2005. This compares to the outside date of April 15, 2019, effective as of December 31, 2004, based on REFCORP payments made through 2004.

REFCORP Defeasance Summary
For Fourth Quarter 2005 Payment
(Dollar amounts in millions)

Payment Due Date	Amount of Benchmark Payment Defeased*	Interest Rate Used to Discount the Future Benchmark Payment	Present Value of Benchmark Payment Defeased**
April 15, 2018 (most distant remaining payment)	$ 14	4.50%	$ 8
January 15, 2018	75	4.52%	44
October 15, 2017	45	4.52%	26
Total	$134		$78

* Subject to possible subsequent reinstatement.

** Actual cash payment of $156 million made based on estimated net income.

Capital Adequacy

The FHLBank Act prescribes minimum capital stock requirements for the FHLBanks. (See "Business—Capital, Capital Rules and Dividends" for a detailed explanation of these requirements.) In addition, an individual FHLBank, at the discretion of its board of directors and/or management, may institute a higher capital requirement in order to meet internally-established thresholds or to address supervisory matters.

In 2003, the Finance Board issued guidance calling for each FHLBank to assess, at least once a year, the adequacy of its retained earnings under various future financial and economic scenarios, including:

— parallel and non-parallel interest-rate shifts;

— changes in the basis relationship between different yield curves; and

— changes in the credit quality of the FHLBank's assets.

Management and the board of directors of each FHLBank review the capital structure of that FHLBank (including retained earnings) on a periodic basis to make sure the capital structure supports the risk associated with its assets and addresses applicable regulatory and supervisory matters.

Several boards of directors and/or management teams of FHLBanks have agreed with the Office of Supervision of the Finance Board either to maintain higher total capital-to-assets ratios or limit dividend payments as part of their retained earnings policies. As of December 31, 2005, each of the FHLBanks was in compliance with its statutory minimum capital requirements and any internally-established or supervisory limitations. As these limitations may be revised from time to time, they are more flexible than the minimum requirements prescribed by statute. (See "Legislative and Regulatory Developments" for more information on the Finance Board's regulatory agreements with the FHLBanks of Chicago and Seattle.)

As of December 31, 2005, 94.5 percent of the capital of the FHLBanks consisted of capital stock, while 5.5 percent was retained earnings and accumulated other comprehensive income. As of December 31, 2005, the FHLBanks had an aggregate GAAP capital-to-assets ratio of 4.46 percent. This compares with a GAAP capital-to-assets ratio of 4.53 percent at December 31, 2004. (See "Business—Capital, Capital Rules and Dividends" and Note 16 to the accompanying combined financial statements.)

Liquidity

The FHLBanks need liquidity to:

- satisfy their members' demand for short- and long-term funds;
- repay maturing consolidated obligations; and
- meet other obligations, including any mandatory repurchases of capital stock.

The FHLBanks also maintain liquidity to repurchase excess capital stock in their discretion upon the request of a member.

Each FHLBank is required to maintain liquidity in accordance with the FHLBank Act, certain Finance Board regulations and with policies established by its management and board of directors. The FHLBanks seek to be in a position to meet the credit and liquidity needs of their members 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. The GSE status and rating have historically provided the FHLBanks with excellent access to capital markets. Consolidated obligations enjoy GSE status; however, they are not obligations of the United States and the United States does not guarantee them. The FHLBanks' consolidated obligations are rated Aaa/P-1 by Moody's and AAA/A-1+ by Standard & Poor's. These are the highest ratings available for such debt from an NRSRO. These ratings indicate that the FHLBanks have an extremely strong capacity to meet their commitments to pay principal of and interest on consolidated obligations and that the consolidated obligations are judged to be of the highest quality with minimal credit risk. The ratings also reflect the FHLBank System's status as a GSE. These ratings were not affected by rating actions taken with respect to individual FHLBanks in 2004 and 2005. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Recent Rating Agency Actions"). You should note that a rating issued by an NRSRO is not a recommendation to buy, sell or hold securities and that the ratings may be revised or withdrawn by the NRSRO at any time. You should evaluate the rating of each NRSRO independently.

In addition, under certain circumstances, the U.S. Treasury may acquire up to $4 billion of consolidated obligations of the FHLBanks. Other short-term borrowings, such as Federal funds purchased, securities sold under agreements to repurchase, and loans from other FHLBanks, also provide liquidity.

Each FHLBank also maintains a contingency liquidity plan designed to enable it to meet its 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. (See "Risk Management—Liquidity Risk.")

Critical Accounting Policies and Estimates

Accounting for Derivatives. The FHLBanks adopted SFAS 133, 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-period earnings or accumulated 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. SFAS 133 has led to more volatility in the statement of income because of changes in market prices and interest rates.

As noted under "Risk Management-Quantitative and Qualitative Disclosures about Market Risk—Qualitative Disclosures about Market Risk—Interest-Rate Exchange Agreements," by regulation, an FHLBank may use derivative instruments only to mitigate identifiable risks. All of the derivatives of an FHLBank are positioned to offset some or all of the risk exposure inherent in its member lending, investment, or 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 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. Therefore, during periods of significant changes in interest rates, an FHLBank's reported GAAP earnings may exhibit considerably greater variability than had been reported prior to the full implementation of SFAS 133. The FHLBanks have generally continued their practice of utilizing the most cost-efficient hedging techniques available. The FHLBanks view the accounting consequences resulting from the choice of a particular hedging technique as an important but secondary consideration. The FHLBanks anticipate that this approach will result in enhanced long-term performance, while recognizing the potential for increased variability in quarterly earnings as reported under the requirements of SFAS 133. Because the FHLBanks generally manage their derivatives positions with primary emphasis on economic cost-effectiveness as opposed to symmetrical accounting results, SFAS 133 has led to more volatility in the reported earnings for the FHLBanks due to changes in market prices and interest rates.

SFAS 133: Accounting for Derivative Hedging Relationships.

Accounting for a hedging relationship depends on the characteristics of the derivative and hedged item and their correlation to one another. A hedge relationship is created from the documented designation of a derivative financial instrument as hedging the FHLBank's exposure either to changes in the fair value of a financial instrument or to a change in future cash flows attributable to an on-balance sheet financial instrument or for an anticipated transaction. The accounting the FHLBanks use for typical hedge transactions can be summarized as follows:

Hedge Type	Hedged Item	Accounting Recognition
Fair-Value	Recognized asset or liability or unrecognized firm commitment	Changes in fair values of derivative and hedged item (related to the risk being hedged) are recognized in current-period earnings
Cash-Flow	Anticipated transaction (including those from recognized asset or liability with variable cash flows)	Effective portion of fair value of derivative is deferred in accumulated other comprehensive income (a component of capital) and recognized in earnings when the related forecasted transaction affects earnings. (Any ineffectiveness is recognized in current-period earnings.)
Non-SFAS 133 Qualifying Hedge (Economic Hedges)	Does not meet SFAS 133 hedge criteria (economic hedge of an identified risk)	Fair value of derivative is recognized in current-period earnings

The following is a more detailed discussion of the FHLBanks' accounting for hedge transactions:

Fair-Value Hedges. A fair-value hedge hedges the exposure to changes in the fair value of an asset or liability that is attributed to a particular risk. There are four specific risks that a fair-value hedge can mitigate, namely changes to:

(1) the overall fair value of the hedged item;

(2) the fair value attributable to changes in the designated benchmark interest rate;

(3) the fair value attributable to changes in the related foreign currency exchange rates; and

(4) the fair value attributable to changes in credit risk.

If the risk designated as being hedged is not the risk under (1) above, two or more of the other risks may simultaneously be selected as being hedged.

Changes in the fair value of a derivative that is effective as a fair-value hedge (and that is designated as 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. Any ineffectiveness of a hedge (which represents the amount by which the change in the fair value of the derivative differs from the change in the fair value of the hedged item) is also recorded in current-period earnings.

Cash-Flow Hedges. A cash-flow hedge hedges the exposure to variability in expected future cash flows. There are four specific risks that a cash-flow hedge can mitigate, namely changes in:

(1) the overall hedged cash flows;

(2) cash flows due to changes in the designated benchmark interest rates (interest rate risk);

(3) functional currency cash flows due to foreign exchange risk; and

(4) cash flows due to credit risk.

Changes in the fair value of a derivative that is effective as a cash-flow hedge (and that is designated as and qualifies as a cash-flow hedge), to the extent that the hedge is effective, are recorded in accumulated other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction. Any ineffectiveness of the hedge (which represents the amount by which the offsetting change in the fair value of the derivative differs from the change in the variability in the cash flows of the anticipated transaction) is recorded in current-period earnings.

Foreign Currency Hedge. Changes in the fair value of a foreign currency hedge are recorded in either current-period earnings or accumulated other comprehensive income, depending on whether the hedging relationship satisfies the criteria for a fair-value hedge or cash-flow hedge.

Non-SFAS 133 Qualifying Hedge (Economic Hedges). A non-SFAS 133-qualifying hedge (a so-called "economic hedge") is an interest-rate exchange agreement hedging specific or non-specific underlying assets, liabilities or firm commitments that does not qualify for hedge accounting under the rules of SFAS 133, but is an acceptable hedging strategy under the risk management policy of the FHLBank and regulatory requirements of the Finance Board. An economic hedge, by definition, introduces the potential for earnings variability due to the change in fair value recorded on the interest-rate exchange agreement(s) that is not offset by corresponding changes in the value of the economically hedged assets, liabilities, or firm commitments. The fair value of this derivative is recognized in current-period earnings.

The following paragraphs summarize the applicable accounting treatments (hedge indicators) for fair-value and cash-flow hedging relationships under SFAS 133. These are:

— the short-cut treatment;

— the highly-effective treatment; and

— the not-highly-effective treatment.

Short-cut Treatment. A short-cut relationship implies that the hedge between an interest-rate swap and an interest-bearing financial instrument is considered to be perfectly correlated. Therefore, changes in the fair value of the interest-rate swap and the interest-bearing financial instrument will perfectly offset one another, as a short-cut relationship assumes no ineffectiveness. To qualify for short-cut accounting treatment, a number of restrictive conditions must be met.

Highly-Effective Treatment. A highly-effective relationship indicates that the FHLBank assesses, prospectively and retrospectively, whether the derivative and hedged item will be highly effective in offsetting changes in fair value attributable to the hedged risk. The changes in fair value

for the derivative and the hedged item may or may not perfectly offset one another. Any difference in the change of fair value between the two will be recognized as a net gain or loss in the statement of income. To maintain the highly-effective relationship, this testing of the effectiveness of the hedge is performed at the inception of the hedge and on an ongoing basis. Typically, the FHLBanks perform dollar-offset prospective testing at the inception of the hedge and calculate retrospective regressions after a sufficient number of data points have been accumulated to render a statistically significant result. If during this testing of effectiveness the hedge fails to maintain effectiveness at any point, the hedge relationship will be deemed ineffective. As a result, the hedged item's changes in fair value will no longer be evaluated under SFAS 133, and will be treated as not-highly-effective.

Not-Highly-Effective Treatment—Non-SFAS 133 Qualifying Hedge (Economic Hedges). A not-highly-effective relationship indicates that, although an offsetting relationship between fair values or cash flows of the hedge and hedged items may be demonstrated, the relationship is not considered highly effective in accordance with the requirements of SFAS 133. This relationship does not qualify for hedge accounting treatment under SFAS 133 and, therefore, the hedged item's changes in fair value are not evaluated. Changes in the fair value of such economic hedges of assets or liabilities for asset/liability management are recorded in current-period earnings.

Fair Values. As of December 31, 2005, certain of the assets and liabilities of the FHLBanks, including investments classified as available-for-sale and trading, as well as all derivatives, and mandatorily redeemable capital stock are presented in the Combined Statement of Condition at fair value. Under GAAP, the fair value of an asset or liability is the amount at which that asset could be bought or sold, or that liability could be incurred or settled, in a current transaction between willing parties, other than in liquidation. Fair values play an important role in the valuation of certain of the assets, liabilities and hedging transactions of the FHLBanks. Management of each FHLBank also estimates the fair value of collateral that its members pledge against advance borrowings, to confirm that the FHLBank has sufficient collateral to meet regulatory requirements and to protect it from a loss. Fair values are based on market prices, if such prices are available. If market quotes are not available, fair values are based on either:

— discounted cash flows, using market estimates of interest rates and volatility; or

— dealer prices and prices of similar instruments.

Pricing models and their underlying assumptions are based on the best estimates of management of each FHLBank with respect to:

— discount rates;

— prepayments;

— market volatility; and

— other factors.

These assumptions may have a significant effect on the reported fair values of assets and liabilities, including derivatives, and the income and expense related thereto. The use of different assumptions, as well as changes in market conditions, could result in materially different net income and retained earnings. The FHLBanks do not necessarily use the same dealer prices, models and assumptions in determining the fair values of their respective assets, liabilities and derivatives.

Consolidated Obligations. An FHLBank records a liability for consolidated obligations on its Statement of Condition based on the proceeds it actually receives from the issuance of those consolidated obligations. In addition, each FHLBank is jointly and severally obligated for the payment of all consolidated obligations of all of the FHLBanks. As a result, should one or more of the FHLBanks be unable to repay its participation in any consolidated obligation, the Finance Board may call upon any of the other FHLBanks to repay all or part of those obligations. In view of the high credit quality of each FHLBank, it is remote that an FHLBank would be unable to repay its participation in consolidated obligations. Furthermore, under current Finance Board regulation, all

FHLBanks are required to maintain a rating of not less than double-A. As a result, the joint and several obligation of each FHLBank with respect to the other FHLBanks' share of the consolidated obligations is not recorded on the statements of condition of the individual FHLBanks or the combining schedules accompanying the combined financial statements. The Combined Statement of Condition reflects the total liability for the consolidated obligations, net of interbank holdings. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Recent Rating Agency Actions" for more information.)

Amortization of Premium and Accretion of Discount on Investment Securities and Purchased Mortgage Loans.

When an FHLBank purchases investment assets and mortgage loans under the MPF Program or MPP, it may not pay the seller the exact amount of the unpaid principal balance. If an FHLBank pays more than the unpaid principal balance, and purchases the assets at a premium, the premium reduces the yield the FHLBank recognizes on the assets below the coupon amount. Conversely, if the FHLBank pays less than the unpaid principal balance and purchases the asset at a discount, the discount increases the yield above the coupon amount.

The FHLBank amortizes premiums and accretes discounts in accordance with the requirements of SFAS 91. Where appropriate and allowed under SFAS 91, certain FHLBanks use estimates of prepayments and apply a level-yield calculation on a retrospective basis. The FHLBanks of Des Moines and Pittsburgh apply the level-yield method over the contractual life of their mortgage-backed securities and purchased mortgage loans. The FHLBanks of Chicago and Dallas apply the level-yield method over the contractual life of their purchased mortgage loans. The FHLBank of Atlanta applies the level-yield method over the contractual life of its mortgage-backed securities. The remaining FHLBanks currently apply the retrospective method on mortgage-backed securities and purchased mortgage loans for which prepayments reasonably can be expected and estimated. Use of the retrospective method may increase volatility of reported earnings during periods of changing interest rates.

Provision for Credit Losses.

Advances. Since their inception, none of the FHLBanks has experienced a credit loss on advances. None of the FHLBanks' management anticipates any credit loss on advances. The FHLBanks are required by Finance Board regulation to obtain sufficient collateral on advances to protect against losses. They are permitted to accept only certain collateral on their advances, such as:

— U.S. government or government-agency securities;

— residential mortgage loans;

— deposits in the FHLBank; and

— other real estate-related assets.

Each FHLBank may require additional collateral (whether or not that additional collateral meets the eligibility criteria set forth above) or require that the borrower substitute existing collateral at any time. The FHLBank also has a statutory lien upon each member's FHLBank stock as additional security for the indebtedness of that member. As of December 31, 2005 and 2004, the rights to collateral (either loans or securities), on a member-by-member basis, held by the FHLBanks had an estimated fair value that exceeded the outstanding advances. Management of each FHLBank believes that adequate policies and procedures are in place to effectively manage that FHLBank's respective credit risk.

Mortgage Loans—MPF. Each FHLBank that holds mortgage loans under the MPF Program has a provision for credit losses on mortgage loans held under that program. Each FHLBank bases its allowance on its management's estimate of credit losses inherent in its mortgage loan portfolio as

of the balance sheet date. These losses are estimated net of recoveries under the credit enhancement obligation of the corresponding PFI. The estimate is either based on the individual FHLBank's loan portfolio performance history or based on analysis of industry statistics for similar mortgage loan portfolios.

Management of each FHLBank believes that adequate policies and procedures are in place to manage its MPF credit risk effectively.

Mortgage Loans—MPP. Each FHLBank that has acquired mortgage loans under MPP has either a minimal provision for credit losses on mortgage loans acquired under MPP or no such provision at all, due to the structure of the allocation of credit risk under that program. Credit losses are provided for by a combination of lender risk accounts and private mortgage insurance.

Management of each FHLBank believes that adequate policies and procedures are in place to manage its MPP credit risk effectively.

A more detailed description of how the FHLBanks manage their credit risk with respect to MPF and MPP loans is included in "Risk Management—Credit Risk—Managing Credit Risk—Mortgage Loans Held for Portfolio" and in the "Supplemental Information."

REFCORP Payments. The Statements of Financial Condition do not set forth a liability for the mandatory REFCORP payments of the FHLBanks. No liability is recorded because each FHLBank must pay 20 percent of its GAAP net income (after payment of its AHP obligation) to REFCORP to support the payment of part of the interest on the bonds issued by REFCORP. The future payments of each FHLBank are contingent upon future earnings that cannot be estimated under SFAS No. 5, *Accounting for Contingencies.* As a result, the REFCORP payments are disclosed as a long-term statutory payment requirement and are treated similar to a tax for accounting purposes.

Off-Balance Sheet Arrangements and Other Commitments In the ordinary course of business, the FHLBanks engage in financial transactions that, in accordance with GAAP, are not recorded on the FHLBanks' Statement of Condition or may be recorded on the FHLBanks' Statement of Condition in amounts that are different from the full contract or notional amount of the transactions. The FHLBanks routinely enter into commitments to extend advances, issue standby letters of credit and/or fund unused lines of credit, as well as issue standby letters of credit. These commitments and standby letters of credit may not necessarily represent future cash requirements of the FHLBanks. Some of these commitments are expected to expire without being drawn upon. At December 31, 2005, the FHLBanks had $27.0 billion of commitments to extend advances, issue standby letters of credit and fund unused lines of credit, and $10.9 billion in standby letters of credit outstanding. The FHLBanks entered into $3.1 billion par value of consolidated bonds and $72.8 million par value of consolidated discount notes that had traded but not settled as of December 31, 2005.

Contractual Obligations In the ordinary course of operations, the FHLBanks enter into certain contractual obligations. The following table summarizes the FHLBanks' significant contractual obligations as of December 31, 2005.

Payments Due or Expiration Terms by Type of Contractual Obligation
(Dollar amounts in millions)

	Payments due or expiration terms by period				
December 31, 2005	< 1 year	1 to <3 years	3 to <5 years	5 years and >	Total
Consolidated bonds(1)	$225,904	$294,134	$106,485	$124,895	$751,418
Capital lease obligations	7	13	12	10	42
Operating leases	23	45	41	79	188
Standby bond purchase agreements	856	532	501	28	1,917
Commitments to fund/purchase mortgage loans	219				219
Unconditional purchase obligations	1,075	532	501	28	2,136
Mandatorily redeemable capital stock	290	498	631	32	1,451
Securities purchased under agreements to repurchase	394	1,000		1,200	2,594
Other long-term obligations	61	3	2	6	72
Total contractual obligations	$227,754	$296,225	$107,672	$126,250	$757,901

(1) Does not include discount notes and is based on contractual maturities and the actual timing of payments could be affected by factors affecting redemptions.

Legislative and Regulatory Developments

Capital Plans Implementation Status. The FHLBank of New York implemented its new capital plan in 2005; the FHLBanks of Atlanta, Boston, San Francisco and Topeka implemented new capital plans during 2004; the FHLBanks of Indianapolis, Dallas and Des Moines implemented new capital plans during 2003; and the FHLBanks of Cincinnati, Pittsburgh and Seattle implemented new capital plans during 2002. The existing capital structure of the FHLBank of Chicago will remain in place until it implements its new capital plan. Under the new capital plans, the FHLBanks are subject to risk-based capital rules. Until an FHLBank implements its new capital plan, the prior capital adequacy rules remain in effect. (See Note 16 to the accompanying combined financial statements.)

Finance Board Rule on Registration under the Securities Exchange Act of 1934. On June 29, 2004, the Finance Board published its final rule requiring the FHLBanks to register a class of equity securities with the SEC under section 12(g)(1) of the 1934 Act. Under section 12(g)(1) of the 1934 Act, each FHLBank would register a class of its equity with the SEC, thereby generally imposing the periodic disclosure regime as administered and interpreted by the SEC on each FHLBank. As of August 8, 2006, all twelve FHLBank SEC registrations were effective. Each FHLBank will be required to file quarterly, annual and other reports with the SEC. The Office of Finance prepares the combined quarterly and annual financial reports of the FHLBanks, which under current Finance Board regulations generally must be consistent with SEC Regulations S-K and S-X, as interpreted by the Finance Board and subject to certain exceptions contained in Finance Board regulations.

Change in Federal Reserve Bank Policy Statement on Payments System Risk. On July 20, 2006, the Federal Reserve Board began requiring the Federal Reserve Banks to release interest and principal payments on securities issued by government-sponsored enterprises ("GSEs") and international organizations only when the issuer's Federal Reserve account contains sufficient funds

to cover these payments. The Federal Reserve Banks had been processing and posting these payments to depository institutions' Federal Reserve accounts by 9:15 a.m. Eastern Time, the same posting time as for U.S. Treasury interest and principal payments, even if the issuer had not fully funded its payments. On June 23, 2006, the twelve FHLBanks and the Office of Finance entered into the Federal Home Loan Banks' P&I Funding and Contingency Plan Agreement.

Proposed Changes to GSE Regulation. Congress may enact legislation that is designed to strengthen the regulation of Fannie Mae, Freddie Mac and the FHLBanks and to address other GSE reform issues. It is impossible to predict whether any provisions relating to the Finance Board and the FHLBanks will be included in any such legislation and what such provisions may be. It is further impossible to predict whether the House and Senate will approve such legislation and whether any such change in regulatory structure will be signed into law. Finally, it is impossible to predict when any such change would go into effect if it were to be enacted, and what effect the legislation would ultimately have on the Finance Board or the FHLBanks.

Proposed Finance Board Rule to Change the Capital Requirements and Dividend Payment Practices of the FHLBanks. On March 15, 2006, the Finance Board published a proposed rule that would change the capital structure of the FHLBanks by requiring a minimum level of retained earnings and restricting the amount of excess stock that an FHLBank can accumulate. The comment period on the proposed rule ended on July 13, 2006. The final rule, if any, approved by the Finance Board may be different from the proposed rule. Under the proposed rule:

- Each FHLBank would be required to hold retained earnings of at least $50 million plus 1% of non-advance assets.
- Dividends would be limited to no more than 50% of net income until the FHLBank reaches its required level of retained earnings.
- Payment of any dividends thereafter would be restricted if the FHLBank's retained earnings drop below its required level.
- The FHLBank's excess capital stock would be limited to no more than 1% of total assets.
- Members would be prohibited from purchasing capital stock in excess of their minimum capital stock requirements.
- The FHLBanks would be prohibited from paying stock dividends to their members.

Certain FHLBanks, based on current analysis, have determined that the proposed rule, if approved in its current form, would significantly reduce the percentage of earnings available for dividends for a number of years at many of the FHLBanks, could have a negative effect on the FHLBanks' ability to compete for the business of its members and ability to attract capital from members and potential members, and may have other unanticipated consequences.

FHLBank of Chicago Agreement with the Finance Board. On June 30, 2004, the FHLBank of Chicago entered into a Written Agreement with the Finance Board in order to address issues identified in the Finance Board's 2004 examination of the FHLBank of Chicago. Under the Written Agreement the FHLBank of Chicago agreed to implement changes to enhance the FHLBank of Chicago's risk management, capital management, governance and internal control practices, to submit a business and capital management plan to the Finance Board and to maintain a regulatory capital ratio of 5.1%. The Written Agreement also prohibits the FHLBank of Chicago from increasing the aggregate net book value of its acquired member assets program (Mortgage Partnership Finance Program) greater than 10% per annum. The Written Agreement has subsequently been amended three times in order to adjust the FHLBank of Chicago's minimum regulatory capital requirements as further described below.

In accordance with the Written Agreement, the FHLBank of Chicago engaged independent outside consultants to report on the FHLBank of Chicago's: (i) management and board oversight, (ii) risk management policies and practices, (iii) internal audit functions, and (iv) accounting,

recordkeeping and reporting practices and controls. The initiatives resulting from the Written Agreement and consulting reviews were focused on (i) enhanced governance, including improved Board reporting, increased frequency and documentation of Board and Board-level committee meetings, and a restructuring of Board committees including the establishment of a Risk Management Committee; (ii) a substantial increase in risk management staff and enhanced infrastructure, the adoption of an enterprise risk management framework, improved market risk modeling, research and oversight capabilities and a materially enhanced risk assessment process; (iii) the recruitment of an experienced senior Internal Audit manager, the dedication of increased audit resources, and changes to audit methodology and practices; and (iv) adjustments to accounting policy, improvements in hedge accounting documentation and reporting, increased accounting staff and support and substantial enhancement of policies and procedures associated with the transfer of debt between the FHLBank of Chicago and other FHLBanks. The FHLBank of Chicago has implemented recommendations from these studies.

The FHLBank of Chicago Business and Capital Management Plan for 2005—2007 included an initiative to reduce outstanding voluntary capital stock (capital stock held by a member in excess of their statutory requirement), delaying implementation of a new capital plan until a time mutually agreed upon between the FHLBank of Chicago and the Finance Board, exploring alternative methods of capitalizing and funding acquired member assets under the Mortgage Partnership Finance Program and adoption of a new retained earnings and dividend policy. The FHLBank of Chicago is re-assessing its capital plan and will evaluate potential amendments which would require approval by the Finance Board. The FHLBank of Chicago is exploring the development of off-balance sheet strategies to support the Mortgage Partnership Program and adopted a new retained earnings and dividend policy in April 2006.

On October 18, 2005, the FHLBank of Chicago's Board of Directors discontinued redemption of voluntary stock for a period of time as permitted by the FHLB Act and Finance Board regulations. Although the FHLBank of Chicago committed to a reduction of voluntary stock under its Business and Capital Management Plan for 2005—2007, year-to-date net redemptions through October 17, 2005 resulted in the FHLBank of Chicago's voluntary capital stock to regulatory capital ratio being reduced to less than its target amount for the end of 2005. With the reduction in the dividend rate from an average of 6.125% paid in 2004 to 3.75% (annualized rate) to be paid in the fourth quarter 2005 (based upon third quarter 2005 results), the FHLBank of Chicago expected the redemption rate to accelerate even more in the remaining months of 2005. On May 16, 2006, the FHLBank of Chicago Board of Directors voted to allow for the redemption of voluntary capital stock in accordance with capital stock redemption guidelines approved by the Finance Board and redemption windows announced by the FHLBank of Chicago. The FHLBank of Chicago redeemed $795 million of voluntary capital stock on June 6, 2006 and expects to redeem additional voluntary capital stock before December 31, 2006.

On October 18, 2005, The FHLBank of Chicago entered into Amendment No. 1 to its Written Agreement with the Finance Board which reduced the minimum required capital ratio from 5.1% to 4.5% and added a requirement that the FHLBank of Chicago maintain minimum regulatory capital stock of $3.978 billion. As of December 31, 2005, the FHLBank of Chicago was in compliance with both of these minimum regulatory capital requirements.

On April 18, 2006, the FHLBank of Chicago entered into Amendment No. 2 to the Written Agreement with the Finance Board, which reduced the minimum regulatory capital stock requirement by $204 million from $3.978 billion to $3.774 billion. In addition, the Finance Board also approved the FHLBank of Chicago's application to issue subordinated notes, which are not consolidated obligations.

On June 6, 2006, the FHLBank of Chicago entered into Amendment No. 3 to the Written Agreement, which became effective on June 13, 2006 upon receipt of proceeds from its subordinated notes issuance. Amendment No. 3 replaced the aggregate minimum regulatory capital stock requirement of $3.774 billion, with a requirement to maintain an aggregate amount of outstanding

regulatory capital stock plus subordinated notes (subject to phase-outs beginning in year six) of at least $3.500 billion. Amendment No. 3 also replaced the prior minimum regulatory capital ratio requirement, with a requirement to maintain a ratio of regulatory capital stock, plus retained earnings, plus subordinated notes (subject to phase-outs beginning in year six) to assets of at least 4.5%.

The FHLBank of Chicago is continuing to make progress on and has met nearly all of the requirements under its Written Agreement with the Finance Board including the following: maintaining its mortgage loan balances under the MPF Program within required growth limits, consistent compliance with its minimum regulatory capital requirements, completion of required outside consulting studies on its management, risk management, hedge accounting and internal audit practices; implementation of recommendations from those studies; and Finance Board approval of its Retained Earnings and Dividend Policy.

The FHLBank of Chicago's Written Agreement, as amended, has, and may continue to have, negative effects on the FHLBank of Chicago's capital resources and results of operations, although the subsequent amendments lowering the regulatory capital ratio from 5.1% to 4.5% may allow the FHLBank of Chicago to reverse some but not all of the effect by allowing the FHLBank of Chicago to make additional investments. Requirements to maintain higher ratios than the statutorily required 4.0% restricts the FHLBank of Chicago's ability to grow which may reduce the FHLBank of Chicago's earnings and returns on equity compared to what it would otherwise be able to earn in the absence of its Written Agreement. The FHLBank of Chicago also continues to experience increased operating expenses due to the increase in personnel as a result of infrastructure internal controls and process improvement initiatives resulting from the implementation of the FHLBank of Chicago's Written Agreement.

FHLBank of Seattle Agreement with the Finance Board and Other Matters. On December 10, 2004, under the oversight of a special committee of the FHLBank of Seattle's Board of Directors and with the FHLBank of Seattle's Board of Directors' approval, the FHLBank of Seattle entered into an agreement with the Finance Board that imposed certain requirements that are intended to strengthen the FHLBank of Seattle's risk management, capital structure, corporate governance, and capital plan. The FHLBank of Seattle's Board of Directors is responsible for monitoring and coordinating the FHLBank of Seattle's compliance with the terms of the Finance Board agreement. The Finance Board agreement required the FHLBank of Seattle to:

- develop an action plan, which must be acceptable to the Office of Supervision, to address findings presented by the Finance Board during its 2004 annual examination of the FHLBank of Seattle;
- submit to the Office of Supervision monthly reports on the FHLBank of Seattle's progress in addressing the requirements of the action plan;
- develop a business plan that is acceptable to the Office of Supervision and that, among other things:
    - does not increase the market, credit, or operational risk profiles of the FHLBank of Seattle,
    - specifies a minimum regulatory capital-to-assets ratio that is consistent with the business strategy presented in the business plan, and
    - establishes appropriate capital stock, retained earnings, and dividend policies;
- engage a consultant to conduct an independent review of the FHLBank of Seattle's senior management and the Board of Directors' oversight and respond to any recommendations of the independent consultant; and

- engage a consultant to conduct an independent review of the FHLBank of Seattle's risk management policies, procedures, and practices and respond to any recommendations of the independent consultant.

In addition, the Finance Board agreement:

- provides that, during the term of the agreement, the Office of Supervision may reject the FHLBank of Seattle's hiring of any senior management candidate;
- prohibits the FHLBank of Seattle from increasing its mortgage loan assets held for portfolio (i.e., purchased from the FHLBank of Seattle's members through the MPP) by an amount in excess of 10% of the net book value of such assets at November 18, 2004, which was $10.6 billion, unless the Office of Supervision agrees otherwise; and
- prohibits the FHLBank of Seattle from acquiring any additional consolidated obligations for which another FHLBank is the primary obligor without Finance Board approval.

Since entering into the Finance Board agreement, the FHLBank of Seattle has been working extensively on complying with the requirements set forth in the agreement.

On April 5, 2005, the FHLBank of Seattle submitted its business plan to the Finance Board. On May 18, 2005, the Finance Board accepted the business plan, subject to the FHLBank of Seattle's adoption of certain dividend and stock repurchase restrictions. To meet the Finance Board conditions, the FHLBank of Seattle's Board of Directors adopted policies on May 18, 2005: (i) suspending indefinitely the declaration or payment of any dividend and providing that any future dividend declaration or payment generally may be made only after prior approval of the Director of the Office of Supervision (OS) of the Finance Board, or the OS Director, and (ii) suspending indefinitely the repurchase of any Class B(1) or Class B(2) stock, except that a limited amount of Class B(2) stock repurchases may be made after prior approval of the OS Director. These policies will be in effect until formally revoked by the FHLBank of Seattle's Board of Directors following approval of the OS Director. The FHLBank of Seattle's Board of Directors may seek a waiver to declare dividends in 2006, provided that the FHLBank of Seattle is profitable. The FHLBank of Seattle does not expect to obtain waivers from the Finance Board for the repurchase of Class B stock prior to the end of the statutory five-year redemption period for the foreseeable future.

In October 2006, the Finance Board approved a number of changes to the FHLBank of Seattle's capital plan that will help the FHLBank of Seattle meet its members' increasing funding needs and provide greater flexibility with respect to members' investment alternatives with the FHLBank of Seattle. These changes are intended to encourage new borrowings by members of the FHLBank of Seattle and to simplify the terms and provisions of the FHLBank of Seattle's current capital plan. The amendments to the FHLBank of Seattle's capital plan include use of the FHLBank of Seattle's excess stock pool (equal to the total amount of the FHLBank of Seattle's excess stock at any given point in time) to support new borrowings by members that have fully utilized their FHLBank of Seattle stock, the consolidation of Class B(1) and Class B(2) stock into a single Class B stock, and the creation of a new Class A stock with a six-month redemption period.

Regarding the creation of a new Class A stock, members would have to use all their Class B stock to support advances before being able to purchase Class A stock. Members would also have to use all outstanding Class A stock to support advances before purchasing more Class A stock. The Class A stock would be redeemable six months after a redemption request, unlike the Class B stock, which has a five-year redemption period. The FHLBank of Seattle anticipates that the Class A stock would be subject to the same advances activity-based stock requirement as for Class B stock. The precise amount of dividends on the Class A stock would remain subject to the discretion of the FHLBank of Seattle's Board of Directors under the capital plan as amended.

In addition to the dividend and stock repurchase restrictions described above, the business plan includes the following key elements:

- changing the focus of the FHLBank of Seattle from mortgages to advances;
- expanding the use of differential pricing to increase advance volumes;
- proposing to amend the capital plan to permit the use of membership stock to support advances;
- substantially reducing the FHLBank of Seattle's interest-rate risk exposure by discontinuing the MPP, and developing alternatives for ongoing management of the mortgage loan portfolio;
- implementing an active hedging program to offset the interest-rate risk inherent in the FHLBank of Seattle's assets and liabilities;
- significantly increasing the FHLBank of Seattle's focus on market-risk measurement, monitoring, and management;
- specifying that the FHLBank of Seattle will provide 12-month projections to the Finance Board if retained earnings should fall below $40 million and, if the projections should show zero retained earnings or a retained deficit in any period, provide the Finance Board with a contingency plan for avoiding or addressing the retained deficit;
- requiring a minimum capital-to-assets ratio of 4.25% until MPP asset balances have been reduced and the transition to an advances-focused bank has been completed, at which time the minimum capital-to-assets ratio will be decreased to 4.15%;
- setting a long-term retained earnings target based on the FHLBank of Seattle's current retained earnings policy and practices; and
- proposing possible future authorization and issuance of Class A stock under the FHLBank of Seattle's capital plan to encourage increased advance borrowing.

The FHLBank of Seattle's Board of Directors has directed and overseen a number of actions to change the FHLBank of Seattle's business focus in accordance with the business plan, including, among others, changing the FHLBank of Seattle's senior management, refocusing the FHLBank of Seattle's strategic direction on our advances, exiting from the MPP, restructuring the FHLBank of Seattle's finance division and creating an independent risk management division, and decreasing the FHLBank of Seattle's staff, as well as proposing to the Finance Board amendments to the capital plan that would authorize the implementation of an excess stock pool and issuance of a new class of Class A stock.

Although the purpose of the Finance Board agreement, the business plan, and the steps the FHLBank of Seattle has taken to change its business and policies as described above is to strengthen the FHLBank of Seattle's risk management, capital structure, corporate governance, and capital plan, these measures have had and could in the future have consequences that adversely affect the FHLBank of Seattle's business, financial condition, and results of operations.

Additionally, in March 2005, the FHLBank of Seattle announced its development of an exit strategy from its MPP. In April 2005, the FHLBank of Seattle announced that an independent review committee of its board of directors was reviewing certain stock repurchases that occurred during the fourth quarter of 2004. (See Note 16 to the accompanying combined financial statements for additional discussion.)

Recent Rating Agency Actions

Federal Home Loan Banks
Long-Term and Short-Term Credit Ratings
As of November 7, 2006

	S&P		Moody's	
	Long-Term/ Short-Term Rating	Outlook	Long-Term/ Short-Term Rating	Outlook
Atlanta	AAA/A-1+	Stable	Aaa/P-1	Stable
Boston	AAA/A-1+	Stable	Aaa/P-1	Stable
Chicago	AA+/A-1+	Negative	Aaa/P-1	Stable
Cincinnati	AAA/A-1+	Stable	Aaa/P-1	Stable
Dallas(1)	AAA/A-1+	Stable	Aaa/P-1	Stable
Des Moines(2)	AAA/A-1+	Negative	Aaa/P-1	Stable
Indianapolis(1)	AAA/A-1+	Stable	Aaa/P-1	Stable
New York(3)	AAA/A-1+	Stable	Aaa/P-1	Stable
Pittsburgh(1)	AAA/A-1+	Stable	Aaa/P-1	Stable
San Francisco	AAA/A-1+	Stable	Aaa/P-1	Stable
Seattle	AA+/A-1+	Negative	Aaa/P-1	Stable
Topeka	AAA/A-1+	Stable	Aaa/P-1	Stable

(1) At December 31, 2005, the outlooks for the FHLBanks of Dallas, Indianapolis and Pittsburgh were negative.

(2) On April 26, 2006, S&P put the FHLBank of Des Moines' long-term AAA rating on CreditWatch with negative implications; the FHLBank of Des Moines' was removed from CreditWatch on September 21, 2006.

(3) At December 31, 2005, the FHLBank of New York's long-term counterparty rating was AA+.

RISK MANAGEMENT

The fundamental business of each FHLBank is to provide its members and housing associates with advances and other credit products with a wide range of maturities and terms to meet their demands. 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, can potentially expose the FHLBanks to a number of risks. These risks include credit risk and interest-rate risk. The FHLBanks are also subject to operational risk and business risk. To control these risks, each FHLBank has established policies and practices to evaluate and manage its credit, business, operational and interest-rate risk positions. The Finance Board has established regulations governing the risk management practices of the FHLBanks. The 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 types of off-balance sheet conduits. All derivatives are recorded in the Statements of Condition at fair value. The Finance Board regulation prohibits the speculative use of interest-rate exchange agreements. The FHLBanks do not trade derivatives for short-term profit.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 FHLBanks generally approach managing interest-rate risk by acquiring and maintaining a portfolio of assets and liabilities and entering into related interest-rate exchange agreements to limit the expected mismatches in duration. The FHLBanks manage interest-rate risk in several different ways, which are more fully discussed below.

The FHLBanks measure interest-rate risk exposure by various methods, including the calculation of duration of equity. Duration of equity measures how sensitive a theoretical market value of equity is to changes in interest rates. Higher duration numbers, whether positive or negative, indicate greater volatility in the market value of equity in response to changing interest rates. Under the Finance Board regulations, each FHLBank that has not yet converted to a new capital plan must ensure that its duration of equity stays within a range of +5 to −5 years, based on current interest rates. If one assumes an instantaneous parallel increase or decrease in interest rates of 200 basis points, the duration of equity of these FHLBanks must stay within a range of +7 to −7 years. The FHLBanks report the results of their duration of equity calculations to the Finance Board each quarter. The capital adequacy rules of the Finance Board require each FHLBank that has implemented a new capital plan to hold permanent capital in an amount sufficient to cover the sum of its credit, market and operations risks, as these risks are defined by the Finance Board capital rule. Each of these FHLBanks has developed a market risk model that calculates the market risk component of this requirement. (See Duration of Equity tables in the "Quantitative Disclosure about Market Risk" section on page 99 for the FHLBanks that had not yet converted to a new capital plan as of December 31, 2005 and 2004.)

The optionality embedded in certain financial instruments held by the FHLBanks can create interest-rate risk. When a member prepays an advance, this can lead to lower future income for the FHLBank. If the principal portion of the advance being prepaid is reinvested in assets yielding a lower return, but that principal amount continues to be funded by the original (higher-cost) debt, the FHLBank can suffer lower net returns. To protect against this risk, each FHLBank generally charges members a prepayment fee to compensate the FHLBank for this potential loss, making it financially indifferent to the prepayment. When an FHLBank offers advances (other than short-term advances) that a member may prepay without a prepayment fee, it usually finances these advances with callable debt or otherwise hedges this option.

The FHLBanks hold mortgage-related investments, such as:

— mortgage loans;

— mortgage-backed securities; and

— agency obligations.

Because mortgage-related investments contain prepayment options, changes in interest rates cause the expected maturities of these investments to become shorter or longer. The Finance Board regulation limits this source of interest-rate risk by restricting the types of mortgage-backed securities the FHLBanks may own. FHLBanks may own only those mortgage-backed securities whose changes in average life under certain interest-rate shock scenarios are limited. The FHLBanks may hedge against this 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.

Qualitative Disclosures about Market Risk

Interest-Rate Exchange Agreements

Types of Interest-Rate Exchange Agreements

General. To manage their exposure to changes in interest rates, the FHLBanks enter into the following kinds of derivatives (which are referred to in this Financial Report as "interest-rate exchange agreements"):

— interest-rate swaps;

— options;

— swaptions;

— interest-rate caps and floors agreements;

— futures, and forward contracts; and

— foreign currency hedges.

Consistent with Finance Board regulation, the FHLBanks enter into interest-rate exchange agreements only to reduce the market risk exposure inherent in otherwise unhedged assets and funding positions. Management of an FHLBank utilizes interest-rate exchange agreements in the most cost-efficient strategy and may enter into interest-rate exchange agreements that do not necessarily qualify for hedge accounting under SFAS 133 accounting rules. As a result, for these economic hedges the FHLBanks recognize only the change in fair value of these interest-rate exchange agreements in other income. They are recognized as net realized and unrealized gains (losses) on derivatives and hedging activities. No fair value adjustments of the asset, liability or firm commitment is recorded to offset these changes.

Interest-Rate Swaps. A swap is an agreement between two entities to exchange cash flows in the future. The agreement sets the dates on which the cash flows will be paid and the way in which the cash flows will be calculated. The simplest form of an interest-rate swap involves the promise by one party to pay cash flows equivalent to the interest on a notional principal amount at a predetermined fixed rate for a given period of time. In return for this promise, this party receives cash flows equivalent to the interest on the same notional principal amount at a variable-rate for the same period of time. The variable rate in most FHLBank interest-rate exchange agreements is LIBOR.

Options. Premiums paid to acquire options in a fair-value hedge relationship are accounted for at the fair value of the derivative at inception and are reported in derivatives assets or derivatives liabilities. They are considered the fair value of the option at inception.

Swaptions. A swaption is an option on a swap that gives the buyer the right to enter into a specified interest-rate swap at a certain time in the future. When used as a hedge, a swaption can protect an FHLBank that is planning to lend or borrow funds in the future against future interest rate changes. The FHLBanks purchase both payer swaptions and receiver swaptions. A payer swaption is the option to make fixed payments at a later date and a receiver swaption is the option to receive fixed payments at a later date.

Interest-Rate Caps and Floors. In a cap agreement, a cash flow is generated if the price or rate of an underlying variable rises above a certain threshold (or "cap") price. In a floor agreement, a cash flow is generated if the price or rate of an underlying variable falls below a certain threshold (or "floor") price. Caps are used in conjunction with liabilities and floors are used in conjunction with assets. Caps and floors are designed as protection against the rate of interest on a variable-rate asset or liability rising above or falling below a certain level.

Futures. The FHLBanks use futures contracts in order to hedge interest-rate risk. SFAS 133 permits the benchmark interest rate to be the designated risk in a hedge of interest-rate risk. The

benchmark interest rate encompasses both U.S. Treasury rates and LIBOR. In order to hedge benchmark interest-rate risk, the FHLBanks enter into Eurodollar futures contracts that they can demonstrate are highly correlated to LIBOR.

Eurodollar futures contracts are based on 3-month Eurodollar interest rates. All futures contracts are standardized, with specific value dates and fixed contract sizes. Eurodollar futures contracts are traded through the Chicago Mercantile Exchange. They provide for daily cash settlements in order to ensure against the risk of default by a counterparty.

Foreign Currencies. The FHLBanks have issued some consolidated obligations denominated in currencies other than U.S. dollars. The FHLBanks use forward exchange contracts to hedge currency risk on such consolidated obligations. These contracts exchange different currencies at specified rates on specified dates in the future. These contracts effectively simulate the conversion of consolidated obligations denominated in foreign currencies into ones denominated in U.S. dollars. As of December 31, 2005, there were no consolidated obligations denominated in foreign currencies.

Application of Interest-Rate Exchange Agreements

General. The FHLBanks use these derivatives to adjust the effective maturity, repricing frequency or option characteristics of financial instruments in order to achieve certain risk-management objectives. Derivative financial instruments are used by the FHLBanks in three ways:

— by designating them as a fair-value or cash-flow hedge of an underlying financial instrument, a firm commitment or an anticipated transaction;

— by acting as an intermediary; or

— in asset/liability management (i.e., non-SFAS 133 "economic" hedges).

For example, the FHLBanks use interest-rate exchange agreements in their overall interest-rate risk management to effectively adjust the interest-rate sensitivity of consolidated obligations to match more closely the interest-rate sensitivity of assets (advances, investments and mortgage loans). These derivatives are also used to effectively adjust the interest-rate sensitivity of assets to match 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 for the following purposes:

— to manage embedded options in assets and liabilities;

— to hedge the market value of existing assets, liabilities and anticipated transactions;

— to hedge the duration risk of prepayable instruments; and

— to reduce funding costs.

Each FHLBank reevaluates its hedging strategies from time to time and may change the hedging techniques it uses or adopt new strategies.

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

In a typical transaction of this kind, an FHLBank issues a fixed-rate consolidated obligation and simultaneously enters into a matching interest-rate exchange agreement. The counterparty in this interest-rate exchange agreement pays the issuing FHLBank a fixed cash flow that is designed to mirror (both in timing and amount) the cash outflow the issuing FHLBank must pay on the consolidated obligation. In this type of transaction, the FHLBank pays a variable cash flow that

closely matches the interest payments it receives on short-term or variable-rate advances. Such transactions are treated as fair-value hedges under SFAS 133. By acting in both the capital and the swap markets, the FHLBanks can raise funds at lower costs than through the issuance of simple fixed- or variable-rate consolidated obligations in the capital markets alone.

Advances. By issuing convertible advances, an FHLBank may purchase put options from a member that allow the FHLBank to convert the advance from a fixed rate to a variable rate if interest rates increase. A convertible advance carries an interest rate lower than a comparable-maturity advance that does not have the conversion feature. With a putable advance, an FHLBank effectively purchases a put option from the member that allows the FHLBank to put or extinguish the fixed-rate advance, which the FHLBank normally would exercise when interest rates increase, and the borrower may elect to enter into a new advance. An FHLBank may hedge these advances by entering into a cancelable interest-rate exchange agreement.

Mortgage Loans Held for Portfolio. The prepayment options embedded in mortgage assets held by the FHLBanks can extend or reduce the expected maturities of these investments, if prepayments occur earlier or later than originally estimated. In addition, to the extent the FHLBanks purchase mortgage assets at premiums or discounts, net income could be affected by such changes in the expected maturity. Net income could be reduced if the FHLBanks replace the mortgages with lower-yielding assets without reducing higher funding costs at the same time.

Swaps and options (including futures) may be combined into a portfolio of derivatives that is linked to a portfolio of mortgage loans. The portfolio of mortgage loans consists of one or more pools of similar assets. Similar assets are designated by factors such as product type and coupon. As the portfolio of loans changes due to new loans, liquidations and payments, the derivative portfolio is modified accordingly to hedge the interest-rate and prepayment risks effectively. A new hedging relationship is created with each change to the loan portfolio.

Options may also be used to hedge prepayment risk on the mortgages. Many of these hedges are not tied to a specific mortgage. To manage the prepayment risk embedded in the mortgage loans, the FHLBanks also purchase derivatives such as:

— interest-rate caps and floors;

— swaptions;

— callable swaps;

— calls; and

— puts.

Although these derivatives are valid economic hedges against the prepayment risk of the loans, they are also not specifically linked to individual loans.

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

Mortgage Purchase Commitment Strategies. The FHLBanks economically hedge the market value of commitments to purchase fixed-rate mortgage loans by using derivatives that have similar market value characteristics. These mortgage purchase commitments are considered derivatives. The FHLBanks normally hedge these commitments by selling mortgage-backed securities to be announced (TBA MBS) or other derivatives for forward settlement.

The FHLBanks may also hedge a firm commitment for a forward starting advance through the use of an interest-rate swap. In this case, the swap functions as the hedging instrument for both the firm commitment and the subsequent advance. The basis movement associated with the firm commitment will be included as a basis adjustment of the advance at the time the commitment is

terminated and the advance is issued. The basis adjustment will then be amortized into interest income over the life of the advance.

Investment Securities. The FHLBanks primarily invest in mortgage-backed securities, U.S. agency securities and the taxable portion of state or local housing finance agency securities. The interest-rate and prepayment risks associated with these investment securities is managed through a combination of debt issuance and derivatives. The FHLBanks may manage prepayment and duration risk by funding investment securities with consolidated obligations that contain 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 derivatives held by the FHLBank that are currently associated with trading securities carried at fair value and held-to-maturity securities are designated as economic hedges. The changes in fair values of these derivatives are recorded in current-period earnings.

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 realized and unrealized gains (losses) on derivatives and hedging activities, together with the related change in the fair value of the interest-rate exchange agreements. The amount of the change related to the unhedged risk is recorded in accumulated other comprehensive income as an unrealized gain or loss on available-for-sale securities. For 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 accumulated other comprehensive income as unrealized gains or losses on hedging activities. The ineffective portion is recorded in other income.

Finance Board regulations also limit the FHLBanks' exposure to interest rate and prepayment risks from investments in MBS and asset-backed securities. Under these regulations, the total book value of MBS owned by an FHLBank may not exceed 300 percent of the FHLBank's previous month-end capital on the day it purchases the securities. In addition, the FHLBanks are prohibited from purchasing:

- interest-only or principal-only stripped MBS;
- residual-interest or interest-accrual classes of collateralized mortgage obligations (CMOs) or real-estate mortgage investment conduits (REMICs); and
- fixed-rate MBS or variable-rate MBS that, on any given trade date, bears a rate equal to its contractual cap and has an average life that varies by more than six years, assuming an instantaneous interest rate change of 300 basis points.

Anticipated Debt Issuance. Certain FHLBanks use derivatives to "lock in" the cost of funding prior to an anticipated debt issuance. The portion in the change in fair value of the derivative deemed effective is reported in accumulated other comprehensive income. The ineffective portion is recorded in other income. The derivative is terminated upon issuance of the debt instrument. Amounts reported in accumulated other comprehensive income are reclassified to earnings in the periods in which earnings are affected by the variability of the cash flows of the debt that was issued.

Variable Cash Streams. Certain FHLBanks use derivatives to hedge the variability of cash flows over a specified period of time as a result of the issuances and maturities of short-term fixed-rate instruments such as discount notes. The maturity dates of the cash flow streams are matched to the maturity dates of the derivatives. The change in the value of the derivatives is recorded in accumulated other comprehensive income. If the derivatives are terminated prior to their maturity dates, the amount in accumulated other comprehensive income is amortized over the remaining lives of the specified cash streams.

Intermediation. To meet the asset/liability management needs of their members, the FHLBanks may enter into offsetting interest-rate exchange agreements. Under these agreements they act as an intermediary between members and other counterparties. This intermediation grants indirect access to the swap market to smaller members. The derivatives used in intermediary activities do not receive SFAS 133 hedge accounting treatment 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 Amounts. The notional amount of derivatives serves as a factor in determining periodic interest payments or cash flows received and paid.

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" and "Cash Flow" represent hedge strategies for which hedge accounting is achieved. The category "Economic" represents hedge strategies for which hedge accounting is not achieved.

Total Derivative Financial Instrument by Product
(Dollar amounts in millions)

	December 31, 2005		December 31, 2004	
	Total Notional	Total Estimated Fair Value (excludes accrued interest)	Total Notional	Total Estimated Fair Value (excludes accrued interest)
Advances				
Fair Value—existing cash item	$239,362	$ 412	$246,116	$(5,208)
Fair Value—firm commitments	1,266	2	127	
Cash Flow—existing cash item			575	11
Cash Flow—anticipated transaction	575	2	100	6
Economic	18,846	(6)	23,170	(28)
Total	260,049	410	270,088	(5,219)
Investments				
Fair Value—existing cash item	2,095	(178)	5,810	(357)
Economic (includes trading securities hedges)	13,102	(214)	15,992	(818)
Total	15,197	(392)	21,802	(1,175)
MPF/MPP Loans Held for Portfolio				
Fair Value—existing cash item	14,634	109	11,663	29
Cash Flow—delivery commitments			136	1
Stand Alone—delivery commitments	202	1	415	
Economic (includes TBAs)	14,496	7	30,054	130
Total	29,332	117	42,268	160
Consolidated Obligations—Bonds				
Fair Value—existing cash item	452,933	(5,972)	390,131	(2,121)
Fair Value—firm commitments			35	
Cash Flow—existing cash item			501	4
Cash Flow—anticipated transaction	1,184	6	1,012	(1)
Economic	41,945	(81)	31,406	54
Total	496,062	(6,047)	423,085	(2,064)

	December 31, 2005		December 31, 2004	
	Total Notional	Total Estimated Fair Value (excludes accrued interest)	Total Notional	Total Estimated Fair Value (excludes accrued interest)
Consolidated Obligations—Discount Notes				
Fair Value—existing cash item			1,573	(2)
Cash Flow—existing cash item	2,600	133		
Cash Flow—anticipated transaction			2,600	132
Economic	11,648	43	8,243	6
Total	14,248	176	12,416	136
Deposits				
Fair Value	20	5	20	6
Total	20	5	20	6
Balance Sheet				
Economic	6,265	2	10,775	6
Total	6,265	2	10,775	6
Intermediary Positions				
Intermediaries	3,481	2	4,220	3
Total	3,481	2	4,220	3
Total notional and estimated fair value	$824,654	$(5,727)	$784,674	$(8,147)
Total derivatives excluding accrued interest		$(5,727)		$(8,147)
Accrued interest		779		749
Net derivative balances		$(4,948)		$(7,398)
Net derivative asset balances		$ 951		$ 737
Net derivative liability balances		(5,899)		(8,135)
Net derivative balances		$(4,948)		$(7,398)

The notional amount of derivatives represents neither the actual amounts exchanged nor the overall exposure of the FHLBanks to credit and market risk. The overall amount that could potentially be subject to credit loss is much smaller. Notional values are not meaningful measures of the risks associated with derivatives. The risks of derivatives can only be measured meaningfully on a portfolio basis. This measurement must take into account the derivatives, the item being hedged and any offsets between the two. In accordance with SFAS 133, each FHLBank classifies derivative assets and derivative liabilities according to the net fair value of derivatives with each of its counterparties. If the net fair value of derivatives with one of its counterparties is positive, it is classified as an asset by that FHLBank. If the net fair value of derivatives with one of its counterparties is negative, it is classified as a liability by that FHLBank. As of December 31, 2005, the FHLBanks had combined derivative assets of $951 million and combined derivative liabilities of $5.9 billion. As of December 31, 2004, the FHLBanks had combined derivative assets of $737 million and combined derivative liabilities of $8.1 billion. The $2.2 billion decrease in combined derivative liabilities from December 31, 2004 to December 31, 2005 is the result of interest rate changes and the small growth in derivative volumes.

Quantitative Disclosure about Market Risk

The FHLBanks use duration to measure their exposure to changes in interest rates. Duration is the weighted-average maturity (typically measured in months or years) of the cash flows of an instrument, weighted by the present value of those cash flows. Duration measures the time required

to recapture an investment, assuming repaid principal is reinvested. The longer the duration, the higher the risk. Duration is also a measure of price volatility. For example, if interest rates on an instrument with a duration of 5 years change by 1 percent, the value of this instrument will change by 5 percent.

Duration of equity can be described as follows:

$$\frac{\text{duration of assets weighted by market value } \textit{minus} \text{ duration of liabilities weighted by market value}}{\text{market value of equity}}$$

Each FHLBank has an internal modeling system for measuring duration of equity and duration gap and, therefore, individual FHLBank measurements may not be directly comparable.

For each FHLBank that has not yet converted to a new capital plan, Finance Board policy requires that it maintain its duration of equity (at current interest rates using the consolidated obligation cost curve or an appropriate discounting methodology) within a range of +/−5 years. Each of these FHLBanks 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 that has converted to its new capital structure is no longer subject by regulation to the duration of equity requirements, and therefore may not manage its operations to remain within the Finance Board's policy requirements.

In calculating and measuring duration of equity, the FHLBanks also calculate and measure their duration gap. The duration gap is the difference between the estimated durations (market value sensitivity) of assets and liabilities (including the effect of interest-rate exchange agreements) and reflects the extent to which estimated maturity and repricing cash flows for assets and liabilities are matched.

Duration Gap
(In months)

FHLBank	December 31, 2005	December 31, 2004
Boston	0.8	1.2
New York	0.2	0.5
Pittsburgh	1.0	0.5
Atlanta	0.3	0.5
Cincinnati	1.0	(0.0)
Indianapolis	2.2	2.2
Chicago	(0.1)	1.0
Des Moines	(0.5)	(1.3)
Dallas	0.4	1.1
Topeka	0.7	(0.4)
San Francisco	0.6	0.7
Seattle	(0.8)	(1.4)

The table below reflects measurement by each FHLBank that has not yet converted to a new capital structure of its exposure to interest-rate risk in accordance with the Finance Board policy. The table summarizes the interest-rate risk associated with all instruments entered into by these FHLBanks. The FHLBank of New York converted to its new capital plan on December 1, 2005.

Duration of Equity
(In years)

FHLBank	December 31, 2005 + 200 basis point change	Base	− 200 basis point change
Chicago	3.4	(0.5)	(3.4)

FHLBank	December 31, 2004 + 200 basis point change	Base	− 200 basis point change
New York	3.5	1.5	(1.4)
Chicago	4.1	0.4	2.0

The Finance Board regulation restricts the down rate from assuming a negative interest rate. Therefore, the FHLBank adjusts the down rate accordingly.

As mortgage assets with their embedded optionality (which is partially offset by the related funding/hedging strategy) grow, the range of duration of equity at certain FHLBanks widens.

LIQUIDITY RISK

Liquidity risk is the risk that an FHLBank will be unable to meet its financial obligations as they come due or meet the funding needs of its members in a timely, cost-effective manner. There are two types of liquidity risk that affect the FHLBanks:

1. Operational Liquidity Risk: the potential inability of an FHLBank to meet the deposit liquidity requirements to fund the anticipated (or unanticipated) day-to-day needs through its normal sources of funding; and
2. Contingency Liquidity Risk: the potential inability of an FHLBank to meet its liquidity needs due to an unanticipated increase in funding requests from its members or in the event it cannot access the capital markets for a period of time due to a contingency such as a market disruption, operational failure or problems with its credit quality.

To address liquidity risk, the FHLBank Act and Finance Board regulations set liquidity requirements for the FHLBanks. The board of directors of the individual FHLBanks also set additional liquidity policies.

Under the FHLBank Act, each FHLBank must have an amount equal to its current deposits invested in:

- investments in obligations of the U.S. government and its agencies;
- deposits in eligible banks or trust companies; or
- advances with a maturities that do not exceed five years

to cover its operational risk.

In addition, to address contingency risk, Finance Board regulations require each FHLBank to have sources of funding at hand to ensure its operational requirements for a period of up to five days, in the event it is unable to access the consolidated obligation debt markets.

Each of the FHLBanks was in compliance with its respective liquidity requirements as of December 31, 2005.

CREDIT RISK

General

Credit risk is the risk of loss due to default. The FHLBanks face credit risk on advances, investments (including mortgage-backed securities), mortgage loans held for portfolio and interest-rate exchange agreements. While the credit risk FHLBanks face on advances is minimal, they are subject to credit risk on investments, on mortgage loans held for portfolio 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 regulation 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.

Managing Credit Risk

Advances. The FHLBanks protect against credit risk on advances by collateralizing all advances. The FHLBank Act requires that FHLBanks obtain and maintain from their members collateral to secure advances at the time these are originated or renewed. Members are also required to collateralize any letters of credit issued for their benefit by an FHLBank. Each FHLBank can call for additional or substitute collateral during the life of an advance to protect its security interest. Collateral eligible to secure advances includes:

1) one-to-four family and multifamily mortgage loans (delinquent for no more than 90 days) and securities representing such mortgages;

2) securities issued, insured or guaranteed by the U.S. government or any U.S. government agency (for example, mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae);

3) cash or deposits in the FHLBank; and

4) certain other collateral that is real estate-related, provided that the collateral has a readily ascertainable value and that the FHLBank can perfect a security interest in it.

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 warrants this. 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.

Members that qualify as a "community financial institution" (which is defined in the FHLBank Act as an FDIC-insured depository institution that had average assets for the past three calendar years totaling no more than $548 million during 2004, $567 million during 2005 and $587 million during 2006) can also pledge small-business, small-farm, and small-agribusiness loans as collateral for advances.

An FHLBank has a statutory lien under the FHLBank Act on that FHLBank's capital stock held by its members, which serves as further collateral for the indebtedness of these members to the FHLBank. The vast majority of advances are collateralized with mortgages. In order to borrow from its FHLBank, a member must pledge collateral in the form of a blanket lien or by specific identification, or deliver such collateral to the FHLBank or its agent. Under the FHLBank Act, a security interest granted to an FHLBank by a member is entitled to a priority over the claims and rights of any party (including any receiver, conservator, trustee or similar lien creditor), except the claims and rights of a party that would be entitled to priority under otherwise applicable law and is

an actual *bona fide* purchaser for value of such collateral or is an actual secured party whose security interest in such collateral is perfected in accordance with applicable state law.

No FHLBank has ever experienced a credit loss on an advance. However, the expanded eligible collateral for community financial institutions and non-member housing associates increases the credit risk of the FHLBanks. Advances to community financial institutions secured with the expanded collateral represent approximately $7 billion of the total $620 billion advances outstanding at par value as of December 31, 2005. Advances to housing associates represent $619 million of the total $620 billion advances outstanding at par value as of December 31, 2005. The management of each FHLBank believes it has adequate policies and procedures in place to manage its credit risk on advances effectively.

Investments. In order to minimize credit risk on investments, the FHLBanks are required to operate within certain statutory and regulatory limits. Under Finance Board regulations, the FHLBanks are prohibited from investing in certain types of securities, which include:

- instruments, such as common stock, that represent an ownership in an entity, other than stock in small business investment companies, or certain investments targeted at low-income persons or communities;

- instruments issued by non-U.S. entities, other than those issued by U.S. branches and agency offices of foreign commercial banks (e.g., Federal funds);

- non-investment grade debt instruments, other than certain investments targeted at low-income persons or communities and instruments that were downgraded after their purchase by the FHLBank;

- whole mortgages or other whole loans, other than:

  1) whole mortgages or loans acquired under the FHLBank's mortgage purchase program;

  2) certain investments targeted to low-income persons or communities;

  3) certain marketable direct obligations of state, local, or tribal government units or agencies, having at least the second highest credit rating from an NRSRO;

  4) mortgage-backed securities or asset-backed securities backed by manufactured housing loans or home equity loans; and

  5) certain foreign housing loans authorized under section 12(b) of the FHLBank Act; and

- non-U.S. dollar-denominated securities.

The FHLBanks further manage credit risk from investment securities by investing in highly-rated investment securities. As of December 31, 2005 and 2004, 99.99 percent and 99.98 percent of all investments by the FHLBanks in mortgage-backed securities were rated triple-A.

Investment Securities Ratings
(Dollar amounts in millions)

Investment Rating	December 31, 2005* Amounts	December 31, 2005* Percentage of Total Investments	December 31, 2004** Amounts	December 31, 2004** Percentage of Total Investments
Long-term Rating				
Triple-A	$139,796	95.0%	$138,041	95.8%
Double-A	1,218	0.8%	1,498	1.1%
Short-term Rating				
A-1 or higher/P-1	6,038	4.1%	4,466	3.1%
A-2/P-2	150	0.1%	70	0.0%
Unrated investment securities	39	0.0%	39	0.0%
Total	$147,241	100.0%	$144,114	100.0%

* This chart does not reflect changes in any rating, outlook or watch status after December 31, 2005. The ratings were obtained from S&P, Moody's and/or Fitch.

** This chart does not reflect changes in any rating, outlook or watch status after December 31, 2004. The ratings were obtained from S&P, Moody's and/or Fitch.

Unsecured Credit Exposure
(Dollar amounts in billions)

	December 31, 2005	December 31, 2004	Increase Amount	Increase Percentage
Unsecured credit exposure of FHLBanks to counterparties, excluding U.S. government, U.S. government agencies, and instrumentalities(1)	$121.0	$78.8	$42.2	53.5%
Maturities of unsecured credit exposure:				
Overnight	40.5%	50.5%		
2-30 days	26.3%	27.3%		
31-90 days	30.1%	20.6%		
91-270 days	3.1%	1.6%		

(1) Included in this total at December 31, 2005 and 2004 is unsecured credit of $1.8 billion to Washington Mutual Bank (formerly Washington Mutual Bank, FA). Washington Mutual Bank had advances of $64.5 billion and $69.6 billion from the FHLBanks of San Francisco, Dallas and New York as of December 31, 2005 and 2004. Additionally, its affiliated Washington Mutual Bank, FSB, had advances of $4,289 million and $468 million from the FHLBank of Seattle as of December 31, 2005 and 2004.

Most of this unsecured credit exposure was Federal funds sold and commercial paper (dollar amounts in billions):

	2005	2004	Increase Amount	Increase Percentage
Federal funds sold	$80.6	$54.6	$26.0	47.5%
Commercial paper	5.8	3.5	2.3	65.8%

At December 31, 2005, the FHLBanks had aggregate unsecured credit exposure of more than $1 billion to each of 43 counterparties. The aggregate unsecured credit exposure to these 43 counterparties represented 77 percent of the FHLBanks' unsecured credit exposure to non-government counterparties.

All of the advances were secured borrowings. An officer of Washington Mutual Bank served as a director of the FHLBank of San Francisco during 2005. In February 2001, Washington Mutual Bank (formerly 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. The principal purpose of these renegotiations was to extend the term of these advances. Following the acquisition, Washington Mutual Bank is responsible for the repayment of these advances to the FHLBank of Dallas. The outstanding balance of $7.5 billion is included in the Washington Mutual Bank advance amount noted above.

On January 7, 2002, Washington Mutual, Inc. finalized its acquisition of the parent company of Dime Savings Bank of New York. 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 $8.6 billion from the FHLBank of New York. After the merger, Washington Mutual Bank (formerly Washington Mutual Bank, FA), is responsible for the repayment of these advances to the FHLBank of New York. The outstanding balance of $104 million is included in the Washington Mutual Bank advance amount noted above.

Mortgage Loans Held for Portfolio. All twelve FHLBanks have established or participate in member mortgage asset purchase programs as services to their members. All of the programs involve the investment by the FHLBank in loans either funded by the FHLBank through, or purchased directly from, PFIs. 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 and assets acquired under the MPP program developed by the FHLBanks of Cincinnati, Indianapolis and Seattle. On October 6, 2006, the FHLBank of San Francisco announced that it will no longer offer new master commitments to purchase mortgage loans from its PFIs under the MPF Program. All of the FHLBanks except Cincinnati, Indianapolis and Seattle offer the MPF Program to their members. Under these programs, the FHLBank purchases/funds mortgage assets from or through members or housing associates, for which the members or housing associates continue to bear a portion of the credit risk. The mortgage loans purchased/funded under these programs may carry more credit risk than advances, even though the respective member or housing associate provides credit enhancement. The credit risk under these programs is managed as follows:

— *MPF Loans:* The general allocation of credit losses is segregated into five components. The first layer of protection against credit loss is the borrower's equity in the real property securing the MPF Loan. The second layer of protection is primary mortgage insurance issued by qualified companies for mortgage loans with LTVs greater than 80%. Covered losses (all types of losses except those generally classified as special hazard losses) are reimbursed by the primary mortgage insurance provider. Third, credit losses for each master commitment that are not paid by primary mortgage insurance are incurred by the MPF FHLBank, up to an agreed upon amount, called a "First Loss Account" or "FLA." The FLA is structured by the MPF FHLBank as a memo account to track losses not covered by the credit enhancement amount provided by the PFI (or not yet recovered by the withholding of performance based credit enhancement fees). The amount of the FLA varies by product. It may be set as a specified number of basis points of the outstanding principal balance of mortgage loans delivered by the PFI or it may initially be set at zero and grown on a monthly basis. The FLA is not a cash collateral account, and does not give an MPF FHLBank any right/obligation to receive/pay cash or any other collateral, but rather, it functions as a tracking mechanism for determining the point after which the PFI, in its role as credit enhancer, would be required to reimburse an MPF FHLBank under the credit enhancement amount for losses incurred. The PFI is paid a monthly credit enhancement fee for managing credit risk on the mortgage loans. In certain cases, the credit enhancement fees are performance based which provides incentive to the PFI to minimize credit losses on MPF Loans. These fees may be withheld to recover losses incurred by the FHLBank. Fourth, losses for each Master Commitment in excess of the FLA, if any, up to an agreed upon amount (the credit enhancement amount) are covered by the PFI's credit

enhancement obligation. The PFI's credit enhancement amount is sized using the MPF Program Methodology to equal the amount of losses in excess of, or including, the FLA (depending on the MPF product) that would need to be paid so that any losses in excess of the CE Amount and initial FLA would be equivalent to losses experienced by an investor in an "AA" rated mortgage-backed security. The PFI may procure supplemental mortgage insurance to cover losses equal to all or a portion of the credit enhancement amount (except that losses generally classified as special hazard losses are covered by the portion of the credit enhancement amount covered by the PFI or by the MPF FHLBank and not by supplemental mortgage insurance). Fifth, any remaining unallocated losses are absorbed by the MPF FHLBank.

— *MPP Loans:* At the time of purchase of the underlying conventional loan, a "Lender Risk Account" is established by the FHLBank for each PFI selling an MPP loan. The "second layer" of losses that exceed coverage of the PMI are absorbed by the Lender Risk Account of the respective PFI that originated the MPP loan. After five years, if the balance of the funds in the Lender Risk Account exceeds the required balance, the excess amounts are distributed to the PFI based on a step-schedule set forth in the master commitment contract that establishes the Lender Risk Account. Once an MPP loan has been outstanding for more than eleven years, there is no longer any balance required to be maintained in the Lender Risk Account with respect to that loan. To cover losses that exceed the PMI and the balance in the Lender Risk Account, each PFI is required to provide SMI, adding an additional layer of credit support to the MPP loan. This insurance reduces the overall loss exposure to 50 percent of the property value at the time of the loan origination. If any loss extends beyond the insurance coverage and the balance held in the Lender Risk Account, the FHLBank(s) holding the interest(s) in the affected MPP loan would be responsible for absorbing this remaining loss.

All of the FHLBanks participating in these programs have established appropriate loan loss allowances or have determined that no loan loss allowances is necessary. Management at each FHLBank believes that it has adequate policies and procedures in place to manage appropriately this credit risk. Neither the PFI credit enhancements nor the 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. The "acquired member asset rule" of the Finance Board specifies that assets must consist of 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 nexus with the member or housing associate. 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 credit-risk exposure of the FHLBank to no less than investment grade. The relevant credit-risk exposure must be determined by a formal rating or a comparable methodology. The Finance Board's acquired member asset rule also applies to securities created by the MPF Shared Funding Program. All of the mortgage loans acquired under these programs that were not government-insured were credit enhanced by members to a level at least equivalent to an investment-grade rating.

The following tables set out the geographic concentration of mortgage loans held for portfolio by the FHLBanks. By reducing geographic concentration of the mortgage loans under their MPF Program and MPP, the FHLBanks can mitigate credit risk. These tables show the geographic concentration on an aggregated basis for all 12 FHLBanks that purchase or fund loans under the MPF Program and MPP. As a result the tables do not necessarily reflect the actual geographic concentration with respect to each individual FHLBank.

Geographic Concentration of MPF Program (1) (2)

	December 31, 2005	December 31, 2004
Midwest	31%	30%
Northeast	16%	16%
Southeast	20%	20%
Southwest	16%	16%
West	17%	18%
Total	100%	100%

Geographic Concentration of MPP (1) (2)

	December 31, 2005	December 31, 2004
Midwest	32%	30%
Northeast	12%	13%
Southeast	21%	21%
Southwest	16%	16%
West	19%	20%
Total	100%	100%

(1) Calculated percentage based on unpaid principal at the end of each period.

(2) Midwest consists of IA, IL, IN, MI, MN, ND, NE, OH, SD and WI. Northeast consists of CT, DE, MA, ME, NH, NJ, NY, PA, PR, RI, VI and VT. Southeast consists of AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA and WV. Southwest consists of AR, AZ, CO, KS, LA, MO, NM, OK, TX and UT. West consists of AK, CA, GU, HI, ID, MT, NV, OR, WA and WY.

The FHLBanks' MPF loans held for portfolio are dispersed across all 50 states, the District of Columbia and Puerto Rico. No single zip code represented more than 1 percent of MPF loans outstanding at December 31, 2005. The median size of an MPF loan was approximately $119,000 as of December 31, 2005. The MPF loan statistics have been compiled on a combined basis by aggregating each participating FHLBank's information and, therefore, do not reflect the concentration levels and mortgage loan portfolio information at individual participating FHLBanks.

Hurricane Katrina struck Louisiana, Mississippi, Alabama and surrounding areas on August 29, 2005. As of December 31, 2005, the MPF Program held 13,253 conventional MPF loans totaling approximately $1.7 billion related to properties located in the Individual Assistance and Public Assistance categories as designated by FEMA. The MPF provider assessed the potential loss exposure related to Hurricane Katrina, and does not believe that there will be a material loss exposure due to the credit enhancement structures built into the MPF Program.

The FHLBanks' MPP mortgage loans held for portfolio are dispersed across all 50 states and the District of Columbia. No single zip code accounted for more than 1 percent of MPP loans outstanding at December 31, 2005. The median size of an MPP loan is approximately $136,000 as of December 31, 2005. The MPP mortgage loan statistics have been compiled on a combined basis by

aggregating each participating FHLBank's information, and therefore do not reflect the concentration levels and mortgage loan portfolio information at individual participating FHLBanks.

The following table provides the weighted average FICO® scores and weighted average loan-to-value at origination for MPF loans and MPP loans outstanding at December 31, 2005:

	MPF	MPP
Weighted average FICO® score(1)	736	745
Weighted average loan-to-value at origination	67%	69%

(1) FICO® is a widely used credit industry model developed by Fair, Isaac and Company, Inc. to assess borrower credit quality with scores ranging from 150 to 950.

The MPF loan statistics and MPP mortgage loan statistics have been compiled on a combined basis by aggregating each participating FHLBank's information, and therefore do not reflect the weighted average FICO® score and weighted average loan-to-value at origination information at individual participating FHLBanks.

Derivatives and Counterparty Ratings. In addition to market risk, each FHLBank is subject to credit risk because of the potential non-performance by counterparties to the derivative agreements. The degree of counterparty risk on derivatives depends on the extent to which netting procedures and other credit enhancements are used to mitigate the risk. As of December 31, 2005, 5 counterparties represented approximately 51.8 percent of the total notional amount of outstanding derivative transactions and each had a credit rating of single-A or better. For the year ended December 31, 2005, none of these counterparties represented more than 11 percent of the FHLBanks' net exposure after collateral. Each FHLBank manages counterparty credit risk through credit analysis, collateral management and other credit enhancements. They are also required to follow the requirements set forth by Finance Board regulation. The FHLBanks require collateral on interest-rate exchange agreements. The amount of net unsecured credit exposure that is permissible with respect to each counterparty, before a collateral requirement is triggered, depends on the credit rating of that counterparty. A counterparty must deliver collateral to an 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 maximum credit risk of an FHLBank with respect to interest-rate exchange agreements is the estimated cost of replacing favorable interest-rate swaps, forward agreements and purchased caps and floors if the counterparty defaults, *minus* the value of any related collateral. In determining maximum credit risk, the FHLBanks consider, with respect to each counterparty, accrued interest receivables and payables as well as the legal right to offset assets and liabilities.

Derivative Counterparty Credit Exposure
(Dollar amounts in millions)

At December 31, 2005

Credit Rating*	Notional Amount	Total Net Exposure at Fair Value	Total Net Exposure Collateralized	Net Exposure After Collateral
Triple-A	$ 20,613	$ 8	$ 7	$ 1
Double-A	468,040	431	326	105
Single-A	327,666	455	366	89
Triple-B	5,504			
Unrated(1)	656			
	822,479	894	699	195
Intermediaries(2)	1,981	32	32	
Delivery commitments(3)	194	1		
Total derivatives	$824,654	$927	$731	$195

At December 31, 2004

Credit Rating**	Notional Amount	Total Net Exposure at Fair Value	Total Net Exposure Collateralized	Net Exposure After Collateral
Triple-A	$ 19,442	$ 36	$ 33	$ 3
Double-A	428,253	443	386	57
Single-A	333,254	214	173	41
Triple-B	17			
Unrated(1)	421			
	781,387	693	592	101
Intermediaries(2)	2,736	37	37	
Delivery commitments(3)	551	1		
Total derivatives	$784,674	$731	$629	$101

* This chart does not reflect changes in any rating, outlook or watch status after December 31, 2005. The ratings were obtained from S&P, Moody's and/or Fitch.

** This chart does not reflect changes in any rating, outlook or watch status after December 31, 2004. The ratings were obtained from S&P, Moody's and/or Fitch.

(1) Unrated counterparties represent broker-dealers utilized to purchase or sell forward contracts relating to TBA MBS to hedge the market value of commitments on fixed-rate mortgage loans. All broker-dealer counterparties are subjected to thorough credit review procedures in accordance with the FHLBank's risk management policy. There was no exposure at December 31, 2005 and $26 thousand of exposure at December 31, 2004 related to these unrated counterparties.

(2) Collateral held with respect to interest-rate exchange agreements with member institutions represents either collateral physically held by or on behalf of the FHLBank or collateral assigned to the FHLBank, as evidenced by a written security agreement, and held by the member institution for the benefit of the FHLBank.

(3) The total fair-value exposures related to delivery commitments are offset by pair-off fees from the FHLBank members.

Excluding fully collateralized interest-rate exchange agreements in which the FHLBanks are intermediaries for members, over 99.3 percent of the notional amount of the FHLBanks' outstanding interest-rate exchange agreements are with counterparties rated single-A or higher. As of December 31, 2005, 31 counterparties represented 99.95 percent of the total notional amount of the FHLBanks' outstanding interest-rate exchange agreements excluding agreements in which the

FHLBanks are intermediaries. Approximately 61 percent of these agreements are with 22 counterparties that are rated double-A or higher. Approximately 39 percent of these agreements are with 9 counterparties that are rated single-A.

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 systems of risk assessments as well as financial and operating polices and procedures to mitigate the likelihood of such occurrences and the potential for damage that could result from them. They have also instituted appropriate insurance coverage for such risks. The policies and procedures of the FHLBanks include controls to ensure that system-generated data are reconciled to source documentation on a regular basis. The internal audit department of each FHLBank, which reports directly to the audit committee of the individual FHLBank, regularly monitors compliance by the FHLBank 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. Some of the operational risks of the FHLBanks, however, are beyond their control. Furthermore, the failure of other parties to address their operational risk adequately could adversely affect the FHLBanks.

BUSINESS RISK

Business risk is the risk of an adverse effect on the profitability of an FHLBank as a result of external factors. These external factors may occur in both the short and long term. Business risk includes political, strategic, reputation and/or regulatory events that are beyond the control of the individual FHLBank. From time to time, proposals or changes in laws and regulations are made or considered, which could affect the status of the FHLBanks and their costs of doing business.

The board of directors and management of each FHLBank try to mitigate these business risks through long-term strategic planning and by continually monitoring economic indicators and their external environment.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Quarterly Results of Operations

Selected Quarterly Financial Data (Unaudited)

Statements of Income
(Dollar amounts in millions)

	2005 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Income Statement				
Total interest income	$7,346	$8,313	$9,326	$10,435
Total interest expense	6,293	7,291	8,291	9,339
Net interest income before provision (reversal) for credit losses	1,053	1,022	1,035	1,096
Provision (reversal) for credit losses	1			(1)
Net interest income after provision (reversal) for credit losses	1,052	1,022	1,035	1,097
Service fees	4	8	9	6
Net (losses) gains on trading securities	(189)	196	(215)	(97)
Net realized (losses) gains from sale of available-for-sale securities	(2)	4	264	1
Net realized losses from sale of held-to-maturity securities				(1)
Net gains (losses) on derivatives and hedging activities	231	(681)	306	122
Other, net	(8)	4	7	(29)
Total non-interest income (loss)	36	(469)	371	2
Operating	150	159	154	194
Finance Board and Office of Finance	16	15	11	14
Other	3	6	5	2
Total other expense	169	180	170	210
Affordable Housing Program	75	34	100	73
REFCORP	173	64	226	162
Total assessments	248	98	326	235
Income before cumulative effect of change in accounting principles	671	275	910	654
Cumulative effect of change in accounting principles before assessments	15			
Net income	$ 686	$ 275	$ 910	$ 654

Certain FHLBanks have restated their quarterly results of operations for the year ended December 31, 2004, and therefore an individual FHLBank's reported quarterly amounts may not agree to the quarterly amounts included in the Selected Quarterly Financial Data noted below. These differences are not material at the combined level for any quarterly period.

	2004 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Income Statement				
Total interest income	$4,838	$4,940	$5,669	$6,478
Total interest expense	3,780	3,918	4,641	5,415
Net interest income before reversal for credit losses	1,058	1,022	1,028	1,063
Reversal for credit losses	(1)			(4)
Net interest income after reversal for credit losses	1,059	1,022	1,028	1,067
Service fees	6	6	8	7
Net gains (losses) on trading securities	165	(431)	205	(45)
Net realized gains (losses) from sale of available-for-sale securities	2	(35)	15	1
Net realized gains from sale of held-to-maturity securities	7	2	1	3
Net (losses) gains on derivatives and hedging activities	(865)	1,003	(875)	(47)
Other, net		(9)	2	(16)
Total non-interest (loss) income	(685)	536	(644)	(97)
Operating	122	130	136	159
Finance Board and Office of Finance	15	11	13	7
Other	4	7	4	4
Total other expense	141	148	153	170
Affordable Housing Program	23	121	17	64
REFCORP	53	266	39	147
Total assessments	76	387	56	211
Income before cumulative effect of change in accounting principles	157	1,023	175	589
Cumulative effect of change in accounting principles before assessments	50			
Net income	$ 207	$1,023	$ 175	$ 589

Restatements. The combined financial statements of seven of the twelve FHLBanks have been restated as of December 31, 2003, 2002 and 2001, and for each of the three years ended December 31, 2003, primarily as the result of the misapplication of SFAS 133.

The effects of these restatements are reflected in this annual report. See Note 2 to the accompanying combined financial statements for the effect of these restated amounts as compared to the previously reported amounts.

Reclassifications. For the year ended December 31, 2003, the FHLBanks reclassified prepayment fee income. The prepayment fees relating to advances were reclassified from a separate line item in other income to a separate line item in interest income as "prepayment fees on restated advances." The prepayment fees relating to investment securities were reclassified from other, net income line to the appropriate investment securities lines in interest income. Prepayment fees of $131 million were reclassified for the year ended December 31, 2003.

Adoption of SFAS 150. On January 1, 2004, the FHLBanks reclassified $946 million of outstanding capital stock to "mandatorily redeemable capital stock" in the liability section of the Statement of Condition as a result of adopting SFAS 150. Upon adoption, the FHLBanks also recorded estimated dividends earned as a part of the carrying value of the mandatorily redeemable capital stock. The difference between the prior carrying amount and the mandatorily redeemable

capital stock of $1 million was recorded as a cumulative effect of a change in accounting principle in the Statement of Income. For the year ended December 31, 2004, dividends on mandatorily redeemable capital stock in the amount of $22 million were recorded as interest expense. Although the mandatorily redeemable capital stock is not included in capital for financial reporting purposes, it is considered capital for regulatory purposes. (See Note 16 to the accompanying combined financial statements for information on the significant restrictions on stock redemption.)

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON COMBINED ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in accountants or disagreements with accountants in the period covered by this Combined Financial Report. See the Supplemental Information section of this report for the Audit Committee Charter relating to the combined financial reports and audit fees.

DIRECTORS AND EXECUTIVE OFFICERS OF FHLBANKS

FHLBank Directors. The FHLBank Act provides for a board of at least 14 directors to govern each FHLBank. The members of each FHLBank elect a majority of the FHLBank's directors, each of which is elected for a three-year term. The FHLBank Act requires the Finance Board to appoint at least six directors to each FHLBank's board. Each appointed director is appointed for a three-year term. 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. Replacement directors have not been selected by the Finance Board for appointed directors whose terms expired in 2004, 2005 and 2006. The FHLBanks do not expect there to be appointed directors after December 31, 2006 unless the Finance Board appoints additional directors.

The board of directors of each FHLBank has the responsibility 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. In addition, each board of directors is responsible for monitoring that FHLBank's compliance with Finance Board regulations.

Compensation of Directors. The GLB Act limits the annual compensation of FHLBank directors. The Finance Board adjusts these compensation amounts based on the percentage annual increase in the Consumer Price Index. The compensation limits for 2005 were $28,364 for a chair, $22,692 for a vice chair and $17,019 for all other directors.

In addition, the FHLBanks reimburse directors for necessary and reasonable travel, subsistence and other related expenses incurred in connection with their official duties.

FHLBank President. Each FHLBank president reports to the board of directors of the respective FHLBank. The responsibilities of the president include:

— management of the FHLBank;

— administration of the programs of the FHLBank; and

— compliance with the regulations and policies of the Finance Board.

Each FHLBank president participates in regular meetings with the presidents of the other FHLBanks.

(See "Supplemental Information—FHLBank Management and Compensation" for biographies.)

EXECUTIVE COMPENSATION

See "Supplemental Information—FHLBank Management and Compensation" for the compensation of the FHLBank presidents and managing director of the Office of Finance.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Each FHLBank is a cooperative. 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 almost exclusively with members.

Members.

Membership By Type of Member

	Commercial Banks	Thrifts	Credit Unions	Insurance Companies	Total
December 31, 2001 (1)	5,765	1,481	574	57	7,877
December 31, 2002	5,886	1,390	660	75	8,011
December 31, 2003	5,946	1,344	729	82	8,101
December 31, 2004	5,936	1,292	801	92	8,121
December 31, 2005	5,916	1,276	846	111	8,149

(1) Revised based on member mergers.

Membership in an FHLBank is voluntary. A member must give notice of its intent to withdraw. If a member withdraws its membership from an FHLBank, it may not acquire shares of any FHLBank for 5 years after the date on which its divestiture of capital stock is completed. This restriction does not apply if the member is transferring its membership from one FHLBank to another. Between January 1, 1993, and December 31, 2005, 97 FHLBank members withdrew and 15 members gave notice to withdraw for reasons other than merger or acquisition. The affected FHLBanks do not expect these withdrawals to have a material adverse effect on their results of operations or financial condition.

Regulatory Capital Stock Held by Type of Member
(Dollar amounts in billions)

	Commercial Banks	Thrifts	Credit Unions	Insurance Companies	Other (1)	Total
December 31, 2001 (2)	$15.2	$16.4	$0.9	$0.3	$0.5	$33.3
December 31, 2002	18.4	13.8	1.2	0.5	1.3	35.2
December 31, 2003	20.5	13.8	1.4	1.1	0.9	37.7
December 31, 2004 (3)	19.5	17.4	1.8	1.6	0.9	41.2
December 31, 2005 (3)	20.4	18.6	1.8	1.6	1.1	43.5

(1) For December 31, 2002, 2003, 2004 and 2005, the other category includes capital stock of members involved in mergers with non-members. Prior to 2002, the other category included all members involved in mergers, other than the former Bank United, which merged in 2001. Advances to a member involved in a merger must be repaid before or at maturity, if the surviving institution is a non-member institution. Until these advances are repaid, the former member must continue to hold capital stock to support the advances.

(2) Revised based on member mergers.

(3) Includes mandatorily redeemable capital stock, which is considered capital for regulatory purposes.

The holdings of commercial bank members as of December 31, 2005 represent 46.9 percent of the total regulatory capital stock of the FHLBanks. The regulatory capital stock held by thrift

institution members as of December 31, 2005 represented 42.8 percent of the total regulatory capital stock of the FHLBanks.

Member Borrowers.

Member Borrowers

	Commercial Banks	Thrifts	Credit Unions	Insurance Companies	Total
December 31, 2001	3,927	1,084	168	31	5,210
December 31, 2002	4,144	1,001	217	37	5,399
December 31, 2003	4,282	970	272	42	5,566
December 31, 2004	4,492	962	328	43	5,825
December 31, 2005	4,417	999	397	46	5,859

The percentage of total members borrowing rose to 71.9 percent as of December 31, 2005, as compared to 71.7 percent as of December 31, 2004. The 92 borrowers with advance holdings of $1 billion or more as of December 31, 2005, held 66.7 percent of total advances. The 93 borrowers with advance holdings of $1 billion or more as of December 31, 2004 held 64.7 percent of total advances.

Advances
(Dollar amounts in billions)

	Commercial Banks	Thrifts	Credit Unions	Insurance Companies	Other(1)	Total(2)
December 31, 2001	$196.3	$251.6	$4.9	$ 3.1	$ 7.4	$463.3
December 31, 2002	251.3	182.9	6.9	5.1	24.3	470.5
December 31, 2003	274.0	192.5	9.1	8.0	18.0	501.6
December 31, 2004	254.7	278.9	11.4	11.1	20.0	576.1
December 31, 2005	270.0	307.8	14.6	11.5	16.5	620.4

(1) For December 31, 2002, 2003, 2004 and 2005, the other category includes advances to housing associates and members involved in mergers with a non-member. Prior to 2002, the other category included all members involved in mergers, other than the former Bank United, which merged in 2001. Advances to a member involved in a merger must be repaid before or at maturity, if the surviving institution is a non-member institution.

(2) Total advance amounts are at par value and will not agree to the Statement of Condition. The differences between the par and book value amounts primarily relate to basis adjustments arising from hedges under SFAS 133 for book purposes.

Top 10 Members Holding Advances
at December 31, 2005
(Dollar amounts in millions)

Name	City	State	Advances(1)	Percent of Total Advances
Washington Mutual Bank*(2)(3)(4)	Henderson	NV	$ 64,487	10.4%
Citibank (West), FSB	San Francisco	CA	30,627	4.9%
World Savings Bank, FSB*	Oakland	CA	27,712	4.5%
Countrywide Bank, NA	Alexandria	VA	26,350	4.2%
Sovereign Bank*(5)	Reading	PA	13,295	2.1%
World Savings Bank, FSB (Texas)	Houston	TX	11,249	1.8%
Charter One Bank, NA*	Cleveland	OH	9,876	1.6%
SunTrust Bank(6)	Atlanta	GA	9,175	1.5%
Bank of the West(7)	San Francisco	CA	8,539	1.4%
Bank of America Rhode Island, NA	Providence	RI	8,287	1.3%
			$209,597	33.7%

* An asterisk indicates that an officer of the member was an FHLBank director in 2005.

(1) Member advance amounts and the total advance amounts are at par value, and the total advance amount will not agree to the Statement of Condition. The difference between the par and book value amounts primarily relates to basis adjustments arising from hedges under SFAS 133 for book purposes.

(2) Includes $104 million in FHLBank of New York advances from the acquisition of Dime Savings Bank of New York, FSB, a former member of the FHLBank of New York.

(3) Includes $7,472 million in FHLBank of Dallas advances from the acquisition of Bank United, a former member of the FHLBank of Dallas.

(4) On April 14, 2005, Washington Mutual Bank, FA, changed its name to Washington Mutual Bank.

(5) Includes $176 million in FHLBank of Boston advances from acquisition of former members of the FHLBank of Boston.

(6) Includes $1,041 million in FHLBank of Cincinnati advances from mergers of former members of the FHLBank of Cincinnati.

(7) Includes $1,000 million in FHLBank Topeka advances from acquisition of former member of the FHLBank Topeka.

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, 2005, please refer to page 262.

Housing Associates. At year-end 2005, the FHLBanks had $619 million in advances outstanding to 19 housing associates, down from $845 million at year-end 2004. Housing associates eligible to borrow include 42 state housing finance agencies, 10 county housing finance agencies, 3 city housing authorities, 3 housing development corporations, and 1 tribal housing corporation.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Each FHLBank is a member-owned cooperative, whose members elect a majority of its directors from among the members. The FHLBanks conduct their advances and mortgage loan business almost exclusively with members. As a result, in the normal course of business, the FHLBanks regularly extend credit to members whose officers and directors may serve as directors of the FHLBanks. This credit is extended on market terms that are no more favorable to these "related" members than comparable transactions with other members of the same FHLBank. As of December 31, 2005, the FHLBanks had $113 billion of advances outstanding to members whose officers were serving as directors of the FHLBanks. This amounted to 18.2 percent of total advances at par.

FEDERAL HOME LOAN BANKS

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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. The outside director was appointed to serve in September 2003. In connection with its duties as an audit committee, the OF Board has adopted a written charter, which is presented on page 264. 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 auditors required by Independence Standards Board Standard No. 1, and has discussed with the independent auditors the independent auditors' independence.

Based on the review and discussions referred to above, the OF Board decided to include the combined audited financial statements in the FHLBanks' 2005 Combined Financial Report.

Terry Smith, Chair
L. Parker Harrell, Jr.
David Hehman
November 7, 2006

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of the Federal Home Loan Banks and
The Board of Directors of the Federal Home Loan Banks Office of Finance:

In our opinion, the accompanying combined statements of condition and the related combined statements of income, capital and of cash flows shown on pages 118 to 187 present fairly, in all material respects, the combined financial position of the Federal Home Loan Banks (the "FHLBanks") at December 31, 2005 and 2004 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 our opinion.

As discussed in Note 2, the FHLBanks have restated their combined financial statements for the year ended December 31, 2003.

As discussed in Note 3, on January 1, 2004 the FHLBanks adopted Statement of Financial Accounting Standards No. 150, *Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity,* and certain FHLBanks changed their method of accounting for amortization of deferred loan originations fees and premiums and discounts paid to and received on mortgage loans under Statement of Financial Accounting Standards No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases.*

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 shown on pages 188 to 221 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.

McLean, Virginia
November 7, 2006

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CONDITION

(Dollar amounts in millions and capital stock shares in thousands)

	December 31, 2005	December 31, 2004
ASSETS		
Cash and due from banks (Note 4)	$ 356	$ 320
Interest-bearing deposits	35,342	23,289
Securities purchased under agreements to resell (Note 5)	3,295	2,895
Federal funds sold	80,557	54,597
Trading securities includes $1,738 and $3,165 pledged as collateral in 2005 and 2004 that may be repledged (Note 6)	7,181	8,454
Available-for-sale securities includes $1,109 and $935 pledged as collateral in 2005 and 2004 that may be repledged(a) (Note 7)	5,599	12,015
Held-to-maturity securities includes $1,593 and $1,082 pledged as collateral in 2005 and 2004 that may be repledged(b) (Note 8)	134,461	123,645
Advances (Note 9)	619,880	581,216
Mortgage loans held for portfolio	105,250	113,932
Less: allowance for credit losses on mortgage loans	10	10
Mortgage loans held for portfolio, net (Note 12)	105,240	113,922
Accrued interest receivable	3,721	2,829
Premises and equipment, net	200	198
Derivative assets (Note 18)	951	737
Other assets	632	634
Total assets	$997,415	$924,751
LIABILITIES		
Deposits (Note 13):		
Interest-bearing:		
Demand and overnight	$ 17,903	$ 16,722
Term	456	916
Other	576	553
Total interest-bearing	18,935	18,191
Non-interest-bearing:		
Demand and overnight	113	122
Other	95	71
Total non-interest-bearing	208	193
Total deposits	19,143	18,384
Borrowings (Note 14):		
Securities sold under agreements to repurchase	2,594	2,779
Other		2
Total borrowings	2,594	2,781
Consolidated obligations, net (Note 15):		
Discount notes	179,694	167,962
Bonds	736,209	677,776
Total consolidated obligations, net	915,903	845,738
Mandatorily redeemable capital stock (Note 16)	1,451	1,153
Accrued interest payable	6,315	4,826
Affordable Housing Program (Note 10)	739	668
Payable to REFCORP (Note 11)	197	129
Derivative liabilities (Note 18)	5,899	8,135
Other liabilities	694	1,074
Total liabilities	952,935	882,888
Commitments and contingencies (Notes 20 and 21)		
CAPITAL (Note 16)		
Capital Stock:		
Capital stock Class B putable ($100 par value) issued and outstanding shares: 377,871 shares in 2005 and 318,187 shares in 2004	37,786	31,819
Capital stock Class A putable ($100 par value) issued and outstanding shares: 4,978 shares in 2005 and 3,256 shares in 2004	498	326
Capital stock Pre-conversion putable ($100 par value) issued and outstanding shares: 37,589 shares in 2005 and 79,472 shares in 2004	3,759	7,947
Total capital stock	42,043	40,092
Retained earnings	2,600	1,744
Accumulated other comprehensive income:		
Net unrealized (losses) gains on available-for-sale securities (Note 7)	(6)	196
Net unrealized losses relating to hedging activities (Note 18)	(145)	(158)
Other (Note 17)	(12)	(11)
Total capital	44,480	41,863
Total liabilities and capital	$997,415	$924,751

(a) Amortized cost: $5,536 and $11,743 at December 31, 2005 and 2004.
(b) Fair values: $132,860 and $123,880 at December 31, 2005 and 2004.

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

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF INCOME

(Dollar amounts in millions)

	For the Years Ended December 31,		
	2005	2004	2003 (As Restated)
INTEREST INCOME			
Advances	$20,782	$ 9,995	$ 8,758
Prepayment fees on advances, net	75	184	185
Interest-bearing deposits	830	313	259
Securities purchased under agreements to resell	115	54	50
Federal funds sold	1,915	625	485
Trading securities	438	444	441
Available-for-sale securities	346	286	256
Held-to-maturity securities	5,497	4,483	4,255
Mortgage loans held for portfolio	5,416	5,535	4,381
Other	6	6	6
Total interest income	35,420	21,925	19,076
INTEREST EXPENSE			
Consolidated obligations — Discount notes	5,309	2,207	1,795
Consolidated obligations — Bonds	25,208	15,233	13,075
Deposits	523	230	279
Securities sold under agreements to repurchase	123	57	45
Mandatorily redeemable capital stock	48	22	
Other borrowings	3	5	5
Total interest expense	31,214	17,754	15,199
NET INTEREST INCOME BEFORE REVERSAL FOR CREDIT LOSSES	4,206	4,171	3,877
Reversal for credit losses		(5)	(4)
NET INTEREST INCOME AFTER REVERSAL FOR CREDIT LOSSES	4,206	4,176	3,881
OTHER INCOME (LOSS)			
Service fees	27	27	35
Net losses on trading securities	(305)	(106)	(319)
Net realized gains (losses) from sale of available-for-sale securities	267	(17)	(31)
Net realized (losses) gains from sale of held-to-maturity securities	(1)	13	(158)
Net losses on derivatives and hedging activities	(22)	(784)	(309)
Other, net	(26)	(23)	1
Total other loss	(60)	(890)	(781)
OTHER EXPENSE			
Operating	657	547	450
Finance Board	32	26	24
Office of Finance	24	20	18
Other	16	19	15
Total other expense	729	612	507
INCOME BEFORE ASSESSMENTS	3,417	2,674	2,593
Affordable Housing Program	282	225	218
REFCORP.	625	505	490
Total assessments	907	730	708
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES	2,510	1,944	1,885
Cumulative effect of change in accounting principles before assessments	15	50	
NET INCOME	$ 2,525	$ 1,994	$ 1,885

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

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(Dollar amounts in millions)

	Capital Stock Class B*		Capital Stock Class A*		Capital Stock Pre-conversion*		Total Capital Stock*				
	Shares (In millions)	Par Value	Shares (In millions)	Par Value	Shares (In millions)	Par Value	Shares (In millions)	Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total Capital
BALANCE, DECEMBER 31, 2002 (As restated)	76	$ 7,733		$	276	$27,453	352	$ 35,186	$ 716	$ 298	$ 36,200
Proceeds from sale of capital stock	37	3,765			80	7,941	117	11,706			11,706
Repurchase/redemption of capital stock	(32)	(3,222)			(71)	(6,902)	(103)	(10,124)			(10,124)
Comprehensive income:											
Net income									1,885		1,885
Other comprehensive income:											
Net unrealized losses on available-for-sale securities										(111)	(111)
Reclassification adjustment for losses included in net income relating to available-for-sale securities										46	46
Net unrealized gains relating to hedging activities										(117)	(117)
Reclassification adjustment for gains included in net income relating to hedging activities										69	69
Other										(6)	(6)
Total comprehensive income											1,766
Conversion to Class B shares	65	6,443			(65)	(6,443)					
Dividends on capital stock:											
Cash									(568)		(568)
Stock	4	363			5	572	9	935	(935)		
BALANCE, DECEMBER 31, 2003 (As restated)	150	15,082			225	22,621	375	37,703	1,098	179	38,980
Proceeds from sale of capital stock	99	9,976		5	78	7,656	177	17,637			17,637
Repurchase/redemption of capital stock	(77)	(7,715)			(49)	(4,903)	(126)	(12,618)			(12,618)
Net shares reclassified to mandatorily redeemable capital stock	(19)	(1,883)			(16)	(1,696)	(35)	(3,579)			(3,579)
Comprehensive income:											
Net income									1,994		1,994
Other comprehensive income:											
Net unrealized gains on available-for-sale securities										5	5
Reclassification adjustment for losses included in net income relating to available-for-sale securities										18	18
Net unrealized losses relating to hedging activities										(218)	(218)
Reclassification adjustment for losses included in net income relating to hedging activities										46	46
Other										(3)	(3)
Total comprehensive income											1,842

	Capital Stock Class B*		Capital Stock Class A*		Capital Stock Pre-conversion*		Total Capital Stock*				
	Shares (In millions)	Par Value	Shares (In millions)	Par Value	Shares (In millions)	Par Value	Shares (In millions)	Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total Capital
Conversion to Class B or Class A shares	159	15,778	3	321	(162)	(16,099)					
Dividends on capital stock:											
Cash									(398)		(398)
Stock	6	581			4	368	10	949	(950)		(1)
BALANCE, DECEMBER 31, 2004	318	31,819	3	326	80	7,947	401	40,092	1,744	27	41,863
Proceeds from sale of capital stock	175	17,628		7	32	3,332	207	20,967			20,967
Repurchase/redemption of capital stock	(148)	(14,810)			(23)	(2,299)	(171)	(17,109)			(17,109)
Net shares reclassified to mandatorily redeemable capital stock	(14)	(1,377)	2	165	(16)	(1,682)	(28)	(2,894)			(2,894)
Comprehensive income:											
Net income									2,525		2,525
Other comprehensive income:											
Net unrealized gains on available-for-sale securities										65	65
Reclassification adjustment for gains included in net income relating to available-for-sale securities										(267)	(267)
Net unrealized gains relating to hedging activities										20	20
Reclassification adjustment for gains included in net income relating to hedging activities										(7)	(7)
Other										(1)	(1)
Total comprehensive income											2,335
Conversion to Class B or Class A shares	37	3,747			(37)	(3,747)					
Dividends on capital stock:											
Cash									(677)		(677)
Stock	9	779			2	208	11	987	(992)		(5)
BALANCE, DECEMBER 31, 2005	377	$37,786	5	$498	38	$ 3,759	420	$ 42,043	$2,600	$(163)	$ 44,480

* Putable

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

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CASH FLOWS

(Dollar amounts in millions)

	2005	2004	2003 (As Restated)
OPERATING ACTIVITIES			
Net income	$ 2,525	$ 1,994	$ 1,885
Cumulative effect of change in accounting principles before assessments	(15)	(50)	
Income before cumulative effect of change in accounting principles	2,510	1,944	1,885
Adjustments to reconcile income before cumulative effect of change in accounting principles to net cash provided by operating activities:			
Depreciation and amortization:			
Net premiums and discounts on consolidated obligations, investments, mortgage loans, and deferred costs and fees received on derivatives	463	664	180
Concessions on consolidated obligation bonds	151	248	357
Net deferred (gain) loss on derivatives	(1)	39	28
Premises and equipment	46	37	33
Other	(57)	54	(81)
Reversal for credit losses		(5)	(4)
Non-cash interest on mandatorily redeemable capital stock	30	12	
Net realized (gain) loss from sale of available-for-sale securities	(267)	17	31
Net realized loss (gain) from sale of held-to-maturity securities	1	(13)	158
(Gain) loss due to change in net fair value adjustment on derivative and hedging activities	(275)	191	(812)
Loss on extinguishment of debt	47	44	28
Net realized loss (gain) on disposal of premises and equipment	12	(1)	
Net change in:			
Trading securities	1,098	(212)	611
Accrued interest receivable	(898)	(258)	179
Other assets	(73)	(58)	(111)
Net derivative assets and liabilities-accrued interest	(493)	(628)	25
Accrued interest payable	1,492	264	(434)
Affordable Housing Program (AHP) liability and discount on AHP advances	79	18	16
Payable to REFCORP.	88	55	49
Other liabilities	48	23	(717)
Total adjustments	1,491	491	(464)
Net cash provided by operating activities	4,001	2,435	1,421

	2005	2004	2003 (As Restated)
INVESTING ACTIVITIES			
Net change in:			
Interest-bearing deposits	$ (12,053)	$ (6,541)	$ 7,117
Securities purchased under agreements to resell	(400)	3,529	(1,181)
Federal funds sold	(25,960)	(17,933)	10,018
Short-term held-to-maturity securities	(1,054)	(1,251)	1,015
Principal collected on other loans	1	1	1
Premises and equipment	(59)	(52)	(61)
Available-for-sale securities:			
Proceeds from sales	8,667	3,737	5,827
Proceeds from maturities	97,607	72,161	31,021
Purchases	(99,510)	(77,042)	(36,964)
Held-to-maturity securities:			
Proceeds from sales	263	333	2,676
Proceeds from maturities	36,767	37,601	70,171
Purchases	(46,984)	(49,988)	(73,882)
Advances:			
Principal collected	8,329,280	7,448,850	5,694,911
Made	(8,373,590)	(7,523,030)	(5,726,054)
Mortgage loans held for portfolio:			
Principal collected	23,232	23,645	37,840
Originated or purchased	(14,741)	(24,373)	(91,188)
Net cash used in investing activities	(78,534)	(110,353)	(68,733)
FINANCING ACTIVITIES			
Net change in:			
Deposits	732	(2,195)	(7,119)
Securities sold under agreements to repurchase	(186)	79	1,001
Other borrowings	(109)	(3)	(530)
Net proceeds from issuance of consolidated obligations:			
Discount notes	7,378,761	6,139,744	5,158,500
Bonds	296,094	385,004	557,691
Payments for maturing and retiring consolidated obligations:			
Discount notes	(7,367,338)	(6,135,714)	(5,141,639)
Bonds	(234,083)	(281,309)	(501,819)
Proceeds from issuance of capital stock	20,959	17,637	11,706
Payments for redemption of mandatorily redeemable capital stock	(2,632)	(2,455)	(10,124)
Payments for repurchase/redemption of capital stock	(16,987)	(12,597)	
Cash dividends paid	(642)	(380)	(576)
Net cash provided by financing activities	74,569	107,811	67,091
Net increase (decrease) in cash and cash equivalents	36	(107)	(221)
Cash and cash equivalents at beginning of the year	320	427	648
Cash and cash equivalents at end of the year	$ 356	$ 320	$ 427
Supplemental Disclosures:			
Interest paid	$ 26,903	$ 16,430	$ 16,056
AHP payments, net	$ 209	$ 214	$ 201
REFCORP payments	$ 535	$ 429	$ 460

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 Federal Home Loan Banks' Office of Finance (Office of Finance) are regulated by the Federal Housing Finance Board (Finance Board). The FHLBanks serve the public by enhancing the availability of credit for residential mortgages and targeted community development. They provide a readily available, low-cost source of funds to their member institutions. The FHLBanks are cooperatives whose member institutions own nearly all of the capital stock of each FHLBank and may receive dividends on their investment. Former members own the remaining capital stock to support business transactions still carried on the FHLBanks' Statement of Condition. Regulated financial depositories and insurance companies engaged in residential housing finance may apply for membership. All members must purchase stock in their district FHLBank.

The Finance Board, an independent agency in the executive branch of the U.S. government, supervises and regulates the FHLBanks and the Office of Finance. The Finance Board's principal 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 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. Each FHLBank operates as a separate entity with its own management, employees and board of directors. The FHLBanks do not have any special purpose entities or any other type of off-balance sheet conduits.

The FHLBanks' debt instruments known as consolidated obligations are the joint and several obligations of all 12 FHLBanks and are the primary source of funds for the FHLBanks. Deposits, other borrowings, and capital stock issued to members provide other funds. Each FHLBank primarily uses these funds to provide advances to members and to purchase loans from members through its Mortgage Purchase Program (MPP)/Mortgage Purchase Finance (MPF®) Program[1]. Some FHLBanks also offer their member institutions correspondent services, such as wire transfer, security safekeeping, and settlement.

Note 1—Summary of Significant Accounting Policies

Principles of Combination. The combined financial statements include the financial records of the 12 FHLBanks. Material transactions among the FHLBanks have been eliminated in accordance with combination accounting principles under U.S. generally accepted accounting principles (GAAP). The significant transactions of this sort between the FHLBanks are: 1) transfers of direct liability on bonds between FHLBanks—consolidated obligations issued on behalf of one FHLBank and transferred to and assumed by another FHLBank and 2) purchases of bonds—consolidated obligations issued on behalf of one FHLBank and purchased by another FHLBank in the open market.

Transfers of Direct Liability on Bonds Between FHLBanks. The transferring FHLBank treats the transfer as a debt extinguishment since that FHLBank has been released from being the primary obligor. Specifically, the release is made effective by the Office of Finance recording the transfer in its records. The Office of Finance provides release by acting within the confines of the Finance Board regulations that govern the determination of which FHLBank is the primary obligor. The assuming FHLBank becomes the primary obligor because it now is directly responsible for repaying the debt. The transferring FHLBank continues to disclose the transferred debt as a contingent

1 "Mortgage Partnership Finance," "MPF," "MPF Shared Funding" and "eMPF" are registered trademarks of the FHLBank of Chicago.

liability because it still has a joint and several liability with respect to repaying the transferred consolidated obligation.

The FHLBank assuming the consolidated bond liability accounts for the bond at its historical cost with the initial carrying amount being the amount paid to the transferring FHLBank by the assuming FHLBank in exchange for the assumption, including any premium or discount. There have not been any transactions with a third party independent of the FHLBanks under the transfer scenario. Therefore, under combination accounting principles, combining adjustments are required to effectively reflect the transaction as if the transferring FHLBank still held the bond for purposes of the FHLBanks' combined financial statements. The debt extinguishment transaction, including any gain or loss, is eliminated, all balance sheet and income statement effects related to the assuming FHLBank's premium or discount related to the purchase of the bonds are eliminated and the transferring FHLBank's original premium or discount, concession fees and SFAS 133 basis adjustments are reinstated and amortized over the life of the bond.

Purchases of Bonds. All purchase transactions occur at market prices with third parties, and the purchasing FHLBanks treat these bonds as investments. Under combination accounting principles, the investment and the bonds and related interest income and expense are eliminated in combination.

No other transactions among the FHLBanks have a material effect on operating results.

Segment Reporting. For the purposes of Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information,* the Finance Board regulations consider each FHLBank to be a segment.

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

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

Interest-Bearing Deposits in Banks, Securities Purchased Under Agreements to Resell, and Federal Funds Sold. These investments provide short-term liquidity and are carried at cost.

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 using the level-yield method.

Under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115), changes in circumstances may cause an FHLBank to change its intent to hold a certain security to maturity without calling into question its intent to hold other debt securities to maturity in the future. Thus, the sale or transfer of a held-to-maturity security due to certain changes in circumstances, such as evidence of significant deterioration in the issuer's creditworthiness or changes in regulatory requirements, is not considered to be inconsistent with its original classification. Other events that are isolated, nonrecurring, and unusual for the FHLBanks that could not have been reasonably anticipated may cause an FHLBank to sell or transfer a held-to-maturity security without necessarily calling into question its intent to hold other debt securities to maturity.

In addition, in accordance with SFAS 115, sales of debt securities that meet either of the following two conditions may be considered as maturities for purposes of the classification of securities: 1) the sale occurs near enough to its maturity date (or call date if exercise of the call is probable) that interest-rate risk is substantially eliminated as a pricing factor and the changes in market interest rates would not have a significant effect on the security's fair value, or 2) the sale of a security occurs after the FHLBank has already collected a substantial portion (at least 85 percent)

of the principal outstanding at acquisition due either to prepayments on the debt security or to scheduled payments on a debt security payable in equal installments (both principal and interest) over its term.

The FHLBanks classify investments that they may sell before maturity as available-for-sale and carry them at fair value. The change in value of the available-for-sale securities not being hedged by derivative instruments is recorded in other comprehensive income as net unrealized gains or losses on available-for-sale securities. 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 gains (losses) on derivatives and hedging activities" together with the related change in the fair value of the derivative, and record the remainder of the change in other comprehensive income as "Net unrealized gains (losses) on available-for-sale securities." For 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 derivative related to the risk being hedged in other comprehensive income as a "Net unrealized gains (losses) relating to hedging activities." The ineffective portion is recorded in other income and presented as "Net gains (losses) on derivatives and hedging activities."

The FHLBanks classify certain investments acquired for liquidity and asset/liability management purposes as trading and carry them at fair value. The FHLBanks record changes in the fair value of these investments through other income.

The FHLBanks compute the amortization and accretion of premiums and discounts on mortgage-backed securities using either the contractual method or the level-yield method over the estimated cash flows of the securities. As discussed in Note 3 to these financial statements, certain FHLBanks use the contractual method and other FHLBanks use the level-yield method. The contractual method recognizes the income effects of premiums and discounts over the contractual life of the securities in a manner that is effectively proportionate to the actual behavior of the underlying assets and reflects the contractual terms of the securities without regard to changes in estimated prepayments based on assumptions about future borrower behavior. The level-yield method requires that an FHLBank estimate prepayments over the estimated life of the securities and make a retrospective adjustment of the effective yield each time that FHLBank changes the estimated life as if the new estimate had been known since the original acquisition date of the securities.

The FHLBanks compute the amortization and accretion of premiums and discounts on other investments using the level-yield method.

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.

Each FHLBank regularly evaluates outstanding investments for impairment and determines if unrealized losses are temporary based in part on the creditworthiness of the issuers and the underlying collateral, as well as a determination of the FHLBank's intent to hold such securities through to recovery of the unrealized losses. If there is an other-than-temporary impairment in the value of an investment, the decline in value is recognized as a loss and presented in the Statement of Income as other expense. The FHLBanks have not experienced any other-than-temporary impairment in the value of their investments during 2005 or 2004. During the third quarter of 2003, the FHLBank of New York determined that there had been a significant deterioration in the creditworthiness of certain uninsured securities with an amortized cost of $1.0 billion backed by manufactured housing loans and certain other uninsured asset-backed securities with an amortized cost of $944 million backed by residential and business loans. The securities were classified as held-to-maturity, and all of these securities had been rated triple-A by at least two rating agencies at the time of purchase. To avoid exposure over time to further credit deterioration and in accordance with the provisions of SFAS 115, the FHLBank of New York sold held-to-maturity, mortgage-

backed securities, incurring a loss on the sale of approximately $189 million and reducing the Bank's net income by approximately $139 million.

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 amortize the premiums and accrete the discounts on advances to interest income using the level-yield method. The FHLBanks credit interest on advances to income as earned. Following the requirements of the Federal Home Loan Bank Act of 1932 (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 FHLBanks, and other eligible real estate-related assets. As Note 9 more fully describes, community financial institutions (FDIC-insured institutions with average assets over the preceding three-year period of $567 million or less during 2005) are eligible to utilize additional collateral including small business and agricultural loans. Each FHLBank evaluates the creditworthiness of its members and non-member borrowers on an ongoing basis and classifies as impaired any advance with respect to which management believes it is probable that all principal and interest due will not be collected according to its contractual terms. Impaired advances are valued using the present value of expected future cash flows discounted at the advance's effective interest rate, the advance's observable market price or, if collateral dependent, the fair value of the advance's underlying collateral. When an advance is classified as impaired, the accrual of interest is discontinued and unpaid accrued interest is reversed. Advances do not return to accrual status until brought current with respect to both principal and interest and if management believes future principal payments are no longer in doubt. The FHLBanks have not incurred any credit losses on advances since their inception. Based upon the collateral held as security for its advances and their repayment history, management of each FHLBank believes that an allowance for credit losses on its advances is unnecessary.

Mortgage Loans Held for Portfolio. All 12 FHLBanks have established member mortgage purchase asset programs as services to their members. The programs involve the investment by an FHLBank in loans created or acquired 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 and the MPP developed by the FHLBanks of Cincinnati, Indianapolis, and Seattle. However, in March 2005, the FHLBank of Seattle announced it is exiting from its MPP. Exiting the MPP is intended to enable the FHLBank of Seattle to lower its overall risk profile and reduce its operating cost structure. Under these programs, an FHLBank invests in government (FHA-insured and VA-guaranteed) and conventional residential mortgage loans, which are either funded by the FHLBank or purchased from its participating members. The FHLBank manages the liquidity and interest-rate risk, and optionality of the loans, while its participating members either retain or release the servicing activities. If participating in the servicing released program, the member concurrently sells the servicing of the mortgage loans to a designated mortgage service provider. The FHLBank and its participating members share the credit risk on the conventional loans. The member assumes credit losses up to a contractually specified credit enhancement obligation amount. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk—Managing Credit Risk—Mortgage Loans Held for Portfolio" for further discussion about MPF and MPP loss allocations.)

MPF Credit Enhancement. The credit enhancement is an obligation on the part of the PFI, which requires the PFI to cover a portion of the credit risk on loans it funds through or sells to an MPF FHLBank in accordance with the credit risk sharing structure for the related mortgage loan product. The amount of the initial FLA (which is zero for one product type) and the PFI's credit enhancement amount on a pool of mortgage loans is designed to provide the equivalent of an "AA" rating based the MPF Program Methodology which uses the S&P LEVELS rating model. The PFI receives from the FHLBank a credit enhancement fee for providing its credit enhancement obligation, which is performance based for certain products. This fee is paid monthly based upon the

remaining unpaid principal balance and is expensed as paid each month. The required credit enhancement obligation amount may vary depending on the various product alternatives selected.

MPP Lender Risk Account. A lender risk account (LRA) is funded by an FHLBank either up front as a portion of the purchase proceeds or through a portion of the net interest remitted monthly by the member. The LRA is a lender-specific account funded by the FHLBank in an amount approximately sufficient to cover expected losses on the pool of mortgages based on the S&P LEVELS rating methodology. The LRA funds are used to offset any losses that may occur. After five years, excess funds over required balances are distributed to the member in accordance with a step-down schedule that is established at the time of a master commitment contract. No LRA balance is required after eleven years. The total balance of all LRAs is recorded in other liabilities and totaled $73 million and $58 million at December 31, 2005 and 2004.

In addition to the expected losses covered by the LRA, the member selling conventional loans is required to purchase Supplemental Mortgage Insurance (SMI) as an enhancement to cover losses over and above losses covered by the LRA. The FHLBank is listed as the insured and this coverage serves to further limit the exposure to losses. The LRA and the SMI are intended to provide the equivalent to an investment-grade "AA" rating. In the event the LRA and the standard SMI policy do not provide sufficient loss protection to support the equivalent investment-grade rating, additional mortgage insurance coverage called SMI Plus also must be purchased by the member. This policy covers the expected losses to achieve an equivalent investment-grade rating over and above the LRA and SMI.

Accounting for Mortgage Loans Held in Portfolio. The FHLBanks classify mortgage loans as held for investment and, accordingly, report them at their principal amount outstanding, net of deferred loan fees and premiums and discounts, together with mark-to-market basis adjustments on delivery commitments.

The FHLBanks defer and amortize deferred loan costs (agent fees), premiums and discounts paid to and received by an FHLBank's participating member, and basis adjustments as interest income over either the estimated life or the contractual life of the related mortgage loans. Under the estimated life method, actual prepayment experience and estimates of future principal prepayments are used in calculating the estimated lives of the mortgage loans. The FHLBank aggregates the mortgage loans by similar characteristics (type, maturity, note rate and acquisition date) in determining prepayment estimates. The estimated life method requires a retrospective adjustment each time the FHLBank changes the estimated amounts as if the new estimate had been known since the original acquisition date of the assets. The contractual method recognizes the income effects of premiums and discounts in a manner that is proportionate to the actual behavior of the underlying assets and reflects the contractual terms of the assets without regard to changes in estimates based on assumptions about future borrower behavior. As discussed in Note 3 to these financial statements, certain FHLBanks use the contractual method and other FHLBanks use the level-yield method.

The FHLBanks record credit enhancement fees as a reduction to mortgage loan interest income. The FHLBanks may receive other non-origination fees, such as delivery commitment extension fees and pair-off fees. Extension fees are received when a member requests to extend the period of the delivery commitment beyond the original stated maturity and are recorded in other income as received. Pair-off fees represent a make-whole provision and are received when the amount funded under a delivery commitment is less than 95 percent (i.e., under-delivery) or greater than 105 percent (i.e., over-delivery) of the delivery commitment amount. To the extent that pair-off fees relate to under-deliveries of loans, they are included in the mark-to-market of the related delivery commitment derivative. If they relate to over-deliveries, they represent purchase price adjustments to the related loans acquired and are recorded as part of the loan basis.

The FHLBanks place a conventional mortgage loan on nonaccrual status when the collection of the contractual principal or interest is 90 days or more past due. However, there are exceptions, such as when a loan is well-secured and in the process of collection (e.g., through credit enhancements),

or when an FHLBank's agreements with its Participating Financial Institutions (PFIs) include monthly settlement on a schedule/scheduled basis. Monthly settlement on a schedule/scheduled basis means that the PFI is obligated to remit the contractual mortgage payments on mortgage loans sold to the FHLBank, regardless of whether or not the PFI received payment from the mortgagee. For those mortgage loans placed on nonaccrual status, accrued but uncollected interest is reversed against interest income. The FHLBanks record cash payments received on nonaccrual loans as interest income and a reduction of principal.

An FHLBank bases the allowance for credit losses on its management's estimate of credit losses inherent in the FHLBank's mortgage loan portfolio as of the balance sheet date. Actual losses greater than defined levels are offset by the member's credit enhancement. An FHLBank performs periodic reviews of its portfolio to identify the losses inherent within the portfolio and to determine the likelihood of collection of the portfolio. The overall allowance is determined by an analysis that includes consideration of various data observations such as past performance, current performance, loan portfolio characteristics, collateral valuations, industry data, and prevailing economic conditions. As a result of this analysis, the MPP FHLBanks have determined that each member's obligation for losses and the mortgage insurance coverage exceeds the inherent loss in the portfolio. Accordingly, no allowance for loan losses is considered necessary. As a result of this analysis, the combined financial statements reflect an aggregate allowance for loan losses with respect to MPF loans in the amounts of $10 million as of December 31, 2005 and 2004.

MPF Shared Funding Program. Several FHLBanks participate in a "Shared Funding Program," which is administered by an unrelated third party. This program allows mortgage loans originated through the MPF Program to be sold directly by PFIs to a third party sponsored trust and "pooled" into securities. The FHLBank of Chicago purchases the Acquired Member Asset eligible securities, which are rated at least AA, and are either retained or partially sold to other FHLBanks. The investments are classified as held-to-maturity securities and are reported at amortized cost of $556 million and $694 million as of December 31, 2005 and 2004. These securities are not publicly traded and are not guaranteed by any of the FHLBanks.

Affordable Housing Program. The FHLBank Act requires each FHLBank to establish and fund an AHP (see Note 9). The FHLBank charges the required funding for AHP to earnings and establishes a liability. The AHP funds provide subsidies to members to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. The FHLBank issues AHP advances at interest rates below the customary interest rate for non-subsidized advances. When the 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. As an alternative, the FHLBank has the authority to make the AHP subsidy available to members as a grant.

On January 25, 2006, the Finance Board issued Advisory Bulletin 06-01 (AB 06-01) which provides guidance to those FHLBanks that are required to restate their financial statements in connection with the registration of their equity securities with the Securities and Exchange Commission (SEC). Pursuant to the guidance in AB 06-01, the restating FHLBanks have recalculated the AHP assessments for the years ended December 31, 2004, 2003, 2002 and 2001 based upon restated income before assessments for each of those periods. The recalculated amounts have been recorded in the Statement of Income and in the Statement of Condition.

Prepayment Fees. The FHLBanks charge a member a prepayment fee when the member prepays certain advances before the original maturity. The FHLBanks record prepayment fees net of SFAS 133 basis adjustments included in the book basis of the advance as "Prepayment fees on advances, net" in the interest income section of the Statement of Income. In cases in which the FHLBank funds a new advance concurrent with the prepayment of an existing advance, the FHLBank evaluates whether the new advance meets the accounting criteria to qualify as a modification of an existing advance. If the new advance qualifies as a modification of the existing

advance, the net prepayment fee on the prepaid advance is deferred, recorded in the basis of the modified advance, and amortized over the life of the modified advance in advance interest income. If the modified advance is hedged, it is marked to fair value after the amortization of the basis adjustment. This amortization results in offsetting amounts being recorded in net interest income and "Net gains (losses) on derivatives and hedging activities" in other income. The offsetting amortization amounted to $(17) million, $100 million, and $38 million in 2005, 2004, and 2003.

If the FHLBank determines that the advance should be treated as a new advance, it records the net fees as "Prepayment fees on advances, net" in the interest income section of the Statement of Income.

Commitment Fees. The FHLBanks defer commitment fees for advances and amortize them to interest income using the level-yield method. Refundable fees are deferred until the commitment expires or until the advances are made. 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. Accounting for derivatives is addressed in 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*, SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (SFAS 133). All derivatives are recognized on the balance sheet at their fair values. Each derivative is designated as one of the following:

(1) a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (a "fair-value" hedge);

(2) a hedge of a forecasted transaction or 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-qualifying hedge of an asset or liability ("economic hedge") for asset-liability management purposes; or

(5) a non-qualifying hedge of another derivative (an "intermediation" hedge) that is offered as a product to members or used to offset other derivatives with non-member counterparties.

Changes in the fair value of a derivative 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 other income as "Net gains (losses) on derivatives and hedging activities."

Changes in the fair value of a derivative that is designated and qualifies as a cash-flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, a component of capital, until earnings are affected by the variability of the cash flows of the hedged transaction (i.e., until the periodic recognition of interest on a variable-rate asset or liability is recorded in other income as "Net gains (losses) on derivatives and hedging activities").

Changes in the fair value of a derivative that is designated and qualifies as a foreign currency hedge are recorded in either current-period earnings, if the hedging relationship satisfies the criteria for a fair-value hedge, or in other comprehensive income if the hedging relationship satisfies the criteria for a cash-flow hedge.

For both fair-value and cash-flow hedges, any hedge ineffectiveness (which represents the amount by which the change in the fair value of the derivative differs from the change in the fair value of the hedged item or the variability in the cash flows of the forecasted transaction) is recorded in other income as "Net gains (losses) on derivatives and hedging activities."

Changes in the fair value of a derivative not qualifying as a hedge are recorded in current-period earnings with no fair value adjustment to an asset or a liability. Both the net interest on the derivative and the fair value adjustments are recorded in other income as "Net gains (losses) on derivatives and hedging activities."

The FHLBanks routinely issue debt and make advances in which a derivative instrument is "embedded." Upon execution of these transactions, the FHLBank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the advance or debt (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 the FHLBank determines that (1) the embedded derivative has 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 a stand-alone derivative instrument pursuant to an economic hedge. However, if the entire contract (the host contract and the embedded derivative) is to be measured at fair value, with changes in fair value reported in current-period earnings (such as an investment security classified as "trading" under SFAS 115), or if the FHLBank cannot reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract is carried on the balance sheet at fair value and no portion of the contract is designated as a hedging instrument.

Derivatives are typically executed at the same time as the hedged advances or consolidated obligations, and the FHLBanks designate the hedged item in a qualifying hedge relationship as of the trade date. In many hedging relationships, the FHLBank may designate the hedging relationship upon its commitment to disburse an advance or trade a consolidated obligation in which settlement occurs within the shortest period of time possible for the type of instrument based on market settlement conventions.

When hedge accounting is discontinued because the FHLBank determines that the derivative no longer qualifies as an effective fair-value hedge of an existing hedged item, the FHLBank continues to carry the derivative on the balance sheet at its fair value, ceases to adjust the hedged asset or liability for changes in fair value, and begins amortizing the cumulative basis adjustment on the hedged item into earnings over the remaining life of the hedged item using a level-yield methodology.

When hedge accounting is discontinued because the FHLBank determines that the derivative no longer qualifies as an effective cash-flow hedge of an existing hedged item, the FHLBank continues to carry the derivative on the balance sheet at its fair value and amortizes the cumulative other comprehensive income adjustment to earnings when earnings are affected by the existing hedge item (i.e., the original forecasted transaction).

Under limited circumstances, when the FHLBank discontinues cash-flow hedge accounting because it is no longer probable that the forecasted transaction will occur by the end of the originally specified time period, or within the following two months, but it is probable the transaction will still occur in the future, the gain or loss on the derivative remains in accumulated other comprehensive income and is recognized as 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 the following two months, the gains and losses that were accumulated in other comprehensive income are recognized immediately in earnings.

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the FHLBank continues 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.

During the second quarter of 2005, certain FHLBanks evaluated their estimation methodology for determining the fair-value hedge adjustments for certain consolidated bonds for which interest-rate swaps were designated as hedges of changes in fair value due to changes in the benchmark interest rate under SFAS 133. As a result of this evaluation, certain FHLBanks changed the estimation methodology in favor of a method that they believe more accurately calculates the fair value of the hedged item, as further described in Note 3.

During the second quarter of 2004, certain FHLBanks changed their manner of assessing effectiveness for certain highly-effective hedging relationship transactions used since the adoption of SFAS 133 on January 1, 2001. See Note 3 for more information.

Mandatorily Redeemable Capital Stock. In accordance with SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (SFAS 150), the FHLBanks reclassify stock subject to redemption from capital to a liability once a member provides written notice of redemption, gives notice of intention to withdraw from membership, or withdraws from membership by merger or acquisition, charter termination, or other involuntary termination from membership, because the member's shares will then meet the definition of a mandatorily redeemable financial instrument. Shares meeting this definition are reclassified to a liability at fair value. Dividends declared on shares classified as a liability in accordance with SFAS 150 are accrued at the expected dividend rate and reflected as interest expense in the Statement of Income. The repayment of these mandatorily redeemable financial instruments (by repurchase or redemption of the shares) is reflected as a financing cash outflow in the Statement of Cash Flows.

Premises and Equipment. The FHLBanks record premises and equipment at cost less accumulated depreciation and amortization. The FHLBanks' accumulated depreciation and amortization was $208 million and $100 million at December 31, 2005 and 2004. The FHLBanks compute depreciation on the straight-line method over the estimated useful lives of relevant assets ranging from one to forty years. 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. Depreciation and amortization expense was $43 million, $35 million and $31 million for the years ended December 31, 2005, 2004 and 2003. The FHLBanks include gains and losses on the disposal of premises and equipment in other income. The net realized gain (loss) on disposal of premises and equipment was immaterial in 2005, 2004 and 2003.

The cost of computer software developed or obtained for internal use is accounted for in accordance with Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1). SOP 98-1 requires the cost of purchased software and certain costs incurred in developing computer software for internal use to be capitalized and amortized over future periods. As of December 31, 2005 and 2004, the FHLBanks had $104 million in unamortized computer software costs. Amortization of computer software costs charged to expense was $28 million, $21 million and $17 million for the years ended December 31, 2005, 2004 and 2003.

Concessions on Consolidated Obligations. The FHLBanks defer and amortize, using the level-yield method, the amounts paid to dealers in connection with the sale of consolidated obligations over the terms or the estimated lives of the consolidated obligations. The Office of Finance prorates the amount of the concession to each FHLBank based upon the percentage of the debt issued that is assumed by the FHLBank. Unamortized concessions were $347 million and $327 million at December 31, 2005 and 2004 and are included in "Other assets." Amortization of such concessions is included in consolidated obligation interest expense and totaled $131 million, $220 million and $335 million in 2005, 2004, and 2003. The FHLBanks charge to expense as incurred the concessions applicable to the sale of consolidated obligation interests in the Statement of Income.

Discounts and Premiums on Consolidated Obligations. The FHLBanks expense the discounts on consolidated obligation discount notes using the level-yield method over the term of the related

notes due to their short-term nature. They accrete the discounts and amortize the premiums on consolidated bonds to expense using the level-yield method over the term to maturity or the estimated life of the corresponding consolidated obligation bond.

Resolution Funding Corporation (REFCORP) Assessments. 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). Each FHLBank is required to pay 20 percent of income calculated in accordance with GAAP after the assessment for AHP, but before the assessment for REFCORP. The AHP and REFCORP assessments are calculated simultaneously because of their interdependence on each other. The FHLBanks accrue their REFCORP assessment on a monthly basis. Calculation of the AHP assessment is discussed in Note 10. REFCORP has been designated as the calculation agent for the AHP and REFCORP assessments. Each FHLBank provides its net income before AHP and REFCORP to the Resolution Funding Corporation, which then performs the calculations for each quarter-end.

On January 25, 2006, the Finance Board issued Advisory Bulletin 06-01 (AB 06-01) which provides guidance to those FHLBanks that are required to restate their financial statements in connection with the registration of their equity securities with the SEC. Pursuant to the guidance in AB 06-01, the restating FHLBanks have recalculated the REFCORP assessments for the years ended December 31, 2004, 2003, 2002 and 2001 based upon restated income before assessments for each of those periods. The recalculated amounts have been recorded in the Statement of Income and in the Statement of Condition.

The FHLBanks will continue to expense these amounts until the aggregate amounts actually paid by all 12 FHLBanks are equivalent to a $300 million annual annuity (or a scheduled payment of $75 million per quarter) whose final maturity date is April 15, 2030, at which point the required payment of each FHLBank to REFCORP will be fully satisfied. The Finance Board, in consultation with the Secretary of the Treasury, selects the appropriate discounting factors to be used in this annuity calculation. The FHLBanks use the actual payments made to determine the amount of the future obligation that has been defeased. The cumulative amount to be paid to REFCORP by the FHLBanks is not determinable at this time because it depends on the future earnings of all FHLBanks and prevailing interest rates. If an FHLBank experienced a net loss during a quarter, but still had net income for the year, the FHLBank's obligation to the REFCORP would be calculated based on its year-to-date net income. The FHLBank would be entitled to a refund of amounts paid for the full year that were in excess of its calculated annual obligation. If the FHLBank had net income in subsequent quarters, it would be required to contribute additional amounts to meet its calculated annual obligation. If an FHLBank experienced a net loss for a full year, that FHLBank would have no obligation to REFCORP for the year.

The Finance Board is required to extend the term of the FHLBanks' obligation to REFCORP for each calendar quarter in which there is a deficit quarterly payment. A deficit quarterly payment is the amount by which the combined FHLBanks actual quarterly payment falls short of $75 million. The benchmark payments or portions of them could be reinstated if the actual REFCORP payments of the FHLBanks fall short of $75 million in a quarter. The maturity date of the REFCORP obligation may be extended beyond April 15, 2030 if such extension is necessary to ensure that the value of the aggregate amounts paid by the FHLBanks exactly equals a $300 million annual annuity. Any payment beyond April 15, 2030 will be paid to the Department of the Treasury.

As a result of the REFCORP payments of $550 million made by the FHLBanks in 2005, the overall period during which the FHLBanks must continue to make quarterly payments was shortened to October 15, 2017, effective as of December 31, 2005. This compares to the outside date of April 15, 2019, effective as of December 31, 2004, based on REFCORP payments made through 2004.

Finance Board and Office of Finance Expenses. The FHLBanks are assessed for the costs of operating the Finance Board, the FHLBanks' primary regulator, and the Office of Finance, which manages the sale of consolidated obligations. The Finance Board allocates its operating and capital

expenditures to the FHLBanks based on each FHLBank's percentage of total combined regulatory capital stock plus retained earnings. The Office of Finance allocates its operating and capital expenditures based equally on each FHLBank's percentage of capital stock, percentage of consolidated obligations issued and percentage of consolidated obligations outstanding.

Estimated Fair Values. Some of the FHLBanks' financial instruments lack an available trading market characterized by transactions between a willing buyer and a willing seller engaging in an exchange transaction. Therefore, the FHLBanks use internal models employing 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 19 details the estimated fair values of the FHLBanks' financial instruments.

Cash Flows. In the Statement of Cash Flows, the FHLBanks consider cash and due from banks as cash and cash equivalents. Federal funds sold are not treated as cash equivalents for purposes of the Statement of Cash Flows, but instead are treated as short-term investments and are reflected in the investing activities section of the Statement of Cash Flows.

Reclassifications. Certain amounts in the 2003 financial statements have been reclassified to conform to the 2005 presentation. In particular, for the year ended December 31, 2003, the FHLBanks reclassified prepayment fee income. Previously, prepayment fee income was classified in other income. The prepayment fees relating to advances were reclassified from a separate line item in "Other income" to a separate line item in interest income as "Prepayment fees on advances, net" The prepayment fees relating to investment securities were reclassified from "Other, net income" line to the appropriate investment securities lines in interest income. Prepayment fees of $131 million were reclassified for the year ended December 31, 2003. This amount represents reclassification of prepayment fees for FHLBanks that did not restate their 2003 financial statements.

Note 2—Restatement of Prior Years Combined Financial Statements

The combined financial statements of the 12 FHLBanks have been restated as of and for the year ended December 31, 2003 as a result of restatements at seven of the 12 FHLBanks, as discussed in detail below. The effects of the FHLBanks' restatements are reflected in this annual report. Please refer to each restating FHLBank's SEC Form 10/10-K for a detailed description of that FHLBank's restatement.

The Office of Finance did not previously publish a 2004 combined financial report. Accordingly, since the 2004 combined financial statements are presented herein for the first time, they are not considered restated.

In connection with the registration of the FHLBanks' capital stock with the SEC, the FHLBanks performed a comprehensive review of certain derivative instruments. During this review, six FHLBanks identified certain corrections that were needed with respect to these FHLBanks' use of hedge accounting for certain transactions under SFAS 133. As a result, these FHLBanks restated their financial statements, largely to reflect the loss of hedge accounting for certain hedging relationships and other matters under SFAS 133 as discussed below.

In connection with a review of its hedging activities pursuant to an agreement entered into by the FHLBank of Chicago with the Finance Board effective June 30, 2004, the FHLBank of Chicago determined that for certain hedging transactions, it applied a method of hedge accounting deemed to be inconsistent with the application of SFAS 133. As a result, the FHLBank of Chicago restated its financial statements and changed its accounting to conform with SFAS 133.

All of the above restatements are summarized in the following chart:

Restatement of Financial Statements (Net Income Effect)
(Dollar amounts in millions)

	SFAS 133 Accounting Errors					
FHLBank:	Short-Cut Methodology	Long-Haul/ Effectiveness/ Valuation Issues	Miscellaneous SFAS 133 Adjustments	SFAS 91 or Amortization Errors	Correction for Errors Previously Identified as Immaterial	Total Change in Net Income
Atlanta	$ 46	$	$	$1	$	$ 47
Chicago		82				82
Dallas	39	(16)				23
Des Moines	(1)	41	(4)	1		37
Indianapolis	19					19
Pittsburgh	(1)	37			5	41
Topeka		2	(3)		1	—
Total	$102	$146	$(7)	$2	$6	$249

Short-cut methodology:

The short-cut method allows a company to make the assumption that the change in fair value of a hedged item attributable to changes in the risk being hedged exactly offsets the change in fair value of the related derivative rather than periodically evaluating the actual change in fair value of the hedged item independently. During the course of the FHLBanks' registrations with the SEC, certain FHLBanks discovered that their accounting related to certain hedging relationships did not meet the criteria required to qualify for the short-cut method of hedge accounting and, as a result, those relationships would lose "hedge accounting" treatment. The loss of hedge accounting resulted in marking only the derivative to fair value with no corresponding offset.

Additionally, some of these FHLBanks incorrectly used the short-cut method for evaluating hedge effectiveness, when the long-haul method should have been used, resulting in the loss of short-cut hedge accounting treatment. These FHLBanks previously had believed that these highly effective relationships were eligible for the short-cut method and, therefore, did not perform the periodic effectiveness testing required under the long-haul method.

Long-haul/effectiveness/valuation issues:

The application of hedge accounting generally requires a company to evaluate the effectiveness of the hedging relationships at inception and on an ongoing basis and to calculate the changes in fair value of the derivatives and related hedged items independently. This is known as the long-haul method of hedge accounting. During the course of the FHLBanks' registrations with the SEC, certain FHLBanks discovered that their accounting related to certain hedging relationships did not meet the requirements of the long-haul method of hedge accounting and, as a result, those relationships would lose "hedge accounting" treatment. These FHLBanks previously had believed that these relationships met the requirements of the long-haul method of hedge accounting. The loss of hedge accounting resulted in marking only the derivative to fair value with no corresponding offset.

For certain fair value hedging relationships, one of these FHLBanks hedged fair value risk attributable to changes in LIBOR, the designated benchmark interest rate. Following an evaluation of its previous practices, the FHLBank concluded that its benchmark valuation methodology was flawed in certain respects. Among other things, the FHLBank determined in some cases that the periodic basis adjustments included elements unrelated to the risk being hedged. To correct this and other deficiencies in its benchmark valuation methodology, the FHLBank revised the amount of the periodic changes in the benchmark fair values for the affected consolidated obligation bonds, advances and available-for-sale securities that had previously been reported in earnings.

For certain cash flow hedging transactions, one of these FHLBanks accounted for certain payer and receiver swaptions, caps and floors assuming no ineffectiveness under SFAS No. 133 Implementation Issue G20, *Assessing and Measuring the Effectiveness of an Option Used in a Cash Flow Hedge* (Issue G20). While the stand-alone payer and receiver swaptions, caps and floors economically hedged the variability of interest rate movements associated with anticipated debt issuances, the FHLBank determined that hedge accounting was not applicable and reclassified to earnings all related gains and losses previously deferred in other comprehensive income. Additionally, this FHLBank previously reclassified from other comprehensive income into earnings premiums paid on certain caps and floors using an effective yield method. As part of the restatement, this FHLBank corrected its method of reclassifying into earnings premiums paid on caps and floors to the caplet/floorlet methodology in accordance with the provisions of Issue G20, which modifies the timing of the reclassification.

Miscellaneous SFAS 133 adjustments:

During the course of the FHLBanks' registrations with the SEC, certain FHLBanks identified other errors related to the application of SFAS 133. Examples of these errors included not properly amortizing basis adjustments, SFAS 133 transition accounting, the timing for recognizing derivatives, and changes in the values of certain derivative instruments. Although the effect of these errors by themselves was not material, the affected FHLBanks made accounting adjustments to correct for these transactions in the proper accounting periods.

SFAS 91 or amortization issues:

During the course of the FHLBanks' registrations with the SEC, certain FHLBanks changed their method of amortizing and accreting premiums, discounts and concession fees (e.g., on certain available-for-sale securities and consolidated obligation bonds) from the straight-line method to the level-yield method to comply with the provisions of SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (SFAS 91). In conjunction with the change, errors under the level-yield method were corrected and adjustments were made for certain premiums, discounts and other nonrefundable fees.

Correction for errors previously identified as immaterial:

During the course of the FHLBanks' registrations with the SEC, certain FHLBanks restated prior financial statements for other miscellaneous items, including corrections related to the valuation of certain hedged consolidated obligation bonds and interest-rate swaps with upfront or deferred fees, the reclassifications of certain items within the statements of income and statements of condition, as well as other miscellaneous items. Although the effect of these errors by themselves was not material, the affected FHLBanks made accounting adjustments to correct for these transactions in the proper accounting periods.

Reconciliation of Statements of Condition

At December 31, 2003

(Dollar amounts in millions)

	As Previously Reported	Pittsburgh	Atlanta	Indianapolis	Chicago	Des Moines	Dallas	Topeka	Reclassification/ Rounding	As Restated
ASSETS										
Cash and due from banks	$ 439	$	$ (12)	$	$	$	$	$	$	$ 427
Trading securities	8,234								24	8,258
Available-for-sale securities	11,370	3		2					2	11,377
Advances	514,168	(10)	(86)			(31)		(4)		514,037
Mortgage loans held for portfolio	113,454	(50)			(4)	53				113,453
Less: allowance for credit losses on mortgage loans	16	(1)								15
Mortgage loans held for portfolio, net	113,438	(49)			(4)	53				113,438
Accrued interest receivable	2,864	(289)						1		2,576
Premises and equipment, net	186		3					4		193
Derivative assets	1,556	(36)	9							1,529
Other assets	623	21	6	6			21	(4)	(2)	671
Total assets	$822,790	$(360)	$ (80)	$ 8	$(4)	$ 22	$ 21	$ (3)	$24	$822,418
LIABILITIES										
Deposits:										
Demand and overnight	$ 17,943	$	$ 151	$	$	$ 3	$	$	$(1)	$ 18,096
Other	1,090		(104)						1	987
Total deposits	20,505		47			3				20,555
Consolidated obligations, net:										
Bonds	577,217	(280)	33	(1)	1	(3)	(24)	30	28	577,001
Total consolidated obligations	740,937	(280)	33	(1)	1	(3)	(24)	30	28	740,721
Accrued interest payable	4,563								2	4,565
Affordable Housing Program	681	(4)	(13)	(6)	7	2	(11)	(1)		655
Payable to REFCORP	101	(2)	(12)	(7)	15	5	(6)	(3)		91
Derivative liabilities	13,002	(36)	12	3				(21)		12,960
Other liabilities	1,237		(45)			(3)	1	1		1,191
Total liabilities	783,726	(322)	22	(11)	23	4	(40)	6	30	783,438
CAPITAL										
Capital stock Class B ($100 par value) issued and outstanding	15,081					1				15,082
Total capital stock	37,702					1				37,703
Retained earnings	1,327	(40)	(102)	(50)	61	18	(103)	(8)	(5)	1,098
Accumulated other comprehensive income:										
Net unrealized gains (losses) on available-for sale securities	341			69		(1)	(236)		(1)	172
Net unrealized (losses) gains relating to hedging activities	(300)	2			(88)		400			14
Other	(6)							(1)		(7)
Total capital	39,064	(38)	(102)	19	(27)	18	61	(9)	(6)	38,980
Total liabilities and capital	$822,790	$(360)	$ (80)	$ 8	$(4)	$ 22	$ 21	$ (3)	$24	$822,418

Reconciliation of Statements of Income

For the Year Ended December 31, 2003

(Dollar amounts in millions)

	As Previously Reported	Pittsburgh	Atlanta	Indianapolis	Chicago	Des Moines	Dallas	Topeka	Reclassification/ Rounding	As Restated
INTEREST INCOME										
Advances	$ 8,625	$ 9	$116	$	$ (9)	$ 16	$	$	$ 1	$ 8,758
Prepayment fees on advances, net		5	13	3	4	20	11	4	125	185
Securities purchased under agreements to resell	51								(1)	50
Federal funds sold	489				(2)			(1)	(1)	485
Trading securities	440								1	441
Available-for-sale securities	153			36			67			256
Held-to-maturity securities	4,248							1	6	4,255
Mortgage loans held for portfolio	4,055	185			(4)	143		1	1	4,381
Other	5							1		6
Total interest income	18,325	199	129	39	(11)	179	78	6	132	19,076
INTEREST EXPENSE										
Consolidated obligations	14,912	25	62		(172)	10	32		1	14,870
Deposits	278								1	279
Securities sold under agreements to repurchase	44								1	45
Other borrowings	7								(2)	5
Total interest expense	15,241	25	62		(172)	10	32		1	15,199
NET INTEREST INCOME BEFORE PROVISION (REVERSAL) FOR CREDIT LOSSES	3,084	174	67	39	161	169	46	6	131	3,877
Provision (reversal) for credit losses	3	(7)								(4)
NET INTEREST INCOME AFTER PROVISION (REVERSAL) FOR CREDIT LOSSES	3,081	181	67	39	161	169	46	6	131	3,881
OTHER INCOME										
Prepayment fees	191	(7)	(13)	(3)	(4)	(20)	(11)	(4)	(129)	
Service fees	33							1	1	35
Net (losses) gains on trading securities	(319)	(1)							1	(319)
Net losses on available for sale securities	(27)								(4)	(31)
Net (losses) gains on derivatives and hedging activities	(40)	(118)	10	(10)	(46)	(98)	(3)	(3)	(1)	(309)
Other, net	2	1							(2)	1
Total other (loss) income	(318)	(125)	(3)	(13)	(50)	(118)	(14)	(6)	(134)	(781)
OTHER EXPENSE										
Operating	449							1		450
Finance Board	23								1	24
Other	16								(1)	15
Total other expense	506							1		507
INCOME BEFORE ASSESSMENTS	2,257	56	64	26	111	51	32	(1)	(3)	2,593
Affordable Housing Program	190	5	5	2	9	4	3	(1)	1	218
REFCORP	427	10	12	5	20	10	6			490
Total assessments	617	15	17	7	29	14	9	(1)	1	708
NET INCOME	$ 1,640	$ 41	$ 47	$19	$ 82	$ 37	$ 23	$	$ (4)	$ 1,885

Reconciliation of Statements of Capital
For the Year Ended December 31, 2003
(Dollar amounts in millions)

	As Previously Reported	Pittsburgh	Atlanta	Indianapolis	Chicago	Des Moines	Dallas	Topeka	Reclassification/ Rounding	As Restated
BALANCE, DECEMBER 31, 2002	$36,324	$(82)	$(149)	$24	$ 7	$(20)	$ 105	$(8)	$(1)	$ 36,200
Proceeds from sale of capital stock	11,732					1	(28)		1	11,706
Repurchase/redemption of capital stock	(10,152)						28			(10,124)
Comprehensive income:										
Net income	1,640	41	47	19	82	37	23		(4)	1,885
Other comprehensive income:										
Net unrealized (losses) gains on available-for-sale securities	(112)	1		(25)	(87)	1	111			(111)
Reclassification adjustment for (gains) losses included in net income relating to available-for-sale securities	(38)	(1)			86	(1)				46
Net unrealized gains (losses) relating to hedging activities	422	6			(367)		(178)			(117)
Reclassification adjustment for (gains) losses included in net income relating to hedging activities	(178)	(4)			251					69
Other	(5)							(1)		(6)
Total comprehensive income	1,729	43	47	(6)	(35)	37	(44)	(1)	(4)	1,766
Dividend on capital stock:										
Cash	(569)	1								(568)
BALANCE, DECEMBER 31, 2003	$39,064	$(38)	$(102)	$18	$(28)	$ 18	$ 61	$(9)	$(4)	$ 38,980

Note 3—Changes and Adoptions of Accounting Principles, Accounting Adjustments, Change in Accounting Estimate, and Recently Issued Accounting Standards and Interpretations

Change in Amortization and Accretion Method of Deferred Premiums and Discounts on Mortgage Loans Held for Portfolio and Mortgage-Backed Securities. Certain FHLBanks have changed their method of accounting for premiums and discounts and other deferred loan origination fees. In addition, certain FHLBanks have changed their method of accounting for premiums and discounts and other deferred loan origination fees under SFAS 91 on mortgage-backed securities. Historically, each FHLBank deferred and amortized agent fees and premiums and discounts paid to and received by its members as interest income over the estimated lives of the related mortgage loans (the "estimated life method"). Actual prepayment experience and estimates of future principal repayments were used in calculating such estimated lives.

Effective January 1, 2004, the FHLBanks of Chicago and Pittsburgh changed its method of amortizing such premiums and discounts from the estimated life method to the contractual method. Under the contractual method, the FHLBank amortizes premiums and discounts over the contractual life of the asset, which the FHLBank believes is more consistent with the actual behavior of the underlying mortgage loans and reflects the contractual terms of the assets without regard to changes in estimates based on assumptions about future borrower behavior. These FHLBanks believe this method is preferable because it relies less than the previous method on the use of estimates inherent in calculating weighted-average lives that are used to determine the loan pool amortization periods. As a result, the contractual method does not create income volatility related to estimated changes, but instead reflects volatility related to actual loan behavior.

As a result of implementing the above changes in accounting under SFAS 91, these FHLBanks recorded a cumulative effect of a change in accounting principle, effective January 1, 2004. This change resulted in an increase to retained earnings of $41 million for the FHLBank of Chicago and $10 million for the FHLBank of Pittsburgh.

Effective January 1, 2005, the FHLBank of Atlanta changed its method of accounting for deferred premiums and discounts on mortgage-backed securities under SFAS 91 to the contractual method. Previously, amortization and accretion of MBS premiums and discounts were computed using the estimated life method. While both methods are acceptable under GAAP, FHLBank of Atlanta management believes that the contractual method is preferable to the estimated life method because, under the contractual method, the income effects of premiums and discounts are recognized in a manner that reflects the actual behavior of the underlying assets during the period in which the behavior occurs, while also reflecting the contractual terms of the assets without regard to changes in estimates based on assumptions about future borrower behavior.

As a result of implementing this change in accounting under SFAS 91, the FHLBank of Atlanta recorded a cumulative effect of a change in accounting principle, effective January 1, 2005. This change resulted in a decrease to retained earnings of $2.9 million.

Effective January 1, 2005, the FHLBank of Boston changed its method of accounting for premiums and discounts on MPF mortgage loans under SFAS 91 to the contractual method. Prior to 2005, amortization and accretion of premiums and discounts was computed using the estimated life method. While both methods are acceptable under GAAP, the FHLBank of Boston believes that the contractual method is preferable to the retrospective method because under the contractual method, the income effects of premiums and discounts are recognized in a manner that is reflective of the actual behavior of the underlying assets during the period in which the behavior occurs while also reflecting the contractual terms of the assets without regard to changes in estimated prepayments based on assumptions about future borrower behavior.

As a result of implementing the change in accounting principle for amortization and accretion from the retrospective method to the contractual method, the FHLBank of Boston recorded a cumulative effect of a change in accounting principle effective January 1, 2005, that resulted in an increase to income before AHP and REFCORP assessments of $7.1 million.

Effective January 1, 2005, the FHLBank of Dallas changed its method of accounting for the amortization and accretion of mortgage loan premiums and discounts under SFAS 91 to the contractual method. Previously, amortization and accretion of premiums and discounts associated with the FHLBank's mortgage loans held for portfolio were computed using the estimated life method. While both methods are acceptable under generally accepted accounting principles, the FHLBank believes that the contractual method is preferable to the retrospective method because, under the contractual method, the income effects of premiums and discounts are recognized in a manner that is reflective of the actual behavior of the mortgage loans during the period in which the behavior occurs while also reflecting the contractual terms of the assets without regard to changes in estimated prepayments based upon assumptions about future borrower behavior.

As a result of the change in method of amortizing premiums and accreting discounts on mortgage loans, the FHLBank of Dallas recorded a cumulative effect of a change in accounting principle effective January 1, 2005. Net of assessments, this change increased net income for the year ended December 31, 2005 by $908,000. If the contractual method had been used to amortize premiums and accrete discounts in prior years, the FHLBank's net income would not have been materially different from the reported amounts.

Effective January 1, 2005, the FHLBank of Des Moines changed its method of amortizing and accreting premiums, discounts, and other nonrefundable fees on mortgage loans and mortgage-backed securities to the contractual method. The FHLBank historically computed the amortization and accretion of premiums, discounts, and other nonrefundable fees using the retrospective method; that is, using the interest method over the estimated lives of the assets. While both methods are acceptable under GAAP, the FHLBank believes the contractual method is preferable to the retrospective method because under the contractual method, the income effects of premiums, discounts, and other nonrefundable fees are recognized in a manner that is reflective of the actual behavior of the underlying assets during the period in which the behavior occurs while also reflecting the contractual terms of the assets without regard to changes in estimated prepayments based on assumptions about future borrower behavior.

As a result of implementing this change, the FHLBank of Des Moines recorded a $9 million cumulative effect of a change in accounting principle in the statement of income (before assessments) for the year ended December 31, 2005.

Effective January 1, 2005, the FHLBank of New York changed its method of amortizing and accreting premiums and discounts on mortgage loans to the contractual method, in accordance with SFAS 91. Previously, amortization and accretion of premiums and discounts was computed using the estimated life method with estimated life, which requires a retrospective adjustment each time the FHLBank changes the estimated remaining life of the mortgage loans. The FHLBank believes that the contractual method is preferable because under the contractual method, the income effects of premiums and discounts are recognized in a manner that is reflective of the actual behavior of the mortgage loans during the period in which the behavior occurs without regard to changes in estimates based on assumptions about future borrower behavior.

As a result of the change in accounting principle, income of $1.1 million, before assessments, was recorded on January 1, 2005 as a cumulative effect of change in accounting principle.

Adoption of SFAS 150. The FASB issued SFAS 150 in May 2003. This statement establishes a standard for how certain financial instruments with characteristics of both liabilities and equity are classified in the financial statements and provides accounting guidance for, among other things, mandatorily redeemable financial instruments.

The FHLBanks adopted SFAS 150 as of January 1, 2004. In compliance with SFAS 150, those FHLBanks that have converted to a new capital plan will reclassify stock subject to redemption from equity to a liability once a member exercises a non-revocable written redemption right, gives notice of intent to withdraw from membership, or attains non-member status by merger or acquisition, charter termination, or involuntary termination from membership. The one FHLBank that has not

converted to a new capital structure will reclassify stock subject to redemption from equity to a liability once a redemption request is in place. Shares of capital stock meeting these definitions are reclassified to a liability at fair value. Dividends related to capital stock classified as a liability are accrued at the expected dividend rate and reported as interest expense in the Statement of Income. The repayment of these mandatorily redeemable financial instruments is reflected as a cash outflow in the financing activities section of the Statement of Cash Flows.

If a member cancels its written notice of redemption or notice of withdrawal, the affected FHLBank will reclassify mandatorily redeemable capital stock from a liability to equity in compliance with SFAS 150. After the reclassification, dividends on the capital stock will no longer be classified as interest expense.

Upon adoption on January 1, 2004, the FHLBanks reclassified $946 million of outstanding capital stock to "Mandatorily redeemable capital stock" in the liability section of the Statement of Condition and also recorded estimated dividends earned as a part of the carrying value of the mandatorily redeemable capital stock. The difference between the prior carrying amount and the mandatorily redeemable capital stock of $1 million was recorded as a cumulative effect of a change in accounting principle in the Statement of Income.

For the years ended December 31, 2005 and 2004, dividends on mandatorily redeemable capital stock in the amount of $48 million and $22 million were recorded as interest expense.

Although the mandatorily redeemable capital stock is not included in capital for financial reporting purposes, it is considered capital for regulatory purposes. See Note 16 for more information, including significant restrictions on stock redemption.

Accounting Adjustments. During the second quarter of 2004, certain FHLBanks changed their manner in which they assess effectiveness for certain highly-effective consolidated obligation hedging relationships. Under the prior approach, these FHLBanks inappropriately assumed no ineffectiveness for these hedging transactions because the consolidated obligation and the designated interest-rate swap agreement had identical terms with the exception that the interest-rate swaps used in these relationships were structured with one settlement amount under the receive side of the swap that differed from all other receive-side settlements by an amount equivalent to the concession cost associated with the consolidated obligation. During 2004, these FHLBanks changed their method of accounting for these relationships to begin measuring effectiveness for such transactions during each reporting period. These FHLBanks assessed the effect of this change on all prior annual periods since the adoption of SFAS 133 on January 1, 2001, and all prior quarterly periods for 2004 and 2003, and determined that had these FHLBanks applied this approach since January 1, 2001 they would not have had a material effect on the results of operations or financial condition of these FHLBanks for any of these prior reporting periods. These FHLBanks recorded an increase of $11 million to income before assessments included in other income in "Net gains (losses) on derivatives and hedging activities" and an increase of $8 million to net income in the second quarter of 2004. These amounts include an increase to net income of $11 million related to periods prior to January 1, 2004, and reflect the accounting as if these FHLBanks had employed the new approach from the date of adoption of SFAS 133 until their implementation of the new approach for measuring effectiveness. The restating FHLBanks were required to correct their prior year financial statements for this issue, rather than make a cumulative "catch-up" adjustment in their current year financial statements.

Change in Accounting Estimate. During the second quarter of 2005, certain FHLBanks evaluated their estimation methodology for determining the fair-value hedge adjustments for certain consolidated bonds for which interest-rate swaps were designated as hedges of changes in fair value due to changes in the benchmark interest rate under SFAS 133. As a result of this evaluation, certain FHLBanks changed the estimation methodology in favor of a method that they believe more accurately calculates the fair value of the hedged item, as further described below. The restating FHLBanks were required to correct their prior year financial statements for this issue, rather than make a cumulative "catch-up" adjustment in their current year financial statements.

In general, when these FHLBanks designated an interest-rate swap as a hedge of changes in fair-value of the hedged item attributable to changes in the benchmark London Interbank Offered Rate (LIBOR) yield curve, they determined a constant spread adjustment to the LIBOR yield curve that resulted in a market interest rate on the hedged item at the inception of the hedging relationship. Previous to the change in their estimation methodology, when these FHLBanks entered into this type of hedge relationship for a consolidated bond, for purposes of adjusting the LIBOR yield curve for valuation purposes, they used the spread that was applied to the pay side of the associated interest-rate swap as a proxy for the market rate on the consolidated bond.

After performing the evaluation in the second quarter of 2005, these FHLBanks now believe that the existing methodology was flawed because it consistently overstated the yields used to determine the changes in the fair values of the consolidated bonds attributable to changes in the benchmark LIBOR yield curve. The former methodology did not consider that the pay-side LIBOR spread adjustment was set at a level designed to compensate the swap dealer for paying the swap fee and it resulted in an initial basis for the bond that is aligned with the value of the interest-rate swap immediately after the payment of the swap fee, rather than a par valuation.

These FHLBanks have determined that a different discount spread adjustment methodology would have more accurately reflected the changes in fair value due to changes in the benchmark interest rate by better calibrating the spread adjustment to the benchmark LIBOR yield curve to the initial basis value of the hedged consolidated bond. This methodology results in initial consolidated bond values that are properly aligned with the initial basis adjustment of the bond. Accordingly, during the second quarter of 2005, these FHLBanks changed the estimation methodology to the more accurate method for the purpose of calculating the benchmark fair-value hedge adjustments for these transactions.

These FHLBanks have determined that the differences between the previous estimation methodology and the new estimation methodology are immaterial to prior periods. The change was implemented as of June 30, 2005, and has been reflected as a change in accounting estimate. As of June 30, 2005, the cumulative difference between the two estimation methodologies was a reduction to income before assessments of approximately $12 million ($10 million after assessments), which has been recorded in "Net losses (gains) on derivatives and hedging activities" in Other income.

It is expected that the use of the new methodology will lead to increased volatility in reported ineffectiveness associated with these hedging relationships due to the introduction of a difference in the initial valuation basis between the consolidated bond and the interest-rate swap that is subject to fluctuation with interest rates, and therefore, there will be increased volatility in the amount of gains and losses from derivative and hedging activities and reported net income in future periods. In general, when interest rates increase, ineffectiveness will generally be more negative, and when interest rates fall, ineffectiveness will generally be more positive than was the case under the previous method.

In the second quarter of 2005, one FHLBank corrected its valuation methodology with respect to hedged advances accounted for under the long-haul method. The FHLBank had previously measured the ineffectiveness of hedged advances by discounting the future cash flows of the hedged advances by LIBOR, the FHLBank's adopted benchmark interest rate. However, the initial present value of cash flows was assumed to be the par value of the advance and a beginning model value was not calculated for comparison with end of period valuations. This resulted in an inappropriate gain being recorded in the first hedge period, and the reversing effects of the inappropriate gain being reflected over the remaining hedge period. Under the corrected methodology, the FHLBank has discounted the future cash flows of the hedged advance by adding a spread to the benchmark swap curve to adjust for the credit spread between the FHLBank advance and the swap curve. This methodology eliminated the initial present value differences between par and the present value of future cash flows at hedge inception, and is in compliance with SFAS 133. As a result of the inappropriate use of its previous methodology, the FHLBank made the change in its second quarter

2005 financial statements to implement the refined methodology, resulting in a $4 million charge to earnings ($3 million after assessments).

DIG Issue B38 and DIG Issue B39. On June 30, 2005, the FASB issued Derivatives Implementation Group ("DIG") Issue B38, *Evaluation of Net Settlement with Respect to the Settlement of a Debt Instrument through Exercise of an Embedded Put Option or Call Option* and DIG Issue B39, *Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor.* DIG Issue B38 addresses an application issue when applying SFAS 133, paragraph 12(c), to a put option or call option (including a prepayment option) embedded in a debt instrument. DIG Issue B39 addresses the conditions in SFAS 133, paragraph 13(b), as they relate to whether an embedded call option in a hybrid instrument containing a host contract is clearly and closely related to the host contract if the right to accelerate the settlement of debt is exercisable only by the debtor. DIG Issues B38 and B39 become effective for periods beginning after December 15, 2005. At the time of adoption, DIG Issues B38 and B39 did not have a material effect on the FHLBanks' results of operations or its financial condition.

FSP FAS 115-1. The FASB issued FASB Staff Position (FSP) No. 115-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments* in November 2005. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The FHLBanks do not expect the FSP to have a material effect on the FHLBanks' results of operations or its financial condition upon adoption on January 1, 2006.

SFAS 155. On February 16, 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140* (SFAS 155), which resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets (DIG Issue D1). SFAS 155 amends SFAS 133 to simplify the accounting for certain derivatives embedded in other financial instruments (hybrid financial instruments) by permitting fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise required bifurcation, provided that the entire hybrid financial instrument is accounted for on a fair value basis. SFAS 155 also establishes the requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, which replaces the interim guidance in DIG Issue D1. SFAS 155 amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—a replacement of FASB Statement 125 (SFAS 140) to allow a qualifying special-purpose entity to hold a derivative financial instrument that pertains to beneficial interests other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006 (January 1, 2007 for the FHLBanks), with earlier adoption allowed. The FHLBanks have not yet determined the effect that the implementation of SFAS 155 will have on the FHLBanks' results of operations or its financial condition.

SFAS 157. On September 15, 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. SFAS 157 does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The FHLBanks are evaluating the effect the implementation of SFAS 157 will have on their financial condition, results of operations or cash flows.

SFAS 158. On September 29, 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), which will require

employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. Specifically, SFAS 158 will require employers to recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status, measure a plan's assets and its obligations as of the end of the employer's fiscal year (with limited exceptions), and recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006, for entities with publicly traded equity securities, and at the end of the fiscal year ending after June 15, 2007 for all other entities. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. Earlier application of the recognition or measurement date provisions is encouraged; however, early application must be for all of an employer's benefit plans. Retrospective application of SFAS 158 is not permitted. The FHLBanks do not expect the adoption of this statement to have a material effect on their financial condition, results of operations or cash flows.

SEC Staff Accounting Bulletin No. 108. In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for fiscal years ending on or after November 15, 2006, with earlier adoption encouraged. The FHLBanks are evaluating the effect the implementation of SAB 108 will have on their financial condition, results of operations or cash flows.

Note 4—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, 2005 and 2004 were approximately $25 million and $125 million.

In addition, the FHLBanks maintained average required clearing balances with various Federal Reserve Banks of approximately $118 million and $157 million for the years ended December 31, 2005 and 2004. These are required clearing balances 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 pass-through correspondents 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 $151 million and $241 million as of December 31, 2005 and 2004.

Note 5—Securities Purchased Under Agreements to Resell

The FHLBanks have entered into purchases of securities under agreements to resell those securities. These amounts represent short-term loans and are assets in the Statement of Condition. Securities purchased under agreements to resell are held in safekeeping in the name of the relevant FHLBank. 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 6—Trading Securities

Major Security Types. Trading securities as of December 31, 2005 and 2004 were as follows (dollar amounts in millions):

	December 31,	
	2005	2004
	Estimated Fair Value	Estimated Fair Value
Government-sponsored enterprises**	$6,590	$6,881
State or local housing agency obligations	61	551
Other	2	2
	6,653	7,434
Mortgage-backed securities:		
Other U.S. obligations*	132	200
Government-sponsored enterprises***	249	597
Other	147	223
	528	1,020
Total	$7,181	$8,454

* Other U.S. obligations primarily consists of Government National Mortgage Association (Ginnie Mae) and/or Small Business Administration (SBA) investment pools.

** Primarily consists of securities issued or guaranteed by Freddie Mac, Fannie Mae and/or Tennessee Valley Authority, which are not obligations of the U.S. Government.

*** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

Net losses on trading securities during the years ended December 31, 2005, 2004 and 2003, included a change in net unrealized holding losses of $295 million, $147 million and $326 million for securities held on December 31, 2005, 2004 and 2003.

Note 7—Available-for-Sale Securities

Major Security Types. Available-for-sale securities as of December 31, 2005, were as follows (dollar amounts in millions):

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury obligations	$ 108	$	$ (6)	$ 102
Commercial paper	1,149	2		1,151
Government-sponsored enterprises*	1,748	2	(10)	1,740
Other	395	8		403
	3,400	12	(16)	3,396
Mortgage-backed securities:				
Government-sponsored enterprises**	901	2	(6)	897
Other	1,305	1		1,306
	2,206	3	(6)	2,203
Total	$5,606	$15	$(22)	$5,599

* Primarily consists of securities issued or guaranteed by Freddie Mac, Fannie Mae and/or the Tennessee Valley Authority, which are not obligations of the U.S. Government.

** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

Available-for-sale securities as of December 31, 2004, were as follows (dollar amounts in millions):

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury obligations	$ 110	$	$ (4)	$ 106
Commercial paper	911			911
Other U.S. obligations*	305	5	(5)	305
Government-sponsored enterprises**	6,310	209	(17)	6,502
Other	393		(2)	391
	8,029	214	(28)	8,215
Mortgage-backed securities:				
Government-sponsored enterprises***	2,328	4	(4)	2,328
Other	1,473	1	(2)	1,472
	3,801	5	(6)	3,800
Total	$11,830	$219	$(34)	$12,015

* Other U.S. obligations primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of securities issued or guaranteed by Freddie Mac, Fannie Mae and/or the Tennessee Valley Authority, which are not obligations of the U.S. Government.

*** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

The following table summarizes the available-for-sale securities with unrealized losses as of December 31, 2005. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position (dollar amounts in millions).

	Less than 12 Months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations	$	$	$ 103	$ (6)	$ 103	$ (6)
Government-sponsored enterprises*	842	(5)	791	(5)	1,633	(10)
Mortgage-backed securities:						
Government-sponsored enterprises**	342	(5)	302	(1)	644	(6)
Total temporarily impaired	$1,184	$(10)	$1,196	$(12)	$2,380	$(22)

* Primarily consists of securities issued or guaranteed by Freddie Mac, Fannie Mae and/or Tennessee Valley Authority, which are not obligations of the U.S. Government.

** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

The FHLBanks reviewed their investment security holdings and have determined that all unrealized losses reflected above are temporary, based in part on the creditworthiness of the issuers and the underlying collateral. Additionally, the FHLBanks have the ability and the intent to hold such securities through to recovery of the unrealized losses.

The following table summarizes the available-for-sale securities with unrealized losses as of December 31, 2004. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position (dollar amounts in millions).

	Less than 12 Months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations	$	$	$ 106	$ (4)	$ 106	$ (4)
Other U.S. obligations*			223	(5)	223	(5)
Government-sponsored enterprises**	992	(5)	357	(12)	1,349	(17)
Other			387	(2)	387	(2)
Mortgage-backed securities:						
Government-sponsored enterprises***	382	(3)	688	(1)	1,070	(4)
Other	128		149	(2)	277	(2)
Total temporarily impaired	$1,502	$(8)	$1,910	$(26)	$3,412	$(34)

* Other U.S. obligations primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of securities issued or guaranteed by Freddie Mac, Fannie Mae and/or Tennessee Valley Authority, which are not obligations of the U.S. Government.

*** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

Redemption Terms. The amortized cost and estimated fair value of available-for-sale securities as of December 31, 2005 and 2004 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	December 31, 2005 Amortized Cost	December 31, 2005 Estimated Fair Value	December 31, 2004 Amortized Cost	December 31, 2004 Estimated Fair Value
Due in 1 year or less	$1,831	$1,833	$ 1,438	$ 1,439
Due after 1 year through 5 years	754	745	1,118	1,146
Due after 5 years through 10 years	23	23	3,191	3,217
Due after 10 years	792	795	2,282	2,413
	3,400	3,396	8,029	8,215
Mortgage-backed securities	2,206	2,203	3,801	3,800
Total	$5,606	$5,599	$11,830	$12,015

The amortized cost of the FHLBanks' mortgage-backed securities classified as available-for-sale includes net premiums of $5 million at December 31, 2005 and net discounts of $2 million at December 31, 2004.

Interest-Rate Payment Terms. The following table details additional interest-rate payment terms for investment securities classified as available-for-sale at December 31, 2005 and 2004 (dollar amounts in millions):

	December 31, 2005	December 31, 2004
Amortized cost of available-for-sale securities other than mortgage-backed securities:		
Fixed-rate	$3,396	$ 8,025
Variable-rate	4	4
	3,400	8,029
Amortized cost of available-for-sale mortgage-backed securities:		
Pass-through securities:		
Fixed-rate	916	1,180
Variable-rate		767
Collateralized mortgage obligations:		
Fixed-rate	226	741
Variable-rate	1,064	1,113
	2,206	3,801
Total	$5,606	$11,830

Gains and Losses. The FHLBanks realized $298 million, $29 million and $91 million in gross gains on the sale of available-for-sale securities for 2005, 2004 and 2003. The FHLBanks realized $8 million, $40 million and $62 million in gross losses on the sale of available-for-sale securities in 2005, 2004 and 2003.

Note 8—Held-to-Maturity Securities

Major Security Types.

Held-to-maturity securities as of December 31, 2005, were as follows (dollar amounts in millions):

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 4,680	$ 5	$	$ 4,685
Other U.S. obligations*	1,133	8	(2)	1,139
Government-sponsored enterprises**	5,101	30	(70)	5,061
State or local housing agency obligations	3,941	53	(4)	3,990
Other	9			9
	14,864	96	(76)	14,884
Mortgage-backed securities:				
Other U.S. obligations*	624	4	(5)	623
Government-sponsored enterprises***	41,319	80	(748)	40,651
Other	77,654	166	(1,118)	76,702
	119,597	250	(1,871)	117,976
Total	$134,461	$346	$(1,947)	$132,860

* Other U.S. obligations primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of securities issued or guaranteed by Freddie Mac, Fannie Mae and/or the Tennessee Valley Authority, which are not obligations of the U.S. Government.

*** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

Held-to-maturity securities as of December 31, 2004, were as follows (dollar amounts in millions):

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 2,605	$	$	$ 2,605
Other U.S. obligations*	1,412	41	(1)	1,452
Government-sponsored enterprises**	6,828	28	(43)	6,813
State or local housing agency obligations	4,255	82	(8)	4,329
Other	264	11		275
	15,364	162	(52)	15,474
Mortgage-backed securities:				
Other U.S. obligations*	1,142	9	(2)	1,149
Government-sponsored enterprises**	37,886	249	(246)	37,889
Other	69,253	565	(450)	69,368
	108,281	823	(698)	108,406
Total	$123,645	$985	$(750)	$123,880

* Other U.S. obligations primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

The following table summarizes the held-to-maturity securities with unrealized losses as of December 31, 2005. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position (dollar amounts in millions).

	Less than 12 Months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other U.S. obligations*	$ 105	$ (1)	$ 30	$ (1)	$ 135	$ (2)
Government-sponsored enterprises**	1,093	(13)	1,804	(57)	2,897	(70)
State or local housing agency obligations	1,162	(2)	159	(2)	1,321	(4)
Mortgage-backed securities:						
Other U.S. obligations*	165	(1)	95	(4)	260	(5)
Government-sponsored enterprises***	16,929	(245)	12,756	(503)	29,685	(748)
Other	40,577	(432)	24,457	(686)	65,034	(1,118)
Total temporarily impaired	$60,031	$(694)	$39,301	$(1,253)	$99,332	$(1,947)

* Other U.S. obligations primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of securities issued or guaranteed by Freddie Mac, Fannie Mae and/or Tennessee Valley Authority, which are not obligations of the U.S. Government.

*** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

The FHLBanks reviewed their held-to-maturity investments and have determined that all unrealized losses reflected above are temporary based on the creditworthiness of the issuers and the underlying collateral. Additionally, the FHLBanks have the ability and the intent to hold such securities through to recovery of the unrealized losses.

The following table summarizes the held-to-maturity securities with unrealized losses as of December 31, 2004. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position (dollar amounts in millions).

	Less than 12 Months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other U.S. obligations*	$ 88	$	$ 50	$ (1)	$ 138	$ (1)
Government-sponsored enterprises**	3,966	(22)	532	(21)	4,498	(43)
State or local housing agency obligations	150		417	(8)	567	(8)
Mortgage-backed securities:						
Other U.S. obligations*	139	(2)	42		181	(2)
Government-sponsored enterprises**	12,483	(118)	5,350	(128)	17,833	(246)
Other	31,983	(318)	7,630	(132)	39,613	(450)
Total temporarily impaired	$48,809	$(460)	$14,021	$(290)	$62,830	$(750)

* Other U.S. obligations primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

Redemption Terms. The amortized cost and estimated fair value of held-to-maturity securities as of December 31, 2005 and 2004 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.

	2005		2004	
Year of Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 6,799	$ 6,803	$ 7,237	$ 7,234
Due after 1 year through 5 years	3,581	3,525	2,845	2,841
Due after 5 years through 10 years	873	908	1,154	1,216
Due after 10 years	3,611	3,648	4,128	4,183
	14,864	14,884	15,364	15,474
Mortgage-backed securities	119,597	117,976	108,281	108,406
Total	$134,461	$132,860	$123,645	$123,880

The amortized cost of the FHLBanks' mortgage-backed securities classified as held-to-maturity includes net discounts of $74 million and $168 million at December 31, 2005 and 2004.

Interest-Rate Payment Terms. The following table details additional interest-rate payment terms for investment securities classified as held-to-maturity at December 31, 2005 and 2004 (dollar amounts in millions):

	2005	2004
Amortized cost of held-to-maturity securities other than mortgage-backed securities:		
Fixed-rate	$ 9,072	$ 11,472
Variable-rate	5,792	3,892
	14,864	15,364
Amortized cost of held-to-maturity mortgage-backed securities:		
Pass-through securities:		
Fixed-rate	18,347	21,440
Variable-rate	1,016	1,947
Collateralized mortgage obligations:		
Fixed-rate	65,518	58,128
Variable-rate	34,716	26,766
	119,597	108,281
Total	$134,461	$123,645

Gains and Losses. The FHLBanks realized $0, $12 million and $33 million in gross gains on the sale of held-to-maturity securities for 2005, 2004 and 2003. The FHLBanks realized $1 million, $0 and $191 million in gross losses on the sale of held-to-maturity securities in 2005, 2004 and 2003.

Note 9—Advances

Redemption Terms. At December 31, 2005 and 2004, the FHLBanks had advances outstanding, including AHP advances (see Note 10), at interest rates ranging from 0 percent to 10 percent,

as summarized below (dollar amounts in millions). Advances with interest rates of 0 percent are AHP-subsidized advances.

Redemption Term—Amount	December 31, 2005 Amount	December 31, 2005 Weighted-Average Interest Rate	December 31, 2004 Amount	December 31, 2004 Weighted-Average Interest Rate
Overdrawn demand deposit accounts	$ 49		$ 50	
Due in 1 year or less	242,932	4.04%	218,346	2.45%
Due after 1 year through 2 years	108,014	4.09%	102,330	2.77%
Due after 2 years through 3 years	94,998	4.34%	69,479	2.95%
Due after 3 years through 4 years	38,696	4.37%	47,173	3.74%
Due after 4 years through 5 years	47,236	4.86%	35,696	3.67%
Thereafter	82,722	4.32%	96,384	4.50%
Index amortizing advances	5,727	4.30%	6,604	4.18%
Total par value	620,374	4.22%	576,062	3.11%
Commitment fees	(3)		(4)	
Discount on AHP advances	(58)		(53)	
Premium on advances	26		42	
Discount on advances	(172)		(231)	
SFAS 133 hedging adjustments	(287)		5,400	
Total	$619,880		$581,216	

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).

The FHLBanks offer advances to members that may be prepaid on pertinent dates (call dates) without incurring prepayment or termination fees (callable advances). Other advances may only be prepaid by paying a fee to the FHLBank (prepayment fee) that makes the FHLBank financially indifferent to the prepayment of the advance. At December 31, 2005 and 2004, the FHLBanks had callable advances of $23,608 million and $17,169 million.

The following table summarizes advances at December 31, 2005 and 2004, by year of maturity or next call date for callable advances (dollar amounts in millions):

Year of Maturity or Next Call Date	2005	2004
Overdrawn demand deposit accounts	$ 49	$ 50
Due in 1 year or less	280,594	251,211
Due after 1 year through 2 years	106,422	102,690
Due after 2 years through 3 years	90,764	65,756
Due after 3 years through 4 years	32,682	42,877
Due after 4 years through 5 years	37,720	29,584
Thereafter	66,416	77,290
Index amortizing advances	5,727	6,604
Total par value	$620,374	$576,062

The FHLBanks also offer putable advances. With a putable advance, an FHLBank effectively purchases a put option from the member that allows the FHLBank to put or extinguish the fixed-rate advance, which the FHLBank normally would exercise when interest rates increase, and the borrower may elect to enter into a new advance. At December 31, 2005 and 2004, the FHLBanks had putable advances outstanding totaling $53,428 million and $58,761 million.

The FHLBanks also offer convertible advances. With a convertible advance, an FHLBank purchases an option from the member that allows the FHLBank to convert the interest rate from fixed to variable by terminating the fixed-rate advance, which the FHLBank normally would exercise when interest rates increase, and offering a variable-rate advance. At December 31, 2005 and 2004, the FHLBanks had convertible advances outstanding totaling $45,686 million and $54,582 million.

The following table summarizes advances at December 31, 2005 and 2004, by year of maturity or next put/convert date (dollar amounts in millions):

Year of Maturity or Next Put/Convert Date	2005	2004
Overdrawn demand deposit accounts	$ 49	$ 50
Due in 1 year or less	310,654	293,855
Due after 1 year through 2 years	118,580	109,717
Due after 2 years through 3 years	90,330	72,240
Due after 3 years through 4 years	32,971	36,872
Due after 4 years through 5 years	29,044	28,340
Thereafter	33,019	28,384
Index amortizing advances	5,727	6,604
Total par value	$620,374	$576,062

Security Terms. The FHLBanks lend to financial institutions involved in housing finance within their districts according to Federal statutes, including the FHLBank Act. The FHLBank Act requires each FHLBank 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, cash or deposits and member capital stock in the FHLBank, and other eligible real estate-related assets as collateral on such advances. Community financial institutions (CFIs) are eligible under expanded statutory collateral rules to use secured small-business, small farm and small agriculture loans, and securities representing a whole interest in such secured loans. The FHLBank Act requires that, for those FHLBanks that have not converted to a new capital plan, total advances from the FHLBank to a member may not exceed 20 times the member's capital stock in the FHLBanks. At December 31, 2005 and 2004, the FHLBanks had rights to collateral with an estimated value greater than outstanding advances. On the basis of the financial condition of the borrower, the type of security agreement, and other factors, each FHLBank imposes one of two requirements to protect the collateral secured:

- Allows a borrower to retain possession of the collateral assigned to the FHLBank if the member (or borrower) executes a written security agreement and agrees to hold such collateral for the benefit of the FHLBank; or

- Requires the borrower specifically to assign or place physical possession of such collateral with the FHLBank or a third-party custodian approved by the FHLBank.

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 except those claims that would be entitled to priority under otherwise applicable law and are held by bona fide purchasers for value or by secured parties with perfected security interests.

Credit Risk. While the FHLBanks have never experienced a credit loss on an advance to a member, the expansion of collateral for CFIs provides the potential for additional credit risk for the FHLBanks. The management of each FHLBank has the policies and procedures in place to appropriately manage this credit risk. 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. As of December 31, 2005 and 2004, the FHLBanks had advances of $402 billion and $358 billion outstanding to 88 and 90 member institutions, and this represented 64.7 percent and 62.2 percent of total advances outstanding. The FHLBanks hold 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, 2005 and 2004 (dollar amounts in millions):

	2005	2004
Par amount of advances:		
Fixed-rate	$357,032	$372,440
Variable-rate	263,342	203,622
Total	$620,374	$576,062

Prepayment Fees. The FHLBanks record prepayment fees received from members on prepaid advances net of any associated SFAS 133 hedging fair-value adjustments on those advances.

The net amount of prepayment fees is reflected as interest income in the statement of income. Gross advance prepayment fees received from members were $131 million, $1,577 million and $1,728 million for the three years ended December 31, 2005, 2004 and 2003.

Note 10—Affordable Housing Program (AHP)

Section 10(j) of the FHLBank Act requires each FHLBank to establish an AHP. Each FHLBank provides subsidies in the form of direct grants and below-market interest rate advances to members who use the funds to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. Annually, the FHLBanks must set aside for the AHP the greater of $100 million or 10 percent of regulatory income. Regulatory income is income before assessments, plus interest expense related to mandatorily redeemable capital stock under SFAS 150, less the assessment for REFCORP. The AHP and REFCORP assessments are calculated simultaneously because of their interdependence on each other. Each FHLBank accrues this expense monthly based on its income. The FHLBank reduces the AHP liability as members use subsidies. Calculation of the REFCORP assessment is discussed in Note 11.

If an FHLBank experienced a regulatory loss during a quarter, but still had regulatory income for the year, the FHLBank's obligation to the AHP would be calculated based on the FHLBank's year-to-date regulatory income. If the FHLBank had regulatory income in subsequent quarters, it would be required to contribute additional amounts to meet its calculated annual obligation. If the FHLBank experienced a regulatory loss for a full year, the FHLBank would have no obligation to the AHP for the year except in the following circumstance. If the result of the aggregate 10 percent calculation described above is less than $100 million for all 12 FHLBanks, then the FHLBank Act requires that each FHLBank contribute such prorated sums as may be required to assure that the aggregate contributions of the FHLBanks equals $100 million. The pro ration would be made on the basis of the income of the FHLBanks for the previous year.

There was no shortfall in 2005, 2004 or 2003. If an FHLBank finds that its required contributions are contributing to the financial instability of that FHLBank, it may apply to the Finance Board for a temporary suspension of its contributions. The FHLBanks did not make such applications in 2005, 2004 or 2003.

An analysis of the AHP liability for the years ended December 31, 2005 and 2004 follows (dollar amounts in millions):

	2005	2004
Balance at beginning of year	$ 668	$ 655
Expense	282	225
Subsidy usage, net	(211)	(212)
Balance at end of year	$ 739	$ 668

Note 11—Resolution Funding Corporation (REFCORP)

Each FHLBank is required to pay 20 percent of income calculated in accordance with GAAP after the assessment for AHP, but before the assessment for the REFCORP. The AHP and REFCORP assessments are calculated simultaneously because of their interdependence on each other. Each FHLBank accrues its REFCORP assessment on a monthly basis. Calculation of the AHP assessment is discussed in Note 10. REFCORP has been designated as the calculation agent for AHP and REFCORP assessments. Each FHLBank provides their net income before AHP and REFCORP to REFCORP, which then performs the calculations for each quarter end.

The FHLBanks will continue to expense these amounts until the aggregate amounts actually paid by all 12 FHLBanks are equivalent to a $300 million annual annuity (or a scheduled payment of $75 million per quarter) whose final maturity date is April 15, 2030, at which point the required payment of each FHLBank to REFCORP will be fully satisfied. The Finance Board in consultation with the Secretary of the Treasury selects the appropriate discounting factors to be used in this annuity calculation. The FHLBanks use the actual payments made to determine the amount of the future obligation that has been defeased. The cumulative amount to be paid to REFCORP by each FHLBank is not determinable at this time because it depends on the future earnings of all FHLBanks and interest rates. If an FHLBank experienced a net loss during a quarter, but still had net income for the year, the FHLBank's obligation to the REFCORP would be calculated based on the FHLBank's year-to-date GAAP net income. The FHLBank would be entitled to a refund of amounts paid for the full year that were in excess of its calculated annual obligation. If the FHLBank had net income in subsequent quarters, it would be required to contribute additional amounts to meet its calculated annual obligation. If the FHLBank experienced a net loss for a full year, the FHLBank would have no obligation to the REFCORP for the year.

The Finance Board is required to extend the term of the FHLBanks' obligation to the REFCORP for each calendar quarter in which there is a deficit quarterly payment. A deficit quarterly payment is the amount by which the actual quarterly payment falls short of the $75 million.

The FHLBanks' aggregate payments through 2005 exceeded the scheduled payments, effectively accelerating payment of the REFCORP obligation and shortening its remaining term to the fourth quarter of 2017. The FHLBanks' aggregate payments through 2005 have satisfied $45 million of the $75 million scheduled payment for the fourth quarter of 2017 and all scheduled payments thereafter. This date assumes that all $300 million annual payments required after December 31, 2005 will be made.

The benchmark payments or portions of them could be reinstated if the actual REFCORP payments of the FHLBanks fall short of $75 million in a quarter. The maturity date of the REFCORP obligation may be extended beyond April 15, 2030 if such extension is necessary to ensure that the value of the aggregate amounts paid by the FHLBanks exactly equals a $300 million annual annuity. Any payment beyond April 15, 2030 will be paid to the Department of Treasury.

Note 12—Mortgage Loans Held for Portfolio

Under two programs, the FHLBanks hold single-family mortgage loans that are funded through, or 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 and Atlanta.

The following table presents information as of December 31, 2005 and 2004 on mortgage loans held by all FHLBanks under all programs (dollar amounts in millions):

	December 31, 2005	December 31, 2004
Real Estate:		
Fixed medium-term* single-family mortgages	$ 30,324	$ 33,937
Fixed long-term single-family mortgages	74,357	79,179
Multifamily mortgages	31	35
Nonresidential mortgages	3	3
	104,715	113,154
Premiums	831	1,024
Discounts	(344)	(371)
Deferred loan costs, net	49	62
SFAS 133 hedging adjustments	(1)	63
Total mortgage loans held for portfolio	$105,250	$113,932

* Medium-term is defined as a term of 15 years or less.

The following table details the par value of mortgage loans held for portfolio outstanding at December 31, 2005 and 2004 (dollar amounts in millions):

	December 31, 2005	December 31, 2004
Government guaranteed loans	$ 11,799	$ 15,701
Conventional loans	92,899	97,448
Other loans	17	5
Total par value	$104,715	$113,154

The allowances for credit losses were as follows (dollar amounts in millions):

	2005	2004	2003
Balance, beginning of year	$10	$15	$12
Charge-offs	(1)	(1)	
Recoveries	1	1	
Net charge-offs			
(Reversal) provision for credit losses		(5)	3
Balance, end of year	$10	$10	$15

At December 31, 2005 and 2004, the FHLBanks had $88 million and $50 million of nonaccrual loans. Generally, only government-guaranteed loans (e.g., FHA, VA) continue to accrue after delinquency of 90 days or more. However, there are exceptions, such as when a loan is well-secured and in the process of collection (e.g., through credit enhancements), or when a PFI is obligated to remit the contractual mortgage payments on mortgage loans sold to an FHLBank, regardless of whether or not the PFI received payment from the borrower.

The estimated fair value of the mortgage loans held for portfolio as of December 31, 2005 and 2004 is reported in Note 19.

Mortgage loans, other than those included in large groups of smaller-balance homogeneous loans, are considered impaired when, based on current information and events, it is probable that the FHLBank will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage loan agreement. At December 31, 2005 and 2004, the FHLBanks had $11 million and $5 million recorded investments in impaired mortgage loans.

The FHLBanks record credit enhancement fees as a reduction to mortgage loan interest income. Credit enhancement fees totaled $100 million, $105 million and $72 million for the years ended December 31, 2005, 2004 and 2003.

Note 13—Deposits

The FHLBanks offer demand and overnight deposits to members and qualifying non-members. In addition, the FHLBanks offer short-term deposit programs to members. A member that services mortgage loans may deposit in its FHLBank 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 balance sheet. The average interest rates on average deposits during 2005, 2004 and 2003 were 3.13 percent, 1.25 percent and 0.96 percent.

Note 14—Borrowings

Securities Sold Under Agreements to Repurchase. Certain FHLBanks have sold securities under repurchase agreements. The amounts received under these agreements represent short-term borrowings and are liabilities on the Statement of Condition. These 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 relevant FHLBank must deliver additional securities to the dealer.

Note 15—Consolidated Obligations

Consolidated obligations are the joint and several obligations of the FHLBanks and consist of consolidated bonds and discount notes. The FHLBanks issue consolidated obligations through the Office of Finance as their agent. In connection with each debt issuance, each FHLBank specifies the amount of debt it wants issued on its behalf. The Office of Finance tracks the amount of debt issued on behalf of each FHLBank. In addition, each FHLBank separately tracks and records as a liability its specific portion of consolidated obligations and is the primary obligor for its specific portion of consolidated obligations issued. The Finance Board and the U.S. Secretary of the Treasury have oversight over the issuance of FHLBank debt through the Office of Finance. Consolidated bonds are issued primarily to raise intermediate and long-term funds for the FHLBanks and are not subject to any statutory or regulatory limits on maturity. Consolidated discount notes are issued primarily to raise short-term funds. These notes sell at less than their face amount and are redeemed at par value when they mature.

Although each FHLBank is primarily liable for its portion of consolidated obligations (i.e. those issued on its behalf), each FHLBank is also jointly and severally liable with the other 11 FHLBanks for the payment of principal and interest on all consolidated obligations of each of the FHLBanks. The Finance Board, at its discretion, may require any FHLBank to make principal or interest payments due on any consolidated obligation whether or not the consolidated obligation represents a primary liability of such FHLBank. Although it has never occurred, to the extent that an FHLBank makes any payment on a consolidated obligation on behalf of another FHLBank that is primarily liable for such consolidated obligation, Finance Board regulations provide that the paying FHLBank is entitled to reimbursement from the non-complying FHLBank for any payments made on its behalf and other associated costs (including interest to be determined by the Finance Board). If, however, the Finance Board determines that the non-complying FHLBank is unable to

satisfy its repayment obligations, then the Finance Board may allocate the outstanding liabilities of the non-complying FHLBank among the remaining FHLBanks on a pro rata basis in proportion to each FHLBank's participation in all consolidated obligations outstanding. The Finance Board reserves the right to allocate the outstanding liabilities for the consolidated obligations between the FHLBanks in any other manner it may determine to ensure that the FHLBanks operate in a safe and sound manner.

The par amounts of the FHLBanks' outstanding obligations, including consolidated obligations held by other FHLBanks, were approximately $937 billion and $869 billion at December 31, 2005 and 2004. Regulations require each FHLBank to maintain unpledged qualifying assets equal to its participation in 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 of or fully guaranteed by the United States, obligations, participations or other instruments of or issued by Fannie Mae or Ginnie Mae; mortgages, obligations or other securities which are or have been sold by Freddie Mac under the FHLBank Act; and such securities as fiduciary and trust funds may invest in under the laws of the state in which an FHLBank is located.

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 final rule deletes the FHLBanks' overall 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. After an FHLBank implements its new capital plan, it becomes subject to the Finance Board's risk-based capital requirements (see Note 16).

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' regulatory capital stock, prior bondholders have a claim on a certain amount of the qualifying assets (Special Asset Account (SAA)) if regulatory capital stock is less than 8.33 percent of consolidated obligations. Mandatorily redeemable capital stock is considered capital stock for determining the FHLBanks' compliance with this requirement.

At December 31, 2005 and 2004, the FHLBanks' regulatory capital stock was 4.7 percent and 4.8 percent of the par value of consolidated obligations outstanding, and the required minimum pledged asset balance was approximately $110 thousand and $219 thousand. 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 two percent. As of December 31, 2005 and 2004 no FHLBank had a capital-to-assets ratio less than two percent; therefore no assets were being held in a trust. In addition, no trust has ever been established as a result of this regulation, as the ratio has never fallen below two percent.

General Terms. Consolidated obligations are issued with either fixed-rate coupon payment terms or variable-rate coupon payment terms that use a variety of indices for interest-rate resets including the LIBOR Constant Maturity Treasury (CMT), 11th District Cost of Funds Index (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. When such consolidated obligations are issued, the FHLBanks enter into derivatives containing offsetting features that effectively convert the terms of the bond to those of a simple variable-rate bond or a fixed-rate bond.

These 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, 2005 and 2004, 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) that an FHLBank may redeem in whole or in part at its discretion on predetermined call dates according to the terms of the bond offerings.

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 an FHLBank may convert from fixed to variable, or variable to fixed, or from one U.S. or other currency index to another, at its discretion on predetermined dates according to the terms of the bond offerings;
- *Comparative index bonds* have coupon rates determined by the difference between two or more market indices, typically CMT and LIBOR; and
- *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 or a minimal rate if the specified index is outside the specified range;
- *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.

Interest-Rate Payment Terms. The following table details interest-rate payment terms for consolidated bonds at December 31, 2005 and 2004 (dollar amounts in millions).

	2005	2004
Par value of consolidated bonds:		
Fixed rate	$619,488	$543,080
Step-up	65,272	54,060
Simple variable-rate	39,865	57,932
Inverse floating rate	99	98
Fixed that converts to variable	4,179	4,101
Variable that converts to fixed	2,906	7,435
Comparative-index	4,032	4,365
Range bonds	1,788	2,302
Zero-coupon	11,378	15,393
Other	2,411	3,135
Total par value	$751,418	$691,901

Redemption Terms. The following is a summary of the FHLBanks' consolidated bonds outstanding at December 31, 2005 and 2004, by year of maturity (dollar amounts in millions):

	December 31, 2005		December 31, 2004	
Year of Maturity	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Due in 1 year or less	$225,904	3.31%	$195,238	2.43%
Due after 1 year through 2 years	168,696	3.76%	162,878	2.85%
Due after 2 years through 3 years	125,280	3.96%	85,311	3.35%
Due after 3 years through 4 years	55,561	4.06%	68,298	3.57%
Due after 4 years through 5 years	48,875	4.47%	49,673	3.93%
Thereafter	120,159	4.59%	129,403	4.49%
Index amortizing notes	6,943	4.87%	1,100	4.05%
Total par value	751,418	3.87%	691,901	3.25%
Bond premium	458		608	
Bond discount	(9,007)		(12,075)	
SFAS 133 hedging adjustments	(6,650)		(2,635)	
Deferred net losses on terminated interest rate exchange agreements	(5)		(5)	
Subtotal	736,214		677,794	
Bonds held in treasury	(5)		(18)	
Total	$736,209		$677,776	

Consolidated bonds outstanding at December 31, 2005 and 2004, include callable bonds totaling $353,934 million and $336,338 million. The FHLBanks use fixed-rate callable debt to finance callable advances (see Note 9) and mortgage-backed securities. Simultaneous with such a debt issue, an FHLBank may also enter an interest-rate swap (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 the FHLBank to provide members attractively priced variable-rate advances.

The FHLBanks' consolidated bonds outstanding include (dollar amounts in millions):

	December 31,	
	2005	2004
Par amount of consolidated bonds:		
Noncallable/nonputable	$397,083	$355,020
Callable	353,934	336,338
Putable	401	543
Total par value	$751,418	$691,901

The following table summarizes consolidated bonds outstanding at December 31, 2005 and 2004, by year of maturity or next call date (dollar amounts in millions):

Year of Maturity or Next Call Date	December 31, 2005	December 31, 2004
Due in 1 year or less	$482,834	$430,158
Due after 1 year through 2 years	109,250	122,707
Due after 2 years through 3 years	67,700	42,124
Due after 3 years through 4 years	24,268	35,751
Due after 4 years through 5 years	20,159	19,941
Thereafter	40,264	40,120
Index amortizing notes	6,943	1,100
Total par value	$751,418	$691,901

Consolidated Discount Notes Consolidated discount notes are issued to raise short-term funds. Discount notes are consolidated obligations with original maturities up to 365 days. These notes are issued at less than their face amount and redeemed at par value when they mature.

The FHLBanks' participation in consolidated discount notes, all of which are due within one year, was as follows (dollar amounts in millions):

	Book Value	Par Value	Weighted Average Interest Rate
December 31, 2005	$179,694	$180,350	4.00%
December 31, 2004	$167,962	$168,277	1.98%

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 under certain conditions. 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, 2005.

Note 16—Capital

The Gramm-Leach-Bliley (GLB) Act resulted in a number of changes in the capital structure of the FHLBanks. The final Finance Board capital 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 in accordance with the provisions of the GLB Act and the Finance Board's final capital rule. By July 18, 2002, the Finance Board had approved the capital structure plan of each FHLBank. The capital rule provides a transition period that grants each FHLBank up to three years from the effective date of its capital plan to comply with its new capital structure.

Until an FHLBank implements its new capital plan, the pre-GLB Act capital rules remain in effect. In particular, the pre-GLB Act rules require members to purchase capital stock equal to the greater of $500, 1 percent of its mortgage related assets or 5 percent of its outstanding FHLBank advances. A member could, at the discretion of its FHLBank, redeem at par value any capital stock greater than its statutory requirement or sell it at par value to another member of that FHLBank. Capital stock outstanding under the pre-GLB Act rules is redeemable at the option of a member upon six-months' notice if the member withdraws from the FHLBank.

The GLB Act made membership voluntary for all members. Members can redeem Class A stock by giving six months' written notice, and members can redeem Class B stock by giving 5 years' written notice, subject to certain restrictions. If a member withdraws its membership from an FHLBank, it may not acquire shares of any FHLBank for five years after the date on which its

divestiture of capital stock is completed. This restriction does not apply if the member is transferring its membership from one FHLBank to another.

As of December 31, 2005, the FHLBanks of Boston, New York, Pittsburgh, Atlanta, Cincinnati, Indianapolis, Des Moines, Dallas, Topeka, San Francisco and Seattle have implemented their respective capital plans. Each conversion was considered a capital transaction and was accounted for at par value. Each FHLBank is subject to risk-based capital adequacy rules under the new capital structure plan. Only "permanent" capital, defined as retained earnings and Class B stock, can satisfy the risk-based capital requirement. Each FHLBank must maintain at all times permanent capital in an amount at least equal to the sum of its credit risk capital requirement, its market risk capital requirement and its operations risk capital requirement, calculated in accordance with the rules and regulations of the Finance Board. The Finance Board may require an FHLBank to maintain a greater amount of permanent capital than is required by the risk-based capital requirements as defined. In addition, the GLB Act specifies a 5 percent minimum leverage ratio based on total capital and a 4 percent minimum capital ratio that does not include the 1.5 weighting factor applicable to the permanent capital which is used in determining compliance with the 5 percent minimum leverage ratio. If an FHLBank is not 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.

On October 18, 2005, The FHLBank of Chicago entered into Amendment No. 1 to its Written Agreement with the Finance Board which reduced the minimum required capital ratio from 5.1% to 4.5% and added a requirement that the FHLBank of Chicago maintain minimum regulatory capital stock of $3,978 million. As of December 31, 2005, the FHLBank of Chicago was in compliance with both of these minimum regulatory capital requirements.

As of December 31, 2005, all of the FHLBanks were in compliance with their risk-based capital rules (dollar amounts in millions):

Regulatory Capital Requirements

		At December 31, 2005				
FHLBank*	**Minimum Regulatory Capital Ratio Requirement**	**Minimum Regulatory Capital Requirement**	**Actual Capital Ratio**	**Total Regulatory Capital(1)**	**Permanent Capital(2)**	**Required Risk-Based Capital**
Boston	4.0%	$2,308	4.6%	$2,675	$2,675	$370
New York	4.0%	3,401	4.6%	3,900	3,900	626
Pittsburgh	4.0%	2,916	4.5%	3,289	3,284	499
Atlanta	4.0%	5,730	4.4%	6,225	6,225	760
Cincinnati	4.0%	3,087	5.4%	4,130	4,130	579
Indianapolis	4.0%	1,924	4.9%	2,349	2,349	484
Des Moines	4.0%	1,829	5.1%	2,346	2,346	520
Dallas	4.0%	2,594	4.3%	2,796	2,796	531
Topeka	4.0%	1,878	4.2%	1,990	1,430	426
San Francisco	4.0%	8,944	4.3%	9,698	9,698	862
Seattle	4.0%(3)	2,102	4.3%	2,268	2,268	461

FHLBank*	Minimum Leverage Ratio Requirement	At December 31, 2005 Minimum Weighted Leverage Capital Requirement	Actual Leverage Ratio	Actual Weighted Leverage Capital
Boston	5.0%	$ 2,885	7.0%	$ 4,012
New York	5.0%	4,251	6.9%	5,850
Pittsburgh	5.0%	3,645	6.8%	4,931
Atlanta	5.0%	7,162	6.5%	9,337
Cincinnati	5.0%	3,859	8.0%	6,194
Indianapolis	5.0%	2,405	7.3%	3,524
Des Moines	5.0%	2,286	7.7%	3,520
Dallas	5.0%	3,243	6.5%	4,195
Topeka	5.0%	2,348	5.8%	2,705
San Francisco	5.0%	11,180	6.5%	14,547
Seattle	5.0%	2,627	6.5%	3,401

* Only includes FHLBanks that have implemented a new capital plan as of December 31, 2005.

(1) Total regulatory capital is defined as the sum of permanent capital, the amounts paid for Class A capital stock, any general allowance for losses and any other amount from sources available to absorb losses that the Finance Board has determined by regulation to be appropriate to include in determining total capital. Total regulatory capital also includes mandatorily redeemable capital stock.

(2) Permanent capital is defined as retained earnings and regulatory capital Class B stock. The mandatorily redeemable capital stock is considered capital for regulatory purposes.

(3) The FHLBank of Seattle must maintain a minimum regulatory capital ratio of 4.25% under its business plan approved by the Finance Board.

The FHLBank of Chicago will delay implementation of a new capital structure until a time mutually agreed upon with the Finance Board. Also, the FHLBank of Chicago is reassessing the structure of its capital plan, originally approved by the Finance Board on June 12, 2002, and may propose amendments for approval by the Finance Board based on the review.

Before the GLB Act, the FHLBanks were required to pay $300 million annually through April 15, 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.

At December 31, 2005 and 2004, the 10 largest holders of capital stock held $11,043 million and $9,459 million of the aggregate capital stock of the FHLBanks. Washington Mutual Bank, FA, and its affiliates Washington Mutual Bank and Washington Mutual Bank, FSB together held $4,254 million and $4,060 million of the FHLBanks' capital stock.

Mandatorily Redeemable Capital Stock. The FHLBanks adopted SFAS 150 on January 1, 2004. In compliance with SFAS 150, the FHLBanks reclassified the stock subject to redemption from equity to liability once a member exercises a written redemption right, gives notice of intent to withdraw from membership, or attains non-member status by merger or acquisition, charter

termination, or involuntary termination from membership. The FHLBanks that have not converted to a new capital structure will reclassify stock subject to redemption from equity to liability once the six-month notification period has expired. Shares of capital stock meeting these definitions are reclassified to a liability at fair value. Dividends related to capital stock classified as a liability are accrued at the expected dividend rate and reported as interest expense in the Statement of Income. The repayment of these mandatorily redeemable financial instruments is reflected as a financing cash outflow in the Statement of Cash Flows.

If a member cancels its written notice of redemption or notice of withdrawal, the FHLBanks will reclassify mandatorily redeemable capital stock from a liability to equity in compliance with SFAS 150. After the reclassification, dividends on the capital stock are no longer classified as interest expense.

On January 1, 2004, the FHLBanks reclassified $946 million of their outstanding capital stock to "Mandatorily redeemable capital stock" in the liability section of the Statement of Condition. Upon adoption, the FHLBanks also recorded estimated dividends earned as a part of the carrying value of the mandatorily redeemable capital stock. The difference between the prior carrying amount and the mandatorily redeemable capital stock of $1 million was recorded as a cumulative effect of a change in accounting principle in the Statement of Income. For the years ended December 31, 2005 and 2004, dividends on mandatorily redeemable capital stock in the amount of $48 million and $22 million were recorded as interest expense.

At December 31, 2005 and 2004, the FHLBanks had $1,451 million and $1,153 million in capital stock subject to mandatory redemption with payment subject to each FHLBank meeting its minimum regulatory capital requirements. This amount has been classified as a liability as mandatorily redeemable capital stock in the Statement of Condition in accordance with SFAS 150. In accordance with Finance Board interpretation, mandatorily redeemable capital stock that is classified as a liability for financial reporting purposes under SFAS 150 is considered capital for determining each FHLBank's compliance with its regulatory capital requirements.

As of December 31, 2005, 106 members had notified the FHLBanks to voluntarily redeem their capital stock, 86 due to mergers and acquisitions and 20 due to withdrawal from membership. During the years ended December 31, 2005, 2004 and 2003, the FHLBank has completed the redemptions of 101, 25 and 49 members.

As of December 31, 2005, 24 members and former members requested redemptions which have not been reclassified as mandatorily redeemable due to the terms of the affected FHLBank's capital plan requirements.

The following table shows the amount of mandatorily redeemable capital stock by year of redemption at December 31, 2005 and 2004 (dollars amounts in millions). An FHLBank may not redeem or repurchase membership stock until five years after the membership is terminated or the FHLBank receives notice of withdrawal. However, if membership is terminated due to merger or consolidation, the FHLBank may recalculate the disappearing institution's membership stock requirement following such termination and the stock may be deemed excess stock subject to repurchase at the FHLBank's discretion. The FHLBanks are not required to redeem or repurchase activity-based stock until the later of the expiration of the notice of redemption or until the activity no longer remains outstanding. In accordance with the FHLBanks' current practice, if activity-based stock becomes excess stock as a result of an activity no longer remaining outstanding, the FHLBanks may repurchase, in their sole discretion, subject to the Statutory and Regulatory Restrictions on Capital Stock Redemption discussed below.

Contractual Year of Repurchase	2005	2004
Year 1	$ 290	$ 121
Year 2	114	1
Year 3	384	24
Year 4	184	370
Year 5	447	605
Thereafter	32	32
Total	$1,451	$1,153

The FHLBanks' activity for mandatorily redeemable capital stock was as follows in 2005 and 2004 (dollar amounts in millions). Rollforward amounts for 2003 are not provided because the FHLBank adopted SFAS 150 on January 1, 2004.

	2005	2004
Balance, beginning of year	$ 1,153	$
Capital stock subject to mandatory redemption reclassified from equity on adoption of SFAS 150		946
Capital stock subject to mandatory redemption reclassified from equity:		
Withdrawals	620	460
Other redemptions	2,346	2,206
Capital stock previously subject to mandatory redemption reclassified to equity:		
Other redemptions	(66)	(14)
Redemption of mandatorily redeemable capital stock:		
Withdrawals	(228)	(1,090)
Other redemptions	(2,405)	(1,365)
Stock dividends classified as mandatorily redeemable	31	10
Balance, end of year	$ 1,451	$ 1,153

A member may cancel or revoke its written notice of redemption or its notice of withdrawal from membership prior to the end of the five-year redemption period. Each FHLBank's capital plan provides the terms for cancellation fees that may be incurred by the member upon such cancellation.

Statutory and Regulatory Restrictions on Capital Stock Redemption. In accordance with the GLB Act, each class of FHLBank stock is considered putable with restrictions given the significant restrictions on the obligation/right to redeem and the limitation of the redemption privilege to a

small fraction of outstanding stock. Statutory and regulatory restrictions on the redemption of FHLBank stock include the following:

- In no case may an FHLBank redeem any capital stock if, following such redemption, the FHLBank would fail to satisfy its minimum capital requirements (i.e., a capital/asset ratio requirement and a risk-based capital/asset ratio requirement established by the Finance Board). By law, all member holdings of FHLBank stock immediately become non-redeemable if the FHLBank becomes undercapitalized so only a minimal portion of outstanding stock qualifies for redemption consideration.
- In no case may an FHLBank redeem any capital stock if either its board of directors, or the Finance Board, determines that it has incurred, or is likely to incur, losses resulting, or expected to result, in a charge against capital.
- In no case may an FHLBank redeem any capital stock if the principal or interest due on any consolidated obligation has not been paid in full.
- In no case may an FHLBank redeem any capital stock if the FHLBank fails to provide the Finance Board quarterly certification required by section 966.9(b)(1) of the Finance Board's rules prior to declaring or paying dividends for a quarter.
- In no case may an FHLBank redeem any capital stock if the FHLBank is unable to provide the required certification, projects that it will fail to comply with statutory or regulatory liquidity requirements or will be unable to timely and fully meet all of its obligations, actually fails to satisfy these requirements or obligations, or negotiates to enter or enters into an agreement with another FHLBank to obtain financial assistance to meet its current obligations.

In addition to possessing the authority to prohibit stock redemptions, an FHLBank's board of directors has the right to call for the FHLBank's members, as a condition of membership, to make additional capital stock purchases as needed to satisfy statutory and regulatory capital requirements under the GLB Act.

While an FHLBank's board of directors has the right to adjust member capital stock requirements in order to comply with its minimum capital requirements, it would allow members a reasonable time to adjust to the requirement or allow a member to reduce its outstanding business with the FHLBank as an alternative to purchasing stock.

If, during the period between receipt of a stock redemption notification from a member and the actual redemption (which may last indefinitely if an FHLBank is undercapitalized, does not have the required credit rating, etc.), an FHLBank is either liquidated or forced to merge with another FHLBank, the redemption value of the stock will be established after the settlement at par of all senior claims. Generally, no claims would be subordinated to the rights of FHLBank stockholders.

The GLB Act states that an FHLBank may repurchase, in its sole discretion, any member's stock investments that exceed the required minimum amount.

FHLBank of Chicago Agreement with the Finance Board. On June 30, 2004, the FHLBank of Chicago entered into a Written Agreement with the Finance Board in order to address issues identified in the Finance Board's 2004 examination of the FHLBank of Chicago. Under the Written Agreement the FHLBank of Chicago agreed to implement changes to enhance the FHLBank of Chicago's risk management, capital management, governance and internal control practices, to submit a business and capital management plan to the Finance Board and to maintain a regulatory capital ratio of 5.1%. The Written Agreement also prohibits the FHLBank of Chicago from increasing the aggregate net book value of its acquired member assets program (MPF Program) greater than 10% per annum. The Written Agreement has subsequently been amended three times in order to adjust the FHLBank of Chicago's minimum regulatory capital requirements as further described below.

In accordance with the Written Agreement, the FHLBank of Chicago engaged independent outside consultants to report on the FHLBank of Chicago's: (i) management and board oversight, (ii) risk management policies and practices, (iii) internal audit functions, and (iv) accounting, recordkeeping and reporting practices and controls. The initiatives resulting from the Written Agreement and consulting reviews were focused on (i) enhanced governance, including improved Board reporting, increased frequency and documentation of Board and Board-level committee meetings, and a restructuring of Board committees including the establishment of a Risk Management Committee; (ii) a substantial increase in risk management staff and enhanced infrastructure, the adoption of an enterprise risk management framework, improved market risk modeling, research and oversight capabilities and a materially enhanced risk assessment process; (iii) the recruitment of an experienced senior Internal Audit manager, the dedication of increased audit resources, and changes to audit methodology and practices; and (iv) adjustments to accounting policy, improvements in hedge accounting documentation and reporting, increased accounting staff and support and substantial enhancement of policies and procedures associated with the transfer of debt between the FHLBank of Chicago and other FHLBanks. The FHLBank of Chicago has implemented recommendations from these studies.

The FHLBank of Chicago Business and Capital Management Plan for 2005—2007 included an initiative to reduce outstanding voluntary capital stock (capital stock held by a member in excess of their statutory requirement), delaying implementation of a new capital plan until a time mutually agreed upon between the FHLBank of Chicago and the Finance Board, exploring alternative methods of capitalizing and funding acquired member assets under the Mortgage Partnership Finance Program and adoption of a new retained earnings and dividend policy. The FHLBank of Chicago is re-assessing its capital plan and will evaluate potential amendments which would require approval by the Finance Board. The FHLBank of Chicago is exploring the development of off-balance sheet strategies to support the Mortgage Partnership Program and adopted a new retained earnings and dividend policy in April of 2006.

On October 18, 2005, the FHLBank of Chicago's Board of Directors discontinued redemption of voluntary stock for a period of time as permitted by the FHLB Act and Finance Board regulations. Although the FHLBank of Chicago committed to a reduction of voluntary stock under its Business and Capital Management Plan for 2005—2007, year to date net redemptions through October 17, 2005 resulted in the FHLBank of Chicago's voluntary capital stock to regulatory capital ratio being reduced to less than its target amount for the end of 2005. With the reduction in the dividend rate from an average of 6.125% paid in 2004 to 3.75% (annualized rate) to be paid in the fourth quarter 2005 (based upon third quarter 2005 results), the FHLBank of Chicago expected the redemption rate to accelerate even more in the remaining months of 2005. On May 16, 2006, the FHLBank of Chicago Board of Directors voted to allow for the redemption of voluntary capital stock in accordance with capital stock redemption guidelines approved by the Finance Board and redemption windows announced by the FHLBank of Chicago. The FHLBank of Chicago redeemed $795 million of voluntary capital stock on June 6, 2006 and expects to redeem additional voluntary capital stock before December 31, 2006.

On October 18, 2005, The FHLBank of Chicago entered into Amendment No. 1 to its Written Agreement with the Finance Board which reduced the minimum required capital ratio from 5.1% to 4.5% and added a requirement that the FHLBank of Chicago maintain minimum regulatory capital stock of $3.978. As of December 31, 2005, the FHLBank of Chicago was in compliance with both of these minimum regulatory capital requirements.

On April 18, 2006, the FHLBank of Chicago entered into Amendment No. 2 to the Written Agreement with the Finance Board, which reduced the minimum regulatory capital stock requirement by $204 million from $3.978 billion to $3.774 billion. In addition, the Finance Board also approved the FHLBank of Chicago's application to issue subordinated notes which are not consolidated obligations.

On June 6, 2006, the FHLBank of Chicago entered into Amendment No. 3 to the Written Agreement, which became effective on June 13, 2006 upon receipt of proceeds from its subordinated notes issuance. Amendment No. 3 replaced the aggregate minimum regulatory capital stock requirement of $3.774 billion, with a requirement to maintain an aggregate amount of outstanding regulatory capital stock plus subordinated notes (subject to phase-outs beginning in year six) of at least $3.500 billion. Amendment No. 3 also replaced the prior minimum regulatory capital ratio requirement, with a requirement to maintain a ratio of regulatory capital stock, plus retained earnings, plus subordinated notes (subject to phase-outs beginning in year six) to assets of at least 4.5%.

FHLBank of Seattle Agreement with the Finance Board. On December 10, 2004, under the oversight of a special committee of the FHLBank of Seattle's Board of Directors and with the FHLBank of Seattle's Board of Directors' approval, the FHLBank of Seattle entered into an agreement with the Finance Board that imposed certain requirements that are intended to strengthen the FHLBank of Seattle's risk management, capital structure, corporate governance, and capital plan. The FHLBank of Seattle's Board of Directors is responsible for monitoring and coordinating the FHLBank of Seattle's compliance with the terms of the Finance Board agreement. The Finance Board agreement required the FHLBank of Seattle to:

- develop an action plan, which must be acceptable to the Office of Supervision, to address findings presented by the Finance Board during its 2004 annual examination of the FHLBank of Seattle;
- submit to the Office of Supervision monthly reports on the FHLBank of Seattle's progress in addressing the requirements of the action plan;
- develop a business plan that is acceptable to the Office of Supervision and that, among other things:
  - does not increase the market, credit, or operational risk profiles of the FHLBank of Seattle,
  - specifies a minimum regulatory capital-to-assets ratio that is consistent with the business strategy presented in the business plan, and
  - establishes appropriate capital stock, retained earnings, and dividend policies;
- engage a consultant to conduct an independent review of the FHLBank of Seattle's senior management and the Board of Directors' oversight and respond to any recommendations of the independent consultant; and
- engage a consultant to conduct an independent review of the FHLBank of Seattle's risk management policies, procedures, and practices and respond to any recommendations of the independent consultant.

In addition, the Finance Board agreement:

- provides that, during the term of the agreement, the Office of Supervision may reject the FHLBank of Seattle's hiring of any senior management candidate;
- prohibits the FHLBank of Seattle from increasing its mortgage loan assets held for portfolio (i.e., purchased from the FHLBank of Seattle's members through the MPP) by an amount in excess of 10% of the net book value of such assets at November 18, 2004, which was $10.6 billion, unless the Office of Supervision agrees otherwise; and
- prohibits the FHLBank of Seattle from acquiring any additional consolidated obligations for which another FHLBank is the primary obligor without Finance Board approval.

Since entering into the Finance Board agreement, the FHLBank of Seattle has been working extensively on complying with the requirements set forth in the agreement.

On April 5, 2005, the FHLBank of Seattle submitted its business plan to the Finance Board. On May 18, 2005, the Finance Board accepted the business plan, subject to the FHLBank of Seattle's adoption of certain dividend and stock repurchase restrictions. To meet the Finance Board conditions, the FHLBank of Seattle's Board of Directors adopted policies on May 18, 2005: (i) suspending indefinitely the declaration or payment of any dividend and providing that any future dividend declaration or payment generally may be made only after prior approval of the Director of the Office of Supervision of the Finance Board, or the OS Director, and (ii) suspending indefinitely the repurchase of any Class B(1) or Class B(2) stock, except that a limited amount of Class B(2) stock repurchases may be made after prior approval of the OS Director. These policies will be in effect until formally revoked by the FHLBank of Seattle's Board of Directors following approval of the OS Director. The FHLBank of Seattle's Board of Directors may seek a waiver to declare dividends in 2006, provided that the FHLBank of Seattle is profitable. The FHLBank of Seattle does not expect to obtain waivers from the Finance Board for the repurchase of Class B stock prior to the end of the statutory five-year redemption period for the foreseeable future.

In addition to the dividend and stock repurchase restrictions described above, the business plan includes the following key elements:

- changing the focus of the FHLBank of Seattle from mortgages to advances;
- expanding the use of differential pricing to increase advance volumes;
- proposing to amend the capital plan to permit the use of membership stock to support advances;
- substantially reducing the FHLBank of Seattle's interest-rate risk exposure by discontinuing the MPP, and developing alternatives for ongoing management of the mortgage loan portfolio;
- implementing an active hedging program to offset the interest-rate risk inherent in the FHLBank of Seattle's assets and liabilities;
- significantly increasing the FHLBank of Seattle's focus on market-risk measurement, monitoring, and management;
- specifying that the FHLBank of Seattle will provide 12-month projections to the Finance Board if retained earnings should fall below $40 million and, if the projections should show zero retained earnings or a retained deficit in any period, provide the Finance Board with a contingency plan for avoiding or addressing the retained deficit;
- requiring a minimum capital-to-assets ratio of 4.25% until MPP asset balances have been reduced and the transition to an advances-focused bank has been completed, at which time the minimum capital-to-assets ratio will be decreased to 4.15%;
- setting a long-term retained earnings target based on the FHLBank of Seattle's current retained earnings policy and practices; and
- proposing possible future authorization and issuance of Class A stock under the FHLBank of Seattle's capital plan to encourage increased advance borrowing.

The FHLBank of Seattle's Board of Directors has directed and overseen a number of actions to change the FHLBank of Seattle's business focus in accordance with the business plan, including, among others, changing the FHLBank of Seattle's senior management, refocusing the FHLBank of Seattle's strategic direction on our advances, exiting from the MPP, restructuring the FHLBank of Seattle's finance division and creating an independent risk management division, and decreasing the FHLBank of Seattle's staff, as well as proposing to the Finance Board amendments to the capital plan that would authorize the implementation of an excess stock pool and issuance of a new class of Class A stock.

Although the purpose of the Finance Board agreement, the business plan, and the steps the FHLBank of Seattle has taken to change its business and policies as described above is to strengthen the FHLBank of Seattle's risk management, capital structure, corporate governance, and capital plan, these measures have had and could in the future have consequences that negatively affect the FHLBank of Seattle's business, financial condition, and results of operations.

FHLBank of Seattle October 2004 Stock Repurchases. In October 2004, the FHLBank of Seattle repurchased $107.7 million of Class B(1) stock and $229.5 million of Class B(2) stock following the FHLBank of Seattle's member stock repurchase policies then in effect. Of these repurchases, $81.6 million of Class B(1) stock was repurchased from two members, Bank of Hawaii and Washington Federal Savings, and all of the Class B(2) stock was repurchased from a third member, Washington Mutual Bank. Of the Washington Federal Savings repurchases, $8.2 million was repurchased pursuant to a standing Class B(1) stock repurchase order that had been in effect since March 2004. Each of these three institutions had executives serving on our Board of Directors.

In mid-November 2004, the FHLBank of Seattle commenced discussions with the Office of Supervision regarding the content of the written agreement that was announced in December 2004. In order to avoid any appearance of impropriety regarding any request for redemption of stock by a member institution with an executive who serves as a director of the FHLBank of Seattle, the Board of Directors adopted a policy requiring each director affiliated with a member institution to ensure that his affiliated member institution refrain from making any redemption request regarding the FHLBank of Seattle's stock until the content of the Finance Board agreement was publicly disclosed.

In early December 2004, the FHLBank of Seattle's Board of Directors also decided to impose additional limits on member stock repurchases until the business plan was accepted by the Finance Board. Until December 2004, the FHLBank of Seattle generally voluntarily repurchased member stock within one month after receipt of a member's redemption request, although member stock is generally required to be redeemed only after a five-year redemption period. At that time, the FHLBank of Seattle's Board of Directors adopted a new stock repurchase policy providing that, until the acceptance of the business plan, the FHLBank of Seattle would not repurchase any Class B(1) stock and would repurchase Class B(2) stock solely at the FHLBank of Seattle's discretion and only if the FHLBank of Seattle's capital-to-assets ratio exceeded 4.40% after the repurchase.

In mid-December 2004, following the Finance Board's public announcement that it had entered into a written agreement with the FHLBank of Seattle, the FHLBank of Seattle received a letter from a member bank: (1) requesting that the FHLBank of Seattle consider reversing the repurchases of stock of member institutions with executives serving on the Board of Directors that occurred in October 2004 and (2) questioning whether the institutions requesting redemption possessed material nonpublic information about the FHLBank of Seattle at the time they requested redemption. In response to the letter, the FHLBank of Seattle's Board of Directors formed an independent review committee consisting of directors who were not affiliated with any member bank, and authorized it to review and investigate the circumstances surrounding the redemption requests and make appropriate recommendations to the Board of Directors regarding any further action with respect to the redemption requests and subsequent repurchases.

The FHLBank of Seattle's Board of Directors received interim reports from the independent review committee and, at a May 2005 board meeting, received the final report of the independent review committee. At that meeting, the FHLBank of Seattle's Board of Directors found that, although the actions of two of the directors, Allan Landon, Chairman, President and Chief Executive Officer of Bank of Hawaii, and Roy Whitehead, Vice Chairman, President and Chief Executive Officer of Washington Federal Savings, were undertaken without a conscious motivation to harm anyone and with the intention of benefiting the FHLBank of Seattle, there was the appearance of impropriety with respect to stock repurchase requests of $25.4 million in Class B(1) stock from Bank of Hawaii and $48.0 million in Class B(1) stock from Washington Federal Savings.

This finding did not apply to the $8.2 million of Class B(1) stock repurchased from Washington Federal Savings pursuant to its March 2004 standing order. In addition, the FHLBank of Seattle's Board of Directors found that these directors failed to comply with a rule requiring the disclosure of conflicts of interest relating to their institutions' planned redemptions. The FHLBank of Seattle's Board of Directors further concluded that there was no wrongdoing, policy violation, or appearance of impropriety regarding the repurchase of Class B(2) stock from Washington Mutual Bank.

Bank of Hawaii, Washington Federal Savings, Mr. Landon, and Mr. Whitehead informed the FHLBank of Seattle that they disagreed with the FHLBank of Seattle's Board of Directors' conclusions and denied any wrongdoing in connection with the October 2004 redemption requests and repurchases. At the request of the FHLBank of Seattle's Board of Directors, and in complete settlement of the matter, Bank of Hawaii, Washington Federal Savings, Mr. Landon, and Mr. Whitehead entered into agreements with the FHLBank of Seattle effective May 12, 2005, pursuant to which: (a) Bank of Hawaii and Washington Federal Savings agreed to restore the stock repurchased in October 2004 (reduced by $834,300 of Class B(1) stock purchased by Washington Federal Savings on April 29, 2005 and excluding the $8.2 million of Class B(1) stock repurchased from Washington Federal Savings pursuant to its March 2004 standing order), and (b) Mr. Landon and Mr. Whitehead resigned as directors of the FHLBank of Seattle. On May 18, 2005, Bank of Hawaii and Washington Federal Savings restored the stock repurchased by the FHLBank of Seattle in October 2004.

Note 17—Employee Retirement Plans

The FHLBanks, except for the FHLBank of San Francisco, participate in the Pentegra Defined Benefit Plan for Financial Institutions (Pentegra Defined Benefit Plan), a tax-qualified defined-benefit pension plan, formerly known as the Financial Institutions Retirement Fund. The plan covers substantially all officers and employees of the FHLBanks. However, only FHLBank of Seattle employees hired before January 1, 2004 participate in the Pentegra Defined Benefit Plan. The FHLBanks' contributions to Pentegra Defined Benefit Plan 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, Pentegra Defined Benefit Plan suspended employer contributions for all plan years ending after June 30, 1987. However, contributions to the plan have resumed for eleven FHLBanks. Funding and administrative costs of Pentegra Defined Benefit Plan charged to other operating expenses were $42 million, $30 million and $18 million in 2005, 2004 and 2003. The Pentegra Defined Benefit Plan is a multi-employer plan in which assets, contributed by one participating employer, may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. As a result, disclosure of the accumulated benefit obligations, plan assets, and the components of annual pension expense attributable to the FHLBanks are not made.

The FHLBanks, except for the FHLBanks of Atlanta, San Francisco and Seattle, also participate in the Pentegra Defined Contribution Plan for Financial Institutions, a tax-qualified defined-contribution pension plan, formerly known as the Financial Institutions Thrift Plan. The FHLBanks of Atlanta, San Francisco 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 $8 million, $7 million and $7 million in the years ended December 31, 2005, 2004 and 2003.

In addition, several FHLBanks maintain deferred compensation plans, available to all or select employees, and directors depending on the terms of each FHLBank's plan. The plans' liabilities consist of the accumulated compensation deferrals and accrued earnings on the deferrals. The FHLBanks' minimum obligations from these plans at December 31, 2005 and 2004 were $50 mil-

lion and $43 million. Operating expense includes deferred compensation and accrued earnings of $3 million, $4 million and $4 million in the years ended December 31, 2005, 2004, and 2003.

Certain FHLBanks offer supplemental retirement and postretirement health benefit plans to retirees. There are no funded plan assets that have been designated to provide postretirement health benefits. The obligations and funding status of the FHLBanks' supplemental retirement plans and postretirement health benefit plans at December 31, 2005 and 2004 were as follows (dollar amounts in millions):

	Supplemental Retirement Plan		Postretirement Health Benefit Plan	
	2005	2004	2005	2004
Change in benefit obligation				
Benefit obligation at beginning of year	$ 67	$ 60	$ 33	$ 25
Service cost	3	3	2	2
Interest cost	4	4	2	2
Plan participants' contributions		(1)		
Amendments—changes in assumptions	2	3	(1)	2
Actuarial loss	6	6	4	3
Benefits paid	(3)	(8)	(1)	(1)
Benefit obligation at end of year	$ 79	$ 67	$ 39	$ 33
Change in plan assets				
Fair value of plan assets at beginning of the year	$	$	$	$
Employer contributions	2	9	1	1
Benefits paid	(2)	(9)	(1)	(1)
Fair value of plan assets at end of the year	$	$	$	$
Funded status	$(79)	$(67)	$(39)	$(33)
Unrecognized net actuarial loss (gain)	31	26	(2)	1
Unrecognized prior service (benefit) cost	(1)	3	8	3
Unrecognized transition obligation	3		2	1
Net amount recognized	$(46)	$(38)	$(31)	$(28)

Amounts recognized in the Statement of Condition for the FHLBanks' supplemental retirement plans at December 31, 2005 and 2004 were (dollar amounts in millions):

	Supplemental Retirement Plan	
	2005	2004
Accrued benefit liability	$(59)	$(49)
Other assets	1	
Accumulated other comprehensive gain	12	11
Net amount recognized	$(46)	$(38)

The accumulated benefit obligation for the supplemental retirement plans was $32 million and $26 million at December 31, 2005 and 2004.

Components of the net periodic benefit cost for the FHLBanks' supplemental retirement and postretirement health plans for the years ended December 31, 2005, 2004 and 2003 were (dollar amounts in millions):

	Supplemental Retirement Plan			Postretirement Health Benefit Plan		
	2005	2004	2003	2005	2004	2003
Service cost	$ 3	$ 3	$2	$2	$2	$1
Interest cost	4	4	4	2	2	2
Amortization of unrecognized net loss	4	3	3	1		
Amortization of unrecognized net obligation		2				
Net periodic benefit cost	$11	$12	$9	$5	$4	$3

The measurement date used to determine the current year's benefit obligation was December 31, 2005, except for the FHLBank of San Francisco, which had a measurement date of September 30, 2005.

The increase in the minimum liability included in other comprehensive income was $1 million and $3 million for the years ended December 31, 2005 and 2004.

Key assumptions used for the actuarial calculations to determine benefit obligations for the FHLBanks' supplemental retirement plans and postretirement health plans for the years ended December 31, 2005 and 2004 were (displayed as a range from low to high):

	Supplemental Retirement Plan		Postretirement Health Benefit Plan	
	2005	2004*	2005	2004
Discount rate	5.50%	5.75% – 7.50%	5.50% – 5.75%	5.75% – 6.50%
Salary increases	4.50% – 5.50%	4.50% – 5.50%		

* The discount rate for eleven of the twelve FHLBanks was within a range of 5.75% – 6.00%. One FHLBank used a discount rate of 7.50% at December 31, 2004. The effect of lowering the discount rate to 5.75% was calculated and deemed immaterial to the accrued benefit liability.

Key assumptions used for the actuarial calculations to determine net periodic benefit cost for the FHLBanks' supplemental retirement plans and postretirement health plans for the years ended December 31, 2005, 2004 and 2003 were (displayed as a range from low to high):

	Supplemental Retirement Plan			Postretirement Health Benefit Plan		
	2005	2004	2003	2005	2004	2003
Discount rate	5.50% – 6.00%	5.75% – 7.50%	6.00% – 7.50%	5.50% – 6.00%	5.75% – 6.75%	6.25% – 7.50%
Salary increases	4.50% – 5.50%	4.50% – 5.50%	4.50% – 5.50%			

Assumed health care cost trend rates for the FHLBanks' postretirement health benefit plan at December 31, 2005 and 2006 were:

	2005	2004
Health care cost trend rates:*		
Assumed for next year	8.00% – 13.00%	5.00% – 14.00%
Ultimate rate	4.50% – 5.25%	4.50% – 5.25%
Year that ultimate rate is reached	2009 – 2014	2009 – 2014

* Table excludes certain postretirement health benefit plan assumptions for the FHLBank of San Francisco because this plan's costs are capped at 1998 levels. As a result, changes in the health care cost trend rates will have no effect on the FHLBank of San Francisco's accumulated postretirement benefit obligation or service or interest costs.

The effect of a percentage point increase in the assumed healthcare cost trend rates would be an increase in postretirement benefit expense of $1 million and in accumulated postretirement benefit obligation (APBO) of $6 million. The effect of a percentage point decrease in the assumed healthcare trend cost rates would be a decrease in postretirement benefit expense of $1 million and a decrease in APBO of $6 million.

The supplemental retirement plans and post-retirement health plans are not funded; therefore no contributions will be made in 2006 except for the payment of benefits.

Estimated future benefits payments reflecting expected future services for the years ended December 31 were:

Years	Payments
2006	$ 401
2007	212
2008	235
2009	314
2010	355
2011-2015	2,902

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) became law in the United States. The Medicare Act introduces a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare Part D benefit. In May 2004, the FASB issued Staff Position FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, which provides guidance on the accounting and disclosures for the effects of federal subsidy provided by the Medicare Act. The FHLBank's disclosures regarding the accumulated postretirement benefit obligation and net periodic postretirement benefit cost do not reflect any amount associated with the federal subsidy.

Note 18—Derivatives and Hedging Activities

The FHLBanks may enter into interest-rate swaps (including callable and putable swaps), swaptions, interest-rate cap and floor agreements, calls, puts, and futures and forward contracts (collectively, derivatives) to manage its 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 derivatives in several ways: by designating them as either 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., an economic hedge). For example, the FHLBanks use derivatives in its 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 derivatives to manage mismatches of interest rates between assets and liabilities, the FHLBanks also use derivatives as follows: (1) to manage embedded options in assets and liabilities, (2) to hedge the market value of existing assets and liabilities and anticipated transactions, (3) to hedge the duration risk of prepayable instruments, (4) to exactly offset other derivatives executed with members (when an FHLBank serves as an intermediary) and (5) to reduce funding costs.

An economic hedge is defined as a derivative hedging specific or non-specific underlying assets, liabilities, or firm commitments that does not qualify or was not designated for hedge accounting, but is an acceptable hedging strategy under an FHLBank's risk management program. These

economic hedging strategies also comply with Finance Board regulatory requirements prohibiting speculative hedge transactions. An economic hedge by definition introduces the potential for earnings variability caused by the changes in fair value on the derivatives that are recorded in an FHLBank's income but not offset by corresponding changes in the value of the economically hedged assets, liabilities, or firm commitments.

Consistent with Finance Board regulation, an FHLBank enters into derivatives only to reduce the interest-rate risk exposures inherent in otherwise unhedged assets and funding positions, to achieve the FHLBank's risk management objectives, and to act as an intermediary between its members and counterparties. FHLBank management uses derivatives when they are considered to be the most cost-effective alternative to achieve the FHLBank's financial and risk management objectives. Accordingly, an FHLBank may enter into derivatives that do not necessarily qualify for hedge accounting (economic hedges). As a result, an FHLBank recognizes only the change in fair value of these derivatives in other income as "Net gains (losses) on derivatives and hedging activities" with no offsetting fair value adjustments for the asset, liability, or firm commitment.

For the years ended December 31, 2005, 2004 and 2003, the FHLBanks recorded net losses on derivatives and hedging activities of $22 million, $784 million and $309 million in other income. Net gains (losses) on derivatives and hedging activities for the years ended December 31, 2005, 2004 and 2003 are as follows:

Net Gains (Losses) on Derivatives and Hedging Activities
(Dollar amounts in millions)

	For the Year Ended		
	2005	2004	2003
(Losses) gains related to fair-value hedge ineffectiveness	$(24)	$ 38	$ 8
Gains on firm commitments no longer qualifying as fair-value hedges			30
Gains (losses) on economic hedges	2	(865)	(317)
Gains (losses) related to cash-flow hedge ineffectiveness		43	(30)
Net losses on derivatives and hedging activities	$(22)	$(784)	$(309)

There were no material amounts for the year ended December 31, 2005, 2004 and 2003 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, 2005, the deferred net gains (losses) on derivative instruments accumulated in other comprehensive income expected to be reclassified to earnings during the next twelve months is not material. The maximum length of time over which the FHLBanks are hedging their 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 generally no more than 6 months. For one FHLBank, the maximum length of time over which forecasted transactions are hedged is 7.5 years relating to traditional member finance activities.

The following table represents outstanding notional balances and estimated fair values of the derivatives outstanding at December 31, 2005 and 2004 (dollar amounts in millions):

	2005		2004	
	Notional	**Estimated Fair Value**	**Notional**	**Estimated Fair Value**
Interest-rate Swaps:				
Fair Value	$686,563	$(5,827)	$631,811	$(7,678)
Cash Flow	1,058	1	1,087	3
Economic	89,896	(320)	94,096	(834)
Interest-rate Swaptions:				
Fair Value	4,037	65	4,000	31
Economic	9,521	39	14,847	114
Interest-rate Caps/Floors:				
Fair Value	14,723	143	13,271	
Cash Flow	3,301	140	3,401	153
Economic	10,171	34	14,351	71
Interest-rate Futures/Forwards:				
Fair Value	4,948	(3)	6,275	(4)
Cash Flow			300	(4)
Economic	93		572	
Mortgage Delivery Commitments:				
Cash Flow			136	1
Economic	202	1	415	
Other:				
Economic	141		112	
Total	$824,654	$(5,727)	$784,674	$(8,147)
Total derivatives excluding accrued interest		$(5,727)		$(8,147)
Accrued interest		779		749
Net derivative balances		$(4,948)		$(7,398)
Net derivative asset balances		$ 951		$ 737
Net derivative liability balances		(5,899)		(8,135)
Net derivative balances		$(4,948)		$(7,398)

Hedging Activities.

The FHLBanks document all relationships between derivatives designated as hedging instruments and hedged items, its risk management objectives and strategies for undertaking various hedge transactions, and its method of assessing effectiveness. 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 Statement of Condition, (2) firm commitments, or (3) forecasted transactions. An FHLBank also formally assesses (both at the hedge's inception and at least quarterly) whether the derivatives that it uses 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. Each FHLBank typically uses regression analyses or other statistical analyses to assess the effectiveness of its hedges.

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 in the originally expected period; (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 in accordance with SFAS 133 is no longer appropriate.

Consolidated Obligations—While consolidated obligations are the joint and several obligations of the FHLBanks, each FHLBank has consolidated obligations for which it is the primary obligor. Each FHLBank enters into derivatives to hedge the interest rate risk associated with its specific debt issuances.

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

Advances—With issuances of putable advances, an FHLBank effectively purchases a put option from the member that allows the FHLBank to terminate the fixed-rate advance, which the FHLBank normally would exercise when interest rates increase, and offer a variable-rate advance. With issuances of convertible advances, an FHLBank purchases an option from the member that allows the FHLBank to convert the interest rate from a fixed rate to a variable rate by terminating the fixed-rate advance, which the FHLBank normally would exercise when interest rates increase, and offering a variable-rate advance. These types of hedges are treated as fair-value hedges under SFAS 133.

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, the FHLBank generally charges a prepayment fee that makes it financially indifferent to a member's decision to prepay an advance. When the 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 fixed-rate mortgage loans. The prepayment options embedded in mortgage loans can result in extensions or contractions in the expected repayment of these investments, depending on changes in estimated prepayment speeds. The FHLBanks manage the interest-rate and prepayment risks associated with mortgages through a combination of debt issuance and derivatives. The FHLBanks issue both callable and noncallable debt to achieve cash flow patterns and liability durations similar to those expected on the mortgage loans.

A combination of swaps and options, including futures, may be used as a portfolio of derivatives linked to a portfolio of mortgage loans. The portfolio of mortgage loans consists of one or more pools of similar assets, as determined by factors such as product type and coupon. As the portfolio of loans changes due to new loans, liquidations and payments, the derivative portfolio is modified accordingly to hedge the interest-rate and prepayment risks effectively. A new hedging relationship is created

with each change to the loan and derivative portfolios; such relationship is treated as a fair-value hedge.

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-period earnings and presented in the Statement of Income as "Net gains (losses) on derivatives and hedging activities." The FHLBanks may 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.

Anticipated Streams of Future Cash Flows—The FHLBanks may enter into an option to hedge a specified future variable cash stream as a result of rolling over short-term, fixed-rate financial instruments such as LIBOR advances and discount notes. The option will effectively cap the variable cash stream at a predetermined target rate.

Firm Commitment Strategies—Prior to July 1, 2003, the FHLBanks hedged the market value of purchase commitments on fixed-rate mortgage loans by using derivatives with similar market value characteristics. The FHLBanks normally hedged these commitments by selling mortgage-backed securities to be announced (TBA) or other derivatives for forward settlement. A TBA represents a forward contract for the sale of mortgage-backed securities at a future agreed upon date. Upon the expiration of the mortgage purchase commitment, the FHLBanks purchase the TBA MBS to close the hedged position. When the derivative settled, the current market value of the commitments was included with the basis of the mortgage loans and amortized accordingly. This transaction was treated as a fair-value hedge. Mortgage purchase commitments entered into after June 30, 2003 are considered derivatives. Accordingly, both the mortgage purchase commitment and the TBA MBS used in the firm commitment hedging strategy are recorded as a derivative asset or derivative liability at fair value, with changes in fair value recognized in current-period earnings. When the mortgage purchase commitment derivative settles, the current market value of the commitment is included with the basis of the mortgage loan and amortized accordingly.

The FHLBanks may also hedge a firm commitment for a forward starting advance through the use of an interest-rate swap. In this case, the swap will function as the hedging instrument for both the firm commitment and the subsequent advance. The basis movement associated with the firm commitment will be rolled into the basis of the advance at the time the commitment is terminated and the advance is issued. The basis adjustment will then be amortized into interest income over the life of the advance.

Investments—The FHLBanks invest in U.S. agency obligations, mortgage-backed securities, and the taxable portion of state or local housing finance agency obligations. The interest rate and prepayment risks associated with these investment securities is managed through a combination of debt issuance and derivatives. The FHLBanks may manage the prepayment and interest rate risks by funding investment securities with consolidated obligations that have call features or by hedging the prepayment risk with caps or floors, callable swaps or swaptions. These investment securities may be classified as held-to-maturity, available-for-sale or trading securities.

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 gains (losses) on derivatives and hedging activities" together with the related change in the fair value of the derivative, and the remainder of the change in other comprehensive income as "Net unrealized gains (losses) on available-for-sale securities." For 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 derivative related to the risk being hedged in other comprehensive income as a "Net unrealized gains (losses) relating to hedging activities." The

ineffective portion is recorded in other income in the Statement of Income and presented as "Net gains (losses) on derivatives and hedging activities."

The FHLBanks may also manage the risk arising from changing market prices or cash flows of investment securities classified as trading by entering into derivatives (economic hedges) that offset the changes in fair value or cash flows of the securities. The market value changes of both the trading securities and the associated derivatives are included in other income in the Statement of Income and presented as part of the "Net gains (losses) on trading securities" and "Net gains (losses) on derivatives and hedging activities."

Anticipated Debt Issuance—The FHLBanks may enter into interest-rate swaps for the anticipated issuance of fixed-rate bonds to lock in the cost of funding. The interest-rate swap is terminated upon issuance of the fixed-rate bond, with the realized gain or loss on the interest-rate swap recorded in other comprehensive income. Realized gains and losses reported in accumulated other comprehensive income are recognized as earnings in the periods in which earnings are affected by the cash flows of the fixed rate bonds.

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

Credit Risk—The FHLBanks are subject to credit risk due to the risk of nonperformance by counterparties to the derivative agreements. The degree of counterparty risk 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, collateral requirements and adherence to the requirements set forth in FHLBank policy and Finance Board regulations. Based on credit analyses and collateral requirements, the management of each FHLBank does not anticipate any credit losses on its derivative agreements.

The contractual or notional amount of derivatives reflects the involvement of the FHLBanks in the various classes of financial instruments. The notional amount of derivatives does not measure the credit risk exposure of the FHLBanks, and the maximum credit exposure of the FHLBanks is substantially less than the notional amount. The FHLBanks require collateral agreements on all derivatives that establish collateral delivery thresholds. The maximum credit risk is the estimated cost of replacing interest-rate swaps, forward agreements, mandatory delivery contracts for mortgage loans, and purchased caps and floors that have a net positive market value, if the counterparty defaults and the related collateral, if any, is of no value to the FHLBanks. This collateral has not been sold or repledged.

At December 31, 2005 and 2004, the FHLBanks' maximum credit risk, as defined above, was approximately $927 million and $731 million. These totals include $352 million and $302 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 derivative assets and liabilities by counterparty. The FHLBanks held securities and cash with a fair value of $731 million and $654 million as collateral as of December 31, 2005 and 2004. Additionally, collateral with respect to derivatives with member institutions includes collateral assigned to an FHLBank, as evidenced by a written security agreement and held by the member institution for the benefit of the FHLBank.

Each FHLBank transacts most of its derivatives with large banks and major broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell, and distribute consolidated obligations. Note 20 discusses assets pledged by the FHLBanks to these counterparties.

The FHLBanks have issued some consolidated obligations denominated in currencies other than U.S. dollars, and the FHLBanks use forward exchange contracts to hedge foreign 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, 2005, there were no consolidated obligations denominated in foreign currencies. The FHLBanks are not exposed to any amounts of foreign currency risk.

Intermediation. To assist its members in meeting their hedging needs, an FHLBank may act as an intermediary between the members and other counterparties by entering into offsetting derivatives. This intermediation allows smaller members access to the derivatives market. The derivatives used in intermediary activities do not qualify for SFAS 133 hedge accounting treatment 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. These amounts are recorded in other income and presented as "Net gains (losses) on derivatives and hedging activities."

Derivatives in which an FHLBank is an intermediary may arise when the FHLBank: (1) enters into derivatives with members and offsetting derivatives with other counterparties to meet the needs of its members, and (2) enters into derivatives to offset the economic effect of other derivatives that are no longer designated to either advances, investments, or consolidated obligations.

The notional principal of derivatives in which the FHLBanks were intermediaries is $3,486 million and $4,238 million at December 31, 2005 and 2004.

Note 19—Estimated Fair Values

The following estimated fair value amounts have been determined by the FHLBanks using available market information and each FHLBank's best judgment of appropriate valuation methods. These estimates are based on pertinent information available to the FHLBanks as of December 31, 2005 and 2004. Although an FHLBank uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique or valuation methodology. For example, because an active secondary market does not exist for a portion of the FHLBanks' financial instruments, in certain cases, fair values are not subject to precise quantification or verification and may change as economic and market factors and evaluation of those factors change. Therefore, these estimated fair values are not necessarily indicative of the amounts that would be realized in current market transactions. The Fair Value Summary Tables do not represent an estimate of the overall market value of the FHLBanks as going concerns, which would take into account future business opportunities.

Cash and due from banks. The estimated fair value approximates the recorded book balance.

Interest-bearing deposits and investment securities. The estimated fair value is determined based on quoted prices, excluding accrued interest, as of the last business day of the year for instruments with more than three months to maturity. When quoted prices are not available, the estimated fair value is determined by calculating the present value of the expected future cash flows and reducing the amount for accrued interest receivable. For instruments with three months or less to maturity, the recorded book balance approximates the estimated fair value.

Securities purchased under agreements to resell. 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 securities with similar terms. For instruments with three months or less to maturity, the recorded book balance approximates the estimated fair value.

Federal funds sold. The estimated fair value is determined by calculating the present value of the expected 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 variable rates

by calculating the present value of expected future cash flows from the advances and excluding the amount for accrued interest receivable. The discount rates used in these calculations are the replacement advance rates for advances with similar terms. Under the Finance Board's advances regulations, advances with a maturity or repricing period greater than six months require a prepayment fee sufficient to make the FHLBanks 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 variable rates and fixed rates with three months or less to maturity or repricing.

Mortgage loans held for portfolio. The estimated fair values for mortgage loans are determined based on quoted market prices of similar mortgage loans available in the market or modeled prices. Market prices are determined assuming similar pricing with other agency mortgage-backed securities and mortgage loans held for portfolio, and are highly dependent upon the underlying prepayment assumptions. The modeled prices start with prices for new mortgage-backed securities issued by U.S. government agencies. Prices are then adjusted for differences in coupon, average loan rate, seasoning and cash flow remittance between the FHLBank's mortgage loans and mortgage-backed securities. The referenced mortgage-backed securities are highly dependent upon the underlying prepayment assumptions priced in the market. Changes in the prepayment rates often have a material effect on the fair value estimates. Since these underlying prepayment assumptions are made as of a specific point in time, they are susceptible to material changes in the near term.

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 derivatives with similar terms on 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. Because 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 variable rates and fixed rates with three months or less to maturity or repricing.

Consolidated obligations. The FHLBanks estimate fair values based on the cost of raising comparable term debt. 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 variable rates and fixed rates with three months or less to maturity or repricing, the estimated fair value approximates the recorded book balance.

Mandatorily redeemable capital stock. The fair value of capital subject to mandatory redemption is generally at par value as indicated by member contemporaneous purchases and sales at par value. Fair value also includes estimated dividend earned at the time of reclassification from equity to liabilities, until such amount is paid, and any subsequently declared stock dividend.

FHLBank stock can only be acquired by members at par value and redeemed at par value. FHLBank stock is not traded and no market mechanism exits for the exchange of stock outside the cooperative structure.

Commitments. The estimated fair value of the FHLBanks' commitments to extend credit, including letters of credit, was immaterial at December 31, 2005 and 2004.

Commitments to extend credit for mortgage loans. In accordance with SFAS 149, certain mortgage loan purchase commitments entered into after June 30, 2003, are recorded as derivatives at their fair value.

The estimated fair value of the FHLBank's commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The estimated fair value of these fixed-rate loan commitments also takes into account the difference between current and committed interest rate.

The carrying values and estimated fair values of the FHLBanks' financial instruments at December 31, 2005 and 2004 are as follows (dollar amounts in millions):

2005 FAIR VALUE SUMMARY TABLE

	2005		
Financial Instruments	**Carrying Value**	**Net Unrealized Gains/(Losses)**	**Estimated Fair Value**
Assets:			
Cash and due from banks	$ 356	$	$ 356
Interest-bearing deposits	35,342	(3)	35,339
Securities purchased under agreements to resell	3,295		3,295
Federal funds sold	80,557	16	80,573
Trading securities	7,181		7,181
Available-for-sale securities	5,599		5,599
Held-to-maturity securities	134,461	(1,601)	132,860
Advances	619,880	(475)	619,405
Mortgage loans held for portfolio, net	105,240	(2,103)	103,137
Accrued interest receivable	3,721		3,721
Derivative assets	951		951
Liabilities:			
Deposits	(19,143)	2	(19,141)
Securities sold under repurchase agreements	(2,594)	(108)	(2,702)
Consolidated obligations:			
Discount notes	(179,694)	110	(179,584)
Bonds	(736,209)	2,004	(734,205)
Mandatorily redeemable capital stock	(1,451)		(1,451)
Accrued interest payable	(6,315)		(6,315)
Derivative liabilities	(5,899)		(5,899)
Other:			
Commitments to extend credit for advances	1	(2)	(1)
Standby bond purchase agreements		4	4
Other	(1)	1	

2004 FAIR VALUE SUMMARY TABLE

Financial Instruments	2004 Carrying Value	2004 Net Unrealized Gains/(Losses)	2004 Estimated Fair Value
Assets:			
Cash and due from banks	$ 320	$	$ 320
Interest-bearing deposits	23,289	(2)	23,287
Securities purchased under agreements to resell	2,895		2,895
Federal funds sold	54,597	(2)	54,595
Trading securities	8,454		8,454
Available-for-sale securities	12,015		12,015
Held-to-maturity securities	123,645	237	123,882
Advances	581,216	237	581,453
Mortgage loans held for portfolio, net	113,922	355	114,277
Other loans	2		2
Accrued interest receivable	2,829		2,829
Derivative assets	737		737
Liabilities:			
Deposits	(18,384)	2	(18,382)
Securities sold under repurchase agreements	(2,779)	(98)	(2,877)
Other borrowings	(2)		(2)
Consolidated obligations:			
Discount notes	(167,962)	36	(167,926)
Bonds	(677,776)	(1,973)	(679,749)
Mandatorily redeemable capital stock	(1,153)		(1,153)
Accrued interest payable	(4,826)		(4,826)
Derivative liabilities	(8,135)		(8,135)
Other:			
Commitments to extend credit for advances	1	(1)	
Standby bond purchase agreements	1	3	4
Other	(11)	1	(10)

Note 20—Commitments and Contingencies

As described in Note 15, the FHLBanks have joint and several liability for all the consolidated obligations issued on their behalf. 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, as determined or approved by the Finance Board. No FHLBank has had to assume or pay the consolidated obligation of another FHLBank.

Commitments that legally bind and unconditionally obligate the FHLBanks for additional advances totaled approximately $4,497 million and $2,449 million at December 31, 2005 and 2004. Commitments generally are for periods up to 12 months. Based on the credit analyses of each FHLBank's management and each FHLBank's collateral requirements, the FHLBanks do not deem it necessary to have any additional liability on these commitments. Commitments are fully collateralized at the time of issuance (see Note 9). The estimated fair value of commitments as of December 31, 2005 and 2004 is reported in Note 19.

Certain FHLBanks have entered into standby bond purchase agreements with state housing authorities within their district whereby the FHLBank, for a fee, agrees to purchase and hold the authorities' bonds until the designated marketing agent can find a suitable investor or the housing authority repurchases the bond according to a schedule established by the standby agreement. Each standby agreement dictates the specific terms that would require the FHLBank to purchase the bond. The bond purchase commitments entered into by these FHLBanks have expiration periods up to 10 years, no later than 2014, though some are renewable at the option of an FHLBank. Total commitments for standby bond purchases were $1,917 million at December 31, 2005, with nine state housing authorities. Total commitments for standby bond purchases were $2,305 million at December 31, 2004, with 10 state housing authorities. During 2005 and 2004, no FHLBank was required to purchase any bonds under these agreements.

Commitments that unconditionally obligate the FHLBanks to fund/purchase mortgage loans totaled $219 million and $600 million at December 31, 2005 and 2004. Commitments are generally for periods not to exceed 365 days. In accordance with SFAS 149, these commitments are recorded as derivatives at their fair value. Unused lines of credit and other commitments totaled $22,495 million and $12,129 million at December 31, 2005 and 2004.

The FHLBanks generally execute interest-rate exchange agreements with major banks and broker-dealers and generally enter into bilateral collateral agreements. As of December 31, 2005, the FHLBanks had pledged, as collateral, securities with a carrying value of $5,075 million, of which $634 million cannot be sold or repledged and $4,441 million can be sold or repledged, to counterparties who have market risk exposure from the FHLBanks related to derivatives.

The FHLBanks entered into $3,071 million par value of consolidated bonds and $73 million par value of consolidated discount notes that had traded but not settled as of December 31, 2005.

The FHLBanks charged to operating expenses net rental costs of approximately $27 million, $24 million and $22 million for the years ended December 31, 2005, 2004 and 2003. Future minimum rentals at December 31, 2005, are as follows (dollar amounts in millions):

Year	Premises	Equipment	Total
Year 1	$ 21	$2	$ 23
Year 2	21	2	23
Year 3	21	1	22
Year 4	20	1	21
Year 5	20		20
Thereafter	79	—	79
Total	$182	$6	$188

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.

The FHLBanks are subject to legal proceedings arising in the normal course of business. After consultation with legal counsel, management of each FHLBank does not anticipate that the ultimate liability, if any, arising out of these matters will have a material effect on its FHLBank's financial condition or results of operations.

Notes 9, 10, 15, 16, 18, 19 and 21 discuss other commitments and contingencies.

Note 21—Subsequent Events

FHLBank of Chicago Written Agreement Amendments and Subordinated Note Issuance. On April 18, 2006, the FHLBank of Chicago entered into Amendment No. 2 to the Written Agreement with the Finance Board, which reduced the minimum regulatory capital stock requirement by $204 million from $3.978 billion to $3.774 billion. In addition, the Finance Board also approved the FHLBank of Chicago's application to issue subordinated notes.

On June 6, 2006, the FHLBank of Chicago entered into Amendment No. 3 to the Written Agreement, which became effective on June 13, 2006 upon receipt of proceeds from the subordinated notes. Amendment No. 3 replaced the aggregate minimum regulatory capital stock requirement of $3.774 billion with a requirement to maintain an aggregate amount of outstanding regulatory capital stock plus subordinated notes (subject to phase-outs beginning in year six) of at least $3.500 billion. Amendment No. 3 also replaced the prior minimum regulatory capital ratio requirement, with a requirement to maintain a ratio of regulatory capital stock, plus retained earnings, plus subordinated notes (subject to phase-outs beginning in year six) to assets of at least 4.5%.

On June 13, 2006, the FHLBank of Chicago issued $1 billion of 10-year subordinated notes. The subordinated notes are unsecured obligations and rank junior in priority of payment to all of existing consolidated obligations and senior liabilities. On June 20, 2006, the FHLBank of Chicago used a portion of the net proceeds from the sale of subordinated notes to redeem $795 million of voluntary capital stock from members and also redeemed $205 million of capital stock from institutions whose membership had terminated between April 18, 2006 and June 30, 2006, resulting in total capital stock redemptions of $1 billion during the second quarter of 2006.

FHLBank of San Francisco Ceases Offering New Commitments under the MPF Program. On October 6, 2006, the FHLBank of San Francisco announced that it will no longer offer new master commitments to purchase mortgage loans from its members under the MPF Program. Over the last few years, the FHLBank of San Francisco's purchased mortgage loan balances have been declining because of a corresponding decrease in originations of conforming fixed-rate mortgage loans and because member business strategies have led some members to sell their conforming fixed-rate mortgage loans to other purchasers. Additionally, the FHLBank of San Francisco has limited its purchases of fixed-rate mortgage loans because the profit spreads available have been below its targets.

FHLBank of Seattle Changes to Class B Stockholding Requirements. On March 31, 2006, the FHLBank of Seattle's Board of Directors approved amendments to the minimum membership stock requirement and the activity-based stock requirement under the capital plan. Specifically, the minimum membership stock requirement for 2006 was reduced from 0.75% of a member's home mortgage loans and mortgage-loan pass-through securities to 0.50% of such loans and securities, and the activity-based stock requirement for advances was reduced from 3.5% to 2.5% for all new membership advances.

FHLBank of Seattle Amendments to Capital Plan. In October 2006, the Finance Board approved a number of changes to the FHLBank of Seattle's capital plan that will help the FHLBank of Seattle meet its members' increasing funding needs and provide greater flexibility with respect to members' investment alternatives with the FHLBank of Seattle. These changes are intended to encourage new borrowings by members of the FHLBank of Seattle and to simplify the terms and provisions of the FHLBank of Seattle's current capital plan. The amendments to the FHLBank of Seattle's capital plan include use of the FHLBank of Seattle's excess stock pool (equal to the total amount of the FHLBank of Seattle's excess stock at any given point in time) to support new borrowings by members that have fully utilized their FHLBank of Seattle stock, the consolidation of Class B(1) and Class B(2) stock into a single Class B stock, and the creation of a new Class A stock with a six-month redemption period.

Regarding the creation of a new Class A stock, members would have to use all their Class B stock to support advances before being able to purchase Class A stock. Members would also have to use all outstanding Class A stock to support advances before purchasing more Class A stock. The Class A stock would be redeemable six months after a redemption request, unlike the Class B stock, which has a five-year redemption period. The FHLBank of Seattle currently expects that it would repurchase Class A stock prior to the expiration of the six-month redemption period if it becomes excess stock. The FHLBank of Seattle anticipates that the Class A stock would be subject to the same advances activity-based stock requirement as for Class B stock. The precise amount of dividends on the Class A stock would remain subject to the discretion of the FHLBank of Seattle's Board of Directors under the capital plan as amended.

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CONDITION
DECEMBER 31, 2005

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
ASSETS						
Cash and due from banks	$ 356	$	$ 10	$ 22	$ 115	$ 13
Interest-bearing deposits	35,342		2,130	8,699	3,254	249
Deposits with other FHLBanks for mortgage loan programs		(11)			6	5
Securities purchased under agreements to resell	3,295					
Federal funds sold	80,557		4,775	2,925	2,320	13,029
Trading securities	7,181	(329)	217			5,260
Available-for-sale securities	5,599	(57)	1,016		331	
Held-to-maturity securities	134,461	(5,275)	6,329	9,566	11,035	19,629
Advances	619,880		38,068	61,902	47,493	101,285
Mortgage loans held for portfolio	105,250		4,888	1,468	7,653	2,861
Less: allowance for credit losses on mortgages loans	10		2	1	1	1
Mortgage loans held for portfolio, net	105,240		4,886	1,467	7,652	2,860
Accrued interest receivable	3,721	(68)	190	378	304	621
Premises and equipment, net	200		6	11	15	31
Derivative assets	951		45	19	317	163
Other assets	632	7	28	25	56	94
Total assets	$997,415	$(5,733)	$57,700	$85,014	$72,898	$143,239
LIABILITIES						
Deposits:						
Interest-bearing:						
Demand and overnight	$ 17,903	$	$ 571	$ 2,637	$ 882	$ 5,071
Term	456		24	20	10	43
Deposits from other FHLBanks for mortgage loan programs		(11)				
Other	576		3		169	77
Total interest-bearing	18,935	(11)	598	2,657	1,061	5,191
Non-interest-bearing:						
Demand and overnight	113			1	2	44
Other	95		4			
Total non-interest-bearing	208		4	1	2	44
Total deposits	19,143	(11)	602	2,658	1,063	5,235
Borrowings:						
Securities sold under agreements to repurchase	2,594					500
Total borrowings	2,594					500
Consolidated obligations, net:						
Discount notes	179,694		24,340	20,511	14,580	9,579
Bonds	736,209	(5,577)	29,442	56,769	53,143	119,175
Total consolidated obligations, net	915,903	(5,577)	53,782	77,280	67,723	128,754
Mandatorily redeemable capital stock	1,451		8	18	17	143
Accrued interest payable	6,315	(68)	277	498	436	1,067
Affordable Housing Program	739		36	91	37	106
Payable to REFCORP	197		13	14	15	21
Derivative liabilities	5,899		256	492	278	1,223
Other liabilities	694		48	78	69	108
Total liabilities	952,935	(5,656)	55,022	81,129	69,638	137,157
CAPITAL						
Capital Stock:						
Capital stock Class B putable ($100 par value) issued and outstanding	37,786		2,532	3,590	3,079	5,753
Capital stock Class A putable ($100 par value) issued and outstanding	498					
Capital stock Pre-conversion putable ($100 par value) issued and outstanding	3,759					
Total capital stock	42,043		2,532	3,590	3,079	5,753
Retained earnings	2,600	(71)	135	291	189	329
Accumulated other comprehensive income:						
Net unrealized (losses) gains on available-for-sale securities	(6)		8		1	
Net unrealized (losses) gains relating to hedging activities	(145)	(6)	4	5	(8)	
Other	(12)		(1)	(1)	(1)	
Total capital	44,480	(77)	2,678	3,885	3,260	6,082
Total liabilities and capital	$997,415	$(5,733)	$57,700	$85,014	$72,898	$143,239

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 5	$ 38	$ 33	$ 42	$ 62	$	$ 12	$ 4
6,284	914		700	384	4,399	6,899	1,430
1,000		390	305			750	850
7,488	4,655	6,555	2,985	7,896	4,504	16,997	6,428
6	43	1,087	9	46	714	128	
1,151		1,790	250	1,015	103		
12,272	6,820	7,893	5,978	8,205	7,440	29,691	14,878
40,262	25,814	24,921	22,283	46,457	27,087	162,873	21,435
8,418	9,540	42,006	13,019	543	2,423	5,215	7,216
		1	1	1	1	1	
8,418	9,540	42,005	13,018	542	2,422	5,214	7,216
239	119	336	100	191	151	909	251
8	11	49	2	25	19	9	14
	97	232	19		22	24	13
47	41	55	32	29	99	96	23
$77,180	$48,092	$85,346	$45,723	$64,852	$46,960	$223,602	$52,542
$ 836	$ 723	$ 663	$ 816	$ 3,788	$ 791	$ 407	$ 718
60		51	11	29	95	30	83
		11					
14	77	226			8	2	
910	800	951	827	3,817	894	439	801
		27	38	1			
		79			7	5	
		106	38	1	7	5	
910	800	1,057	865	3,818	901	444	801
		1,200	500				394
		1,200	500				394
17,578	9,367	16,778	4,067	11,220	13,435	27,618	10,621
53,520	34,972	61,118	37,130	46,122	29,888	182,625	37,882
71,098	44,339	77,896	41,197	57,342	43,323	210,243	48,503
418	44	222	85	319	64	47	66
437	328	551	316	397	251	1,448	377
91	27	78	46	39	31	126	31
16	7	12	51	8	13	27	
428	193	136	379	406	413	1,561	134
73	51	56	23	49	46	58	35
73,471	45,789	81,208	43,462	62,378	45,042	213,954	50,341
3,503	2,156		1,932	2,299	1,290	9,520	2,132
					498		
		3,759					
3,503	2,156	3,759	1,932	2,299	1,788	9,520	2,132
208	149	525	330	178	137	131	69
2		(9)		(3)	(5)		
		(137)				(3)	
(4)	(2)		(1)		(2)		
3,709	2,303	4,138	2,261	2,474	1,918	9,648	2,201
$77,180	$48,092	$85,346	$45,723	$64,852	$46,960	$223,602	$52,542

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CONDITION
DECEMBER 31, 2004
(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
ASSETS						
Cash and due from banks	$ 320	$	$ 12	$ 22	$ 92	$ 8
Interest-bearing deposits	23,289		2,655	2,807	1,341	771
Deposits with other FHLBanks for mortgage loan programs		(13)			6	5
Securities purchased under agreements to resell	2,895		1,500			
Federal funds sold	54,597		5,587	2,972	2,255	11,197
Trading securities	8,454	(403)	295		311	5,700
Available-for-sale securities	12,015	(449)	1,006	713	631	
Held-to-maturity securities	123,645	(8,025)	6,253	11,871	8,385	17,417
Advances	581,216		30,209	68,508	38,980	95,867
Mortgage loans held for portfolio	113,932		4,013	1,179	8,646	2,217
Less: allowance for credit losses on mortgages loans	10		1	1		1
Mortgage loans held for portfolio, net	113,922		4,012	1,178	8,646	2,216
Accrued interest receivable	2,829	(79)	141	316	213	526
Premises and equipment, net	198		6	13	9	29
Derivative assets	737		60	11	148	186
Other assets	634	8	19	28	52	91
Total assets	$924,751	$(8,961)	$51,755	$88,439	$61,069	$134,013
LIABILITIES						
Deposits:						
Interest-bearing						
Demand and overnight	$ 16,722	$	$ 856	$ 2,106	$ 952	$ 5,141
Term	916		28	101	1	35
Deposits from other FHLBanks for mortgage loan programs		(13)				
Other	553		3	88	64	164
Total interest-bearing	18,191	(13)	887	2,295	1,017	5,340
Non-interest-bearing						
Demand and overnight	122			2	2	73
Other	71		4			
Total non-interest-bearing	193		4	2	2	73
Total deposits	18,384	(13)	891	2,297	1,019	5,413
Borrowings:						
Securities sold under agreements to repurchase	2,779					1,000
Other	2					
Total borrowings	2,781					1,000
Consolidated obligations, net:						
Discount notes	167,962		20,090	19,642	15,161	13,014
Bonds	677,776	(8,768)	27,680	60,515	41,075	105,921
Total consolidated obligations, net	845,738	(8,768)	47,770	80,157	56,236	118,935
Mandatorily redeemable capital stock	1,153		58	127	18	239
Accrued interest payable	4,826	(79)	223	438	300	746
Affordable Housing Program	668		33	82	21	86
Payable to REFCORP	129		5	10	3	8
Derivative liabilities	8,135		398	1,372	641	2,058
Other liabilities	1,074		198	77	70	86
Total liabilities	882,888	(8,860)	49,576	84,560	58,308	128,571
CAPITAL						
Capital Stock:						
Capital stock Class B putable ($100 par value) issued and outstanding	31,819		2,086		2,696	5,225
Capital stock Class A putable ($100 par value) issued and outstanding	326					
Capital stock Pre-conversion putable ($100 par value) issued and outstanding	7,947			3,655		
Total capital stock	40,092		2,086	3,655	2,696	5,225
Retained earnings	1,744	(101)	96	223	77	217
Accumulated other comprehensive income:						
Net unrealized gains (losses) on available-for-sale securities	196		(8)	2	1	
Net unrealized (losses) gains relating to hedging activities	(158)		5	1	(12)	
Other	(11)			(2)	(1)	
Total capital	41,863	(101)	2,179	3,879	2,761	5,442
Total liabilities and capital	$924,751	$(8,961)	$51,755	$88,439	$61,069	$134,013

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 11	$ 45	$ 21	$ 43	$ 44	$ 1	$ 16	$ 5
5,781	510		219	630	3,124	5,251	200
				2			
700		390	305				
7,543	3,280	4,738	575	2,680	3,630	8,461	1,679
8	89	760	17	79	740	602	256
911	1,157	1,530	625	5,785	106		
11,712	6,068	6,561	4,724	7,264	7,288	23,839	20,288
41,301	25,231	24,192	27,175	47,112	27,490	140,254	14,897
8,371	7,762	46,925	15,194	707	2,437	6,035	10,446
		5	1	1			
8,371	7,762	46,920	15,193	706	2,437	6,035	10,446
186	110	318	98	208	132	398	262
6	11	63	1	27	16	7	10
	2	153	51	18	41	43	24
47	37	63	22	57	115	76	19
$ 76,577	$44,302	$85,709	$49,048	$64,612	$45,120	$184,982	$ 48,086
$ 899	$ 878	$ 900	$ 706	$ 1,710	$ 831	$ 876	$ 867
116		89	74	283	9	39	141
		13					
17	2	146		11	38	15	5
1,032	880	1,148	780	2,004	878	930	1,013
		20	25				
		55			7	5	
		75	25		7	5	
1,032	880	1,223	805	2,004	885	935	1,013
		1,200	500				79
					2		
		1,200	500		2		79
18,632	10,631	16,872	5,008	7,086	12,768	26,257	2,801
51,819	29,817	60,876	39,485	51,452	28,490	148,109	41,305
70,451	40,448	77,748	44,493	58,538	41,258	174,366	44,106
34	30	11	59	327	131	55	64
390	244	514	291	331	243	809	376
89	23	82	29	21	26	132	44
15		43	14		7	20	4
531	494	199	442	659	628	438	275
72	40	63	21	44	53	327	23
72,614	42,159	81,083	46,654	61,924	43,233	177,082	45,984
3,799	2,017		2,232	2,493	1,479	7,765	2,027
					326		
		4,292					
3,799	2,017	4,292	2,232	2,493	1,805	7,765	2,027
168	85	489	163	26	87	139	75
	43	(7)		169	(4)		
		(148)				(4)	
(4)	(2)		(1)		(1)		
3,963	2,143	4,626	2,394	2,688	1,887	7,900	2,102
$ 76,577	$44,302	$85,709	$49,048	$64,612	$45,120	$184,982	$ 48,086

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2005

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
INTEREST INCOME						
Advances	$20,782	$	$1,093	$2,168	$1,527	$3,437
Prepayment fees on advances, net	75		9	7	2	2
Interest-bearing deposits	830		64	194	61	31
Securities purchased under agreements to resell	115		30			
Federal funds sold	1,915		123	98	57	240
Trading securities	438	(25)	14		3	317
Available-for-sale securities	346	(18)	29	19	17	
Held-to-maturity securities	5,497	(227)	288	566	383	848
Mortgage loans held for portfolio	5,416	1	211	69	402	132
Loans to other FHLBanks		(1)				
Other	6					
Total interest income	35,420	(270)	1,861	3,121	2,452	5,007
INTEREST EXPENSE						
Consolidated obligations — Discount notes	5,309		570	659	528	224
Consolidated obligations — Bonds	25,208	(293)	1,017	2,002	1,580	3,958
Deposits	523		18	62	31	153
Borrowings from other FHLBanks		(1)			1	
Securities sold under agreements to repurchase	123					29
Mandatorily redeemable capital stock	48		2	3	1	9
Other borrowings	3				1	
Total interest expense	31,214	(294)	1,607	2,726	2,142	4,373
NET INTEREST INCOME BEFORE PROVISION (REVERSAL) FOR CREDIT LOSSES	4,206	24	254	395	310	634
Provision (reversal) for credit losses			1		2	
NET INTEREST INCOME AFTER PROVISION (REVERSAL) FOR CREDIT LOSSES	4,206	24	253	395	308	634
OTHER INCOME (LOSS)						
Service fees	27		2	5	4	3
Net (losses) gains on trading securities	(305)		(7)		(1)	(215)
Net realized gains (losses) from sale of available-for-sale securities	267			2		
Net realized losses from sale of held-to-maturity securities	(1)					
Net (losses) gains on derivatives and hedging activities	(22)	6	(11)	(10)	4	137
Other, net	(26)	(3)	(14)	(15)		1
Total other (loss) income	(60)	3	(30)	(18)	7	(74)
OTHER EXPENSE						
Operating	657		42	59	50	76
Finance Board	32		1	4	2	4
Office of Finance	24		2	2	2	3
Other	16	(3)	1			3
Total other expense	729	(3)	46	65	54	86
INCOME BEFORE ASSESSMENTS	3,417	30	177	312	261	474
Affordable Housing Program	282		15	26	21	40
REFCORP	625		34	57	48	87
Total assessments	907		49	83	69	127
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	2,510	30	128	229	192	347
Cumulative effect of change in accounting principle before assessments	15		7	1		(3)
NET INCOME	$ 2,525	$ 30	$ 135	$ 230	$ 192	$ 344

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$1,527	$ 942	$ 804	$ 901	$1,642	$ 961	$5,091	$ 689
	2	1		3	43	1	5
152	13		12	14	115	151	23
22		12	10			37	4
225	87	216	53	132	142	424	118
	4	53	1	6	37	15	13
46	32	47	18	153	3		
536	279	250	194	308	297	1,112	663
428	441	2,160	689	34	123	280	446
1							
				1	5		
2,937	1,800	3,543	1,878	2,293	1,726	7,111	1,961
677	278	540	160	270	433	700	270
1,878	1,266	2,405	1,378	1,718	1,038	5,709	1,552
29	31	36	24	70	26	16	27
		57	20		2		15
13	2	2	2	12		2	
	(1)				2	1	
2,597	1,576	3,040	1,584	2,070	1,501	6,428	1,864
340	224	503	294	223	225	683	97
		(4)			1		
340	224	507	294	223	224	683	97
2	1	1	2	3	1	1	2
	(5)	(38)		(4)	(23)	(14)	2
	20	(3)	3	245			
							(1)
(1)	7	(15)	39	(91)	29	(89)	(27)
3	2	13	2	4	(17)	2	(4)
4	25	(42)	46	157	(10)	(100)	(28)
34	36	121	36	46	25	70	62
3	2	3	2	2	1	6	2
2	1	2	1	2	1	5	1
4	2	6			2		1
43	41	132	39	50	29	81	66
301	208	333	301	330	185	502	3
26	17	28	25	28	15	41	
55	38	61	57	61	34	92	1
81	55	89	82	89	49	133	1
220	153	244	219	241	136	369	2
			9	1			
$ 220	$ 153	$ 244	$ 228	$ 242	$ 136	$ 369	$ 2

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2004

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
INTEREST INCOME						
Advances	$9,995	$	$ 596	$1,242	$ 613	$1,578
Prepayment fees on advances, net	184		54	6	1	20
Interest-bearing deposits	313		11	61	12	11
Securities purchased under agreements to resell	54		9			
Federal funds sold	625		34	16	28	74
Trading securities	444	(27)	18		11	288
Available-for-sale securities	286	(21)	16	8	10	
Held-to-maturity securities	4,483	(143)	242	546	302	703
Mortgage loans held for portfolio	5,535	1	198	48	406	97
Loans to other FHLBanks		(1)				
Other	6					
Total interest income	21,925	(191)	1,178	1,927	1,383	2,771
INTEREST EXPENSE						
Consolidated obligations—Discount notes	2,207		110	254	194	73
Consolidated obligations—Bonds	15,233	(212)	843	1,377	872	2,055
Deposits	230		9	22	15	60
Borrowings from other FHLBanks		(1)			1	
Securities sold under agreements to repurchase	57					16
Mandatorily redeemable capital stock	22		1	6		1
Other borrowings	5				2	
Total interest expense	17,754	(213)	963	1,659	1,084	2,205
NET INTEREST INCOME BEFORE (REVERSAL) PROVISION FOR CREDIT LOSSES	4,171	22	215	268	299	566
(Reversal) provision for credit losses	(5)					1
NET INTEREST INCOME AFTER (REVERSAL) PROVISION FOR CREDIT LOSSES	4,176	22	215	268	299	565
OTHER INCOME (LOSS)						
Service fees	27		2	5	4	3
Net (losses) gains on trading securities	(106)		(8)		(3)	(57)
Net realized (losses) gains from sale of available-for-sale securities	(17)					
Net realized gains from sale of held-to-maturity securities	13				3	
Net (losses) gains on derivatives and hedging activities	(784)	(2)	(7)	8	(106)	(42)
Other, net	(23)	(48)	(40)	(4)	1	1
Total other (loss) income	(890)	(50)	(53)	9	(101)	(95)
OTHER EXPENSE						
Operating	547		37	51	42	63
Finance Board	26		2	3	2	3
Office of Finance	20		1	2	2	2
Other	19	(1)				2
Total other expense	612	(1)	40	56	46	70
INCOME BEFORE ASSESSMENTS	2,674	(27)	122	221	152	400
Affordable Housing Program	225		10	19	13	33
REFCORP	505		22	40	30	73
Total assessments	730		32	59	43	106
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	1,944	(27)	90	162	109	294
Cumulative effect of change in accounting principle before assessments	50			(1)	10	
NET INCOME	$1,994	$ (27)	$ 90	$ 161	$ 119	$ 294

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 771	$ 518	$ 549	$ 513	$ 868	$491	$1,834	$ 422
69	10	5	1	7	3	7	1
91	5		4	7	36	61	14
1		6	4			33	1
105	47	85	26	32	32	111	35
	7	55	1	12	36	28	15
15	49	33	18	155	3		
496	243	207	103	171	262	706	645
405	368	2,270	759	47	87	309	540
1							
				1	5		
1,954	1,247	3,210	1,429	1,300	955	3,089	1,673
372	140	286	78	119	141	376	64
1,265	872	2,165	828	924	641	2,164	1,439
13	14	22	13	29	13	6	14
		31	10				
2	1	2	1	7		1	
					3		
1,652	1,027	2,506	930	1,079	798	2,547	1,517
302	220	704	499	221	157	542	156
	(1)		(5)				
302	221	704	504	221	157	542	156
2	1	1	2	3	1	1	2
	(5)	(28)	(1)	(8)	4	(12)	12
		(22)	6		(1)		
			4				6
40	(6)	(127)	(353)	(91)	(13)	(69)	(16)
2	1	49	5	3	3	4	
44	(9)	(127)	(337)	(93)	(6)	(76)	4
29	30	107	29	36	21	61	41
2	1	3	1	2	1	4	2
3	1	2	1	1	1	3	1
3	2	9			1		3
37	34	121	31	39	24	68	47
309	178	456	136	89	127	398	113
25	14	41	11	8	10	32	9
57	33	91	25	16	24	73	21
82	47	132	36	24	34	105	30
227	131	324	100	65	93	293	83
		41					
$ 227	$ 131	$ 365	$ 100	$ 65	$ 93	$ 293	$ 83

FEDERAL HOME LOAN BANKS

RESTATED COMBINING SCHEDULES—STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2003

(Dollar amounts in millions)

	Combined (Restated)	Combining Adjustments (Restated)	Boston	New York	Pittsburgh (Restated)	Atlanta (Restated)
INTEREST INCOME						
Advances	$ 8,758	$	$ 627	$1,285	$ 464	$1,351
Prepayment fees on advances, net	185		51	8	5	13
Interest-bearing deposits	259		4	67	7	25
Deposits for mortgage loan programs with other FHLBanks		(1)			1	
Securities purchased under agreements to resell	50		8			
Federal funds sold	485		38	16	16	52
Trading securities	441	(32)	27		23	245
Available-for-sale securities	256	(19)	14		14	
Held-to-maturity securities	4,255	(22)	265	652	293	576
Mortgage loans held for portfolio	4,381		193	29	372	62
Loans to other FHLBanks		(4)		3		
Other	6					
Total interest income	19,076	(78)	1,227	2,060	1,195	2,324
INTEREST EXPENSE						
Consolidated obligations—Discount notes	1,795		83	280	122	45
Consolidated obligations—Bonds	13,075	(83)	922	1,454	767	1,687
Deposits	279		14	28	21	59
Deposits from other FHLBanks for mortgage loan programs		(1)				
Borrowings from other FHLBanks		(4)			2	
Securities sold under agreements to repurchase	45				2	6
Other borrowings	5				2	
Total interest expense	15,199	(88)	1,019	1,762	916	1,797
NET INTEREST INCOME BEFORE (REVERSAL) PROVISION FOR CREDIT LOSSES	3,877	10	208	298	279	527
(Reversal) provision for credit losses	(4)				(7)	(1)
NET INTEREST INCOME AFTER (REVERSAL) PROVISION FOR CREDIT LOSSES	3,881	10	208	298	286	528
OTHER INCOME (LOSS)						
Service fees	35		3	5	6	3
Net losses on trading securities	(319)		(10)		(13)	(187)
Net realized (losses) gains from sale of available-for-sale securities	(31)				4	
Net realized (losses) gains from sale of held-to-maturity securities	(158)			(189)	3	
Net (losses) gains on derivatives and hedging activities	(309)	15	(1)	(1)	(158)	
Other, net	1	(99)	(41)		4	1
Total other (loss) income	(781)	(84)	(49)	(185)	(154)	(183)
OTHER EXPENSE						
Operating	450		31	48	35	54
Finance Board	24		2	2	1	3
Office of Finance	18		1	3	2	2
Other, net	15			(2)		4
Total other expense	507		34	51	38	63
INCOME BEFORE ASSESSMENTS	2,593	(74)	125	62	94	282
Affordable Housing Program	218		10	5	8	23
REFCORP.	490		23	11	17	52
Total assessments	708		33	16	25	75
NET INCOME	$ 1,885	$ (74)	$ 92	$ 46	$ 69	$ 207

Cincinnati	Indianapolis (Restated)	Chicago (Restated)	Des Moines (Restated)	Dallas (Restated)	Topeka (Restated)	San Francisco	Seattle
$ 697	$ 510	$ 551	$ 477	$ 725	$ 425	$1,129	$ 517
30	3	4	20	11	4	15	21
60	3		5	6	28	44	10
3		5	3			30	1
104	18	43	36	32	23	78	29
1	6	69	3	24	29	31	15
10	51	32	13	138	3		
481	215	179	108	147	254	581	526
343	345	1,850	490	72	23	138	464
1							
				1	5		
1,730	1,151	2,733	1,155	1,156	794	2,046	1,583
325	126	204	78	122	110	206	94
1,156	780	1,670	749	795	533	1,392	1,253
21	21	35	15	29	15	3	18
		1					
			2				
		29	8				
					3		
1,502	927	1,939	852	946	661	1,601	1,365
228	224	794	303	210	133	445	218
	1		3				
228	223	794	300	210	133	445	218
2	5	1	2	2	2	1	3
(1)	(2)	(56)	(2)	(13)	(12)	(15)	(8)
		(36)	1				
5					1		22
26	(14)	(139)	(94)	(15)	13	65	(6)
4	2	117	3	3	3	4	
36	(9)	(113)	(90)	(23)	7	55	11
25	28	74	24	30	19	54	28
2	1	3	1	2	1	4	2
2	1	1	1	1	1	2	1
2	1	8					2
31	31	86	26	33	21	60	33
233	183	595	184	154	119	440	196
19	15	49	15	13	9	36	16
43	34	109	34	28	22	81	36
62	49	158	49	41	31	117	52
$ 171	$ 134	$ 437	$ 135	$ 113	$ 88	$ 323	$ 144

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(Shares in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
CAPITAL STOCK CLASS B PUTABLE SHARES						
BALANCE, DECEMBER 31, 2002	76				18	
Proceeds from sale of capital stock	37				27	
Repurchase/redemption of capital stock	(32)				(22)	
Conversion to Class B shares	65					
Capital stock dividends	4					
BALANCE, DECEMBER 31, 2003	150				23	
Proceeds from sale of capital stock	99		5		58	
Repurchase/redemption of capital stock	(77)		(7)		(54)	
Net shares reclassified to mandatorily redeemable capital stock	(19)		(1)			(5)
Conversion to Class B or Class A shares	159		24			57
Capital stock dividends	6					
BALANCE, DECEMBER 31, 2004	318		21		27	52
Proceeds from sale of capital stock	175		8	3	84	40
Repurchase/redemption of capital stock	(148)		(4)	(4)	(80)	(34)
Net shares reclassified to mandatorily redeemable capital stock	(14)					(1)
Conversion to Class B or Class A shares	37			37		
Capital stock dividends	9					
BALANCE, DECEMBER 31, 2005	377		25	36	31	57
CAPITAL STOCK CLASS A PUTABLE SHARES						
BALANCE, DECEMBER 31, 2003						
Proceeds from sale of capital stock						
Repurchase/redemption of capital stock						
Net shares reclassified to mandatorily redeemable capital stock						
Conversion to Class B or Class A shares	3					
Capital stock dividends						
BALANCE, DECEMBER 31, 2004	3					
Proceeds from sale of capital stock						
Repurchase/redemption of capital stock						
Net shares reclassified to mandatorily redeemable capital stock	2					
Conversion to Class B or Class A shares						
Capital stock dividends						
BALANCE, DECEMBER 31, 2005	5					

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
35							23
	1		6	2			1
	(2)		(4)	(3)			(1)
	19		19	27			
1	1	—	—	1	—	—	1
36	19		21	27			24
1	1		8	8	2	16	
	(1)		(6)	(6)		(3)	
(1)			(1)	(4)	(2)		(5)
					15	63	
2	1	—	—	—	—	2	1
38	20		22	25	15	78	20
	1		8	4	5	21	1
			(11)	(7)		(8)	
(5)					(8)		
2	1	—	—	1	1	4	—
35	22	—	19	23	13	95	21
					3		
—	—	—	—	—	—	—	—
					3		
					2		
—	—	—	—	—	—	—	—
—	—	—	—	—	5	—	—

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
CAPITAL STOCK PRE-CONVERSION PUTABLE SHARES						
BALANCE, DECEMBER 31, 2002	276		23	41		45
Proceeds from sale of capital stock	80		5	15		23
Repurchase/redemption of capital stock	(71)		(4)	(20)		(19)
Conversion to Class B shares	(65)					
Capital stock dividends	5					
BALANCE, DECEMBER 31, 2003	225		24	36		49
Proceeds from sale of capital stock	78		1	22		35
Repurchase/redemption of capital stock	(49)			(18)		(27)
Net shares reclassified to mandatorily redeemable capital stock	(16)		(1)	(3)		
Conversion to Class B or Class A shares	(162)		(24)			(57)
Capital stock dividends	4					
BALANCE, DECEMBER 31, 2004	80			37		
Proceeds from sale of capital stock	32			23		
Repurchase/redemption of capital stock	(23)			(23)		
Net shares reclassified to mandatorily redeemable capital stock	(16)					
Conversion to Class B or Class A shares	(37)			(37)		
Capital stock dividends	2					
BALANCE, DECEMBER 31, 2005	38					
TOTAL CAPITAL STOCK PUTABLE SHARES						
BALANCE, DECEMBER 31, 2002	352		23	41	18	45
Proceeds from sale of capital stock	117		5	15	27	23
Repurchase/redemption of capital stock	(103)		(4)	(20)	(22)	(19)
Capital stock dividends	9					
BALANCE, DECEMBER 31, 2003	375		24	36	23	49
Proceeds from sale of capital stock	177		6	22	58	35
Repurchase/redemption of capital stock	(126)		(7)	(18)	(54)	(27)
Net shares reclassified to mandatorily redeemable capital stock	(35)		(2)	(3)		(5)
Capital stock dividends	10					
BALANCE, DECEMBER 31, 2004	401		21	37	27	52
Proceeds from sale of capital stock	207		8	26	84	40
Repurchase/redemption of capital stock	(171)		(4)	(27)	(80)	(34)
Net shares reclassified to mandatorily redeemable capital stock	(28)					(1)
Capital stock dividends	11					
BALANCE, DECEMBER 31, 2005	420		25	36	31	57

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
	20	31	19	25	16	56	
		14	4	3	2	14	
	(1)	(5)	(4)	(1)	(1)	(16)	
	(19)		(19)	(27)			
		2				3	
		42			17	57	
		11			2	7	
					(2)	(2)	
		(12)					
					(18)	(63)	
		2			1	1	
		43					
		9					
		(16)					
		2					
		38					
35	20	31	19	25	16	56	23
	1	14	10	5	2	14	1
	(3)	(5)	(8)	(4)	(1)	(16)	(1)
1	1	2		1		3	1
36	19	42	21	27	17	57	24
1	1	11	8	8	4	23	
	(1)		(6)	(6)	(2)	(5)	
(1)		(12)	(1)	(4)	(2)		(5)
2	1	2			1	3	1
38	20	43	22	25	18	78	20
	1	9	8	4	5	21	1
			(11)	(7)		(8)	
(5)		(16)			(6)		
2	1	2		1	1	4	
35	22	38	19	23	18	95	21

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
CAPITAL STOCK CLASS B PUTABLE PAR VALUE						
BALANCE, DECEMBER 31, 2002	$ 7,733	$	$	$	$ 1,840	$
Proceeds from sale of capital stock	3,765				2,727	
Repurchase/redemption of capital stock	(3,222)				(2,225)	
Conversion to Class B shares	6,443					
Capital stock dividends	363					
BALANCE, DECEMBER 31, 2003	15,082				2,342	
Proceeds from sale of capital stock	9,976		479		5,805	
Repurchase/redemption of capital stock	(7,715)		(692)		(5,433)	
Net shares reclassified to mandatorily redeemable capital stock	(1,883)		(58)		(18)	(457)
Conversion to Class B or Class A shares	15,778		2,357			5,682
Capital stock dividends	581					
BALANCE, DECEMBER 31, 2004	31,819		2,086		2,696	5,225
Proceeds from sale of capital stock	17,628		802	276	8,398	3,962
Repurchase/redemption of capital stock	(14,810)		(356)	(433)	(8,017)	(3,382)
Net shares reclassified to mandatorily redeemable capital stock	(1,377)				2	(52)
Conversion to Class B or Class A shares	3,747			3,747		
Capital stock dividends	779					
BALANCE, DECEMBER 31, 2005	$ 37,786	$	$2,532	$3,590	$ 3,079	$ 5,753
CAPITAL STOCK CLASS A PUTABLE PAR VALUE						
BALANCE, DECEMBER 31, 2003	$	$	$	$	$	$
Proceeds from sale of capital stock	5					
Repurchase/redemption of capital stock						
Net shares reclassified to mandatorily redeemable capital stock						
Conversion to Class B or Class A shares	321					
Capital stock dividends						
BALANCE, DECEMBER 31, 2004	326					
Proceeds from sale of capital stock	7					
Repurchase/redemption of capital stock						
Net shares reclassified to mandatorily redeemable capital stock	165					
Conversion to Class B or Class A shares						
Capital stock dividends						
BALANCE, DECEMBER 31, 2005	$ 498	$	$	$	$	$

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$3,548	$	$	$	$	$	$	$2,345
12	116		634	187			89
(58)	(184)		(364)	(232)			(159)
	1,917		1,847	2,679			
143	69			27			124
3,645	1,918		2,117	2,661			2,399
90	72		761	837	187	1,651	94
	(33)		(584)	(642)		(331)	
(87)	(29)		(62)	(407)	(180)	(55)	(530)
					1,453	6,286	
151	89			44	19	214	64
3,799	2,017		2,232	2,493	1,479	7,765	2,027
25	125		858	419	492	2,161	110
	(16)		(1,120)	(695)	(3)	(777)	(11)
(497)	(13)		(38)	(8)	(763)	(6)	(2)
176	43			90	85	377	8
$3,503	$2,156	$	$ 1,932	$2,299	$1,290	$9,520	$2,132
$	$	$	$	$	$	$	$
					5		
					321		
					326		
					7		
					165		
$	$	$	$	$	$ 498	$	$

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL—(Continued) FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
CAPITAL STOCK PRE-CONVERSION PUTABLE PAR VALUE						
BALANCE, DECEMBER 31, 2002	$ 27,453	$	$ 2,278	$ 4,051	$	$ 4,497
Proceeds from sale of capital stock	7,941		504	1,508		2,284
Repurchase/redemption of capital stock	(6,902)		(354)	(1,921)		(1,860)
Conversion to Class B shares	(6,443)					
Capital stock dividends	572					
BALANCE, DECEMBER 31, 2003	22,621		2,428	3,638		4,921
Proceeds from sale of capital stock	7,656		53	2,174		3,477
Repurchase/redemption of capital stock	(4,903)		(14)	(1,799)		(2,716)
Net shares reclassified to mandatorily redeemable capital stock	(1,696)		(110)	(358)		
Conversion to Class B or Class A shares	(16,099)		(2,357)			(5,682)
Capital stock dividends	368					
BALANCE, DECEMBER 31, 2004	7,947			3,655		
Proceeds from sale of capital stock	3,332			2,391		
Repurchase/redemption of capital stock	(2,299)			(2,299)		
Net shares reclassified to mandatorily redeemable capital stock	(1,682)					
Conversion to Class B or Class A shares	(3,747)			(3,747)		
Capital stock dividends	208					
BALANCE, DECEMBER 31, 2005	$ 3,759	$	$	$	$	$
TOTAL CAPITAL STOCK PUTABLE PAR VALUE						
BALANCE, DECEMBER 31, 2002	$ 35,186	$	$ 2,278	$ 4,051	$ 1,840	$ 4,497
Proceeds from sale of capital stock	11,706		504	1,508	2,727	2,284
Repurchase/redemption of capital stock	(10,124)		(354)	(1,921)	(2,225)	(1,860)
Capital stock dividends	935					
BALANCE, DECEMBER 31, 2003	37,703		2,428	3,638	2,342	4,921
Proceeds from sale of capital stock	17,637		532	2,174	5,805	3,477
Repurchase/redemption of capital stock	(12,618)		(706)	(1,799)	(5,433)	(2,716)
Net shares reclassified to mandatorily redeemable capital stock	(3,579)		(168)	(358)	(18)	(457)
Capital stock dividends	949					
BALANCE, DECEMBER 31, 2004	40,092		2,086	3,655	2,696	5,225
Proceeds from sale of capital stock	20,967		802	2,667	8,398	3,962
Repurchase/redemption of capital stock	(17,109)		(356)	(2,732)	(8,017)	(3,382)
Net shares reclassified to mandatorily redeemable capital stock	(2,894)				2	(52)
Capital stock dividends	987					
BALANCE, DECEMBER 31, 2005	$ 42,043	$	$ 2,532	$ 3,590	$ 3,079	$ 5,753

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$	$ 1,956	$ 3,125	$ 1,858	$ 2,471	$1,631	$ 5,586	$
		1,366	409	269	178	1,423	
	(39)	(556)	(420)	(93)	(84)	(1,575)	
	(1,917)		(1,847)	(2,679)			
		220		32	15	305	
		4,155			1,740	5,739	
		1,090			173	689	
					(173)	(201)	
		(1,215)			(13)		
					(1,774)	(6,286)	
		262			47	59	
		4,292					
		941					
		(1,682)					
		208					
$	$	$ 3,759	$	$	$	$	$
$3,548	$ 1,956	$ 3,125	$ 1,858	$ 2,471	$1,631	$ 5,586	$2,345
12	116	1,366	1,043	456	178	1,423	89
(58)	(223)	(556)	(784)	(325)	(84)	(1,575)	(159)
143	69	220		59	15	305	124
3,645	1,918	4,155	2,117	2,661	1,740	5,739	2,399
90	72	1,090	761	837	365	2,340	94
	(33)		(584)	(642)	(173)	(532)	
(87)	(29)	(1,215)	(62)	(407)	(193)	(55)	(530)
151	89	262		44	66	273	64
3,799	2,017	4,292	2,232	2,493	1,805	7,765	2,027
25	125	941	858	419	499	2,161	110
	(16)		(1,120)	(695)	(3)	(777)	(11)
(497)	(13)	(1,682)	(38)	(8)	(598)	(6)	(2)
176	43	208		90	85	377	8
$3,503	$ 2,156	$ 3,759	$ 1,932	$ 2,299	$1,788	$ 9,520	$2,132

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
RETAINED EARNINGS						
BALANCE, DECEMBER 31, 2002 (As restated)	$ 716	$	$ 45	$ 245	$(16)	$ 80
Net income	1,885	(74)	92	46	69	207
Dividends on capital stock:						
Cash	(568)		(75)	(164)	(50)	(178)
Stock	(935)					
BALANCE, DECEMBER 31, 2003 (As restated)	1,098	(74)	62	127	3	109
Net income	1,994	(27)	90	161	119	294
Dividends on capital stock:						
Cash	(398)		(56)	(65)	(45)	(186)
Stock	(950)					
BALANCE, DECEMBER 31, 2004	1,744	(101)	96	223	77	217
Net income	2,525	30	135	230	192	344
Dividends on capital stock:						
Cash	(677)		(96)	(162)	(80)	(232)
Stock	(992)					
BALANCE, DECEMBER 31, 2005	$2,600	$ (71)	$135	$ 291	$189	$ 329
ACCUMULATED OTHER COMPREHENSIVE INCOME						
BALANCE, DECEMBER 31, 2002 (As restated)	$ 298	$	$(28)	$	$ (6)	$
Net unrealized (losses) gains on available-for-sale securities	(111)		8			
Reclassification adjustment for losses (gains) included in net income relating to available-for-sale securities	46				4	
Net unrealized gains (losses) relating to hedging activities	(117)		(1)		(9)	
Reclassification adjustment for (gains) losses included in net income relating to hedging activities	69		3		1	
Other	(6)			(2)		
BALANCE, DECEMBER 31, 2003 (As restated)	179		(18)	(2)	(10)	
Net unrealized gains (losses) on available-for-sale securities	5		16	2	1	
Reclassification adjustment for losses (gains) included in net income relating to available-for-sale securities	18					
Net unrealized (losses) gains relating to hedging activities	(218)				(2)	
Reclassification adjustment for losses (gains) included in net income relating to hedging activities	46		(1)	1		
Other	(3)				(1)	
BALANCE, DECEMBER 31, 2004	27		(3)	1	(12)	
Net unrealized gains (losses) on available-for-sale securities	65		16			
Reclassification adjustment for (gains) losses included in net income relating to available-for-sale securities	(267)			(2)		
Net unrealized gains (losses) relating to hedging activities	20		1	6	4	
Reclassification adjustment for (gains) losses included in net income relating to hedging activities	(7)	(6)	(2)	(2)		
Other	(1)		(1)	1		
BALANCE, DECEMBER 31, 2005	$ (163)	$ (6)	$ 11	$ 4	$ (8)	$

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 64	$(21)	$ 169	$ 31	$ (49)	$ 30	$ 101	$ 37
171	134	437	135	113	88	323	144
	(1)		(57)		(43)		
(143)	(69)	(220)		(59)	(15)	(305)	(124)
92	43	386	109	5	60	119	57
227	131	365	100	65	93	293	83
			(46)				
(151)	(89)	(262)		(44)	(66)	(273)	(65)
168	85	489	163	26	87	139	75
220	153	244	228	242	136	369	2
	(46)		(61)				
(180)	(43)	(208)		(90)	(86)	(377)	(8)
$ 208	$149	$ 525	$330	$ 178	$137	$ 131	$ 69
$ (1)	$ 88	$ 71	$ (4)	$ 180	$	$ (2)	$
	(21)	(50)	4	(44)	(8)		
		43	(1)				
		(99)				(8)	
		67				(2)	
(2)	(1)				(1)		
(3)	66	32	(1)	136	(9)	(12)	
	(24)	(31)	6	33	2		
		22	(6)		2		
		(217)				1	
		39				7	
(1)	(1)						
(4)	41	(155)	(1)	169	(5)	(4)	
2	(23)	(5)	3	73	(1)		
	(20)	3	(3)	(245)			
		9					
		2				1	
					(1)		
$ (2)	$ (2)	$(146)	$ (1)	$ (3)	$ (7)	$ (3)	$

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
TOTAL CAPITAL						
BALANCE, DECEMBER 31, 2002 (As restated)	$ 36,200	$	$2,295	$ 4,296	$ 1,818	$ 4,577
Proceeds from sale of capital stock	11,706		504	1,508	2,727	2,284
Repurchase/redemption of capital stock	(10,124)		(354)	(1,921)	(2,225)	(1,860)
Comprehensive income:						
Net income	1,885	(74)	92	46	69	207
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale securities	(111)		8			
Reclassification adjustment for losses (gains) included in net income relating to available-for-sale securities	46				4	
Net unrealized gains (losses) relating to hedging activities	(117)		(1)		(9)	
Reclassification adjustment for (gains) losses included in net income relating to hedging activities	69		3		1	
Other	(6)			(2)		
Total comprehensive income	1,766	(74)	102	44	65	207
Dividends on capital stock:						
Cash	(568)		(75)	(164)	(50)	(178)
BALANCE, DECEMBER 31, 2003 (As restated)	38,980	(74)	2,472	3,763	2,335	5,030
Proceeds from sale of capital stock	17,637		532	2,174	5,805	3,477
Repurchase/redemption of capital stock	(12,618)		(706)	(1,799)	(5,433)	(2,716)
Net shares reclassified to mandatorily redeemable capital stock	(3,579)		(168)	(358)	(18)	(457)
Comprehensive income:						
Net income	1,994	(27)	90	161	119	294
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale securities	5		16	2	1	
Reclassification adjustment for losses (gains) included in net income relating to available-for-sale securities	18					
Net unrealized (losses) gains relating to hedging activities	(218)				(2)	
Reclassification adjustment for losses (gains) included in net income relating to hedging activities	46		(1)	1		
Other	(3)				(1)	
Total comprehensive income	1,842	(27)	105	164	117	294
Dividends on capital stock:						
Cash	(398)		(56)	(65)	(45)	(186)
Stock	(1)					
BALANCE, DECEMBER 31, 2004	41,863	(101)	2,179	3,879	2,761	5,442
Proceeds from sale of capital stock	20,967		802	2,667	8,398	3,962
Repurchase/redemption of capital stock	(17,109)		(356)	(2,732)	(8,017)	(3,382)
Net shares reclassified to mandatorily redeemable capital stock	(2,894)				2	(52)
Comprehensive income:						
Net income	2,525	30	135	230	192	344
Other comprehensive income:						
Net unrealized gains (losses) on available-for-sale securities	65		16			
Reclassification adjustment for (gains) losses included in net income relating to available-for-sale securities	(267)			(2)		
Net unrealized gains (losses) relating to hedging activities	20		1	6	4	
Reclassification adjustment for (gains) losses included in net income relating to hedging activities	(7)	(6)	(2)	(2)		
Other	(1)		(1)	1		
Total comprehensive income	2,335	24	149	233	196	344
Dividends on capital stock:						
Cash	(677)		(96)	(162)	(80)	(232)
Stock	(5)					
BALANCE, DECEMBER 31, 2005	$ 44,480	$ (77)	$2,678	$ 3,885	$ 3,260	$ 6,082

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$3,611	$2,023	$ 3,365	$ 1,885	$2,602	$1,661	$ 5,685	$2,382
12	116	1,366	1,043	456	178	1,423	89
(58)	(223)	(556)	(784)	(325)	(84)	(1,575)	(159)
171	134	437	135	113	88	323	144
	(21)	(50)	4	(44)	(8)		
		43	(1)				
		(99)				(8)	
		67				(2)	
(2)	(1)				(1)		
169	112	398	138	69	79	313	144
	(1)		(57)		(43)		
3,734	2,027	4,573	2,225	2,802	1,791	5,846	2,456
90	72	1,090	761	837	365	2,340	94
	(33)		(584)	(642)	(173)	(532)	
(87)	(29)	(1,215)	(62)	(407)	(193)	(55)	(530)
227	131	365	100	65	93	293	83
	(24)	(31)	6	33	2		
		22	(6)		2		
		(217)				1	
		39				7	
(1)	(1)						
226	106	178	100	98	97	301	83
			(46)				
							(1)
3,963	2,143	4,626	2,394	2,688	1,887	7,900	2,102
25	125	941	858	419	499	2,161	110
	(16)		(1,120)	(695)	(3)	(777)	(11)
(497)	(13)	(1,682)	(38)	(8)	(598)	(6)	(2)
220	153	244	228	242	136	369	2
2	(23)	(5)	3	73	(1)		
	(20)	3	(3)	(245)			
		9					
		2				1	
					(1)		
222	110	253	228	70	134	370	2
	(46)		(61)				
(4)					(1)		
$3,709	$2,303	$ 4,138	$ 2,261	$2,474	$1,918	$ 9,648	$2,201

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2005

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
OPERATING ACTIVITIES						
Net income	$ 2,525	$ 30	$ 135	$ 230	$ 192	$ 344
Cumulative effect of change in accounting principle before assessments	(15)		(7)	(1)		3
Income before cumulative effect of change in accounting principle	2,510	30	128	229	192	347
Adjustments to reconcile income before cumulative effect of change in accounting principle to net cash provided by (used in) operating activities:						
Depreciation and amortization:						
Net premiums and discounts on consolidated obligations, investments, mortgage loans, and deferred costs and fees received on derivatives	463	(24)	21	17	54	33
Concessions on consolidated obligation bonds	151	1	3	13	11	32
Net deferred (gain) loss on derivatives	(1)			(1)		1
Premises and equipment	46		1	3	3	5
Other	(57)		6			
Provision (reversal) for credit losses			1		2	
Non-cash interest on mandatorily redeemable capital stock	30					
Net realized (gain) loss from sale of available-for-sale securities	(267)			(2)		
Net realized loss from sale of held-to-maturity securities	1					
(Gain) loss due to change in net fair value adjustment on derivative and hedging activities	(275)	(6)	(8)	8	414	(306)
Loss (gain) on extinguishment of debt	47	(1)	14	15		(1)
Net realized loss on disposal of premises and equipment	12				1	
Net change in:						
Trading securities	1,098		79		89	445
Accrued interest receivable	(898)	(11)	(49)	(61)	(92)	(95)
Other assets	(73)		(1)	1		(5)
Net derivative assets and liabilities—accrued interest	(493)		12	(76)	(532)	16
Accrued interest payable	1,492	11	53	61	136	322
Affordable Housing Program (AHP) liability and discount on AHP advances	79		5	9	16	22
Payable to REFCORP.	88		8	4	11	12
Other liabilities	48		1	8	3	6
Total adjustments	1,491	(30)	146	(1)	116	487
Net cash provided by (used in) operating activities	4,001		274	228	308	834
INVESTING ACTIVITIES						
Net change in:						
Interest-bearing deposits	(12,053)		525	(5,892)	(1,913)	522
Securities purchased under agreements to resell	(400)		1,500			
Federal funds sold	(25,960)		812	47	(65)	(1,832)
Short-term held-to-maturity securities	(1,054)				(76)	
Deposits to other FHLBanks for mortgage loan programs		(2)				
Principal collected on other loans	1					
Premises and equipment	(59)		(1)	(2)	(9)	(10)
Available-for-sale securities:						
Proceeds from sales	8,667			1,594		
Proceeds from maturities	97,607			142	300	
Purchases	(99,510)			(1,020)		
Held-to-maturity securities:						
Proceeds from sales	263			9		
Proceeds from maturities	36,767	(2,750)	2,609	3,006	2,210	4,796
Purchases	(46,984)		(2,854)	(708)	(4,540)	(7,020)
Advances:						
Principal collected	8,329,280		724,533	434,148	2,304,901	135,145
Made	(8,373,590)		(732,635)	(428,577)	(2,314,105)	(141,979)
Mortgage loans held for portfolio:						
Principal collected	23,232		868	161	1,903	755
Originated or purchased	(14,741)		(1,753)	(451)	(951)	(1,401)
Net cash (used in) provided by investing activities	(78,534)	(2,752)	(6,396)	2,457	(12,345)	(11,024)

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 220	$ 153	$ 244	$ 228	$ 242	$ 136	$ 369	$ 2
			(9)	(1)			
220	153	244	219	241	136	369	2
(23)	(21)	173	18	(5)	80	101	39
10	8	15	2	11	8	31	6
(1)							
2	1	18	1	5	2	3	2
(4)	6	(2)			(57)		(6)
		(4)			1		
13	1	2		12		2	
	(20)	3	(3)	(245)			
							1
(3)	(37)	(48)	(16)	(273)	(32)	81	(49)
		(7)		(2)	20		9
		10					1
2	45	(359)	8	33	26	474	256
(53)	(9)	(24)	(2)	17	(19)	(511)	11
(2)		(53)	(5)	1	1	(10)	
3	(59)	1	43	(91)	(1)	217	(26)
48	84	36	26	66	8	639	2
5	4	(4)	17	18	5	(6)	(12)
1	7	(31)	37	33	6	7	(7)
13	11	(11)	2		(3)	6	12
11	21	(285)	128	(420)	45	1,034	239
231	174	(41)	347	(179)	181	1,403	241
(503)	(404)		(481)	246	(1,275)	(1,648)	(1,230)
(300)						(750)	(850)
55	(1,375)	(1,817)	(2,410)	(5,216)	(874)	(8,536)	(4,749)
		(729)	456		(219)	(486)	
				2			
					1		
(3)	(1)	(14)	(1)	(3)	(3)	(5)	(7)
	945	1,038	613	4,477			
96,736	136			293			
(96,929)		(1,308)	(253)				
			5				249
2,757	1,465	1,361	952	1,717	2,312	9,479	6,853
(3,320)	(2,205)	(1,966)	(2,657)	(2,658)	(2,238)	(15,132)	(1,686)
2,261,563	48,593	22,126	107,756	509,753	353,713	1,348,109	78,940
(2,260,801)	(49,576)	(23,109)	(103,157)	(509,223)	(353,732)	(1,371,065)	(85,631)
1,695	1,543	8,974	2,634	162	339	894	3,304
(1,760)	(3,321)	(4,150)	(466)		(328)	(70)	(90)
(810)	(4,200)	406	2,991	(450)	(2,304)	(39,210)	(4,897)

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS — (Continued) FOR THE YEAR ENDED DECEMBER 31, 2005

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
FINANCING ACTIVITIES						
Net change in:						
Deposits	$ 732	$	$ (287)	$ 347	$ 34	$ (178)
Deposits from other FHL Banks for mortgage loan programs		2				
Securities sold under agreement to repurchase	(186)					(500)
Other borrowings	(109)			(102)		
Net proceeds from issuance of consolidated obligations:						
Discount notes	7,378,761		670,612	671,632	1,046,171	346,184
Bonds	296,094	(98)	11,713	23,380	25,638	49,401
Bonds transferred from other FHLBanks		(1,291)		6	66	308
Payments for maturing and retiring consolidated obligations:						
Discount notes	(7,367,338)		(666,419)	(670,836)	(1,046,770)	(349,655)
Bonds	(234,083)	2,743	(9,812)	(26,653)	(13,337)	(35,580)
Bonds transferred to other FHLBanks		1,396		(233)	(50)	
Proceeds from issuance of capital stock	20,959		802	2,668	8,395	3,962
Payments for redemption of mandatorily redeemable capital stock	(2,632)		(50)	(108)	(5)	(148)
Payments for repurchase/redemption of capital stock	(16,987)		(356)	(2,624)	(8,009)	(3,382)
Cash dividends paid	(642)		(83)	(162)	(73)	(217)
Net cash provided by (used in) financing activities	74,569	2,752	6,120	(2,685)	12,060	10,195
Net increase (decrease) in cash and cash equivalents	36		(2)		23	5
Cash and cash equivalents at beginning of the year	320		12	22	92	8
Cash and cash equivalents at end of the year	$ 356	$	$ 10	$ 22	$ 115	$ 13
Supplemental Disclosures:						
Interest paid	$ 26,903	$	$ 1,522	$ 1,944	$ 1,405	$ 3,804
AHP payments, net	$ 209	$	$ 10	$ 16	$ 6	$ 20
REFCORP payments	$ 535	$	$ 26	$ 53	$ 36	$ 75

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ (130)	$ (79)	$ (165)	$ 60	$ 1,818	$ 15	$ (491)	$ (212)
		(2)					
							314
					(7)		
951,365	756,512	429,961	532,070	445,221	848,802	229,517	450,714
16,613	11,252	17,255	10,573	18,597	8,288	93,719	9,763
86		81		427	75	242	
(952,424)	(757,768)	(430,062)	(533,006)	(441,078)	(848,151)	(228,242)	(442,927)
(14,832)	(5,961)	(15,778)	(12,701)	(24,035)	(6,731)	(58,310)	(13,096)
		(1,113)					
25	125	941	858	419	499	2,155	110
(130)		(1,471)	(12)	(27)	(665)	(16)	
	(16)		(1,120)	(695)	(3)	(771)	(11)
	(46)		(61)				
573	4,019	(353)	(3,339)	647	2,122	37,803	4,655
(6)	(7)	12	(1)	18	(1)	(4)	(1)
11	45	21	43	44	1	16	5
$ 5	$ 38	$ 33	$ 42	$ 62	$	$ 12	$ 4
$ 2,502	$ 1,183	$ 3,006	$ 1,477	$ 1,956	$ 1,440	$ 4,802	$ 1,862
$ 24	$ 13	$ 32	$ 8	$ 10	$ 10	$ 47	$ 13
$ 54	$ 31	$ 92	$ 20	$ 28	$ 28	$ 85	$ 7

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2004

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
OPERATING ACTIVITIES						
Net income	$ 1,994	$ (27)	$ 90	$ 161	$ 119	$ 294
Cumulative effect of change in accounting principle before assessments	(50)			1	(10)	
Income before cumulative effect of change in accounting principle	1,944	(27)	90	162	109	294
Adjustments to reconcile income before cumulative effect of change in accounting principle to net cash provided by (used in) operating activities:						
Depreciation and amortization:						
Net premiums and discounts on consolidated obligations, investments, mortgage loans, and deferred costs and fees received on derivatives	664	(18)	89	(2)	93	85
Concessions on consolidated obligation bonds	248	(3)	10	14	19	51
Net deferred losses (gains) on derivatives	39			(3)		1
Premises and equipment	37		2	4	3	4
Other	54		14			
(Reversal) provision for credit losses	(5)					1
Non-cash interest on mandatorily redeemable capital stock	12					
Net realized losses (gains) from sale of available-for-sale securities	17					
Net realized gains from sale of held-to-maturity securities	(13)				(3)	
(Gains) losses due to change in net fair value adjustment on derivative and hedging activities	191	2	(29)	1	524	(151)
Loss (gain) on extinguishment of debt	44	46	40	4		
Net realized gains on disposal of premises and equipment	(1)					
Net change in:						
Trading securities	(212)		104		44	(624)
Accrued interest receivable	(258)	55	(3)	(28)	(12)	(45)
Other assets	(58)		3	(8)	8	2
Net derivative assets and liabilities — accrued interest	(628)		(61)	(15)	(584)	78
Accrued interest payable	264	(55)	(45)	12	(12)	1
Affordable Housing Program (AHP) liability and discount on AHP advances	18		2	(11)	8	11
Payable to REFCORP	55		(1)	10	11	22
Other liabilities	23		2		4	
Total adjustments	491	27	127	(22)	103	(564)
Net cash provided by (used in) operating activities	2,435		217	140	212	(270)
INVESTING ACTIVITIES						
Net change in:						
Interest-bearing deposits	(6,541)		(2,555)	(1,153)	(513)	(169)
Securities purchased under agreements to resell	3,529		(1,000)			
Federal funds sold	(17,933)		(3,161)	(1,829)	(1,255)	(6,272)
Short-term held-to maturity securities	(1,251)				172	
Deposits to other FHLBanks for mortgage loan programs		(15)		1	1	2
Principal collected on other loans	1					
Loans to other FHLBanks		(60)		60		
Premises and equipment	(52)		(2)	(1)	(4)	(7)
Available-for-sale securities:						
Proceeds from sales	3,737		142			
Proceeds from maturities	72,161				183	
Purchases	(77,042)	49	(25)	(711)	(452)	
Held-to-maturity securities:						
Proceeds from sales	333		3		71	
Proceeds from maturities	37,601	(2,020)	1,908	3,512	2,944	5,062
Purchases	(49,988)	6,525	(1,459)	(4,036)	(4,106)	(7,922)
Advances:						
Principal collected	7,448,850		509,135	533,165	2,029,834	113,747
Made	(7,523,030)		(513,706)	(538,667)	(2,034,813)	(123,308)
Mortgage loans held for portfolio:						
Principal collected	23,645		976	146	2,173	284
Originated or purchased	(24,373)		(473)	(655)	(2,857)	(744)
Net cash (used in) provided by investing activities	(110,353)	4,479	(10,217)	(10,168)	(8,622)	(19,327)

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 227	$ 131	$ 365	$ 100	$ 65	$ 93	$ 293	$ 83
		(41)					
227	131	324	100	65	93	293	83
26	1	258	6	4	73	30	19
18	14	20	19	21	15	41	9
35						6	
1	1	13		3	1	3	2
2	66	(1)	(1)		(26)		
	(1)		(5)				
1	1	2		7		1	
		22	(6)		1		
			(4)				(6)
(32)	(41)	277	(83)	15	(285)	(5)	(2)
		(45)		(1)			
			(1)				
4	12	6	19	63	(143)	315	(12)
15	9	15		(34)	(10)	(180)	(40)
(3)	(5)	(73)	(1)	3	(2)	30	(12)
(56)	(27)	10	(65)	31	32	23	6
40	(3)	12	42	(1)	(10)	281	2
6	(3)	10	3	(2)	2	(3)	(5)
3		10	4	(5)	2	4	(5)
11	1	2	3	2	2	(12)	8
71	25	538	(70)	106	(348)	534	(36)
298	156	862	30	171	(255)	827	47
504	(267)		62	(328)	(728)	(1,964)	570
(700)		29				5,100	100
(292)	(2,213)	285	625	277	(1,833)	(3,027)	762
		(751)	(1,348)		365	311	
				(1)		12	
					1		
(3)	(2)	(14)	2	(9)	(3)	(2)	(7)
200		2,342	943		110		
71,838				140			
(72,111)		(3,743)	(49)				
			110		37		112
2,989	1,877	1,857	793	1,896	2,719	7,658	6,406
(3,842)	(2,210)	(2,112)	(2,114)	(2,225)	(2,781)	(13,283)	(10,423)
2,325,820	46,255	25,814	74,479	561,820	344,917	836,409	47,455
(2,324,944)	(43,227)	(23,914)	(78,633)	(568,489)	(345,812)	(884,705)	(42,812)
2,005	1,578	10,239	2,685	260	184	847	2,268
(2,307)	(1,920)	(9,621)	(1,849)		(1,939)	(439)	(1,569)
(843)	(129)	411	(4,294)	(6,659)	(4,763)	(53,083)	2,862

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS — (Continued) FOR THE YEAR ENDED DECEMBER 31, 2004

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
FINANCING ACTIVITIES						
Net change in:						
Deposits	$ (2,195)	$	$ (55)	$ 197	$ (279)	$ 773
Deposits from other FHLBanks for mortgage loan programs		15				
Securities sold under agreement to repurchase	79					
Loans from other FHLBanks		60			(60)	
Other borrowings	(3)					
Net proceeds from issuance of consolidated obligations:						
Discount notes	6,139,744		384,763	961,591	1,166,338	297,074
Bonds	385,004	(6,934)	9,914	29,336	29,305	61,788
Bonds transferred from other FHLBanks		(3,932)	346	208	631	992
Payments for maturing and retiring consolidated obligations:						
Discount notes	(6,135,714)		(370,037)	(958,795)	(1,162,738)	(288,257)
Bonds	(281,309)	1,966	(14,589)	(22,586)	(25,114)	(53,139)
Bonds transferred to other FHLBanks		4,346				
Proceeds from issuance of capital stock	17,637		532	2,174	5,805	3,477
Payments for redemption of mandatorily redeemable capital stock	(2,455)		(110)	(231)		(218)
Payments for repurchase/redemption of capital stock	(12,597)		(706)	(1,799)	(5,433)	(2,716)
Cash dividends paid	(380)		(55)	(66)	(36)	(177)
Net cash provided by (used in) financing activities	107,811	(4,479)	10,003	10,029	8,419	19,597
Net (decrease) increase in cash and cash equivalents	(107)		3	1	9	
Cash and cash equivalents at beginning of the period	427		9	21	83	8
Cash and cash equivalents at end of the period	$ 320	$	$ 12	$ 22	$ 92	$ 8
Supplemental Disclosures:						
Interest paid	$ 16,430	$	$ 1,270	$ 1,116	$ 822	$ 2,071
AHP payments, net	$ 214	$	$ 8	$ 30	$ 5	$ 25
REFCORP payments	$ 429	$	$ 23	$ 16	$ 19	$ 51

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ (377)	$ (333)	$ (1,110)	$ (200)	$ (198)	$ (256)	$ (53)	$ (304)
		(15)					
							79
					(3)		
826,021	723,507	460,664	293,729	67,039	477,895	230,933	250,190
32,856	14,292	24,746	20,290	29,543	13,512	109,014	17,342
350			500	371	200	334	
(836,841)	(723,325)	(464,279)	(294,198)	(71,583)	(475,095)	(236,572)	(253,994)
(21,496)	(14,213)	(16,802)	(15,999)	(18,913)	(11,365)	(53,210)	(15,849)
		(4,346)					
90	72	1,090	761	837	365	2,340	94
(54)		(1,204)	(3)	(86)	(62)	(21)	(466)
	(33)		(584)	(642)	(173)	(511)	
			(46)				
549	(33)	(1,256)	4,250	6,368	5,018	52,254	(2,908)
4	(6)	17	(14)	(120)		(2)	1
7	51	4	57	164	1	18	4
$ 11	$ 45	$ 21	$ 43	$ 44	$ 1	$ 16	$ 5
$ 1,583	$ 892	$ 2,493	$ 930	$ 1,080	$ 756	$ 1,901	$ 1,516
$ 22	$ 18	$ 30	$ 8	$ 10	$ 9	$ 35	$ 14
$ 53	$ 27	$ 82	$ 21	$ 21	$ 22	$ 69	$ 25

FEDERAL HOME LOAN BANKS

RESTATED COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2003

(Dollar amounts in millions)

	Combined (Restated)	Combining Adjustments (Restated)	Boston	New York	Pittsburgh (Restated)	Atlanta (Restated)
OPERATING ACTIVITIES						
Net income	$ 1,885	$ (74)	$ 92	$ 46	$ 69	$ 207
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation and amortization:						
Net premiums and discounts on consolidated obligations, investments, mortgage loans and deferred costs and fees received on derivatives	180	(5)	9	(38)	(177)	158
Concessions on consolidated obligation bonds	357	(5)	9	26	31	79
Net deferred losses on derivatives	28					1
Premises and equipment	33		2	4	3	3
Other	(81)		1			
(Reversal) provision for credit losses	(4)				(7)	(1)
Net realized losses (gains) from sale of available-for-sale securities	31				(4)	
Net realized losses (gains) from sale of held-to-maturity securities	158			189	(3)	
(Gains) losses due to change in net fair value adjustment on derivative and hedging activities	(812)	(15)	(22)	3	50	(95)
Losses (gains) on extinguishment of debt	28	99	41			
Net change in:						
Trading securities	611	(131)	172		868	(1,431)
Accrued interest receivable	179	7	22	89	7	7
Other assets	(111)		(5)	(14)	2	(1)
Net derivative assets and liabilities—accrued interest	25		(22)	29	(194)	37
Accrued interest payable	(434)	(7)	(37)	(113)	14	(82)
Affordable Housing Program (AHP) liability and discount on AHP advances	16		1	(17)	(4)	(5)
Payable to REFCORP.	49			(14)	10	11
Other liabilities	(717)		(4)	38	3	(323)
Total adjustments	(464)	(57)	167	182	599	(1,642)
Net cash provided by (used in) operating activities	1,421	(131)	259	228	668	(1,435)
INVESTING ACTIVITIES						
Net change in:						
Interest-bearing deposits	7,117		565	5,995	(241)	1,818
Securities purchased under agreements to resell	(1,181)		(461)			
Federal funds sold	10,018		342	1,789	(18)	(1,581)
Short-term held-to maturity securities	1,015				(240)	
Deposits to other FHLBanks for mortgage loan programs		(42)		(1)	(3)	(2)
Principal collected on other loans	1					
Loans to other FHLBanks		(180)		(10)	190	
Premises and equipment	(61)		(1)	(5)	(2)	(2)
Available-for-sale securities:						
Proceeds from sales	5,827		31		1,820	
Proceeds from maturities	31,021		175		957	
Purchases	(36,964)	97	(175)		(2,714)	
Held-to-maturity securities:						
Proceeds from sales	2,676			1,598	87	
Proceeds from maturities	70,171	(670)	2,689	4,635	5,610	12,036
Purchases	(73,882)	4,020	(2,695)	(4,816)	(5,900)	(13,186)
Advances:						
Principal collected	5,694,911		542,650	845,456	1,249,543	89,058
Made	(5,726,054)		(542,045)	(841,200)	(1,255,457)	(97,100)
Mortgage loans held for portfolio:						
Principal collected	37,840		1,267	633	3,515	181
Originated or purchased	(91,188)		(3,336)	(870)	(6,701)	(1,252)
Net cash (used in) provided by investing activities	(68,733)	3,225	(994)	13,204	(9,554)	(10,030)

Cincinnati	Indianapolis (Restated)	Chicago (Restated)	Des Moines (Restated)	Dallas (Restated)	Topeka (Restated)	San Francisco	Seattle
$ 171	$ 134	$ 437	$ 135	$ 113	$ 88	$ 323	$ 144
(14)	(24)	328	(121)	7	30	8	19
20	24	20	27	41	24	44	17
24		1				2	
1	2	10	1	3	1	2	1
	(86)	6	(1)		(1)		
	1		3				
		36	(1)				
(5)					(1)		(22)
(13)	(52)	(306)	(75)	(91)	(63)	(111)	(22)
		(112)					
8	2	1,368	30	184	(83)	(384)	8
9	6	(41)	(32)	8	(1)	67	31
(4)	1	(32)	(3)	1		(39)	(17)
14	18	16	113	68	11	(72)	7
4	(5)	101	(43)	(88)	(17)	(188)	27
5	(2)	27	9	4		3	(5)
(1)		21	11	9	2	2	(2)
25	15	(511)	10	(3)	1	25	7
73	(100)	932	(72)	143	(97)	(641)	49
244	34	1,369	63	256	(9)	(318)	193
(2,532)	(243)		213	219	(169)	1,547	(55)
200		(15)	(305)			(700)	100
4,196	(38)	(1,602)	4,551	488	49	634	1,208
		(94)	1,173		(91)	267	
					1	47	
					1		
(1)	(1)	(40)	4	(3)	(3)	(3)	(4)
	325	3,600	51				
29,403	23			463			
(29,430)		(2,864)	(832)	(820)	(226)		
86		97			78		730
8,330	4,615	2,651	2,532	3,622	4,696	10,884	8,541
(8,673)	(4,796)	(2,182)	(607)	(4,504)	(5,479)	(11,545)	(13,519)
1,090,073	37,923	24,399	49,699	870,728	299,088	557,275	39,019
(1,093,630)	(38,386)	(26,240)	(49,330)	(874,586)	(300,363)	(568,983)	(38,734)
3,317	2,759	16,712	3,531	658	115	640	4,512
(7,688)	(4,779)	(38,326)	(13,955)	(239)	(600)	(6,832)	(6,610)
(6,349)	(2,598)	(23,904)	(3,275)	(3,974)	(2,903)	(16,769)	(4,812)

FEDERAL HOME LOAN BANKS

RESTATED COMBINING SCHEDULES—
STATEMENTS OF CASH FLOWS — (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2003

(Dollar amounts in millions)

	Combined (Restated)	Combining Adjustments (Restated)	Boston	New York	Pittsburgh (Restated)	Atlanta (Restated)
FINANCING ACTIVITIES						
Net change in:						
Deposits	$ (7,119)	$	$ (843)	$ (643)	$ (1,108)	$ (1,349)
Deposits from other FHLBanks for mortgage loan programs		42				
Securities sold under agreements to repurchase	1,001					1,000
Loans from other FHLBanks		180	(190)		60	
Other borrowings	(530)					
Net proceeds from issuance of consolidated obligations:						
Discount notes	5,158,500		325,921	1,023,314	640,820	51,956
Bonds	557,691	(5,065)	23,770	44,528	39,286	103,535
Bonds transferred from other FHLBanks		(5,517)	561	7	376	180
Payments for maturing and retiring consolidated obligations:						
Discount notes	(5,141,639)		(327,578)	(1,028,535)	(639,691)	(49,271)
Bonds	(501,819)	802	(20,983)	(51,570)	(31,365)	(94,886)
Bonds transferred to other FHLBanks		6,464				
Proceeds from issuance of capital stock	11,706		504	1,508	2,727	2,284
Payments for repurchase/redemption of capital stock	(10,124)		(354)	(1,921)	(2,225)	(1,860)
Cash dividends paid	(576)		(78)	(164)	(42)	(191)
Net cash provided by (used in) financing activities	67,091	(3,094)	730	(13,476)	8,838	11,398
Net (decrease) increase in cash and cash equivalents	(221)		(5)	(44)	(48)	(67)
Cash and cash equivalents at beginning of the period	648		14	65	131	75
Cash and cash equivalents at end of the period	$ 427	$	$ 9	$ 21	$ 83	$ 8
Supplemental Disclosures:						
Interest paid	$ 16,056		$ 1,078	$ 2,047	$ 683	$ 1,788
AHP payments, net	$ 201		$ 9	$ 22	$ 12	$ 25
REFCORP payments	$ 460		$ 23	$ 40	$ 7	$ 51

Cincinnati	Indianapolis (Restated)	Chicago (Restated)	Des Moines (Restated)	Dallas (Restated)	Topeka (Restated)	San Francisco	Seattle
$ (915)	$ (240)	$ (658)	$ (631)	$ (472)	$ (403)	$ 581	$ (438)
		(42)					
		(199)	200				
			(50)				
					(5)	(525)	
791,167	617,245	357,406	389,216	116,070	489,249	182,666	173,470
27,855	34,066	46,208	40,536	47,310	26,195	101,387	28,080
1,024	69	103	9	848	125	2,214	1
(787,323)	(620,654)	(351,478)	(391,484)	(117,312)	(487,832)	(163,220)	(177,261)
(25,663)	(27,813)	(23,251)	(34,832)	(42,859)	(24,467)	(105,755)	(19,177)
		(6,364)				(100)	
12	116	1,366	1,043	456	178	1,423	89
(58)	(223)	(556)	(784)	(325)	(84)	(1,575)	(159)
	(1)		(57)		(43)		
6,099	2,565	22,535	3,166	3,716	2,913	17,096	4,605
(6)	1		(46)	(2)	1	9	(14)
13	50	4	103	166		9	18
$ 7	$ 51	$ 4	$ 57	$ 164	$ 1	$ 18	$ 4
$ 1,522	$ 816	$ 2,010	$ 916	$ 1,042	$ 685	$ 2,131	$ 1,338
$ 16	$ 17	$ 22	$ 6	$ 8	$ 10	$ 33	$ 21
$ 43	$ 30	$ 88	$ 23	$ 19	$ 19	$ 79	$ 38

SUPPLEMENTAL INFORMATION

ADDITIONAL INFORMATION ON FHLBANKS' REGULATOR AND BUSINESS

FHLBanks' Regulator

The FHLBanks are supervised and regulated by the Finance Board. The Finance Board is comprised of five board members. Four board members are appointed by the President of the United States, with the advice and consent of the Senate, to serve seven-year terms. The fifth member of the board is the Secretary of the Department of Housing and Urban Development, or such other person as the Secretary may designate. The Finance Board is financed by assessments from the FHLBanks. No tax dollars or other appropriations support the operations of the Finance Board or the FHLBanks. To assess the safety and soundness of the FHLBanks, the Finance Board conducts annual on-site examinations of each FHLBank and the Office of Finance, as well as periodic off-site reviews. In addition, each FHLBank is required to submit monthly financial information on its financial condition and results of operations to the Finance Board. This information is available to all FHLBanks.

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.

As of December 31, 2005, the directors of the Finance Board were:

- Chairman Ronald Rosenfeld;
- Alphonso Jackson;
- Alicia R. Castaneda;
- Franz S. Leichter *; and
- Allan I. Mendelowitz.

The Finance Board has broad regulatory authority over the FHLBanks. The Finance Board may issue and serve a notice of charges upon any FHLBank or upon any executive officer or director of an FHLBank if, in the determination of the Finance Board, that FHLBank, executive officer or director is engaging or has engaged in, or the Finance Board has reasonable cause to believe that that FHLBank, executive officer or director is about to engage in, an unsafe or unsound practice in conducting the business of that FHLBank, or any conduct that violates any provision of the FHLBank Act or any law, order, rule or regulation or any written condition imposed by the Finance Board in connection with the granting of any application or other request by the FHLBank, or any written agreement entered into by the FHLBank with the Finance Board. The Finance Board may also issue an order requiring a party to take affirmative action to correct conditions resulting from violations or practices or to limit activities of an FHLBank or any executive officer or director of an FHLBank to the same extent as appropriate Federal banking agencies may take with respect to insured depository institutions.

*Franz Leichter's term expired in February 2006. He has been succeeded by Geoffrey S. Bacino, who will serve a seven-year term that will expire on February 27, 2013.

Mortgage Partnership Finance® (MPF®) Program[1] and Mortgage Purchase Program (MPP)

MPF Program

This description of the MPF Program was provided by the FHLBank of Chicago.

Introduction

The MPF Program was established to help fulfill the FHLBanks' housing finance mission. The Finance Board's regulations define the acquisition of AMA or "acquired member assets" as a core mission activity of the FHLBanks. The MPF Program offers a structure in which the risk of loss associated with mortgage loans is shared with participating financial institution members ("PFIs") while allowing participating FHLBanks ("MPF FHLBanks") to diversify their assets beyond their traditional member advance lending. Under the MPF Program, MPF FHLBanks may either purchase mortgage loans after they have been originated by the PFIs or, alternatively, fund the mortgage loans themselves. In this regard, the mortgage loans purchased or funded are held on the MPF FHLBanks' statements of condition.

The current MPF FHLBanks are the FHLBanks of Atlanta, Boston, Chicago, Dallas, Des Moines, New York, Pittsburgh, San Francisco and Topeka. On October 6, 2006 the FHLBank of San Francisco announced that it will no longer offer new master commitments to purchase mortgage loans from its PFIs under the MPF Program. The FHLBank of Chicago acts as "MPF Provider" and provides programmatic and operational support to the MPF FHLBanks and their PFIs.

MPF Program assets are qualifying conventional conforming and Government (i.e. FHA insured and VA guaranteed) fixed-rate mortgage loans and participations in pools of such mortgage loans, secured by one-to-four family residential properties, with maturities ranging from 5 to 30 years ("MPF Loans"). The Finance Board's Acquired Member Asset regulation (12 CFR Part 955) (AMA Regulation) permits MPF Loans to be funded or purchased by the MPF FHLBanks through or from PFIs provided that they are credit enhanced in part by the PFIs. MPF FHLBanks generally acquire whole loans from their respective PFIs but may also acquire them from a member of another MPF FHLBank with permission of the PFI's respective MPF FHLBank or may acquire participations from another MPF FHLBank. The acquisition of eligible MPF FHLBank-funded loans and closed loans is consistent with and authorized as a core mission activity under Finance Board regulations.

Under the MPF 100 product, one of five MPF Program products, the MPF FHLBank "table funds" MPF Loans; that is, the MPF FHLBank provides the funds through the PFI as its agent to make the MPF Loan to the borrower. The PFI performs all the traditional retail loan origination functions under this and all other MPF products. With respect to the MPF 100 product, the MPF FHLBank is considered the originator of the MPF 100 Loan for accounting purposes since the PFI is acting as its agent when originating the MPF 100 Loan. This differs from other MPF products in which the MPF FHLBank purchases mortgage loans that have been acquired or already been closed by the PFI with its own funds.

The MPF Provider establishes the eligibility standards under which an MPF FHLBank member may become a PFI, establishes the structure of MPF products and the eligibility rules for MPF Loans, manages the pricing and delivery mechanism for MPF Loans, and manages the back-office processing of MPF Loans in its role as master servicer. The MPF Provider publishes and maintains the MPF Origination Guide and MPF Servicing Guide (together, "MPF Guides") which detail the requirements PFIs must follow in originating or selling and servicing MPF Loans. When a PFI fails to comply with the requirements of the PFI Agreement, MPF Guides, applicable law or terms of mortgage documents, the PFI may be required to repurchase the MPF Loans which are affected by such failure. Reasons for which a PFI could be required to repurchase an MPF Loan

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1 "Mortgage Partnership Finance," "MPF," "MPF Shared Funding" and "eMPF" are registered trademarks of the Federal Home Loan Bank of Chicago.

may include but are not limited to MPF Loan ineligibility, failure to deliver a qualifying promissory note and certain other relevant documents ("Collateral Package") to an approved custodian, a servicing breach, fraud, or other misrepresentation.

For the years ended December 31, 2005, 2004 and 2003, the MPF FHLBanks' PFIs repurchased conventional MPF loans totaling $31 million, $20 million and $16 million. The MPF FHLBanks have not experienced any losses related to the repurchase of conventional MPF loans.

Without limiting or waiving the PFI's obligation as servicer to advance principal and interest under the scheduled/scheduled servicing option, the PFI may, under the terms of the MPF Servicing Guide, elect to repurchase any Government MPF Loan for an amount equal to 100% of the Government MPF Loan's then current scheduled principal balance and accrued interest thereon provided there has been no payment made by the borrower for three consecutive months. This policy allows PFIs to comply with loss mitigation requirements of FHA, VA and HUD in order to preserve the insurance or guaranty coverage. In addition, just as for conventional MPF Loans, if a PFI fails to comply with the requirements of the PFI Agreement, MPF Guides, applicable law or terms of mortgage documents, the PFI may be required to repurchase the Government MPF Loans which are affected by such failure.

For the years ended December 31, 2005, 2004 and 2003, the MPF FHLBanks' PFIs repurchased Government MPF Loans totaling $100 million, $25 million and $103 million. The MPF FHLBanks have not experienced any losses related to the repurchase of Government MPF loans.

The MPF Program is designed to allocate the risks of MPF Loans among the MPF FHLBanks and PFIs and to take advantage of their respective strengths. PFIs have direct knowledge of their mortgage markets and have developed expertise in underwriting and servicing residential mortgage loans. By allowing PFIs to originate MPF Loans, whether through retail or wholesale operations, and to retain or acquire servicing of MPF Loans, the MPF Program gives control of those functions that most affect credit quality to PFIs. The credit enhancement structure motivates PFIs to minimize MPF Loan losses. The MPF FHLBanks are responsible for managing the interest rate risk, prepayment risk and liquidity risk associated with owning MPF Loans.

PFIs are paid a credit enhancement fee as an incentive to minimize credit losses and share in the risk of credit loss on MPF Loans and to pay for Supplemental Mortgage Insurance ("SMI"), rather than paying a guaranty fee to other secondary market purchasers. These fees are paid monthly and are determined based on the remaining unpaid principal balance of the MPF Loans. The required credit enhancement obligation amount may vary depending on the MPF products selected. Credit enhancement fees, payable to a PFI as compensation for assuming credit risk, are recorded as an offset to mortgage loan interest income when paid by the MPF FHLBank. The MPF FHLBank also pays performance credit enhancement fees which are based on actual performance of the pool of MPF Loans under each master commitment. To the extent that losses in the current month exceed performance credit enhancement fees accrued, the remaining losses may be recovered from future performance credit enhancement fees payable to the PFI.

Mortgage Standards

The MPF Guides set forth the eligibility standards for MPF Loans. PFIs are free to use an approved automated underwriting system or to underwrite MPF Loans manually when originating or acquiring loans though the loans must meet MPF Program underwriting and eligibility guidelines outlined in the MPF Origination Guide. In some circumstances, a PFI may be granted a waiver exempting it from complying with specified provisions of the MPF Guides.

The current underwriting and eligibility guidelines with respect to MPF Loans can be broadly summarized as follows:

- Conforming loan size, which is established annually as required by the AMA Regulation and may not exceed the loan limits permitted to be set by the Office of Federal Housing Enterprise Oversight ("OFHEO") each year;

- Fixed-rate, fully-amortizing loans with terms from 5 to 30 years;
- Secured by first liens on residential owner occupied primary residences and second homes; primary residences may be up to four units;
- Condominium, planned unit development and manufactured homes are acceptable property types as are mortgages on leasehold estates (though manufactured homes must be on land owned in fee simple by the borrower);
- 95% maximum loan-to-value ratio (LTV); except for FHLBank AHP mortgage loans which may have LTVs up to 100% (but may not exceed 105% total LTV, which compares the property value to the total amount of all mortgages outstanding against a property) and Government MPF Loans which may not exceed the LTV limits set by FHA and VA;
- MPF Loans with LTVs greater than 80% require certain amounts of mortgage guaranty insurance (MI), called primary MI, from an MI company rated at least "AA" or "Aa" and acceptable to Standard & Poor's Rating Services, a division of the McGraw-Hill Companies (S&P);
- Unseasoned or current production with up to five payments made by the borrowers;
- Credit reports and credit scores for each borrower; for borrowers with no credit score, alternative verification of credit is permitted;
- Analysis of debt ratios;
- Verification of income and sources of funds, if applicable;
- Property appraisal;
- Customary property or hazard insurance, and flood insurance, if applicable, from insurers acceptably rated as detailed in the MPF Guides;
- Title insurance or, in those areas where title insurance is not customary, an attorney's opinion of title;
- The mortgage documents, mortgage transaction, and mortgaged property must comply with all applicable laws and loans must be documented using standard Fannie Mae/Freddie Mac Uniform Instruments;
- Loans that are not ratable by a rating agency are not eligible for delivery under the MPF Program; and
- Loans that are classified as high cost, high rate, high risk, Home Ownership Equity Protection Act (HOEPA) loans or loans in similar categories defined under predatory lending or abusive lending laws are not eligible for delivery under the MPF Program.

In addition to the underwriting guidelines, the MPF Guides contain MPF Program policies which include anti-predatory lending policies, eligibility requirements for PFIs such as insurance requirements and annual certification requirements, loan documentation and custodian requirements, as well as detailing the PFI's servicing duties and responsibilities for reporting, remittances, default management and disposition of properties acquired by foreclosure or deed in lieu of foreclosure.

Upon any MPF Loan becoming 90 days or more delinquent, the master servicer monitors and reviews the PFI's default management activities for that MPF Loan, including timeliness of notices to the mortgagor, forbearance proposals, property protection activities, and foreclosure referrals, all in accordance with the MPF Guides. Upon liquidation of any MPF Loan and submission of each realized loss calculation from the PFI, the master servicer reviews the realized loss calculation for conformity with the primary mortgage insurance requirements, if applicable, and conformity to the cost and timeliness standards of the MPF Guides, and disallows the reimbursement to the PFI of

any servicing advances related to the PFI's failure to perform in accordance with the MPF Guides' standards.

During the third quarter of 2005, the MPF Provider announced a special disaster relief initiative to lessen the hardship for victims of Hurricane Katrina.

Services Agreement

MPF Loans are delivered to each MPF FHLBank through the infrastructure maintained by the FHLBank of Chicago, in its role as MPF Provider, which includes both a telephonic delivery system and a web based delivery system accessed through the eMPF® website. The FHLBank of Chicago has entered into an agreement (Services Agreement) with each of the other MPF FHLBanks to make the MPF Program available to their respective PFIs. The Services Agreement sets forth the terms and conditions of the MPF FHLBank's participation in the MPF Program. The Services Agreement outlines the FHLBank of Chicago's agreement to provide transaction processing services to the MPF FHLBanks, including acting as master servicer and master custodian for the MPF FHLBanks with respect to the MPF Loans. The FHLBank of Chicago receives a transaction processing fee from each of the MPF FHLBanks as compensation for these services. The FHLBank of Chicago has engaged Wells Fargo Bank N.A. as its vendor for master servicing and as the primary custodian for the MPF Program, and has also contracted with other custodians meeting MPF Program eligibility standards at the request of certain PFIs. Such other custodians are typically affiliates of PFIs and in some cases a PFI acts as self-custodian.

MPF Loans are funded through or purchased directly from PFIs by MPF FHLBanks through the transactional services provided by the MPF Provider. Under the Services Agreement, the MPF Provider provides the necessary systems for PFIs to deliver MPF Loans to the MPF FHLBank, establishes daily pricing for MPF Loans, prepares reports for both the PFI and MPF FHLBank, and provides necessary quality control services on purchased MPF Loans.

The MPF Provider calculates and publishes on its eMPF website, pricing grids with the prices expiring at midnight the following day. The prices, rates and fees associated with the various MPF products are set by the MPF Provider, using observable third party pricing sources as inputs to its proprietary pricing model. If market prices move beyond preset ranges, the MPF Provider will reset all or some of the prices at any time during a given business day. In limited circumstances, an MPF FHLBank may elect to apply alternative pricing to a specific pool of MPF Loans delivered by one of its PFIs.

An MPF FHLBank may purchase participation interests in MPF Loans through an agreement with another MPF FHLBank, and may also sell participation interests to other MPF FHLBanks. The participation percentages in MPF Loans may vary by each pool of MPF Loans funded or purchased by the MPF FHLBank (Master Commitment) by agreement of the MPF FHLBank granting or selling the participation interests (the Owner Bank), and the MPF Provider and other MPF FHLBanks purchasing a participation interest. In order to detail the responsibilities and obligations for all participation interests sold by an Owner Bank to the MPF Provider or to other participating MPF FHLBanks, each Owner Bank has entered into a participation agreement with the MPF Provider and, as applicable, any other participant MPF FHLBanks.

Participating Financial Institution Agreement

A member (or housing associate) of an MPF FHLBank must specifically apply to become a PFI. The MPF FHLBank reviews the general eligibility of the member while the FHLBank of Chicago, as MPF Provider, reviews the member's servicing qualifications and ability to supply documents, data and reports required to be delivered by PFIs under the MPF Program. The member and its MPF FHLBank sign an MPF Program Participating Financial Institution Agreement (PFI Agreement) that creates a relationship framework for the PFI to do business with its MPF FHLBank. The PFI Agreement provides the terms and conditions for the origination of the MPF Loans to be funded or purchased by the MPF FHLBank and establishes the terms and

conditions for servicing MPF Loans for the MPF FHLBank. If a member is an affiliate of a holding company which has another affiliate that is an active PFI, the member is only eligible to become a PFI if it is a member of the same MPF FHLBank as the existing PFI. The eligibility requirements for holding company affiliates do not apply to the Mortgage Purchase Program but pertain solely to participation in the MPF Program. The Mortgage Purchase Program is a competing program offered by other FHLBanks, which may include member participants that are affiliates of PFIs participating in the MPF Program.

The PFI's credit enhancement obligation (CE Amount) arises under its PFI Agreement while the amount and nature of the obligation are determined with respect to each Master Commitment. Under the AMA Regulation the PFI must "bear the economic consequences" of certain credit losses with respect to a Master Commitment based upon the MPF product and other criteria.

The PFI's CE Amount for a Master Commitment covers the loan losses for that Master Commitment in excess of the first loss account (FLA), if any, up to an agreed upon amount. The final CE Amount is determined once the Master Commitment is closed (i.e., when the maximum amount of MPF Loans are delivered or the expiration date has occurred).

Under the MPF Program, the PFI's credit enhancement protection (CEP Amount) may take the form of the CE Amount (which represents a direct liability to pay credit losses incurred with respect to that Master Commitment or may require the PFI to obtain and pay for an SMI policy insuring the MPF FHLBank for a portion of the credit losses arising from the Master Commitment) and/or the PFI may contract for a contingent performance based credit enhancement fee whereby such fees are reduced by losses up to a certain amount arising under the Master Commitment. Under the AMA Regulation, any portion of the CE Amount that is a PFI's direct liability must be collateralized by the PFI in the same way that advances from the MPF FHLBank are collateralized. The PFI Agreement provides that the PFI's obligations under the PFI Agreement are secured along with other obligations of the PFI under its regular advances agreement with the MPF FHLBank and further, that the MPF FHLBank may request additional collateral to secure the PFI's obligations.

The table below summarizes the average PFI CE Amount of all Master Commitments funded or purchased by the MPF FHLBanks for each MPF product:

Average PFI CE Amount by Product as a % of Master Commitments Funded or Purchased by the MPF FHLBanks

	December 31, 2005	December 31, 2004	December 31, 2003
Original MPF	1.80%	1.66%	1.52%
MPF 100	0.50%	0.44%	0.39%
MPF 125	0.92%	0.75%	0.55%
MPF Plus*	1.34%	1.35%	1.37%
Original MPF for FHA/VA	0.00%	0.00%	0.00%

* CE amount includes SMI policy coverage.

The risk characteristics of each MPF Loan (as provided by the PFI) are analyzed by the MPF Provider using S&P's LEVELS® model in order to determine the required CE Amount for a loan or group of loans to be funded or acquired by an MPF FHLBank ("MPF Program Methodology") but which leaves the decision whether or not to deliver the loan or group of loans into the MPF Program with the PFI.

The AMA Regulation provides the authority for the FHLBanks' investment in residential mortgage loans. As required by the AMA Regulation, the MPF Program Methodology has been confirmed by S&P, an NRSRO, as providing an analysis of each Master Commitment that is "comparable to a methodology that the NRSRO would use in determining credit enhancement levels when conducting a rating review of the asset or pool of assets in a securitization transaction." The AMA Regulation requires that mortgage loans be sufficiently credit enhanced so that the risk

of loss is limited to the losses of an investor in an "AA" rated mortgage-backed security, unless additional retained earnings plus a general allowance for losses are maintained. Each MPF FHLBank is required to recalculate the estimated credit rating of a Master Commitment if there is evidence of a decline in credit quality of the related MPF Loans, and the MPF FHLBanks may request the MPF Provider to perform the calculation. The required amount of additional retained earnings is an amount equal to the outstanding balance of the MPF Loans under the related Master Commitment multiplied by the applicable factor listed below that is associated with the putative credit rating of the Master Commitment.

Putative Rating of Single-Family Mortgage Assets	Percentage Applicable to On-Balance Sheet Equivalent Value of AMA
Third highest investment grade	0.90%
Fourth highest investment grade	1.50%
If downgraded to below investment grade after acquisition by FHLBank:	
Highest below investment grade	2.25%
Second highest below investment grade	2.60%
All other below investment grade	100.00%

The MPF Provider provides the estimated rating of the pool of MPF Loans for each Master Commitment such that each MPF FHLBank may determine the appropriate amount of additional retained earnings (or risk-based capital) it may need to maintain. This determination is made based upon the MPF Program Methodology under S&P's LEVELS program and the product type of the related MPF Loans.

The estimated rating for each Master Commitment is based upon the size of the PFI's CE Amount and the MPF FHLBank's effective FLA exposure (after consideration of the MPF FHLBank's ability to reduce a PFI's performance based credit enhancement fees) so that the MPF FHLBank is in a position equivalent to that of an investor in a "AA" mortgage-backed security. However, in June of 2002, the MPF Provider agreed with the Finance Board that in determining the estimated rating for Master Commitments with an FLA equal to 100 basis points (all MPF 100, MPF 125 and some MPF Plus Master Commitments), the MPF provider will only partially rely on an MPF FHLBank's ability to reduce performance based credit enhancement fees when measuring the MPF FHLBank's effective FLA exposure. As a result, the MPF FHLBanks may either hold additional retained earnings (or risk-based capital) against the related Master Commitments in accordance with the AMA regulations or purchase SMI to upgrade the estimated rating of the Master Commitment to the equivalent of a "AA" rated mortgage-backed security.

Typically, a PFI will sign one Master Commitment to cover all the conventional MPF Loans it intends to deliver to the MPF FHLBank in a year. However, a PFI may also sign a Master Commitment for Government MPF Loans, and it may choose to deliver MPF Loans under more than one conventional product, or it may choose to use different servicing remittance options and thus have several Master Commitments opened at any one time. Master Commitments may be for shorter periods than one year and may be extended or increased by agreement of the MPF FHLBank and the PFI. The Master Commitment defines the pool of MPF Loans for which the CE Amount is set so that the risk associated with investing in such pool of MPF Loans is equivalent to investing in a "AA" rated asset without giving effect to the MPF FHLBank's obligation to incur losses up to the amount of the FLA.

PFIs request funding or purchase commitments ("delivery commitments") from their respective MPF FHLBank based on the MPF Provider's published daily pricing schedules. The PFI enters into a delivery commitment, which is a mandatory commitment of the PFI to sell or originate eligible mortgage loans.

PFIs deliver MPF Loans to the MPF FHLBank by complying with the delivery commitment. Each MPF Loan delivered must conform to specified ranges of interest rates and maturity terms

detailed in the delivery commitment or it will be rejected by the MPF Provider. The MPF Loan under a delivery commitment is linked to a Master Commitment so that the cumulative credit enhancement level can be determined. Loans that exceed the maximum amount of a Master Commitment, exceed the PFI's maximum CE Amount, or would be funded after the expiration of the Master Commitment, are rejected. The delivery commitment also specifies the number of business days the PFI has to deliver the MPF Loans, not to exceed 45 business days (unless extended for a fee).

The sum of MPF Loans delivered by the PFI under a specific delivery commitment cannot exceed the amount specified in the delivery commitment without the assessment of a price adjustment fee. Delivery commitments that are not fully funded by their expiration dates are subject to pair-off fees (fees charged to a PFI for failing to deliver the amount of loans specified in a delivery commitment) or extension fees (fees charged to a PFI for extending the time deadline to deliver loans on a delivery commitment), which protect the MPF FHLBank against changes in market prices.

In connection with each sale to or funding by an MPF FHLBank, the PFI makes certain representations and warranties to the MPF FHLBank which are contained in the PFI Agreement and in the MPF Guides. The representations and warranties are similar to those required by Fannie Mae, Freddie Mac and for mortgage-backed securities and specifically include compliance with predatory lending laws and the integrity of the data transmitted to the MPF system.

Once an MPF Loan is funded or purchased, the PFI must deliver the Collateral Package to the designated custodian. In some cases, a PFI or one of its affiliates may act as custodian. The custodian reports to the MPF Provider whether the Collateral Package matches the funding information in the MPF system and otherwise meets MPF Program requirements. If the PFI does not deliver a conforming Collateral Package within the time frames required under the MPF Guides it will be assessed a late fee and can be required to purchase or repurchase the MPF Loan.

Credit Risk Exposure Assumed by the MPF FHLBank on MPF Loans

The credit risk on MPF Loans is the potential for financial loss due to borrower default or depreciation in the value of the real estate collateral securing the MPF Loan, offset by the PFI's CEP Amount. The MPF FHLBank also faces credit risk of loss on MPF Loans to the extent such losses are not recoverable from the PFI or an SMI Provider, as applicable, as a credit enhancement provider.

The risk-sharing of credit losses between MPF FHLBanks for participations is based on each MPF FHLBank's percentage interest in the Master Commitment. Accordingly, the credit risk assumed by the MPF FHLBank is driven by its percentage interest in each Master Commitment.

MPF Bank Participations

For a Master Commitment to be set up on the MPF system, the MPF FHLBank that entered into the Master Commitment must specify the participation arrangement that will be applied to the MPF Loans to be acquired under that Master Commitment and in the related delivery commitments. That participation arrangement may range from 100% to be retained by the Owner Bank to 100% participated to another MPF FHLBank. Generally, the participation arrangement percentages will not change during the period that a Master Commitment is open. However, the participation arrangement could change as a result of an MPF FHLBank opting out of its share in the participation arrangement on a given day, or if the MPF FHLBanks decide on a going forward basis to change their respective shares. If no change is made, the risk-sharing of losses between MPF FHLBanks is predetermined at the time the Master Commitment is signed. If the specified participation percentage in a Master Commitment never changes, then that percentage would automatically be applied to every delivery commitment that is issued under the Master Commitment.

For a Master Commitment with the same participation arrangement throughout the open period, the risk sharing and rights of the Owner Bank and participating MPF FHLBank(s) are as follows:

- each pays its respective pro rata share of each MPF Loan acquired under the Master Commitment;
- each receives its respective pro rata share of principal and interest payments;
- each is responsible for its respective pro rata share of credit enhancement fees, FLA exposure and losses incurred with respect to the Master Commitment; and
- each may economically hedge its share of the delivery commitments as they are issued during the open period.

The participation arrangement for a Master Commitment may be changed so that either specified future delivery commitments or all future delivery commitments after a specified date will be funded pro rata by the affected MPF FHLBanks under a revised participation arrangement. An MPF FHLBank's pro rata interest in each MPF Loan, if any, is based on the portion it funded or purchased of that MPF Loan. The MPF FHLBank's pro rata interest in a Master Commitment is based on participant interest in the entire Master Commitment as compared to all the MPF Loans delivered by the PFI under the Master Commitment. The MPF FHLBank receives principal and interest payments based on its pro rata interest in individual MPF Loans. However, because the FLA and credit enhancement apply to all the MPF Loans in a Master Commitment regardless of participation arrangements, the MPF FHLBank's share of credit losses is based on its respective participation interest in the entire Master Commitment. For example, assume a MPF FHLBank's specified participation percentage was 25% under a $100 million Master Commitment and that no changes were made to the Master Commitment. The MPF FHLBank risk sharing percentage of credit losses would be 25%. In the case where an MPF FHLBank changes its initial percentage in the Master Commitment, the risk sharing percentage will also change. For example, if an MPF FHLBank were to acquire 25% of the first $50 million and 50% of the second $50 million of MPF Loans delivered under a Master Commitment, the MPF FHLBank would share in 37.5% of the credit losses in that $100 million Master Commitment, while it would receive principal and interest payments on the individual MPF Loans that remain outstanding in a given month, some in which it may own a 25% interest and the others in which it may own a 50% interest.

The Owner Bank is responsible for evaluating, monitoring, and certifying to any participant MPF FHLBank the creditworthiness of each relevant PFI initially, and at least annually thereafter. The Owner Bank is responsible for ensuring that adequate collateral is available from each of its PFIs to secure any direct obligation portion of the CE Amount arising from the origination or sale of MPF Loans. The Owner Bank is also responsible for enforcing the PFI's obligations under the PFI Agreement between the PFI and the Owner Bank.

MPF Servicing

The PFI or its servicing affiliate generally retains the right and responsibility for servicing the MPF Loans it delivers. However, certain PFIs may desire to sell the servicing rights under the MPF Program's concurrent sale of servicing option. To date, the MPF Program has designated one servicing PFI that is eligible to acquire servicing rights under this option. An originating PFI may also negotiate with other PFIs to purchase servicing rights, however this type of arrangement would not include direct support from the MPF Program. The current limited options for selling MPF Loans to the MPF FHLBank on a servicing-released basis may reduce the attractiveness of the MPF Program to potential PFIs that do not want to retain servicing.

The PFI is responsible for collecting the borrower's monthly payments and otherwise dealing with the borrower with respect to the MPF Loan and the mortgaged property. Monthly principal and interest payments are withdrawn from the PFI's deposit account with the MPF FHLBank on the 18th day of each month (or prior business day if the 18th is not a business day) based on reports the

PFI is required to provide to the master servicer. Based on these monthly reports, the MPF system makes the appropriate withdrawals from the PFI's deposit account. Under the scheduled/scheduled remittance option, the PFI is required to make principal and interest payments to the MPF FHLBank on the due date whether or not the borrower has remitted any payments to the PFI provided that the collateral securing the MPF Loan is sufficient to reimburse the PFI for advanced amounts. The PFI recovers the scheduled payments made to the MPF FHLBank either from future collections or upon the liquidation of the collateral securing the MPF Loan.

If an MPF Loan becomes delinquent, the PFI is required to contact the borrower to determine the cause of the delinquency and whether the borrower will be able to cure the default. The MPF Guides permit certain types of forbearance plans. If the PFI determines that an MPF Loan that has become ninety (90) days delinquent and is not likely to be brought current, then the PFI is required to commence foreclosure activities or pursue an alternative to foreclosure in accordance with the servicing standards specified in the MPF Guides. The foreclosure process includes determining the current condition and a foreclosure sale bid value of the mortgaged property and the likelihood of loss upon disposition of the property after foreclosure or other approved alternatives to foreclosure such as a deed in lieu of foreclosure. The PFI is required to secure and insure the property after it acquires title through the date of disposition. After submitting its property disposition plan to the master servicer, the PFI provides monthly status reports regarding the progress of the disposition activities. Upon disposition a final report must be submitted to the master servicer detailing the outstanding loan balance, accrued and unpaid interest, the net proceeds of the disposition and the amounts advanced by the PFI, including any principal and interest advanced during the disposition period. If there is a loss on the conventional MPF Loan, the loss is allocated to the Master Commitment and shared in accordance with the risk sharing structure for that particular Master Commitment. Gains on the sale of real-estate owned property are paid to the MPF FHLBank by the servicer, as appropriate. The amount of the gain, however, is available to reduce subsequent losses incurred under the Master Commitment before such losses are allocated between the MPF FHLBank and the PFI.

Throughout the servicing process the MPF Provider's vendor for master servicing monitors the PFI's compliance with MPF Program requirements and makes periodic reports to the MPF Provider. The MPF Provider will bring any material concerns to the attention of the MPF FHLBank. Minor lapses in servicing are simply charged to the PFI rather than being included in determining a loss on an MPF Loan. Major lapses in servicing could result in a PFI's servicing rights being terminated for cause and the servicing of the particular MPF Loans being transferred to a new, qualified servicing PFI. No PFI's servicing rights have been terminated for cause in the history of the MPF Program. In addition, the MPF Guides require each PFI to maintain errors and omissions insurance and a fidelity bond and to provide an annual certification with respect to its insurance and its compliance with the MPF Program requirements.

During the third quarter of 2005, the FHLBank of Chicago, as the MPF Provider of the MPF Program, authorized PFIs to provide special relief to borrowers of conventional MPF Loans affected by Hurricane Katrina. As part of this special relief, a payment suspension process was authorized for qualifying MPF Loans in the major disaster areas as designated by FEMA. These relief provisions authorized PFIs to suspend mortgage payments for the months of September, October and November 2005 on those MPF FHLBank-owned loans whose borrowers qualified for public and individual assistance from FEMA. During this three-month period, PFIs were expected to complete an assessment of each delinquent mortgage loan in the affected areas to determine the appropriate action that best fits the borrower's circumstances (borrowers whose loans were delinquent prior to Katrina are not eligible for a loan modification workout unless they qualified for public and individual assistance from FEMA). The standard loan forbearance actions currently authorized in the MPF Servicing Guide requires the PFI and borrower to mutually agree upon a forbearance program to get the loan current within 18 months. In addition, the FHLBank of Chicago granted the following loan modification approval authority to nine PFIs of the FHLBank of Dallas located in the qualified areas: (i) loan modification to capitalize delinquent interest over the remaining term of the

loan, or (ii) loan modification to capitalize delinquent interest and extend the term of the loan. All other loan forbearance requests are handled by the PFI on a case by case basis with approval required by the MPF Program Master Servicer, the MPF Provider and the MPF FHLBank.

Quality Assurance

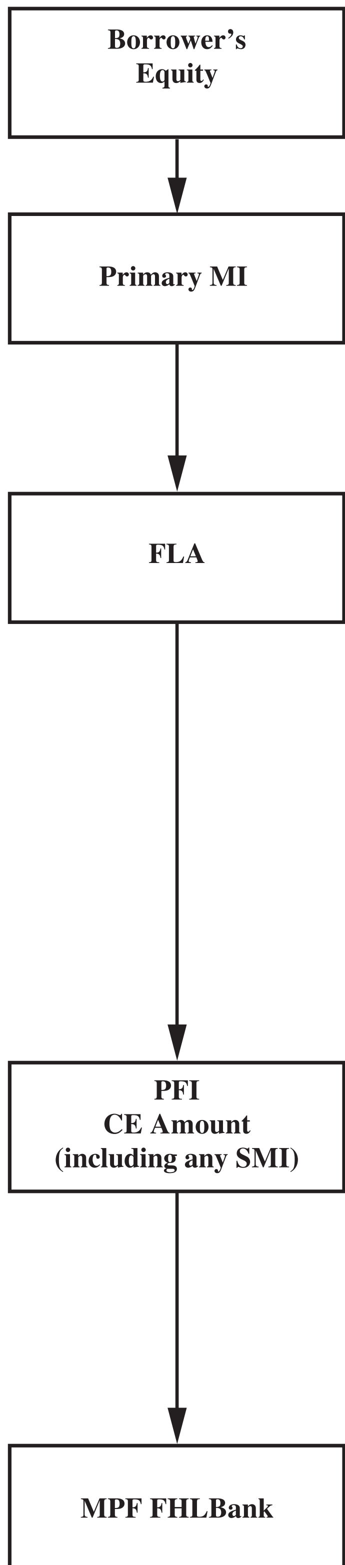
The MPF Provider conducts an initial quality assurance review of a selected sample of MPF Loans from the PFI's initial MPF Loan delivery. Thereafter periodic reviews of a sample of MPF Loans are performed to determine whether the reviewed MPF Loans complied with the MPF Program requirements at the time of acquisition. A quality assurance letter is sent to the PFI noting any critical or general compliance exception matters. The PFI is required to purchase or repurchase any MPF Loan or provide an indemnification covering related losses on any MPF loan that is determined to be ineligible and for which the ineligibility cannot be cured. Any exception that indicates a negative trend is discussed with the PFI and could result in the suspension or termination of a PFI's ability to deliver new mortgage loans if the concern is not adequately addressed. The MPF Provider does not currently conduct any quality assurance reviews of Government MPF Loans.

A majority of the states, and some municipalities, have enacted laws against mortgage loans considered predatory or abusive. Some of these laws impose liability for violations not only on the originator, but also upon purchasers and assignees of mortgage loans. Each MPF FHLBank takes measures that it considers reasonable and appropriate to reduce its exposure to potential liability under these laws and is not aware of any claim, action or proceeding asserting that any MPF FHLBank is liable under these laws. However, there can be no assurance that an MPF FHLBank will never have any liability under predatory or abusive lending laws.

Allocation of Losses and Credit Enhancement

The MPF FHLBank and PFI share the risk of losses on MPF Loans by structuring potential losses on conventional MPF Loans into layers with respect to each Master Commitment. The general allocation of credit losses is described in the following table:

Allocation of Credit Losses



The **first layer** of protection against credit loss is the borrower's equity in the real property securing the MPF Loan.

Second, as is customary for conventional mortgage loans with LTV's greater than 80%, the next layer of protection comes from primary MI issued by qualified companies.

- Such coverage is required for MPF Loans with LTVs greater than 80%.
- Covered losses (all types of losses except those generally classified as special hazard losses) are reimbursed by the primary MI provider.

Third, credit losses for each Master Commitment that are not paid by primary MI are incurred by the MPF FHLBank, up to an agreed upon amount, called a "First Loss Account" or "FLA."

- The FLA is structured by the MPF FHLBank as a memo account to track losses not covered by the CE Amount provided by the PFI (or not yet recovered by the withholding of performance based credit enhancement fees). The FLA is not a cash collateral account, and does not give an MPF FHLBank any right/obligation to receive/pay cash or any other collateral, but rather, it functions as a tracking mechanism for determining the point after which the PFI, in its role as credit enhancer, would be required to reimburse an MPF FHLBank under the CE Amount for losses incurred.
- The PFI is paid a monthly credit enhancement fee for managing credit risk on the MPF Loans. In certain cases, the credit enhancement fees are performance based which provides incentive to the PFI to minimize credit losses on MPF Loans. These fees may be withheld to recover losses at the FLA level.

Fourth, losses for each Master Commitment in excess of the FLA, if any, up to an agreed upon amount (the CE Amount) are covered by the PFI's credit enhancement.

- The PFI's CE Amount is sized using the MPF Program Methodology to equal the amount of losses in excess of, or including, the FLA (depending on the MPF product) that would need to be paid so that any losses in excess of the CE Amount and initial FLA would be equivalent to losses experienced by an investor in an "AA" rated mortgage-backed security. The PFI may procure SMI to cover losses equal to all or a portion of the CE Amount (except that losses generally classified as special hazard losses are covered by the MPF FHLBank, not by SMI).

Fifth, any remaining unallocated losses are absorbed by the MPF FHLBank.

With respect to participation interests, MPF Loan losses not covered by borrower's equity or primary MI will be applied to the FLA and allocated among the participants pro ratably based upon their respective participation interests in the related Master Commitment. Losses at the FLA level may be recovered by withholding performance based credit enhancement fees for certain MPF products. Next, losses will be applied to the PFI's CE Amount which may include SMI, as indicated by the particular MPF product, and finally, further losses will be shared based on the participation interests of the Owner Bank and MPF FHLBank(s) in each Master Commitment.

MPF Products

The "Allocation of Credit Losses" chart describes the general mechanics and ranges for the allocation of losses under the MPF Program. The charts below describe how the FLA and the PFI CE Amounts are determined for each MPF product type. Each of the MPF products is described in the MPF Guides and in marketing materials. The PFI selects the MPF product that best suits its business requirements.

Original MPF

Borrower's Equity

Primary MI

FLA 3-5 bps/year

PFI CE Amount

Residual Losses – MPF FHLBank

FLA

- The FLA starts out at zero on the day the first MPF Loan under a Master Commitment is purchased but increases monthly over the life of the Master Commitment at a rate that ranges from 0.03% to 0.05% (3 to 5 basis points) per annum based on the month end outstanding aggregate principal balance of the Master Commitment.
- Over time the FLA is expected to cover expected losses on a Master Commitment, though losses early in the life of the Master Commitment could exceed the FLA and be charged in part to the PFI's CE Amount.

PFI CE Amount

- The PFI's CE Amount is sized using the MPF Program Methodology to equal the amount needed for the Master Commitment to have a rating equivalent to a "AA" rated mortgage backed security, as if there was not an FLA prior to the PFI's obligation to cover losses equal to the CE Amount.

Credit Enhancement Fee

- The PFI is paid a monthly credit enhancement fee between 0.09% and 0.11% (9 to 11 basis points), based on the aggregate outstanding principal balance of the MPF Loans in the Master Commitment.

MPF 100

Borrower's Equity
Primary MI
FLA 100 bps
PFI CE Amount
Residual Losses – MPF FHLBank

FLA

- The FLA is equal to 1.00% (100 basis points) of the aggregate principal balance of the MPF Loans funded under the Master Commitment.

- Once the Master Commitment is fully funded, the FLA is expected to cover expected losses on that Master Commitment. The MPF FHLBank may economically recover a portion of losses incurred under the FLA by withholding performance based credit enhancement fees payable to the PFI.

PFI CE Amount

- The PFI's CE Amount is calculated using the MPF Program Methodology to equal the difference between the amount needed for the Master Commitment to have a rating equivalent to a "AA" rated mortgage backed security and the amount of the FLA.

Credit Enhancement Fee

- The credit enhancement fee is between 0.07% and 0.10% (7 and 10 basis points) per annum of the aggregate outstanding principal balance of the MPF Loans in the Master Commitment.

- The PFI's monthly credit enhancement fee after the first two or three years becomes performance based in that it is reduced by losses charged to the FLA.

Under the MPF 100 product, the MPF FHLBank table funds MPF Loans, which means that the MPF FHLBank provides the funds, through the PFI as its agent, to make the MPF Loan to the borrower. This differs from other MPF products in which the MPF FHLBank purchases loans that have been acquired or already been closed by the PFI with its own funds.

MPF 125

Borrower's Equity
Primary MI
FLA 100 bps
PFI CE Amount
Residual Losses – MPF FHLBank

FLA

- The FLA is equal to 1.00% (100 basis points) of the aggregate principal balance of the MPF Loans funded under the Master Commitment.

- Once the Master Commitment is fully funded, the FLA is expected to cover expected losses on that Master Commitment. The MPF FHLBank may economically recover a portion of losses incurred under the FLA by withholding performance based credit enhancement fees payable to the PFI.

PFI CE Amount

- The PFI's CE Amount is calculated using the MPF Program Methodology to equal the difference between the amount needed for the Master Commitment to have a rating equivalent to a "AA" rated mortgage backed security and the amount of the FLA.

Credit Enhancement Fee

- The credit enhancement fee is between 0.07% and 0.10% (7 and 10 basis points) per annum of the aggregate outstanding principal balance of the MPF Loans in the Master Commitment and is performance based in that it is reduced by losses charged to the FLA.

MPF Plus

Borrower's Equity
Primary MI
FLA
Supplemental MI
PFI CE Amount
Residual Losses – MPF FHLBank

FLA

- The FLA is equal to an agreed upon number of basis points of the aggregate principal balance of the MPF Loans funded under the Master Commitment that is not less than the amount of expected losses on the Master Commitment.
- Once the Master Commitment is fully funded, the FLA is expected to cover expected losses on that Master Commitment. The MPF FHLBank may economically recover a portion of losses incurred under the FLA by withholding performance based credit enhancement fees payable to the PFI.

PFI CE Amount

- The PFI is required to provide an SMI policy covering the MPF Loans in the Master Commitment and having a deductible initially equal to the FLA.
- Depending upon the amount of the SMI policy, the PFI may or may not have a separate CE Amount.
- The total amount of the PFI's CE Amount (including the SMI policy) is calculated using the MPF Program Methodology to equal the difference between the amount needed for the Master Commitment to have a rating equivalent to a "AA" rated mortgage backed security and the amount of the FLA.

Credit Enhancement Fee

- The performance based portion of the credit enhancement fee is typically between 0.06% and 0.07% (6 and 7 basis points) per annum of the aggregate outstanding balance of the MPF Loans in the Master Commitment. The performance based fee is reduced by losses charged to the FLA and is delayed for one year from the date MPF Loans are sold to the MPF FHLBank. T he fixed portion of the credit enhancement fee is typically 0.07% (7 basis points) per annum of the aggregate outstanding principal balance of the MPF Loans in the Master Commitment. The lower performance based credit enhancement fee is for Master Commitments without a direct PFI CE Amount.

Original MPF for FHA/VA

- Only Government MPF Loans are eligible for sale under this product.
- The PFI provides and maintains FHA insurance or a VA guaranty for the Government MPF Loans and the PFI is responsible for compliance with all FHA or VA requirements and for obtaining the benefit of the FHA insurance or the VA guaranty with respect to defaulted Government MPF Loans.
- The PFI's servicing obligations are essentially identical to those undertaken for servicing loans in a Ginnie Mae security. Because the PFI servicing these MPF Loans assumes the risk with respect to amounts not reimbursed by either the FHA or VA, the structure results in the MPF FHLBanks having assets that are expected to perform the same as Ginnie Mae securities.
- The PFI is paid a monthly government loan fee equal to 0.02% (2 basis points) per annum based on the month end outstanding aggregate principal balance of the Master Commitment in addition to the customary 0.44% (44 basis points) per annum servicing fee that is retained by the PFI on a monthly basis based on the outstanding aggregate principal balance of the MPF Loans.
- Only PFIs that are licensed or qualified to originate and service FHA and VA loans and that maintain a mortgage loan delinquency ratio that is acceptable to the MPF Provider and that is comparable to the national average and/or regional delinquency rates as published by the Mortgage Bankers Association are eligible to sell and service Government MPF Loans under the MPF Program.

At December 31, 2005 and 2004, the amount of FLA remaining for losses for all MPF FHLBanks, excluding amounts that may be recovered by the withholding of performance-based credit enhancement fees, was $525 million and $494 million. Except with respect to Original MPF, losses incurred by the MPF FHLBanks under the FLA can be recovered by the MPF FHLBanks by withholding future performance-based credit enhancement fees otherwise paid to the MPF provider's PFIs. For the years ended December 31, 2005, 2004 and 2003, of the $95 million, $99 million

and $66 million of total credit enhancement fees that were incurred by the MPF FHLBanks, $48 million, $50 million and $34 million were performance-based credit enhancement fees.

The MPF Plus program utilizes MI companies to provide SMI. Although the SMI policy in the MPF Plus Product is procured by the PFI, the MPF FHLBank(s) are named insureds and beneficiaries under the policy. In addition, MPF FHLBanks have from time to time directly acquired SMI policies.

The MPF Program (including MPF Shared Funding securities) has grown to $79.4 billion (at par) in outstanding assets for all MPF FHLBanks at December 31, 2005 of which $41.8 billion (par value) were owned or participated in by the FHLBank of Chicago and the remaining $37.6 billion (par value) were owned or participated in by the other MPF FHLBanks. More than 940 commercial banks, thrifts, credit unions and insurance companies are approved PFIs that deliver MPF Loans into the MPF Program secured by homes in all 50 states, the District of Columbia and Puerto Rico.

MPF Loans that the MPF FHLBanks acquired or funded are secured by real estate across all fifty states, the District of Columbia and Puerto Rico. No single zip code represents more than 1% of MPF Loans currently outstanding on the Combined Statement of Condition.

The following table summarizes the par value of combined MPF Loans outstanding according to the ten largest state concentrations:

	December 31, 2005		December 31, 2004	
	Par Value	Percent of Total	Par Value	Percent of Total
California	$ 9,329,139,970.38	11.8%	$10,825,081,850.32	12.5%
Wisconsin	7,640,190,868.64	9.6%	7,716,472,031.54	8.9%
Illinois	5,638,408,323.52	7.1%	5,913,765,456.92	6.8%
Texas	4,531,707,797.31	5.7%	4,850,847,679.39	5.6%
Minnesota	3,105,998,811.96	3.9%	3,489,720,590.14	4.0%
New York	3,049,659,419.57	3.8%	3,197,129,454.53	3.8%
Pennsylvania	3,038,290,026.86	3.8%	3,240,626,276.88	3.7%
Florida	3,003,524,517.94	3.8%	3,407,673,307.87	4.0%
Virginia	2,629,291,981.63	3.3%	2,920,087,746.51	3.4%
Maryland	2,458,343,190.48	3.1%	2,782,487,142.33	3.2%
All other states	34,969,407,742.72	44.0%	38,203,055,464.63	44.1%
Total par value of MPF Loans	$79,393,962,651.01	100.0%	$86,546,947,001.06	100.0%

The following table presents MPF loan concentrations by PFI for MPF loan purchases and fundings by the MPF FHLBanks that exceeded 10% of all MPF loan purchases and fundings for the years ended December 31, 2005, 2004, and 2003.

	Loan Purchases and Funding Concentrations by PFI For the Years Ended December 31,					
	2005		2004		2003	
PFI	Amount	% of Total	Amount	% of Total	Amount	% of Total
Balboa Reinsurance Company	$3,108,812,180.65	34.4%	$ 3,804,557,621.76	20.7%	n/a	n/a
National City Bank Pennsylvania	1,091,682,426.16	12.1%	3,557,684,218.06	19.3%	$13,290,947,772.73	18.7%
Superior Guaranty Insurance Company	n/a	n/a	n/a	n/a	16,722,974,271.06	23.5%
LaSalle Bank, N.A.	n/a	n/a	2,325,639,849.74	12.6%	8,863,627,439.86	12.5%
All Other Institutions	4,829,614,127.22	53.5%	8,743,499,399.45	47.4%	32,198,551,274.32	45.3%
Total	$9,030,108,734.03	100.0%	$18,431,381,089.01	100.0%	$71,076,100,757.97	100.0%

n/a = not applicable as amount is less than 10%.

Mortgage Purchase Program (MPP)

This description of the MPP was provided by the MPP FHLBanks.

Overview. MPP is offered by the FHLBanks of Atlanta, Cincinnati, and Indianapolis and was offered by the FHLBank of Seattle in 2004. MPP, which was introduced in 2000, enables these FHLBanks to purchase directly from members both their qualifying conforming fixed-rate conventional 1-4 family mortgages and residential mortgages guaranteed by the Federal Housing Administration (FHA). Each MPP FHLBank has approved members, known as PFIs, which sell them mortgage loans. A PFI may also be a third-party servicer (subject to MPP FHLBank approval) of loans sold to an MPP FHLBank by other member PFIs.

A "conforming" mortgage refers to the maximum amount permissible to be lent as a regular prime (i.e., non-jumbo, non-sub prime) mortgage. Established each year by the Office of Federal Housing Enterprise Oversight (OFHEO) based on data published by the Finance Board on average home prices, that amount was $359,650 in 2005. A "conventional" mortgage refers to non-government-guaranteed mortgages. The FHLBanks are permitted to purchase qualifying mortgage loans within any state or territory of the United States. The FHLBanks do not use any trust or intermediary to purchase mortgage loans from members under this program.

Each MPP FHLBank holds purchased mortgage loans on their balance sheet. Finance Board regulations do not specifically authorize these FHLBanks to sell loans purchased in the MPP, either directly or by securitization, or to purchase any mortgage loans other than those identified in the paragraph above. Prior to engaging in any such business, an FHLBank would need to obtain Finance Board approval of the new business activity. While the FHLBanks have considered the feasibility and economic benefits of selling mortgage loan assets from time to time to third parties as a risk management tool, they have no plans to request the authority to sell or securitize their mortgage loan portfolio.

MPP directly supports the FHLBanks' public policy mission of supporting housing finance. By selling mortgage loans to these FHLBanks, members increase their balance sheet liquidity and remove from their balance sheet assets that carry interest rate and prepayment risk. The MPP FHLBanks believe the MPP, along with the similar programs at other FHLBanks, promotes a greater degree of competition among mortgage investors, which should benefit households. A primary reason these FHLBanks established the MPP was to enable small- and medium-sized community-based financial institutions to participate more effectively in the secondary mortgage market. Secondarily, these FHLBanks believe the MPP enhances their long-term profitability on a

risk-adjusted basis which should augment the return on stockholders' capital investment in the MPP FHLBanks.

The four MPP FHLBanks have agreed to share the costs of developing and maintaining the computer systems that support loan acquisition, but each MPP FHLBank is responsible for operating its own program. Each MPP FHLBank is responsible for marketing the program to its members and for funding and hedging any loans acquired through the program. Each MPP FHLBank is responsible for the development and maintenance of the program guide governing origination, underwriting and servicing of the loans sold to it through its MPP, and each MPP FHLBank establishes its own origination, underwriting and servicing criteria, including eligibility standards for loans that may be sold to it, as well as other requirements for its MPP. Each MPP FHLBank provides the systems and back office support for its program, including transaction processing. In some circumstances, an MPP FHLBank may grant its PFI a waiver exempting it from complying with specified provisions of the MPP FHLBank's program requirements.

Management of Credit Risk. Like the MPF Program, MPP is governed by the AMA Regulation, and mortgage loans purchased from PFIs under the program also carry sufficient credit enhancements to give them a quasi-credit risk exposure equivalent to "AA" rated assets based upon the Standard & Poor's LEVELS® rating methodology. The MPP mortgage loans are not, however, rated by Standard & Poor's or any other rating agency.

Under MPP, the FHLBank assumes the interest-rate risk associated with the acquired mortgage assets, while the PFI manages the credit risk. A PFI is compensated for sharing in a portion of the risk associated with the loans sold to the MPP FHLBank by receiving funds from a Lender Risk Account (LRA). This risk-sharing relationship recognizes the individual strengths of the MPP FHLBank and the PFI.

The credit enhancement layers in MPP consist of the borrower's equity, primary MI (if applicable), the LRA, and supplemental mortgage insurance (SMI). The LRA is a lender-specific account funded by the MPP FHLBank in an amount approximately sufficient to cover expected losses based on the S&P LEVELS® rating methodology. The LRA is funded either initially as a portion of the purchase price (a Fixed LRA), or over time as a portion of interest paid. The LRA typically ranges between 30 to 50 basis points of the outstanding principal balance of the mortgage loans. The exact amount of the LRA is determined in conjunction with the SMI provider, and the final pricing received on the SMI may be affected by the amount of the LRA. Once the LRA has reached the required amount, but typically not before five years in the case of the Fixed LRA, the MPP FHLBank will pay to the PFI on an annual basis any unused funds in the LRA that are no longer required to cover expected losses. Eleven years after the closing of the mortgage pool, the MPP FHLBank extinguishes the LRA and pays any remaining funds to the PFI.

In MPP, SMI generally covers mortgages with an LTV of 50 percent or greater. The specified LTV may change in the future. In addition, the MPP FHLBanks anticipate that SMI policies will contain an aggregate loss limit whereby the total amount payable by the SMI provider under the policy will be less than the total unpaid principal balances on the insured loans.

FHA-backed mortgage loans have a 100 percent U.S. government guarantee and, therefore, these FHLBanks believe that they have no credit risk exposure from these loans.

MPP Credit Risk Structure	
Homeowner's Equity	• Homeowner equity provides an initial cushion against potential credit losses.
Primary Mortgage Insurance	• Primary mortgage insurance is required on loans with a loan-to-value ratio in excess of 80%, and mitigates credit risk by absorbing part of any actual losses.
Lender Risk Account	• The participating member's lender risk account absorbs losses beyond homeowner's equity and primary mortgage insurance. Lender risk account balances not used to cover losses are returned to the member over time.
Supplemental Mortgage Insurance	• The participating member's supplemental mortgage insurance absorbs losses beyond the lender risk account and enhances the credit of the underlying pool of mortgages to an investment-grade equivalent.
MPP FHLBanks	• The MPP FHLBanks would assume potential losses in excess of the combined value of the homeowner's equity, primary mortgage insurance, lender risk amount, and supplemental mortgage insurance.

Earnings from the Mortgage Purchase Program. Earnings from the MPP come from monthly interest payments due to the MPP FHLBank. Reported interest income on each loan is computed as the mortgage note rate multiplied by the loan's principal balance outstanding, adjusted for the following:

- minus servicing costs;
- minus the cost of Supplemental Mortgage Insurance (required for conventional loans only);
- plus the net amortization of purchase premiums or accretion of purchase discounts; and
- plus the net amortization or accretion of fair value adjustments for purchase commitments.

These FHLBanks consider the cost of the Lender Risk Account and Supplemental Mortgage Insurance when they establish prices of conventional loans. Each of these credit enhancement structures is accounted for in the valuation of an FHLBank's expected return on acquired mortgage loans and in a credit risk review performed during the pooling process at which time the dollar amount specified in the PFI's Master Commitment Contract is fulfilled and the commitment is closed. The pricing of each structure depends on a number of factors and is PFI-specific. These FHLBanks do not receive any guarantee or other fees for retaining the risk of losses in excess of the Lender Risk Account and Supplemental Mortgage Insurance.

FHLBANK MANAGEMENT AND COMPENSATION

FHLBank Directors. The following persons served as chair and vice chair of the FHLBanks during 2005 or are serving in one of these capacities in 2006:

Robert F. Verdonck, 60, has served as a director of the FHLBank of Boston since January 1, 1998, and his term as a director will expire on December 31, 2008. Mr. Verdonck has served as chair

of the board in 2004 and 2005 and has been elected to serve as chair of the board through 2007. Mr. Verdonck is president and chief executive officer of East Boston Savings Bank, located in Peabody, Massachusetts. He also serves as president and chief executive officer of Meridian Financial Services, Inc., holding company for East Boston Savings Bank. He has held various positions at East Boston Savings Bank for the past 22 years. Mr. Verdonck also serves as a director of The Savings Bank Life Insurance Company of Massachusetts, a member of the FHLBank of Boston.

Joyce H. Errecart, 56, has served as a director of the FHLBank of Boston since January 23, 2004, and her term as a director expires on December 31, 2006. Rep. Errecart has been elected to serve as vice chair of the board through 2007. Rep. Errecart is Representative to the Vermont House of Representatives, located in Montpelier, Vermont. Rep. Errecart was elected to the Vermont House in 2002. Prior to holding public office, Rep. Errecart served as Vermont's Commissioner of Taxes and practiced law in Burlington, Vermont.

Thomas R. Eaton, 56, had served as a director of the FHLBank of Boston since January 29, 2003, and his term as a director expired on December 31, 2005. Senator Eaton served as vice chair of the board in 2005. A New Hampshire State Senator, located in Concord, New Hampshire, Senator Eaton was elected to the New Hampshire Senate in 1999.

George L. Engelke, Jr., 67, was elected chair of the FHLBank of New York, effective January 2005. Mr. Engelke is also the chairman, president, and chief executive officer of Astoria Financial Corporation and its subsidiary Astoria Federal Savings and Loan Association, having joined in 1971. He is a member of the Board of Trustees of Long Island University, past chair and current member of the board of directors of the Community Preservation Corporation, a member of the Advisory Board of Directors of Neighborhood Housing Services of New York City, Inc. and the Federal Reserve Bank of New York's Thrift Institutions Advisory Panel. Mr. Engelke is a member of the Board of Directors of the New York Bankers Association and a member of the Governmental Affairs Steering Committee and the Government Affairs Council of America's Community Bankers. He previously served as a member of the Financial Accounting Standards Board Advisory Council.

David W. Lindstrom, 66, has served as the vice chair of the FHLBank of New York since January 2005. Mr. Lindstrom is president, chief executive officer, and director of Franklin Savings Bank of Pilesgrove, NJ, which he joined in 1981. He has served on the New Jersey League's Board of Governors and as its chair. He is currently a member of the New Jersey League's Government Affairs Council, the Legislative and Regulatory Affairs Committee, and a director of the League's subsidiary Banker's Cooperative Group, Inc. Mr. Lindstrom is on America's Community Bankers Government Affairs Committee and is a member of the Pentegra Services Group Defined Benefit board of directors. He has also served as chair of the Pentegra Services Group Defined Contribution board of directors. In addition, he has served as a director and chairman of the Philadelphia Federal Reserve Thrift Council and serves as chair of America's Community Bankers Directors Publication Advisory Group.

Marvin N. Schoenhals, 59, is chair of the FHLBank of Pittsburgh. Mr. Schoenhals has served as president and CEO of both Wilmington Savings Fund Society, FSB, and WSFS Financial Corporation (bank holding company) since 1990. He also serves as chairman of both Wilmington Savings Fund Society, FSB, and WSFS Financial Corporation. He is also on the board of the Brandywine Fund, Inc., Brandywine Blue Fund, Inc. and Brandywine Advisors Fund.

Dennis S. Marlo, 63, is vice chair of the FHLBank of Pittsburgh. Mr. Marlo has served as executive vice president of Sovereign Bank since May 2004. From April 2001 to May 2004 he served as the chief risk management officer for both Sovereign Bancorp, Inc. (bank holding company) and Sovereign Bank and from 1999 through 2001 he served as chief financial officer and treasurer of both Sovereign Bank and Sovereign Bancorp. He also serves as a director of EnerSys.

John D. Kottmeyer, 56, currently serves as the chair of the FHLBank of Atlanta. Mr. Kottmeyer has served as the executive vice president and treasurer for AmSouth Bank in Birmingham, Ala., since 1995. Before joining AmSouth, Mr. Kottmeyer was a senior vice president with Bank of America.

Scott C. Harvard, 51, currently serves as the vice chair of FHLBank of Atlanta. Mr. Harvard has served as president and chief executive officer and a director of Shore Financial Corporation, a publicly traded bank holding company with headquarters in Onley, Va., since 1997. He has served as president and chief executive officer of its subsidiary, Shore Bank, since 1985. Mr. Harvard has served on the board of directors of the Virginia Bankers Association and as the chairman of its subsidiary, Management Services, Inc. Mr. Harvard is active in his community and participates on various nonprofit organization boards.

Charles J. Koch, 60, is the chair of the FHLBank of Cincinnati. Mr. Koch has been chairman of the board of Charter One Bank, N.A., Cleveland Ohio, since 1995. Since 2004, Mr. Koch has been vice chairman and a director of Citizens Financial Group, Providence, Rhode Island, the parent of Charter One, and a director of the Royal Bank of Scotland plc, Edinburgh, Scotland, the parent of Citizens Financial. Mr. Koch is also chairman of the board of trustees of John Carroll University, and a trustee of Case Western Reserve University.

Carl F. Wick, 67, was elected vice chair of the FHLBank of Cincinnati board of directors effective March 2005. Mr. Wick was employed by NCR Corporation from 1966 to 1994, when he retired. He continued to provide consulting services on a part-time basis to NCR into 1997. He is the owner of Wick and Associates, a business consulting firm, is a member of the Ohio Board of Education, and serves as a director for the Ohio Harness Horseman's Association. He is also a partner/owner in Gwinnie LOU Stables, LTD., a standardbred horse breeding and racing farm.

Paul E. Clabuesch, 58, is the chair of the FHLBank of Indianapolis and has served as a member of the board of directors since January 2003. He is the chairman, president and chief executive officer of Thumb Bancorp, Inc., a bank holding company, and Thumb National Bank and Trust, located in Pigeon, Michigan. Mr. Clabuesch also serves as the chairman of the board of trustees of Scheurer Hospital, Pigeon, Michigan, and has served on that board since 1975.

Charles L. Crow, 63, is vice chair of the FHLBank of Indianapolis having served as a member of the board of directors since January 2002. He is the chairman, president and chief executive officer of Community Bank, Noblesville, Indiana and chairman of Community Bancshares, Inc. a bank holding company in Noblesville, Indiana. Mr. Crow is also the chairman of the Indiana Bankers Association.

James K. Caldwell, 63, was elected chair of the FHLBank of Chicago on December 13, 2005, and has served in that capacity since January 1, 2006. Mr. Caldwell has been president and chief executive officer of the First Citizens State Bank of Whitewater, in Whitewater, Wisconsin, since 1979. Mr. Caldwell is the president of Whitewater Bancorp, Vice President of Palmyra State Bank, and a director of Weiler & Company. Mr. Caldwell served as the President of the Wisconsin Bankers Association from 1993 to 1994. Mr. Caldwell is past chairman of the University of Wisconsin, Whitewater Foundation and continues to serve as board member. Mr. Caldwell also chaired the Whitewater Community Development Authority and serves on the board and executive committee of the Fairhaven Corporation, a Senior Citizens Home, where he is currently Chairman of the Board of Directors.

P. David Kuhl, 56, was elected vice chair of the FHLBank of Chicago on December 13, 2005, and has served in the capacity since January 1, 2006. Mr. Kuhl has served as chairman of the board and CEO of Busey Bank in Urbana, Illinois since 2003. Mr. Kuhl has been with the Busey Bank since 1979, serving previously as president and CEO. Mr. Kuhl also serves as a director of Busey Bank, First Busey Securities Inc. and First Busey Trust and Investment Company and First Busey Resources. Mr. Kuhl previously served as a director for First Busey Corporation and First Busey

Insurance Services. First Busey Corporation is the holding company for Busey Bank, First Busey Securities and First Busey Trust and Investment Company.

Randy L. Newman, 52, is chair of the FHLBank of Des Moines. Mr. Newman currently serves as chairman and chief executive officer of Alerus Financial Corporation and Alerus Financial (previously First National Bank North Dakota) in Grand Forks, North Dakota, and has served as chairman since 1993. For several years prior to joining the organization in 1981, Mr. Newman was a full-time instructor in the Management and Finance Department of the University of North Dakota. Mr. Newman was elected to his first term as chair of the Bank's Board of Directors effective January 1, 2004. Mr. Newman serves on the following Bank committees: Executive Committee (chair), Ad Hoc Legislative Committee (chair), Audit Committee, Bank Operations Committee, Compensation, Diversity, and Governance Committee, and the Housing and Economic Development Committee.

Michael K. Guttau, 59, is the vice chair of the FHLBank of Des Moines. Mr. Guttau has served as chairman and president of Treynor State Bank in Treynor, Iowa, since 1978. He is actively involved with the American Bankers Association, Iowa Bankers Association, and the Iowa Independent Bankers. Currently, he is chair of the Southwest Iowa Industrial Site Marketing Committee, Treynor Community Development, and Deaf Missions. Mr. Guttau also is president of the Treynor Foundation Corporation and serves on the Treynor Community Service Center Committee. Mr. Guttau was the Iowa Superintendent of Banking from 1995 through 1999. Mr. Guttau serves on the following Bank committees: Executive Committee (vice chair), Ad Hoc Legislative Committee (vice chair), Audit Committee (chair), and the Compensation, Diversity, and Governance Committee.

Chesley N. Brooks, Jr., 66, is chairman of the board of directors of the FHLBank of Dallas and has served in that capacity since February 2005. Mr. Brooks has served as chairman and chief executive officer of Omnibank, N.A., a member of the FHLBank of Dallas, since 1978. He joined Omnibank (Houston, Texas) in 1974. From 1994 to 1999, Mr. Brooks served on the board of directors of the Texas Bankers Association (TBA). From 1998 to 1999, he served on the TBA's Executive Committee and as chairman of its Government Relations Council. He currently serves on the Federal Home Loan Bank Committee of the American Bankers Association, the Legislative Committee of the Independent Bankers Association of Texas, and on the Council of Federal Home Loan Banks. Mr. Brooks currently serves as chairman of the Executive Committee of the FHLBank of Dallas' board of directors. Previously, he served as chairman of the Government Relations Committee of the FHLBank of Dallas' board of directors.

Mary E. Ceverha, 61, is vice chairman of the board of directors of the FHLBank of Dallas and has served in that capacity since December 2005. From January 2005 to December 2005, she served as acting vice chairman of the board of directors of the FHLBank of Dallas. From 2001 to 2005, Ms. Ceverha served as a director and president of Trinity Commons, Inc. From 2001 to 2004, she also served as a director and president of Trinity Commons Foundation, Inc. Founded by Ms. Ceverha in 2001, these not-for-profit enterprises were organized to coordinate fundraising and other activities relating to the construction of the Trinity River Project in Dallas, Texas. She remains active in the foundation's fundraising efforts. Ms. Ceverha currently serves on the Council of Federal Home Loan Banks and the boards of the Greater Dallas Planning Council and the President's Council for the University of Texas Southwestern Medical Center, which raises funds for medical research. She is a former board member and president of Friends of Fair Park, a non-profit citizens group dedicated to the preservation of Fair Park, a national historic landmark in Dallas, Texas. From 1995 to 2004, she served on the Texas State Board of Health. Ms. Ceverha also serves as vice chairman of the Executive Committee of the FHLBank of Dallas' board of directors.

Ronald K. Wente, 55, is chair of the FHLBank of Topeka and has served in that position since 2000. He has been president and chief executive officer of Golden Belt Bank, Hays, Kansas since 1974.

Robert E. Caldwell, II, 35, is vice chairman of the board of directors of the FHLBank of Topeka and has served in that position since 2005. He has been general counsel for Linweld, Inc., a large independent manufacturer and distributor of industrial/medical gases and welding supplies, since 1996.

Timothy R. Chrisman, 60, is the chairman of the board of directors of the FHLBank of San Francisco and was vice chairman of the board of directors of the FHLBank of San Francisco in 2004. Mr. Chrisman has been an officer of Pacific Western National Bank, Santa Monica, California, since March 2005. Prior to that, he was a director of Commercial Capital Bank and Commercial Capital Bancorp, based in Irvine, California, from June 2004 to March 2005. In 2004, Commercial Capital Bancorp acquired Hawthorne Savings, Hawthorne, California, where Mr. Chrisman was chairman of the board from 1995 to 2004. Mr. Chrisman is also the chief executive officer of Chrisman & Company, Inc., a retained executive search firm he founded in 1980. Since 2005, he has served as chairman of the Council of Federal Home Loan Banks and chairman of the chair-vice chair committee of the Federal Home Loan Bank System.

James P. Giraldin, 53, has served as the vice chairman of the board of directors of the FHLBank of San Francisco since January 2006. Mr. Giraldin has been chief operating officer of First Federal Bank of California, Santa Monica, California, since 1997 and president since 2002. He joined the company in 1992 as executive vice president and chief financial officer. Prior to joining First Federal Bank of California, Mr. Giraldin served as chief executive officer of Irvine City Bank, Irvine, California, for five years. He previously served as chief financial officer for two other savings and loan associations and was a certified public accountant with KPMG LLP.

Kenneth R. Harder, 55, was vice chairman of the board of directors of the FHLBank of San Francisco in 2005 and a director of the FHLBank of San Francisco through October 2006. During that period he was executive vice president (since 1994) and a director (since 1987) of Northern Trust Bank, N.A., Phoenix, Arizona. He was also its chief operating officer from November 2000 through December 2005. Northern Trust Bank, N.A., Phoenix, Arizona, was merged under the charter of Northern Trust, N.A., Miami, Florida on October 23, 2006.

Mike C. Daly, 54, has served as chair of the FHLBank of Seattle since May 2005. Mr. Daly has served as a director of the FHLBank of Seattle since 2002 and was vice chairman from January 2005 to May 2005. In 1981, Mr. Daly opened First State Bank in Wheatland, Wyoming, an independent community bank, where he serves as chairman and chief executive officer. Since 1985, Mr. Daly has served as chairman, president, and chief executive officer of Wheatland Bankshares, Inc., a single bank holding company that owns 100% of First State Bank.

Craig E. Dahl, 56, has served as vice chair of the FHLBank of Seattle since May 2005 and has served as a director of the FHLBank of Seattle since 2004. Since 1996, Mr. Dahl has served as president, chief executive officer and director of Alaska Pacific Bank, a federally chartered savings bank, and Alaska Pacific Bancshares, Inc., the parent of Alaska Pacific Bank.

FHLBank Presidents. The following persons served as presidents of the FHLBanks during 2005 or are serving in this capacity in 2006:

Michael A. Jessee, 60, 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. He holds a PhD., M.A. and M.B.A. from The Wharton School at the University of Pennsylvania, and a B.A. from Randolph-Macon College.

Alfred A. DelliBovi, 60, has been president of the FHLBank of New York since November 1992. As president, he serves as the chief executive officer and directs the FHLBank of New York's overall operations to facilitate the extension of credit products and services to 300 neighborhood-

based lenders. Mr. DelliBovi is a member of the Pentegra Group Defined Contribution Plan board of directors. Previously, Mr. DelliBovi served as deputy secretary of the U.S. Department of Housing and Urban Development, from 1989 until 1992. As deputy secretary, Mr. DelliBovi was the chief operating officer of the department. As the manager of Secretary Jack Kemp's transition, which uncovered serious deficiencies in financial management and program integrity, Mr. DelliBovi organized and directed the team effort to implement changes required to overhaul the department. In May 1992, President Bush appointed Mr. DelliBovi co-chairman of the Presidential Task Force on Recovery in Los Angeles. Mr. DelliBovi served as a senior official at the U.S. Department of Transportation in the Reagan Administration. Mr. DelliBovi was elected to four terms in the New York State Assembly. Mr. DelliBovi holds a Master of Public Administration degree from Bernard M. Baruch College, City University of New York.

John R. Price, 67, became president and chief executive officer of the FHLBank of Pittsburgh on January 2, 2006. Prior to joining the FHLBank of Pittsburgh, Mr. Price was a senior advisor to the Institute of International Finance. Mr. Price also held several senior-level positions at JP Morgan Chase & Co. in New York (formerly Manufacturers Hanover Trust Co. which later merged into Chemical Bank and Chase Manhattan Bank). Mr. Price was responsible for the mortgage banking and consumer finance subsidiaries; led the team advising the U.S. government on the securitization on $5 billion of community development and rural low-income housing loans, and earlier served as corporate secretary. Mr. Price graduated from Grinnell College in Iowa, was named a Rhodes Scholar, earned advanced degrees in Development Economics and Diplomatic History from Queens College at Oxford University and received his law degree from Harvard Law School. Mr. Price was a member of the board and chair of the audit committee of the Principal Financial Corporation, is a life trustee of Grinnell College and was the founding chairman of Americans for Oxford. Mr. Price also served as president of the Bankers Association for Finance and Trade.

James D. Roy, 65, was president of the FHLBank of Pittsburgh from November 1987 to December 2005. 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. In 2004, Mr. Roy served on the board of directors of the FHLBanks' Office of Finance and FICO.

Raymond R. Christman, 56, has been president and chief executive officer of the FHLBank of Atlanta since 1999. He has over a decade of experience in the FHLBank System, previously serving as chairman of FHLBank of Pittsburgh. Before that, Mr. Christman served in several executive-level positions in both the private and public sector, including Secretary of Commerce for the Commonwealth of Pennsylvania from 1987 to 1991. Mr. Christman is active in civic and charitable affairs in Atlanta. He is currently chairman of The Community Foundation of Greater Atlanta and The Georgia Trust for Historic Preservation and serves on the boards of several other regional organizations. Mr. Christman holds a B.A. in business from Florida State University and a master's degree from the Graduate School of Public and International Affairs at the University of Pittsburgh.

David H. Hehman, 57, is president and chief executive officer of the FHLBank of Cincinnati. He was named president and chief executive officer in 2003, following a 25-year career at the FHLBank of Cincinnati during which he held positions including chief financial officer and executive vice president. In addition to his duties at the FHLBank of Cincinnati, Mr. Hehman serves as chair of the FHLBank Presidents' Conference. He also represents the FHLBank of Cincinnati on Pentegra's Retirement Fund, and was appointed by the Finance Board as an FHLBank president member of the Office of Finance board of directors. Outside the FHLBank of Cincinnati, Mr. Hehman also serves on the board of directors of Brighton Properties, Inc., a nonprofit affordable housing and social services agency in Newport, Kentucky, and the Economic Advisory Committee for the Greater Cincinnati Chamber of Commerce. Mr. Hehman was an assistant professor of finance and economics at Xavier University, Cincinnati, where he received his bachelor's and master's degrees in economics, studying under a Presidential Scholarship. He completed his doctorate in economics at the University of Cincinnati. He has written articles for numerous financial journals and banking industry publications.

Martin L. Heger, 61, has been president and chief executive officer of the FHLBank of Indianapolis since February 1992. Mr. Heger is also the chairman of the board of Pentegra Retirement Services, a not-for-profit cooperative that is a national provider of full-service community bank retirement programs. He is a member of the Bank Presidents' Conference of the FHLB System. Mr. Heger was appointed in November 2005 to serve a one-year term as chairman of the Financing Corporation (FICO).

J. Mikesell Thomas, 55, has been president and chief executive officer of the FHLBank of Chicago since August 2004. Prior to his employment with the FHLBank of Chicago, Mr. Thomas served as an independent financial advisor to companies on a range of financial and strategic issues from April 2001 to August 2004. Mr. Thomas was a managing director of Lazard Freres & Company, where he was responsible for advising management and boards of client companies on strategic transactions from January 1995 to March 2001. He held positions of increasing responsibility at First Chicago Corporation, including chief financial officer and later, executive vice president and co-head of corporate and institutional banking, from 1973 to 1995. Mr. Thomas is trustee and chair of the audit committee for the following trusts: The UBS Funds, UBS Relationship Funds and SMA Relationship Trust. He is a trustee and a member of the audit committee of UBS Private Portfolios Trust and director and chair of the audit committee of Fort Dearborn Income Securities, Inc.

Richard S. Swanson, 56, was elected by the board of directors to the position of president and chief executive officer of the FHLBank of Des Moines on June 1, 2006. Prior to joining the Bank, Mr. Swanson was a principal of the Seattle law firm of Hillis, Clark, Martin and Peterson for two years where he provided counsel in the areas of finance, banking law, and SEC regulation. From 2000 to 2003, Mr. Swanson served as chairman and chief executive officer of HomeStreet Bank in Seattle, Washington, and had served as its chief executive officer since 1990. As an industry-elected director from HomeStreet Bank, Mr. Swanson served on the board of directors of the FHLBank of Seattle from 2000 to 2003, and served as the board's vice chair from 2002 to 2003. He currently serves as a director of Triad Guaranty, Inc. and Alaska Growth Capital.

Neil N. Fruechte, 67, was appointed acting president and chief executive officer on December 22, 2005 by the FHLBank of Des Moines' board of directors, and stepped down from such position on May 31, 2006 upon the board's election of Richard S. Swanson as president and chief executive officer of the FHLBank of Des Moines. Prior to his appointment, Mr. Fruechte had served on the board since January 2001.

Patrick J. Conway, 56, served as president and chief executive officer of the FHLBank of Des Moines from October 1999 to December 2005.

Terry Smith, 50, serves as president and chief executive officer of the FHLBank of Dallas and has served in such capacity since August 2000. Prior to that, he served as executive vice president and chief operating officer of the FHLBank of Dallas, responsible for the financial and risk management, credit and collateral, financial services, accounting, and information systems functions. Mr. Smith joined the FHLBank of Dallas in January 1986 to coordinate the 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 in 1991. Mr. Smith currently serves as vice chairman of the board of directors of the FHLBanks' Office of Finance and as chairman of the audit committee of the FHLBanks' Office of Finance. He also serves on the Council of Federal Home Loan Banks and the board of directors of the Pentegra Defined Benefit Plan for Financial Institutions.

Andrew J. Jetter, 50, became president and chief executive officer of FHLBank of Topeka in September 2002. He also served as executive vice president and chief operating officer from January 1998 to September 2002. He joined the FHLBank in 1987 as an attorney and was promoted to general counsel in 1989, vice president in 1993, and senior vice president in 1996.

Dean Schultz, 59, has been president and chief executive officer of the FHLBank of San Francisco since April 1991. Prior to joining the FHLBank of San Francisco, Mr. Schultz was executive vice president of the FHLBank of New York, where he had also served as senior vice president and general counsel. From 1980 to 1984, he was senior vice president and general counsel with First Federal Savings and Loan Association of Rochester, New York. He previously was a partner in a Rochester law firm. Mr. Schultz is a member of the board of directors of Social Compact, an organization dedicated to increasing business leadership for and investment in lower-income communities.

James E. Gilleran, 73, has served as president and chief executive officer of the FHLBank of Seattle since June 2005. From 2001 to 2005, Mr. Gilleran served as director of the Office of Thrift Supervision (OTS), an office of the Department of the Treasury of the United States which regulates the thrift industry. From 1994 to 2000, he served as chairman and chief executive officer of the Bank of San Francisco, a financial banking institution.

James R. Faulstich, 73, served as interim president and chief executive officer of the FHLBank of Seattle from February 2005 to June 2005. Mr. Faulstich served as president and chief executive officer of the FHLBank of Seattle from 1979 until his retirement in 1999. During his tenure as president and chief executive officer, the FHLBank of Seattle grew from $3 billion to $33 billion in assets and increased its membership from 157 to 209 members. Mr. Faulstich is actively involved in many national organizations devoted to housing and community development and is a director of HomeStreet Bank, a regional full service community bank with approximately $2.0 billion in assets, specializing in business banking and lending, consumer banking, residential and construction lending and insurance services. Upon assuming the interim president and chief executive officer position at the FHLBank of Seattle, Mr. Faulstich took a leave of absence from his HomeStreet Bank director position.

Norman B. Rice, 63, served as president and chief executive officer of the FHLBank of Seattle from 1999 until he stepped down from his positions as president and chief executive officer of the FHLBank of Seattle in early February 2005 and effectively retired from such positions as of March 15, 2005. He joined the FHLBank of Seattle in March 1998 as its executive vice president. Prior to that, Mr. Rice served two terms as the Mayor of Seattle and served three terms as a member of the City of Seattle Council from 1979 until 1990. Mr. Rice is currently Vice Chairman of Capital Access, LLC, an investment banking firm.

Managing Director, FHLBanks' Office of Finance. *John K. Darr,* 62, 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 (Sallie Mae), and treasurer of the FHLBank of San Francisco, among other positions.

FHLBanks' Office of Finance Board of Directors. At December 31, 2005, the directors of the FHLBanks' Office of Finance were L. Parker Harrell, Terry Smith, the president of the FHLBank of Dallas and David H. Hehman, the president of the FHLBank of Cincinnati.

L. Parker Harrell, Jr., 69, was appointed to serve as the private citizen director on the Office of Finance Board of Directors by the Finance Board on September 10, 2003. Mr. Harrell was appointed to the remainder of a three-year term that expired March 31, 2004, and for a three-year term that follows. Mr. Harrell is chief operating officer of Korn/Ferry International Europe and he is also the director of Global Financial Services for the international executive search firm. Mr. Harrell began his career in banking with Wachovia Bank & Trust Company. He entered the executive search field in 1974 when he joined a New York firm, later serving as president of his own recruiting firm. Prior to joining Korn/Ferry in 1984, he was a managing director of Arthur Young & Company.

Regulations Governing the Selection and Compensation of FHLBank and Office of Finance Employees

As specified in the GLB Act, the selection and compensation of FHLBank officers and employees are subject to the approval of the board of directors and management of each individual FHLBank. The Finance Board exercises similar supervisory and examination authority over the Office of Finance and its board of directors as it exercises over an FHLBank and its board of directors. Finance Board regulations require 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.

Federal Home Loan Bank Presidents
Summary Compensation Table

					Long Term Compensation			
		Annual Compensation			Awards		Payouts	
Name and Principal Position	Year	Salary($)	Incentive Payment($)	Other Annual Compensation ($) (1)	Restricted Stock Awards($)	Securities Underlying Options/ SARs(#)	LTIP Payouts ($)	All Other Compensation ($) (2)
Michael A. Jessee	2005	517,500	227,000					252,023(3) (4)
President, FHLBank	2004	500,000	192,500					45,486(3) (4)
of Boston	2003	500,000	196,850					45,040(3) (4)
Alfred A. DelliBovi	2005	534,436	361,536	2,574				41,448(5)
President, FHLBank	2004	511,846	160,050	1,597				40,068(5)
of New York	2003	511,630		1,580				42,552(5)
James D. Roy	2005	523,000	198,740	51,566			196,105	43,886(6)
Former President,	2004	505,000	211,090					30,300(7)
FHLBank of Pittsburgh	2003	505,000						40,726(7)
Raymond R. Christman	2005	538,575	274,673					60,219(8)
President, FHLBank	2004	501,000	165,330					80,098(8)
of Atlanta	2003	486,700	228,408					224,464(8)
David Hehman	2005	505,354	308,968					47,315(7)
President, FHLBank	2004	478,980	283,226					45,959(7)
of Cincinnati(9)	2003	451,346	287,002					36,651(7)
Charles L. Thiemann Former President, FHLBank of Cincinnati(9)	2003	201,789	64,949					32,660(7)
Martin L. Heger	2005	546,962	430,906				(10)	40,624(11)
President, FHLBank	2004	496,158	320,419					36,911(7)
of Indianapolis	2003	472,524	353,141					35,313(7)
J. Mikesell Thomas	2005	650,000	650,000	29,008				
President, FHLBank of Chicago(12)	2004	213,141	234,455					
Charlie Huston Former Acting President, FHLBank of Chicago(12)	2004	222,250	101,517				110,872	21,158(7)
Alex J. Pollock	2004	352,442						41,397(7)
Former President, FHLBank of Chicago(12)	2003	588,000	319,000				449,361(13)	35,280(7)
Neil N. Fruechte Former Acting President, FHLBank of Des Moines(14)	2005	9,000						

		Annual Compensation			Long Term Compensation: Awards		Long Term Compensation: Payouts	
Name and Principal Position	Year	Salary($)	Incentive Payment($)	Other Annual Compensation ($) (1)	Restricted Stock Awards($)	Securities Underlying Options/ SARs(#)	LTIP Payouts ($)	All Other Compensation ($) (2)
Patrick J. Conway	2005	545,695						32,742(7)
Former President,	2004	494,167	116,394					148,920(16)
FHLBank of Des Moines(15)	2003	461,167	103,463					33,878(7)
Terry Smith	2005	543,375	227,821	8,188				208,987(17)
President, FHLBank	2004	525,000	143,973	9,073				167,355(17)
of Dallas	2003	475,000	90,602	7,011				75,206(17)
Andrew J. Jetter	2005	511,250	140,594					40,459(7)
President, FHLBank	2004	475,000	187,031					36,531(7)
Topeka	2003	387,500	133,946					29,564(7)
Dean M. Schultz	2005	600,000	325,000				216,800(18)	36,000(7)
President, FHLBank	2004	535,600	300,000				237,900(18)	32,136(7)
of San Francisco	2003	520,000	164,700				217,800(18)	31,303(7)
James E. Gilleran President, FHLBank of Seattle(19)	2005	304,231	136,904	124,274				340
James R. Faulstich Former Interim President, FHLBank of Seattle(20)	2005	116,000						
Norman B. Rice	2005	142,567		20,319				417,053(21)
Former President, FHLBank	2004	464,100						35,920(7)
of Seattle	2003	442,000	80,621					31,407(7)
John K. Darr	2005	530,000	263,013					152,550(22)
Managing Director,	2004	505,000	252,500					89,217(22)
Office of Finance	2003	476,000	180,880					40,047(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), (6) and (9) 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 $42,600, $41,811, and $41,902 in contributions or other allocations made by the FHLBank of Boston to qualified and/or non-qualified vested defined contribution plans in 2005, 2004 and 2003, and $5,612, $3,675, and $3,138 in insurance premiums paid by the FHLBank of Boston with respect to term life insurance in 2005, 2004 and 2003 (as described in note (4) below), and $203,811 in payout for unused vacation in 2005.

(4) In 2005, the FHLBank of Boston established a rabbi trust with which to actuarially fund the Benefit Equalization Plan (BEP) liability and to hold investment securities as well as life insurance policies for payment of benefits under the Pension Benefit Equalization Plan. During 2004 and 2003, the FHLBank of Boston used collateral assignment split-dollar life insurance policies for this purpose. During 2005, the FHLBank of Boston terminated the collateral assignment split-dollar life insurance arrangements with the executive. The life insurance polices were transferred by the executive to the FHLBank of Boston in connection with the termination of the split-dollar life insurance arrangements and replaced with supplemental term-life insurance policies. The premium of the term-life component of the policy has been separately disclosed in note (3) above.

(5) Includes $32,088, $30,708, and $33,192 in contributions or other allocations made by the FHLBank of New York to qualified and/or non-qualified vested and unvested contribution plans in 2005, 2004 and 2003. Imputed income on an additional term policy amounted to $9,360 in each of 2005, 2004 and 2003.

(6) Mr. Roy retired as of December 31, 2005. Mr. Roy received retirement gifts, including gross-ups, of $46,066 and a scholarship fund in his name of $5,500 per year for ten years in addition to $43,886 in contributions or other allocations made by the FHLBank of Pittsburgh to qualified and/or non-qualified vested and unvested defined contribution plans in 2005.

(7) Represents contributions or other allocations made by the FHLBank or the Office of Finance with whom the Named Person is employed to qualified and/or non-qualified vested and unvested defined contribution plans.

(8) Includes $32,307, $29,330, and $27,989 in contributions or other allocation made by the FHLBank of Atlanta to qualified and/or non-qualified vested and unvested contribution plans and $4,912, $4,768, and $2,445 relating to Group Term Life Insurance in 2005, 2004 and 2003. This amount also includes $23,000 and $46,000 for additional insurance policies in 2005 and 2004 and $194,030 relating to the interest in the split dollar life insurance transferred to the president upon termination of this plan by FHLBank of Atlanta on December 31, 2003.

(9) David H. Hehman became president of the FHLBank of Cincinnati following Charles Thiemann's retirement on March 1, 2003. Before that, Mr. Hehman served as the executive vice president since 1990. In March 2005, the FHLBank of Cincinnati's board of directors adopted an Executive Long-Term Incentive Plan, a performance unit plan, which will provide senior officers with cash compensation if specified performance goals are achieved over a three-year performance period. The first performance period runs from January 1, 2005 through December 31, 2007.

(10) During 2001, the FHLBank of Indianapolis implemented a key employee severance agreement for Mr. Heger. Under the terms of the agreement, if a termination occurs under certain specific circumstances, Mr. Heger is entitled to 2.99 times the average of the three preceding years' base salary, incentive compensation, and other cash compensation, salary deferrals and matching contributions to the qualified and nonqualified plans, compensation for the loss of the use of a company vehicle, continued medical and dental plan coverage, and a gross up amount to cover the increased tax liability. In November 2005, the board voted to provide lifetime medical, dental and vision insurance coverage to both Mr. Heger and his current spouse, provided that Mr. Heger is not terminated for cause. The key employee severance agreement with Mr. Heger has been amended to provide for these additional benefits.

On October 20, 2006, the Board of Directors of the FHLBank of Indianapolis approved a plan to offer an Early Retirement Incentive to employees that have reached age 50 and have 10 years of service with the FHLBank of Indianapolis as of December 15, 2006. Mr. Heger is eligible for this incentive and was notified of this incentive on October 26, 2006. The incentive enhances Mr. Heger's retirement benefits by adding three years of service and increasing Mr. Heger's age by three years in calculating his benefits under the FHLBank of Indianapolis' qualified and non-qualified pension plans. Assuming Mr. Heger elects to accept the enhanced benefit in exchange for early retirement, the assumed benefit would be an increased annual benefit of $95,652, or a lump sum increased benefit of $1,536,171, with an estimated total cost to the FHLBank of Indianapolis of $1,547,386. These amounts are estimates based upon certain assumed interest rates, mortality tables, participation in non-qualified plans and other factors that could increase or decrease the actual payments. Mr. Heger will have 45 days after receipt of his specific enhanced benefit information to make his election, and it is anticipated that all retirements under this incentive would be effective December 29, 2006. At this time, it is not known whether Mr. Heger will accept this early retirement incentive.

(11) Includes $32,817, $29,769 and $28,531 in contributions or other allocations made by the FHLBank of Indianapolis to qualified and/or non-qualified vested and unvested defined contribution plans during 2005, 2004, and 2003, and $7,807, $7,142, and $6,962 in taxable fringe benefits such as company-provided vehicles and spousal travel.

(12) J. Mikesell Thomas became president of the FHLBank of Chicago on August 30, 2004. Prior to that Charlie Huston conducted business in the Acting President capacity from June 30, 2004 through August 30, 2004. Alex Pollock resigned on June 30, 2004. Mr. Pollock had served as the president since September 1991.

(13) Long-term Incentive Plan payout, although reflected as being paid in a lump sum as 2003 compensation, reflects results attained over a three-year performance period (2001—2003).

(14) Mr. Fruechte was appointed acting president on December 22, 2005 by the FHLBank of Des Moines's board of directors, and stepped down from such position on May 31, 2006 upon the board's election of Richard S. Swanson as resident and chief executive officer of the FHLBank of Des Moines. Prior to his appointment, Mr. Fruechte had served on the board since January 2001. Salary represents a prorated amount paid pursuant to an employment agreement between the FHLBank of Des Moines and Mr. Fruechte for his services as acting president and chief executive officer from December 22, 2005 to March 31, 2006.

(15) Mr. Conway resigned from his position as president on December 22, 2005 and retired from the FHLBank of Des Moines effective December 31, 2005.

(16) Of this amount, only $33,100 of contributions or other allocations made by the FHLBank of Des Moines to qualified and/or non-qualified vested and unvested contribution plans was paid to Mr. Conway. The remaining $115,820 covered retiree medical insurance coverage for Mr. Conway and his spouse. However, pursuant to his resignation agreement, Mr. Conway is no longer entitled to any retiree medical coverage exclusively for his benefit or the benefit of his spouse.

(17) Includes $153,260, $133,788, and $42,750 in contributions to qualified and non-qualified vested and unvested defined contribution plans in 2005, 2004 and 2003, $52,727, $33,567 and $32,456 of payouts for unused vacation and sick leave in 2005, 2004 and 2003, and $3,000 relating to the termination of an annuity benefit option that was available to the executive officer under the terms of a prior non-qualified defined contribution plan in 2005. All Other Compensation represents amounts reimbursed for the payment of taxes.

(18) Represents awards under the Executive Performance Unit Plan (the FHLBank of San Francisco's long-term incentive compensation plan) earned for the three years ending the year shown and paid the following year.

(19) Mr. Gilleran joined the FHLBank of Seattle as of June 1, 2005. $124,274 represents amounts paid for relocation and/or temporary living expenses, including related tax reimbursements and $340 in payments for term life insurance premiums.

(20) Mr. Faulstich served as Interim President and Chief Executive Officer of the FHLBank of Seattle from February 14, 2005 to June 1, 2005.

(21) Mr. Rice stepped down from his positions as President and Chief Executive Officer in early February 2005 and effectively retired from such positions as of March 15, 2005. Other Annual Compensation of $20,319 represents a car allowance for 2005, including a tax reimbursement for such allowance. All Other Compensation of $417,053 is related to: $367,333 for a severance payment to Mr. Rice, $38,163 for a lump-sum payment, $11,335 to qualified and non-qualified vested and unvested defined contribution plans, and $222 for life insurance premiums paid by or on behalf of the FHLBank of Seattle for term life. The lump-sum payment is equal to the difference between Mr. Rice's accrued early retirement benefits under the Pentegra Defined Benefit Plan for Financial Institutions and the accrued benefits he would have received under that plan had he continued employment with the Seattle Bank until his age and years of vesting service with the Seattle Bank totaled 70.

(22) Includes $31,800, $30,300 and $40,047 in contributions or other allocations made by the Office of Finance to qualified and/or non-qualified vested and unvested defined contribution plans during 2005, 2004, and 2003, and $120,750 and $58,917 in long term incentive accruals in 2005 and 2004.

Compensation of Directors

In accordance with the regulations of the Finance Board and the GLB Act, the FHLBanks have established formal policies governing the compensation and travel reimbursement provided their directors. The goal of the policies is to compensate members of the board of directors for work performed on behalf of the FHLBanks. Under these policies, compensation consists of per-meeting fees, which are subject to an annual cap. The fees compensate directors for:

- time spent reviewing materials sent to them on a periodic basis by the FHLBanks;
- preparation for meetings;
- participation in any other activities for the FHLBanks; and
- actual time spent attending the meetings of the board or its committee.

Directors are also reimbursed for reasonable FHLBank-related travel expenses. The compensation limits for 2005 were $28,364 for a chairperson, $22,692 for a vice chairperson and $17,019 for all other directors. Total directors' fees and other travel expense paid by the FHLBanks during 2005, 2004 and 2003, were $5.5 million, $5.9 million, and $5.9 million.

FHLBank Presidents and Managing Director of the Office of Finance Pension Plans and Benefit Equalization Plans

All of the presidents of the FHLBanks, except the presidents of the FHLBanks of San Francisco and Seattle, and the managing director of the Office of Finance, participate in the Pentegra Defined Benefit Plan for Financial Institutions (Pentegra Plan), formerly the Financial Institutions Retirement Fund (FIRF). The Pentegra Plan is a tax-qualified defined benefit pension plan. All of the FHLBank presidents, except the president of the FHLBank of Seattle, and the managing director of the Office of Finance have retirement Benefit Equalization Plans (BEP). The BEP is a non-qualified defined benefit retirement plan, except for the FHLBank of Dallas, which has a defined contribution BEP. A BEP ensures 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). Some FHLBank BEPs also include enhancements.

The following tables show estimated annual benefits payable from the Pentegra Plan and BEP combined upon retirement at age 65. The benefits are calculated in accordance with the formula currently in effect for specified years-of-service and remuneration classes for the FHLBank presidents and the managing director of the Office of Finance participating in both plans. 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, 2005, and any other information relevant to understanding the table are set forth.

President, FHLBank of Boston

	Years of Service					
Remuneration	**15**	**20**	**25**	**30**	**35**	**40**
$300,000	$106,875	$142,500	$178,125	$213,750	$240,000	$240,000
$400,000	$142,500	$190,000	$237,500	$285,000	$320,000	$320,000
$500,000	$178,125	$237,500	$296,875	$356,250	$400,000	$400,000
$600,000	$213,750	$285,000	$356,250	$427,500	$480,000	$480,000
$700,000	$249,375	$332,500	$415,625	$498,750	$560,000	$560,000
$800,000	$285,000	$380,000	$475,000	$570,000	$640,000	$640,000
$900,000	$320,625	$427,500	$534,375	$641,250	$720,000	$720,000

- Formula: 2.375 percent x high three-year average compensation x credited years of service, subject to a maximum annual benefit amount not to exceed 80 percent of high three-year average compensation.
- Compensation is the highest three-year compensation (salary and incentive) paid in the year.
- Credited years of service as of December 31, 2005, is 28 years and 10 months.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

President, FHLBank of New York

	Years of Service					
Remuneration	**15**	**20**	**25**	**30**	**35**	**40**
$ 300,000	$112,500	$150,000	$187,500	$225,000	$225,000	$225,000
$ 400,000	$150,000	$200,000	$250,000	$300,000	$300,000	$300,000
$ 500,000	$187,500	$250,000	$312,500	$375,000	$375,000	$375,000
$ 600,000	$225,000	$300,000	$375,000	$450,000	$450,000	$450,000
$ 700,000	$262,500	$350,000	$437,500	$525,000	$525,000	$525,000
$ 800,000	$300,000	$400,000	$500,000	$600,000	$600,000	$600,000
$ 900,000	$337,500	$450,000	$562,500	$675,000	$675,000	$675,000
$1,000,000	$375,000	$500,000	$625,000	$750,000	$750,000	$750,000
$1,100,000	$412,500	$550,000	$687,500	$825,000	$825,000	$825,000

- Formula: 2.5 percent x years of benefit service (not to exceed 30) x high three-year average compensation.
- Three-year average compensation is comprised of salary and incentive payments as such terms are used in the Summary Compensation table. The benefit calculation is based on the average annual compensation for the three consecutive years of highest compensation during the years of credited service.
- Credited years of service as of December 31, 2005, is 12 years and 9 months.
- The regular form of the retirement benefit is a straight-life annuity with a death benefit equal to 12 times the annual benefit less the amount of benefits paid before death.

President, FHLBank of Pittsburgh

Remuneration	Years of Service					
	15	20	25	30	35	40
$300,000	$ 90,000	$120,000	$150,000	$180,000	$210,000	$240,000
$400,000	$120,000	$160,000	$200,000	$240,000	$280,000	$320,000
$500,000	$150,000	$200,000	$250,000	$300,000	$350,000	$400,000
$600,000	$180,000	$240,000	$300,000	$360,000	$420,000	$480,000
$700,000	$210,000	$280,000	$350,000	$420,000	$490,000	$560,000
$800,000	$240,000	$320,000	$400,000	$480,000	$560,000	$640,000
$900,000	$270,000	$360,000	$450,000	$540,000	$630,000	$720,000

- Formula: 2 percent x years of benefit service x high three-year average compensation.
- Compensation covered includes annual base salary plus short-term incentive compensation without regard to IRS limitations.
- Credited years of service as of December 31, 2005, is 18 years and 1 month.
- The regular form of retirement benefits provides a single life annuity; a lump-sum option is also available.

President, FHLBank of Atlanta

Remuneration	Years of Service					
	15	20	25	30	35	40
$ 300,000	$112,500	$150,000	$187,500	$225,000	$225,000	$225,000
$ 400,000	$150,000	$200,000	$250,000	$300,000	$300,000	$300,000
$ 500,000	$187,500	$250,000	$312,500	$375,000	$375,000	$375,000
$ 600,000	$225,000	$300,000	$375,000	$450,000	$450,000	$450,000
$ 700,000	$262,500	$350,000	$437,500	$525,000	$525,000	$525,000
$ 800,000	$300,000	$400,000	$500,000	$600,000	$600,000	$600,000
$ 900,000	$337,500	$450,000	$562,500	$675,000	$675,000	$675,000
$1,000,000	$375,000	$500,000	$625,000	$750,000	$750,000	$750,000

- Formula: 2.5 percent x years of service (not to exceed 30 years) x high three-year average compensation.
- Compensation used for retirement plan calculations includes the high-three-year average of regular salary as of January 1 and incentive compensation paid in the prior calendar year as reported in the Summary Annual Compensation table above.
- Credited years of service as of December 31, 2005, is 6 years and 6 months.
- The regular form of all retirement benefits provides for an annual retirement benefit, expressed as a single, straight life annuity, plus a death benefit.

President, FHLBank of Cincinnati

Remuneration	Years of Service					
	15	20	25	30	35	40
$ 300,000	$112,500	$150,000	$187,500	$225,000	$262,500	$ 300,000
$ 400,000	$150,000	$200,000	$250,000	$300,000	$350,000	$ 400,000
$ 500,000	$187,500	$250,000	$312,500	$375,000	$437,500	$ 500,000
$ 600,000	$225,000	$300,000	$375,000	$450,000	$525,000	$ 600,000
$ 700,000	$262,500	$350,000	$437,500	$525,000	$612,500	$ 700,000
$ 800,000	$300,000	$400,000	$500,000	$600,000	$700,000	$ 800,000
$ 900,000	$337,500	$450,000	$562,500	$675,000	$787,500	$ 900,000
$1,000,000	$375,000	$500,000	$625,000	$750,000	$875,000	$1,000,000

- Formula: 2.5 percent x years of benefit service x high three-year average salary.
- Salary is defined as Salary and Bonus as reported in the Summary Compensation Table.
- Credited years of service as of December 31, 2005, is 27 years and 11 months.
- 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	40
$ 300,000	$112,500	$150,000	$187,500	$225,000	$ 262,500	$ 300,000
$ 400,000	$150,000	$200,000	$250,000	$300,000	$ 350,000	$ 400,000
$ 500,000	$187,500	$250,000	$312,500	$375,000	$ 437,500	$ 500,000
$ 600,000	$225,000	$300,000	$375,000	$450,000	$ 525,000	$ 600,000
$ 700,000	$262,500	$350,000	$437,500	$525,000	$ 612,500	$ 700,000
$ 800,000	$300,000	$400,000	$500,000	$600,000	$ 700,000	$ 800,000
$ 900,000	$337,500	$450,000	$562,500	$675,000	$ 787,500	$ 900,000
$1,000,000	$375,000	$500,000	$625,000	$750,000	$ 875,000	$1,000,000
$1,100,000	$412,500	$550,000	$687,500	$825,000	$ 962,500	$1,100,000
$1,200,000	$450,000	$600,000	$750,000	$900,000	$1,050,000	$1,200,000

- Formula: 2.5 percent x years of benefit service x high three-year average compensation without regard to the IRS limits.
- The remuneration covered includes salary, incentive compensation, 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, 2005, is 24 years.
- The regular form of retirement benefits provides for a lump sum payment, annual installments or a combination of lump sum and annual payments.

President, FHLBank of Chicago

Remuneration	Years of Service					
	15	20	25	30	35	40
$ 300,000	$101,250	$135,000	$168,750	$ 202,500	$ 236,250	$ 270,000
$ 400,000	$135,000	$180,000	$225,000	$ 270,000	$ 315,000	$ 360,000
$ 500,000	$168,750	$225,000	$281,250	$ 337,500	$ 393,750	$ 450,000
$ 600,000	$202,500	$270,000	$337,500	$ 405,000	$ 472,500	$ 540,000
$ 700,000	$236,250	$315,000	$393,750	$ 472,500	$ 551,250	$ 630,000
$ 800,000	$270,000	$360,000	$450,000	$ 540,000	$ 630,000	$ 720,000
$ 900,000	$303,750	$405,000	$506,250	$ 607,500	$ 708,750	$ 810,000
$1,000,000	$337,500	$450,000	$562,500	$ 675,000	$ 787,500	$ 900,000
$1,100,000	$371,250	$495,000	$618,750	$ 742,500	$ 866,250	$ 990,000
$1,200,000	$405,000	$540,000	$675,000	$ 810,000	$ 945,000	$1,080,000
$1,300,000	$438,750	$585,000	$731,250	$ 877,500	$1,023,750	$1,170,000
$1,400,000	$472,500	$630,000	$787,500	$ 945,000	$1,102,500	$1,260,000
$1,500,000	$506,250	$675,000	$843,750	$1,012,500	$1,181,250	$1,350,000
$1,600,000	$540,000	$720,000	$900,000	$1,080,000	$1,260,000	$1,440,000

- Formula: 2.25 percent x the number of years credit service x highest five-year average salary.
- Compensation is the average annual salary (base and incentive compensation) for the five consecutive years of highest salary during the benefit service.
- Credited years of service as of December 31, 2005 is 10 months.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

President, FHLBank of Des Moines

- A remuneration table is not shown here as Mr. Conway retired from the FHLBank of Des Moines on December 31, 2005 and a permanent president had not been named.

President, FHLBank of Dallas

Remuneration	Years of Service					
	15	20	25	30	35	40
$ 300,000	$94,500	$120,750	$141,750	$162,750	$162,750	$162,750
$ 400,000	$94,500	$120,750	$141,750	$162,750	$162,750	$162,750
$ 500,000	$94,500	$120,750	$141,750	$162,750	$162,750	$162,750
$ 600,000	$94,500	$120,750	$141,750	$162,750	$162,750	$162,750
$ 700,000	$94,500	$120,750	$141,750	$162,750	$162,750	$162,750
$ 800,000	$94,500	$120,750	$141,750	$162,750	$162,750	$162,750
$ 900,000	$94,500	$120,750	$141,750	$162,750	$162,750	$162,750
$1,000,000	$94,500	$120,750	$141,750	$162,750	$162,750	$162,750

- Compensation covered by the plan includes taxable compensation as reported on the FHLBank of Dallas' president's W-2 (exclusive of any compensation deferred from a prior year) plus any pre-tax contributions to the FHLBank of Dallas' Section 401(k) plan and/or Section 125 cafeteria plan, subject to the 2005 IRS limitation of $210,000 per year. From time to time, the IRS will increase the maximum compensation limit for qualified plans; future increases, if any, would be expected to increase the estimated annual benefits payable. For 2006, the maximum compensation limit was increased to $220,000 per year. The benefit is computed as:

  Formula: Starting July 1, 2003 — 2 percent x years of service x high three-year average compensation (consecutive years)
  Prior to July 1, 2003 — 3 percent x years of service x high three-year average compensation (consecutive years)

- The pension plan is a qualified defined benefit plan and is therefore subject to the IRS maximum compensation limit, which for 2005 was $210,000 per year. The regular form of retirement benefit is a straight-life annuity that includes a lump-sum death benefit. The normal retirement age is 65, but the plan provides for an unreduced retirement benefit beginning at age 60 (if hired prior to July 1, 2003) or age 62 (if hired on or after July 1, 2003). The FHLBank of Dallas does not have a supplemental defined benefit plan that covers compensation in excess of the IRS maximum limit; accordingly, the above table reflects the estimated pension benefits payable to its president based solely on the IRS compensation limit as his compensation exceeded such limit.
- The pension plan limits the maximum years of benefit service (both prior to July 1, 2003 and after July 1, 2003) to 30 years.
- Credited years of service as of December 31, 2005 is 20 years.
- Special Non-Qualified Deferred Compensation Plan

  The president also participates in the FHLBank of Dallas' Special Non-Qualified Deferred Compensation Plan (the Plan), a defined contribution plan that was established in October 2004 primarily to provide supplemental retirement benefits to most of the FHLBank of Dallas' executive officers. Each participant's benefit under the Plan consists of contributions made by the FHLBank of Dallas on the participant's behalf, plus an allocation of the investment gains or losses on the assets used to fund the Plan. Generally, benefits under the Plan vest when the participant reaches age 62, except for certain amounts contributed on the president/chief executive officer's behalf and the earnings thereon, which provide for earlier vesting as specified in the Plan. If the officer terminates employment or is removed from the Plan prior to vesting, all benefits under the Plan are forfeited. Contributions to the Plan are determined solely at the discretion of the FHLBank of Dallas' board of directors; the FHLBank of Dallas has no obligation to make future contributions to the Plan. The ultimate benefit to the participant is based solely on the contributions made on his or her behalf and the earnings thereon; the FHLBank of Dallas does not guaranty a specific benefit amount or investment return to any participant. In addition, the FHLBank of Dallas has the right at any time to amend or terminate the Plan, or remove a participant from the Plan at its discretion, provided, however, that no amendment, modification or termination may reduce the then vested account balance of any participant. If, at retirement, a participant's vested account balance is at least $25,000, the participant may elect to receive such amount in quarterly installments over a period of one to five years or in a single lump sum payment. If a participant's vested account balance is less than $25,000 at retirement, a lump sum payment is required. As of December 31, 2005, the approximate unvested balances of the president's account was $245,000 (of which approximately $125,000 vests in 2010).

President, FHLBank of Topeka

	Years of Service					
Remuneration	15	20	25	30	35	40
$300,000	$103,000	$133,000	$163,000	$193,000	$193,000	$193,000
$400,000	$133,000	$173,000	$213,000	$253,000	$253,000	$253,000
$500,000	$163,000	$213,000	$263,000	$313,000	$313,000	$313,000
$600,000	$193,000	$253,000	$313,000	$373,000	$373,000	$373,000
$700,000	$223,000	$293,000	$363,000	$433,000	$433,000	$433,000
$800,000	$253,000	$333,000	$413,000	$493,000	$493,000	$493,000

- Formula: Starting September 2003 Pentegra Defined Plan Benefit = 2.0 percent x years of benefit service (not to exceed 30 years) x high three-year average compensation. Benefit service begins one year after employment.

  Prior to September 2003 FIRF Benefit = 2.25 percent x years of benefit service (not to exceed 30 years) x high three-year average compensation. Benefit service begins one year after employment.
- Compensation covered includes annual base salary plus incentive compensation without regard to IRS limitations.
- Credited years of service as of December 31, 2005, is 17 years, 7 months.
- The regular form of retirement benefits provides a straight-life annuity with 10 years certain.

President, FHLBank of San Francisco

Savings Plan. The Savings Plan is a tax-qualified 401(k) defined contribution benefit plan that is open to employees of the FHLBank of San Francisco, including the president. Under the Savings Plan, each eligible FHLBank of San Francisco employee may contribute between 2% and 20% of his or her base salary, and once the employee has completed a minimum of six months of service at the FHLBank of San Francisco, the FHLBank of San Francisco provides an employer matching contribution (subject to a step-up schedule over each participant's first five years of FHLBank of San Francisco employment) of up to 6% of the participant's base salary.

Cash Balance Plan. The Cash Balance Plan, which was adopted by the FHLBank of San Francisco on January 1, 1996, is a tax-qualified defined benefit pension plan that covers employees who have completed a minimum of six months of service to the FHLBank of San Francisco, including the president. Under the Cash Balance Plan, each eligible employee accrues benefits annually equal to 6% of the employee's total annual compensation plus an interest credit amount equal to 6% of the benefit balance accrued to the employee under the Cash Balance Plan through the prior yearend. Vested amounts accrued under the Cash Balance Plan are generally payable upon termination of employment (regardless of early retirement), either in a lump sum benefit or in an annuity. The benefits under the Cash Balance Plan vest 20% per year and are fully vested after completing 5 years of service. Prior to the adoption of the Cash Balance Plan, the FHLBank of San Francisco participated in the Financial Institutions Retirement Fund (the "FIRF"), a multiple-employer tax-qualified defined benefit pension plan. Effective December 31, 1995, the FHLBank of San Francisco withdrew its participation in the FIRF and implemented the Cash Balance Plan on January 1, 1996. The full value of benefits earned under the FIRF, calculated as of December 31, 1995 (and assuming normal retirement at age 65), is preserved and vested for those employees who participated in the FIRF prior to January 1, 1996 (the "frozen FIRF benefit"), including the president. The FIRF benefits were calculated based on each participant's highest three consecutive years average pay (as of December 31, 1995) multiplied by the employee's credited years of benefit service (as of December 31, 1995) multiplied by two percent. In addition to the cash balance benefit component of the Cash Balance Plan (annual service credit of 6% and annual interest credit of 6%), the Cash Balance Plan also includes a FIRF transition benefit component for those participants with a frozen FIRF benefit. The transition benefit component of the Cash Balance Plan is designed to supplement the frozen FIRF benefit by maintaining the participant's percentage ratio of his or her frozen FIRF annuity payments to the participant's highest three consecutive years average pay, calculated as of December 31, 1995 (the "annuity ratio"). Upon retirement, the participant will receive transition benefits equal to his or her then-highest three consecutive years average pay (subsequent to December 31, 1995) multiplied by his or her annuity ratio minus the frozen FIRF benefit. Upon retirement, eligible employees receive pension benefits comprised of the frozen FIRF benefit (if applicable), the Cash Balance Plan benefit component, and the FIRF transition benefit component (if applicable).

Benefit Equalization Plan. The Benefit Equalization Plan is a non-qualified plan that is designed to restore retirement benefits lost under the Cash Balance Plan and the Savings Plan because of compensation and benefits limitations imposed on the Savings Plan and the Cash Balance Plan under the Internal Revenue Code. To comply with Internal Revenue Code (IRC) Section 409A before December 31, 2006, and retroactive to January 1, 2005, the FHLBank of San Francisco expects to freeze the initial Benefit Equalization Plan and expects to implement a new Benefit Equalization Plan to address the IRC Sec. 409A provisions that changed the participant election process related to the time and form of benefit payments. Under the Benefits Equalization Plan, benefits that would have been earned under the Cash Balance Plan or the Savings Plan but for the limitations imposed on such plans under the Internal Revenue Code are accrued under the Benefit Equalization Plan. The benefits under the Benefit Equalization Plan vest and are payable to the employee according to the corresponding provisions of the Cash Balance Plan and the Savings Plan.

Deferred Compensation Plan. The Deferred Compensation Plan, also a non-qualified plan, is comprised of three components: (1) employee deferral of current compensation; (2) make-up matching contributions that would have been made by the FHLBank of San Francisco under the Savings Plan had the compensation not been deferred; and (3) make-up pension benefits that would have been earned under the Cash Balance Plan had the compensation not been deferred. To comply with Internal Revenue Code (IRC) Sec. 409A, effective January 1, 2005, the FHLBank of San Francisco froze the initial Deferred Compensation Plan on December 21, 2005, retroactive to January 1, 2005, and has implemented a new Deferred Compensation Plan to specifically address the IRC Sec. 409A provisions that changed the participant election process related to the time and form of benefit payments. The Deferred Compensation Plan is available to all officers and directors of the FHLBank of San Francisco, including the president. The make-up benefits under the Deferred Compensation Plan vest according to the corresponding provisions of the Cash Balance Plan and the Savings Plan.

Supplemental Executive Retirement Plan. Effective January 1, 2003, the FHLBank of San Francisco began providing a Supplemental Executive Retirement Plan to members of the FHLBank of San Francisco's executive management, including the president. The Supplemental Executive Retirement Plan is a non-qualified retirement benefit plan that provides a cash balance benefit to the participants that is in addition to the benefits earned under the tax-qualified Cash Balance Plan. The benefit is calculated based on total annual compensation and years of credited service based on the following table, plus an annual interest credit of 6% on the balances accrued to the executive under the Supplemental Executive Retirement Plan through the prior yearend. Annual benefits accrued under the Supplemental Executive Retirement Plan vest at the earlier of three years after they are earned or when the participant reaches age 62.

Years of Credited Service (As Defined in the Plan)	Amount of Contribution (Percentage of Total Annual Compensation)
Fewer than 10	10%
10 or more but less than 15	15%
15 or more	20%

The estimated annual pension retirement benefits under the Cash Balance Plan, the FIRF, the Benefit Equalization Plan, the Deferred Compensation Plan, and the Supplemental Executive Retirement Plan for the President of the FHLBank of San Francisco commencing at the normal retirement age of 65 are as follows:

Year Reaching 65	Frozen FIRF Annuity Benefit	Estimated Cash Balance Plan Cash Balance Annuity Benefit(1)	Estimated Cash Balance Plan FIRF Transition Annuity Benefit(1)	Estimated Benefit Equalization Plan and Deferred Compensation Plan Cash Balance Annuity Benefit(1)	Estimated Benefit Equalization Plan and Deferred Compensation Plan FIRF Transition Annuity Benefit(1)	Estimated Supplemental Executive Retirement Plan Annuity Benefit(1)	Estimated Total Annuity Benefits(1)
2012	$48,004	$31,544	$6,486	$69,267	$167,991	$136,745	$460,037

(1) Estimates are based on the following assumptions:

- Annual base salary increases of 4%.
- Annual incentive pay equal to 40% of the individual's prior year base salary until retirement
- Retirement at age 65.

President, FHLBank of Seattle

Savings Plan. The Savings Plan is a tax-qualified 401(k) savings plan that is open to all employees of the FHLBank of Seattle, including the president, after meeting the Savings Plan's eligibility requirements. Under the Savings Plan, each eligible FHLBank of Seattle employee may contribute between 1% and 25% of his or her eligible pay after completing 90 days of service. After an eligible employee has completed at least one year of service, the FHLBank of Seattle provides a discretionary employer matching contribution (subject to a step-up schedule over each participant's first five years of FHLBank of Seattle employment) of up to a maximum of 6% of the participant's eligible pay. Additionally, if an eligible employee (including the president) was hired on or after January 1, 2004, is not eligible to participate in the Pentegra Plan, and has completed at least one year of service, he or she is eligible for an additional type of employer contribution called "Contribution Plus Contributions," which are equal to 5.5% of eligible pay. As of December 31, 2005, the president had not completed a year of service and is therefore not yet eligible for any employer contributions.

Managing Director, Office of Finance

	Years of Service					
Remuneration	**15**	**20**	**25**	**30**	**35**	**40**
$ 300,000	$126,930	$160,680	$194,430	$228,180	$261,930	$295,680
$ 400,000	$160,680	$205,680	$250,680	$295,680	$340,680	$385,680
$ 500,000	$194,430	$250,680	$306,930	$363,180	$419,430	$475,680
$ 600,000	$228,180	$295,680	$363,180	$430,680	$498,180	$565,680
$ 700,000	$261,930	$340,680	$419,430	$498,180	$576,930	$655,680
$ 800,000	$295,680	$385,680	$475,680	$565,680	$655,680	$745,680
$ 900,000	$329,430	$430,680	$531,930	$633,180	$734,430	$835,680
$1,000,000	$363,180	$475,680	$588,180	$700,680	$813,180	$925,680

- Formula: Starting April 2003 — 2.25 percent x years of benefit service x high three-year average compensation.

  Prior to April 2003 — 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, 2005, is 18 years and 4 months.
- The regular form of retirement benefit is a straight-life annuity including a lump-sum retirement death benefit.

FIVE LARGEST REGULATORY CAPITAL STOCKHOLDERS OF AND BORROWERS FROM EACH FHLBANK

Top 5 Regulatory Capital Stockholders by FHLBank at December 31, 2005 (Dollar amounts in millions)

District	Name	City	State	Regulatory Capital Stock	Percent of FHLBank Regulatory Capital Stock(1)
Boston	Bank of America Rhode Island, NA	Providence	RI	$ 376	14.8%
	Citizens Bank of Massachusetts	Boston	MA	157	6.2%
	Webster Bank, NA	Waterbury	CT	133	5.3%
	TD BankNorth, NA	Portland	ME	111	4.4%
	Citizens Bank of Rhode Island	Providence	RI	82	3.2%
				$ 859	33.9%
New York	HSBC Bank USA, NA	Wilmington	DE	$ 360	10.0%
	New York Community Bank*	Westbury	NY	327	9.1%
	Hudson City Savings Bank	Paramus	NJ	264	7.3%
	North Fork Bank*	Melville	NY	227	6.3%
	Manufacturers and Traders Trust Company	Buffalo	NY	221	6.1%
				$1,399	38.8%
Pittsburgh	Sovereign Bank*	Reading	PA	$ 643	20.8%
	Citicorp Trust Bank, FSB	Newark	DE	332	10.7%
	ING Bank, FSB	Wilmington	DE	299	9.7%
	GMAC Bank*	Wilmington	DE	234	7.6%
	Lehman Brothers Bank, FSB	Wilmington	DE	156	5.0%
				$1,664	53.8%
Atlanta	Countrywide Bank, NA	Alexandria	VA	$1,211	20.5%
	SunTrust Bank	Atlanta	GA	391	6.6%
	BB&T of NC*	Winston-Salem	NC	292	5.0%
	BankUnited, FSB	Coral Gables	FL	201	3.4%
	ETrade Bank	Arlington	VA	199	3.4%
				$2,294	38.9%
Cincinnati	Charter One Bank, NA*	Cleveland	OH	$ 549	14.0%
	US Bank, NA	Cincinnati	OH	496	12.6%
	Fifth Third Bank	Cincinnati	OH	347	8.9%
	Regions Bank	Birmingham	AL	238	6.1%
	Ohio Savings Bank, FSB	Cleveland	OH	202	5.1%
				$1,832	46.7%
Indianapolis	LaSalle Bank Midwest, NA(4)	Troy	MI	$ 358	16.3%
	Flagstar Bank, FSB	Troy	MI	292	13.3%
	Fifth Third Bank	Grand Rapids	MI	210	9.6%
	Republic Bank	Lansing	MI	80	3.6%
	National City Bank of Indiana	Indianapolis	IN	70	3.2%
				$1,010	46.0%
Chicago	LaSalle Bank, NA*	Chicago	IL	$ 311	7.8%
	One Mortgage Partners Corp.	Chicago	IL	306	7.7%
	Associated Bank, NA	Green Bay	WI	195	4.9%
	State Farm Bank, FSB	Chicago	IL	171	4.3%
	Mid America Bank, FSB	Chicago	IL	166	4.2%
				$1,149	28.9%

District	Name	City	State	Regulatory Capital Stock	Percent of FHLBank Regulatory Capital Stock(1)
Des Moines	Superior Guaranty Insurance Company	Minneapolis	MN	$ 525	26.0%
	Transamerica Occidental Life Insurance Company	Cedar Rapids	IA	81	4.0%
	Transamerica Life Insurance Company	Cedar Rapids	IA	68	3.4%
	AmerUs Life Insurance Company	Des Moines	IA	55	2.7%
	TCF National Bank	Minneapolis	MN	54	2.7%
				$ 783	38.8%
Dallas	World Savings Bank, FSB Texas	Houston	TX	$ 541	20.7%
	Washington Mutual Bank(2)	Henderson	NV	309	11.8%
	Guaranty Bank*	Austin	TX	300	11.4%
	International Bank of Commerce	Laredo	TX	86	3.3%
	Hibernia National Bank	New Orleans	LA	81	3.1%
				$1,317	50.3%
Topeka	MidFirst Bank	Oklahoma City	OK	$ 274	14.8%
	Capitol Federal Savings Bank	Topeka	KS	185	10.0%
	US Central Federal Credit	Lenexa	KS	154	8.3%
	Security Life of Denver Ins.	Denver	CO	75	4.1%
	Bank of the West(3)	San Francisco	CA	62	3.4%
				$ 750	40.6%
San Francisco	Washington Mutual Bank*(5)	Henderson	NV	$3,350	35.0%
	Citibank (West), FSB	San Francisco	CA	1,439	15.0%
	World Savings Bank, FSB*	Oakland	CA	1,317	13.8%
	IndyMac Bank, FSB	Pasadena	CA	556	5.8%
	Bank of the West	San Francisco	CA	355	3.7%
				$7,017	73.3%
Seattle	Washington Mutual Bank, FSB*	Seattle	WA	$ 590	26.8%
	Bank of America Oregon, NA	Portland	OR	249	11.3%
	Washington Federal Savings	Seattle	WA	129	5.9%
	Merrill Lynch Bank, USA	Salt Lake City	UT	122	5.5%
	American Savings Bank, FSB	Honolulu	HI	98	4.4%
				$1,188	53.9%

* An asterisk indicates that an officer of the member was an FHLBank director in 2005.

(1) For consistency with the individual FHLBank's presentation of its top 5 capital stockholders at December 31, 2005, amounts used to calculate percentages of FHLBank regulatory capital stock are based on numbers in thousands. Accordingly, recalculations using the amounts in millions as disclosed in this report may not produce the same results.

(2) The amount relates to the outstanding regulatory 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 regulatory capital stock of the FHLBank of Dallas owned by Washington Mutual Bank, results from the acquisition.

(3) Commercial Federal Bank, FSB was acquired on December 2, 2005 by Bank of the West. Bank of the West is a member of the Federal Home Loan Bank of San Francisco.

(4) Standard Federal Bank changed its name to LaSalle Bank Midwest, NA effective September 12, 2005.

(5) On April 4, 2005, Washington Mutual Bank, FA, changed its name to Washington Mutual Bank.

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, 2005.

Top 5 Advance Holding Borrowers by FHLBank at December 31, 2005 (Dollar amounts in millions)

District	Name	City	State	Advances(1)	Percent of FHLBank Advances(2)
Boston	Bank of America Rhode Island, NA	Providence	RI	$ 8,287	21.8%
	Citizens Bank of Massachusetts	Boston	MA	2,927	7.7%
	Webster Bank, NA	Waterbury	CT	2,196	5.8%
	Citizens Bank of Rhode Island	Providence	RI	1,518	4.0%
	NewAlliance Bank	New Haven	CT	1,173	3.1%
				$ 16,101	42.4%
New York	New York Community Bank*	Westbury	NY	$ 6,476	10.5%
	HSBC Bank USA, NA	Wilmington	DE	5,009	8.1%
	Hudson City Savings Bank	Paramus	NJ	4,300	7.0%
	North Fork Bank*	Melville	NY	4,075	6.6%
	Manufacturers and Traders Trust Company	Buffalo	NY	3,654	5.9%
				$ 23,514	38.1%
Pittsburgh	Sovereign Bank*	Reading	PA	$ 13,119	27.6%
	Citicorp Trust Bank, FSB	Newark	DE	5,129	10.8%
	GMAC Bank*	Wilmington	DE	4,428	9.3%
	ING Bank, FSB	Wilmington	DE	2,387	5.0%
	Citizens Bank of Pennsylvania	Philadelphia	PA	2,200	4.6%
				$ 27,263	57.3%
Atlanta	Countrywide Bank, NA	Alexandria	VA	$ 26,350	25.9%
	SunTrust Bank	Atlanta	GA	8,134	8.0%
	BB&T of NC*	Winston-Salem	NC	6,251	6.2%
	BankUnited, FSB	Coral Gables	FL	4,070	4.0%
	ETrade Bank	Arlington	VA	3,860	3.8%
				$ 48,665	47.9%
Cincinnati	Charter One Bank NA*	Cleveland	OH	$ 9,876	24.6%
	Ohio Savings Bank, FSB	Cleveland	OH	3,878	9.7%
	US Bank NA	Cincinnati	OH	3,621	9.0%
	Fifth Third Bank	Cincinnati	OH	3,045	7.6%
	National City Bank	Cleveland	OH	2,008	5.0%
				$ 22,428	55.9%
Indianapolis	LaSalle Bank Midwest, NA(5)	Troy	MI	$ 5,475	21.1%
	Flagstar Bank, FSB	Troy	MI	4,225	16.3%
	Fifth Third Bank	Grand Rapids	MI	1,622	6.3%
	National City Bank of Indiana	Indianapolis	IN	1,382	5.3%
	Republic Bank	Lansing	MI	1,191	4.6%
				$ 13,895	53.6%
Chicago	LaSalle Bank, NA*	Chicago	IL	$ 3,091	12.4%
	Mid America Bank, FSB	Hills	IL	2,471	9.9%
	M&I Marshall & Ilsley Bank	Milwaukee	WI	1,754	7.0%
	One Mortgage Partners Corp.	Chicago	IL	1,615	6.5%
	State Farm Bank, FSB	Bloomington	IL	1,180	4.7%
				$ 10,111	40.5%
Des Moines	Transamerica Occidental Life Insurance Company	Cedar Rapids	IA	$ 1,600	7.2%
	Transamerica Life Insurance Company	Cedar Rapids	IA	1,300	5.8%
	AmerUs Life Insurance Company	Des Moines	IA	998	4.5%
	TCF National Bank	Minneapolis	MN	981	4.4%
	Bank Midwest, NA	Kansas City	MO	702	3.2%
				$ 5,581	25.1%

District	Name	City	State	Advances(1)	Percent of FHLBank Advances(2)
Dallas	World Savings Bank, FSB Texas	Houston	TX	$ 11,249	24.2%
	Washington Mutual Bank(3)	Henderson	NV	7,472	16.1%
	Guaranty Bank*	Austin	TX	6,892	14.8%
	Franklin Bank, SSB	Austin	TX	1,842	4.0%
	International Bank of Commerce	Laredo	TX	1,505	3.2%
				$ 28,960	62.3%
Topeka	MidFirst Bank	Oklahoma City	OK	$ 5,332	19.7%
	Capitol Federal Savings Bank	Topeka	KS	3,414	12.6%
	US Central Federal Credit	Lenexa	KS	2,500	9.2%
	Security Benefit Life	Topeka	KS	1,119	4.1%
	Bank of the West(4)	San Francisco	CA	1,000	3.7%
				$ 13,365	49.3%
San Francisco	Washington Mutual Bank*(6)	Henderson	NV	$ 56,911	34.9%
	Citibank (West), FSB	San Francisco	CA	30,627	18.8%
	World Savings Bank, FSB*	Oakland	CA	27,712	17.0%
	Bank of the West	San Francisco	CA	7,539	4.6%
	IndyMac Bank, FSB	Pasadena	CA	6,953	4.3%
				$129,742	79.6%
Seattle	Bank of America Oregon, NA	Portland	OR	$ 6,003	28.0%
	Washington Mutual Bank, FSB*	Seattle	WA	4,289	20.0%
	Sterling Savings Bank	Spokane	WA	1,443	6.7%
	Washington Federal Savings	Seattle	WA	1,300	6.1%
	American Savings Bank, FSB	Honolulu	WA	936	4.4%
				$ 13,971	65.2%

* An asterisk indicates that an officer of the member was an FHLBank director in 2005.

(1) Member advance amounts and the total advance amounts are at par value, and the total advance amount will not agree to the combined Statement of Condition. The difference between the par and book value amounts primarily relates to basis adjustments arising from hedges under SFAS 133 for book purposes.

(2) For consistency with the individual FHLBank's presentation of its top 5 advance holders at December 31, 2005, amounts used to calculate percentages of FHLBank advances are based on numbers in thousands. Accordingly, recalculations using the amounts in millions as disclosed in this report may not produce the same results.

(3) 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 Washington Mutual Bank with the FHLBank of Dallas result from the acquisition.

(4) Commercial Federal Bank, FSB was acquired on December 2, 2005 by Bank of the West. Bank of the West is a member of the Federal Home Loan Bank of San Francisco.

(5) Standard Federal Bank changed its name to LaSalle Bank Midwest, NA effective September 12, 2005.

(6) On April 4, 2005, Washington Mutual Bank, FA, changed its name to Washington Mutual Bank.

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.

AUDIT FEES

The following table sets forth the aggregate fees billed to the FHLBanks for the years ended December 31, 2005 and 2004 by their principal independent public accountant, PricewaterhouseCoopers LLP (dollar amounts in millions):

	2005	2004
Audit fees	$12.7	$6.3
Audit related fees	2.4	1.0
All other fees	0.5	
Total fees	$15.6	$7.3

The audit fees for the years ended December 31, 2005 and 2004 were for professional services rendered for the annual audits and quarterly reviews of the individual and combined financial statements of the FHLBanks, and for review of financial information related to the FHLBanks' Securities and Exchange Commission (SEC) registration process and subsequent SEC filings.

The audit related fees for the years ended December 31, 2005 and 2004 were for assurance and related services primarily related to accounting consultations, FHLBank capital plan conversions and internal control reviews.

All other fees as of the years ended December 31, 2005 and 2004 were for services rendered for non-financial information system related consulting. No fees were paid to the principal independent public accountant for financial information system design and implementation. For the year ended December 31, 2004 all other fees were less than $50,000.

The FHLBanks' audit committees and the board of directors of the Office of Finance, acting as the audit committee for the combined financial reports, preapprove audit and non-audit services provided by the principal independent public accountant. Also, they annually consider whether the services identified under the caption "all other fees" are compatible with maintaining the principal accountants' independence.

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 Senior 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, 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 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 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 effect 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) 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
- 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 effect 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 Senior Director, Accounting Policy & Financial Reporting. The Director, Internal Audit 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 Senior Director, Accounting Policy & Financial Reporting. The OF Board shall meet in executive session with each of the Director, Internal Audit, Senior 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 Senior Director, Accounting Policy & Financial Reporting, and other senior management of the OF quarterly to review each quarterly financial report prior to its publication.