Important Cautionary Note Regarding
Previously Reported Combined Financial Results

As of August 8, 2006, all 12 Federal Home Loan Bank (FHLBank) SEC registrations were effective, and the required reports for each FHLBank were available on the SEC EDGAR database. On November 8, 2006, the 2005 Combined Financial Report was published and thereafter distributed to the FHLBanks and their members, and to investors in connection with the offer and sale of consolidated bonds and consolidated discount notes (collectively referred to as consolidated obligations) of the FHLBanks.

The FHLBanks Combined Financial Statements for 2003 have been restated. The FHLBanks Office of Finance Board of Directors previously determined that the original 2003, 2002 and 2001 FHLBanks audited Combined Financial Statements should no longer be relied upon due to restatements at seven FHLBanks. The restatement is now complete, and corrected data can be viewed in the 2005 Combined Financial Report on this web site.

The original 2003 FHLBanks Combined Financial Report is made available for informational purposes and historical reference only.

FEDERAL HOME LOAN BANKS

2003

UNAUDITED COMBINED FINANCIAL INFORMATION

The Federal Home Loan Banks Office of Finance is providing an unaudited Combined Statement of Condition as of December 31, 2003, and the unaudited Combined Statements of Income, Capital and Cash Flows for the year ended December 31, 2003. Supporting unaudited combining schedules and footnotes, including one explaining the restatements, are also being provided. The Federal Home Loan Banks Office of Finance Board of Directors previously determined that the original 2003, 2002 and 2001 Federal Home Loan Banks' audited Combined Financial Statements should no longer be relied upon due to restatements at seven Federal Home Loan Banks. These reports remain posted on the Federal Home Loan Banks Office of Finance's web site for informational purposes. For the convenience of the readers of the combined financial reports, unaudited restated 2003 financial information is being provided in this document. This Unaudited Combined Financial Information is also being provided as a condition to the Federal Housing Finance Board's waiver of its requirement that the Federal Home Loan Banks provide an Audited Restated Combined Financial Report for 2003. See the Finance Board's Resolution "2007-10 Waivers Concerning Preparation of Combined Financial Reports," in the Regulation/Supervision Section of the Finance Board's web site located at www.fhfb.gov for more information.

As of August 8, 2006, all 12 Federal Home Loan Banks' Securities and Exchange Commission registrations were effective, and the required reports for each Federal Home Loan Bank were available on the Securities and Exchange Commission EDGAR database. On November 8, 2006, the 2005 Combined Financial Report was published and thereafter distributed to the Federal Home Loan Banks and their members, and to investors in connection with the offer and sale of consolidated bonds and consolidated discount notes (collectively referred to as consolidated obligations) of the Federal Home Loan Banks. See the 2005 Combined Financial Report for audited financial statements and discussions of the FHLBanks' business, risk factors, risk management, restatements and other general information related to the FHLBanks for certain periods including the period covered by the financial statements herein. The unaudited information in this document is a subset of the summary financial data included in the 2005 Combined Financial Report dated November 8, 2006.

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 Unaudited Combined Financial Information 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 Unaudited Combined Financial Information is as of and for periods ended on or before December 31, 2003. 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' Unaudited Combined Financial Information 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. Please contact the Office of Finance if you want to receive subsequent annual and quarterly financial reports.

The date of this Unaudited Combined Financial Information is January 16, 2008.

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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 REPORTS

The Federal Home Loan Banks Office of Finance (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 and the underlying data it provides to the Office of Finance for inclusion in the combined financial reports.

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 that is a member of one or more FHLBanks. There is no system-wide central management of the FHLBanks. All FHLBanks are subject to regulations issued by the Finance Board, which periodically examines each FHLBank's 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. Investors 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.

In addition, each FHLBank's board of directors and management is responsible for establishing its own accounting and financial reporting policies in accordance with U.S. generally accepted accounting principles (GAAP). The 12 FHLBanks' accounting and financial reporting policies and practices are not necessarily always identical because different policies and/or presentations are permitted under GAAP in certain circumstances. However, all 12 FHLBanks' accounting and financial reporting policies conform to GAAP. Statements in this document may be qualified by a term such as "generally," "primarily," "typically" or words of similar meaning to indicate that the statement is generally applicable to all FHLBanks or the kinds of transactions described but which may not be applicable to all 12 FHLBanks as a result of their differing business practices and accounting and financial reporting policies under GAAP. An investor should review available information on individual FHLBanks to obtain more specific information on an FHLBank's business practices and accounting and financial reporting policies.

The FHLBanks occasionally 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.

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 Securities Exchange Act of 1934, as amended (1934 Act) and must file certain periodic reports and other information with the U.S. Securities and Exchange Commission (SEC). These periodic reports and other information filed pursuant to the 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. Investors 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.

Each FHLBank prepares 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 site of each FHLBank. The web site of the Office of Finance is located at: www.fhlb-of.com. This site also contains links to the web sites 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 Unaudited Combined Financial Information and are not intended to be incorporated by reference into this Unaudited Combined Financial Information.

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FEDERAL HOME LOAN BANKS

UNAUDITED COMBINED STATEMENT OF CONDITION

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

	December 31, 2003 (Restated)
ASSETS	
Cash and due from banks	$ 427
Interest-bearing deposits	16,749
Securities purchased under agreements to resell	6,424
Federal funds sold	36,729
Trading securities includes $4,494 pledged	8,258
Available-for-sale securities includes $1,334 pledged	11,377
Held-to-maturity securities includes $1,715 pledged	110,010
Advances	514,037
Mortgage loans held for portfolio	113,453
Less: allowance for credit losses on mortgage loans	15
Mortgage loans held for portfolio, net	113,438
Accrued interest receivable	2,576
Premises and equipment, net	193
Derivative assets	1,529
Other assets	671
Total assets	$822,418
LIABILITIES	
Deposits:	
Interest-bearing deposits:	
Demand and overnight	$ 18,026
Term	1,472
Other	951
Total interest-bearing	20,449
Non-interest-bearing deposits:	
Demand and overnight	70
Other	36
Total non-interest-bearing	106
Total deposits	20,555
Borrowings:	
Securities sold under agreements to repurchase	2,700
Total borrowings	2,700
Consolidated obligations, net:	
Discount notes	163,720
Bonds	577,001
Total consolidated obligations, net	740,721
Accrued interest payable	4,565
Affordable Housing Program	655
Payable to REFCORP	91
Derivative liabilities	12,960
Other liabilities	1,191
Total liabilities	783,438
CAPITAL	
Capital Stock:	
Capital stock-Class B putable ($100 par value) — issued and outstanding shares:150,812 shares	15,082
Capital stock Pre-conversion putable ($100 par value) — issued and outstanding shares: 226,214 shares	22,621
Total capital stock	37,703
Retained earnings	1,098
Net unrealized gains on available-for-sale securities	172
Net unrealized gains relating to hedging activities	14
Other	(7)
Total capital	38,980
Total liabilities and capital	$822,418

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

FEDERAL HOME LOAN BANKS

UNAUDITED COMBINED STATEMENT OF INCOME

(Dollar amounts in millions)

	For the Year Ended December 31, 2003 (As Restated)
INTEREST INCOME	
Advances	$ 8,758
Prepayment fees on advances, net	185
Interest-bearing deposits	259
Securities purchased under agreements to resell	50
Federal funds sold	485
Trading securities	441
Available-for-sale securities	256
Held-to-maturity securities	4,255
Mortgage loans held for portfolio	4,381
Other	6
Total interest income	19,076
INTEREST EXPENSE	
Consolidated obligations — Discount notes	1,795
Consolidated obligations — Bonds	13,075
Deposits	279
Securities sold under agreements to repurchase	45
Mandatorily redeemable capital stock	
Other borrowings	5
Total interest expense	15,199
NET INTEREST INCOME BEFORE REVERSAL FOR CREDIT LOSSES	3,877
Reversal for credit losses	(4)
NET INTEREST INCOME AFTER REVERSAL FOR CREDIT LOSSES	3,881
OTHER INCOME (LOSS)	
Service fees	35
Net losses on trading securities	(319)
Net realized losses from sale of available-for-sale securities	(31)
Net realized gains (losses) from sale of held-to-maturity securities	(158)
Net losses on derivatives and hedging activities	(309)
Other, net	1
Total other loss	(781)
OTHER EXPENSE	
Operating	450
Finance Board	24
Office of Finance	18
Other	15
Total other expense	507
INCOME BEFORE ASSESSMENTS	2,593
Affordable Housing Program	218
REFCORP.	490
Total assessments	708
NET INCOME	$ 1,885

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

FEDERAL HOME LOAN BANKS

UNAUDITED COMBINED STATEMENT OF CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 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

* Putable

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

FEDERAL HOME LOAN BANKS

UNAUDITED COMBINED STATEMENT OF CASH FLOWS

(Dollar amounts in millions)

	For the Year Ended December 31, 2003 (As Restated)
OPERATING ACTIVITIES	
Net income	$ 1,885
Adjustments to reconcile net income 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	180
Concessions on consolidated obligation bonds	357
Net deferred loss on derivatives	28
Premises and equipment	33
Other	(81)
Reversal for credit losses	(4)
Non-cash interest on mandatorily redeemable capital stock	
Net realized loss from sale of available-for-sale securities	31
Net realized loss from sale of held-to-maturity securities	158
Gain due to change in net fair value adjustment on derivative and hedging activities	(812)
Loss on extinguishment of debt	28
Net change in:	
Trading securities	611
Accrued interest receivable	179
Other assets	(111)
Net derivative assets and liabilities-accrued interest	25
Accrued interest payable	(434)
Affordable Housing Program (AHP) liability and discount on AHP advances	16
Payable to REFCORP.	49
Other liabilities	(717)
Total adjustments	(464)
Net cash provided by operating activities	1,421

	For the Year Ended December 31, 2003
	(As Restated)
INVESTING ACTIVITIES	
Net change in:	
Interest-bearing deposits	$ 7,117
Securities purchased under agreements to resell	(1,181)
Federal funds sold	10,018
Short-term held-to-maturity securities	1,015
Principal collected on other loans	1
Premises and equipment	(61)
Available-for-sale securities:	
Proceeds from sales	5,827
Proceeds from maturities	31,021
Purchases	(36,964)
Held-to-maturity securities:	
Proceeds from sales	2,676
Proceeds from maturities	70,171
Purchases	(73,882)
Advances:	
Principal collected	5,694,911
Made	(5,726,054)
Mortgage loans held for portfolio:	
Principal collected	37,840
Originated or purchased	(91,188)
Net cash used in investing activities	(68,733)
FINANCING ACTIVITIES	
Net change in:	
Deposits	(7,119)
Securities sold under agreements to repurchase	1,001
Other borrowings	(530)
Net proceeds from issuance of consolidated obligations:	
Discount notes	5,158,500
Bonds	557,691
Payments for maturing and retiring consolidated obligations:	
Discount notes	(5,141,639)
Bonds	(501,819)
Proceeds from issuance of capital stock	11,706
Payments for redemption of mandatorily redeemable capital stock	(10,124)
Cash dividends paid	(576)
Net cash provided by financing activities	67,091
Net decrease in cash and cash equivalents	(221)
Cash and cash equivalents at beginning of the year	648
Cash and cash equivalents at end of the year	$ 427
Supplemental Disclosures:	
Interest paid	$ 16,056
AHP payments, net	$ 201
REFCORP payments	$ 460

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

Notes to Unaudited 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 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, competitively-priced source of funds to their member institutions. The FHLBanks are cooperatives whose member institutions own nearly all of the capital stock of each FHLBank. Former members own the remaining capital stock to support business transactions still carried on the FHLBanks' Statement of Condition. All holders of an FHLBank's capital stock are entitled to receive dividends on their capital stock, to the extent declared by its FHLBank's board of directors. Regulated financial depositories and insurance companies engaged in residential housing finance may apply for membership. All members must purchase stock in their district's FHLBank.

The Finance Board, an independent agency in the executive branch of the U.S. government, supervises and regulates the FHLBanks and the Federal Home Loan Banks Office of Finance (Office of Finance), a joint office of the FHLBanks. 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 are able to 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 additional 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 Partnership Finance® (MPF®) Program(1). Some FHLBanks also offer their member institutions correspondent services, such as wire transfer, security safekeeping, and settlement services.

Note 1 — Summary of Significant Accounting Policies

Principles of Combination. The combined financial statements include the financial results 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), including Accounting Research Bulletin No. 51, *Consolidated Financial Statements.* The significant transactions 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 as the transferring 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

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

contingent 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. Under combination accounting principles, combining adjustments are required to 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 Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities — Deferral of Effective Date of FASB Statement No. 133*, SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* and SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Statements No. 133 and 140* (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. While individual FHLBanks identify and report operating segments of their businesses, for the purposes of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* the Finance Board regulations consider each FHLBank to be a segment.

Basis of Presentation and Use of Estimates. The FHLBanks' accounting and financial reporting policies conform to GAAP. The preparation of financial statements in accordance with GAAP requires each FHLBank's management to make assumptions and estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expense. The most significant of these estimates includes the fair value of derivatives. Actual results could differ from these estimates significantly.

Additionally, the preparation of combined financial statements in accordance with GAAP requires the Office of Finance and the FHLBanks' management to make assumptions and estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expense. Actual combined results could differ from these estimates significantly.

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.

Note 2—Restatement of Prior Years Combined Financial Statements

See the 2005 Combined Financial Report dated November 8, 2006 for more information on the restatement of prior years combined financial statements. The unaudited information included in this note is a subset of the information included in the 2005 Combined Financial Report.

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 Unaudited

Combined Financial Information. Please refer to each restating FHLBank's SEC Form 10/10-K for a detailed description of that FHLBank's restatement.

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.

The following chart summarizes the net income restatement effect described above for the year ended December 31, 2003 only.

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—Held-to-Maturity Securities

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 $1,033 million 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 SFAS 115, the FHLBank of New York sold these held-to-maturity securities, incurring a loss on sale of approximately $189 million and reducing the FHLBank of New York's net income for the third quarter by approximately $139 million.

Additionally, other FHLBanks sold securities out of their respective held-to-maturity securities portfolio during the year ended December 31, 2003 that were either within three months of maturity or had less than 15 percent of the acquired principal outstanding. In accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115), such sales are considered as maturities for the purposes of security classification.

FEDERAL HOME LOAN BANKS

UNAUDITED RESTATED COMBINING SCHEDULES — STATEMENTS OF CONDITION DECEMBER 31, 2003

(Dollar amounts in millions)

	Combined (Restated)	Combining Adjustments (Restated)	Boston	New York	Pittsburgh (Restated)	Atlanta (Restated)
ASSETS						
Cash and due from banks	$ 427	$	$ 9	$ 21	$ 83	$ 8
Interest-bearing deposits	16,749		100	1,654	828	602
Deposits with other FHLBanks for mortgage loan programs		(28)		1	7	7
Securities purchased under agreements to resell	6,424		500			
Federal funds sold	36,729		2,426	1,143	1,000	4,925
Trading securities	8,258	(410)	399		355	5,071
Available-for-sale securities	11,377	(410)	1,098		361	
Held-to-maturity securities	110,010	(3,520)	6,544	11,359	7,444	14,594
Advances	514,037		26,074	63,923	34,662	88,149
Mortgage loans held for portfolio	113,453		4,538	672	8,016	1,756
Less: allowance for credit losses on mortgages loans	15		1	1		
Mortgage loans held for portfolio, net	113,438		4,537	671	8,016	1,756
Loans to other FHLBanks		(60)		60		
Accrued interest receivable	2,576	(23)	138	288	201	481
Premises and equipment, net	193		6	16	8	32
Derivative assets	1,529		40	59	129	309
Other assets	671	5	25	35	65	100
Total assets	$822,418	$(4,446)	$41,896	$79,230	$53,159	$116,034
LIABILITIES						
Deposits:						
Interest-bearing:						
Demand and overnight	$ 18,026	$	$ 913	$ 1,958	$ 1,238	$ 4,363
Term	1,472		29	138	11	21
Deposits from other FHLBanks for mortgage loan programs		(28)				
Other	951		3	4	56	210
Total interest-bearing	20,449	(28)	945	2,100	1,305	4,594
Non-interest-bearing:						
Demand and overnight	70				1	46
Other	36		1			
Total non-interest-bearing	106		1		1	46
Total deposits	20,555	(28)	946	2,100	1,306	4,640
Borrowings:						
Loans from other FHLBanks		(60)			60	
Securities sold under agreements to repurchase	2,700					1,000
Total borrowings	2,700	(60)			60	1,000
Consolidated obligations, net:						
Discount notes	163,720		5,346	16,805	11,537	4,144
Bonds	577,001	(4,261)	32,058	54,052	36,342	96,728
Total consolidated obligations, net	740,721	(4,261)	37,404	70,857	47,879	100,872
Accrued interest payable	4,565	(23)	268	426	312	745
Affordable Housing Program	655		32	93	13	78
Payable to REFCORP	91		6			
Derivative liabilities	12,960		737	1,913	1,206	3,592
Other liabilities	1,191		31	78	48	77
Total liabilities	783,438	(4,372)	39,424	75,467	50,824	111,004
CAPITAL						
Capital stock:						
Capital stock Class B putable ($100 par value) issued and outstanding	15,082				2,342	
Capital stock Pre-conversion putable ($100 par value) issued and outstanding	22,621		2,428	3,638		4,921
Total capital stock	37,703		2,428	3,638	2,342	4,921
Retained earnings	1,098	(74)	62	127	3	109
Accumulated other comprehensive income:						
Net unrealized gains (losses) on available-for-sale securities	172		(24)			
Net unrealized gains (losses) relating to hedging activities	14		6		(10)	
Other	(7)			(2)		
Total capital	38,980	(74)	2,472	3,763	2,335	5,030
Total liabilities and capital	$822,418	$(4,446)	$41,896	$79,230	$53,159	$116,034

Cincinnati	Indianapolis (Restated)	Chicago (Restated)	Des Moines (Restated)	Dallas (Restated)	Topeka (Restated)	San Francisco	Seattle
$ 7	$ 51	$ 4	$ 57	$ 164	$ 1	$ 18	$ 4
6,285	243		281	302	2,397	3,287	770
				1		12	
		419	305			5,100	100
7,251	1,067	5,023	1,200	2,957	1,797	5,434	2,506
12	101	794	36	142	597	917	244
823	1,187	605	1,546	5,951	216		
11,240	5,726	5,139	2,155	7,011	7,628	18,263	16,427
43,129	28,925	26,443	23,272	40,595	26,882	92,330	19,653
8,101	7,434	47,605	16,058	972	684	6,445	11,172
	1	5	6	1			
8,101	7,433	47,600	16,052	971	684	6,445	11,172
201	119	337	98	174	122	218	222
5	11	61	2	25	14	8	5
51	6	454	43	72	54	266	46
39	32	63	26	52	122	92	15
$ 77,144	$44,901	$86,942	$45,073	$58,417	$40,514	$132,390	$ 51,164
$ 1,090	$ 1,212	$ 1,319	$ 952	$ 1,964	$ 1,061	$ 831	$ 1,125
261		538	34	150	53	66	171
		28					
62	1	429		49	26	90	21
1,413	1,213	2,314	986	2,163	1,140	987	1,317
			19	3	1		
		34				1	
		34	19	3	1	1	
1,413	1,213	2,348	1,005	2,166	1,141	988	1,317
		1,200	500				
		1,200	500				
29,443	10,441	20,456	5,472	11,627	9,958	31,882	6,609
40,361	29,830	57,471	34,877	40,679	26,204	92,751	39,909
69,804	40,271	77,927	40,349	52,306	36,162	124,633	46,518
350	247	503	249	332	254	528	374
86	26	72	26	23	23	135	48
12		33	10		5	16	9
1,311	1,080	224	692	636	1,081	181	307
434	37	62	17	152	57	63	135
73,410	42,874	82,369	42,848	55,615	38,723	126,544	48,708
3,645	1,918		2,117	2,661			2,399
		4,155			1,740	5,739	
3,645	1,918	4,155	2,117	2,661	1,740	5,739	2,399
92	43	386	109	5	60	119	57
	67	2	(1)	136	(8)		
		30				(12)	
(3)	(1)				(1)		
3,734	2,027	4,573	2,225	2,802	1,791	5,846	2,456
$ 77,144	$44,901	$86,942	$45,073	$58,417	$40,514	$132,390	$ 51,164

FEDERAL HOME LOAN BANKS

UNAUDITED 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

UNAUDITED COMBINING SCHEDULES — STATEMENTS OF CAPITAL FOR THE YEAR ENDED DECEMBER 31, 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	
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
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

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
	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	—
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

FEDERAL HOME LOAN BANKS

UNAUDITED COMBINING SCHEDULES — STATEMENTS OF CAPITAL (Continued)
FOR THE YEAR ENDED DECEMBER 31, 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	$
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
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

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
$	$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	$
$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

FEDERAL HOME LOAN BANKS

UNAUDITED COMBINING SCHEDULES — STATEMENTS OF CAPITAL (Continued)
FOR THE YEAR ENDED DECEMBER 31, 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
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)	$
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

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
$ (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)	$
$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

FEDERAL HOME LOAN BANKS

UNAUDITED 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

UNAUDITED 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

FEDERAL HOME LOAN BANKS

2003

FINANCIAL REPORT

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

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

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

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

The financial information is as of and for periods ended on or before December 31, 2003. This document is available on the Federal Home Loan Banks' Office of Finance web site, www.fhlb-of.com.

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

The delivery of this Financial Report does not imply that there has been no change in the financial condition of the Federal Home Loan Banks since December 31, 2003.

The date of this Financial Report is March 15, 2004.

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

FEDERAL HOME LOAN BANKS

SUMMARY FINANCIAL DATA
(Dollar amounts in millions)

	2003	2002	2001	2000	1999
At December 31,					
Advances	$514,168	$489,598	$472,732	$437,861	$395,747
Mortgage loans held for portfolio, net	113,438	60,554	27,643	16,149	2,026
Investments(1)	189,516	206,355	190,250	186,437	171,425
Total assets	822,790	763,631	696,705	653,687	583,212
Deposits and borrowings	23,205	29,834	26,910	17,100	17,624
Consolidated obligations	740,937	673,709	621,303	591,606	525,419
Capital stock—Class B(3)	15,081	7,733			
Capital stock(3)	22,621	27,454	33,289	30,537	28,361
Total capital stock(10)	37,702	35,187	33,289	30,537	28,361
Retained earnings(2)	1,327	1,191	932	729	660
Total capital(10)	39,064	36,324	34,218	31,265	29,015
Average balances for the year ended December 31,					
Advances	$502,147	$476,957	$457,698	$418,123	$327,605
Mortgage loans held for portfolio, net	89,005	39,642	19,810	8,509	1,399
Investments(1)	195,745	202,806	186,376	171,961	151,035
Total assets	795,417	728,036	672,571	609,491	488,459
Deposits and borrowings	30,252	29,401	26,251	14,058	19,378
Consolidated obligations	703,795	645,141	599,754	553,262	434,385
Capital stock—Class B(3)	12,000	981			
Capital stock(3)	24,646	33,190	31,627	29,280	24,798
Total capital stock(10)	36,646	34,171	31,627	29,280	24,798
Retained earnings(2)	1,363	1,185	1,010	945	796
Operating results for the year ended December 31,					
Net interest income(4)	$ 3,084	$ 3,327	$ 3,243	$ 3,317	$ 2,534
Net income(2)(5)	1,640	1,799	2,154	2,211	2,128
Dividends paid in cash and stock	1,504	1,540	1,951	2,142	1,636
Weighted average dividend rate(6)	4.10%	4.51%	6.17%	7.32%	6.60%
Return on average equity	4.32%	5.09%	6.60%	7.32%	8.31%
Return on average assets	0.21%	0.25%	0.32%	0.36%	0.44%
Net interest margin(4)(7)	0.39%	0.46%	0.49%	0.55%	0.52%
At December 31,					
Total capital ratio(8)	4.75%	4.76%	4.91%	4.78%	4.98%
Ratio of total unsecured liabilities to total capital(9)					19.1:1
Leverage ratio(9)	21.1:1	21.0:1	20.4:1	20.9:1	

(1) Investments include held-to-maturity securities, available-for-sale securities, securities held at fair value, interest-bearing deposits, securities purchased under agreements to resell, and 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 FHLBanks of Cincinnati, Pittsburgh and Seattle implemented their respective capital plans during 2002. The FHLBanks of Indianapolis, Des Moines and Dallas implemented their respective capital plans during 2003. See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Legislative and Regulatory Developments" and Note 14 to the accompanying combined financial statements.

(4) Net interest income is net interest income before mortgage loan loss provision. For the years ended December 31, 2002 and 2001, the FHLBanks have reclassified realized gains and losses (e.g., net interest payments) on standalone derivative instruments used in economic hedges. Previously, realized gains and losses on standalone derivatives used in economic hedges were classified within net interest income after mortgage loan loss provision while unrealized gains (losses) on these derivatives were recorded in net realized and unrealized gains (losses) on derivatives and hedging activities within other income. These amounts have been reclassified and are both now included in net realized and unrealized gains (losses) on derivatives and hedging activities within other income for the years ended December 31, 2002 and 2001 in order to be consistent with the 2003 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.

(5) Net income for the years ended December 31, 2003, 2002, 2001 and 2000, includes expenses of $427 million, $450 million, $538 million and $553 million relating to the FHLBanks' Resolution Funding Corporation (REFCORP) payments. REFCORP payments were charged directly to retained earnings for years through December 31, 1999. Title VI of the Gramm-Leach-Bliley (GLB) Act made FHLBank membership voluntary and, effective January 1, 2000, changed the REFCORP payment from a fixed $300 million annual amount to 20 percent of each FHLBank's net earnings. As a result of these statutory changes, the REFCORP payment is similar to a tax and is presented as an expense in the Combined Statements of Income effective for 2000 and all years thereafter. Presentation of operating results for years before 2000 have not been restated. Therefore, net income, the return on average equity, and the return on average assets for 2000, 2001, 2002 and 2003 are not comparable to 1999.

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

(7) Net interest margin is net interest income before mortgage loan loss provision as a percentage of average earning assets.

(8) Total capital ratio is capital stock plus retained earnings and accumulated other comprehensive income as a percentage of total assets at period end.

(9) On June 2, 2000, the Finance Board adopted a final rule amending the FHLBanks' leverage limit requirements. Effective July 1, 2000, each FHLBank's leverage limit is based on a ratio of assets to capital rather than a ratio of liabilities to capital.

(10) FHLBank capital stock is redeemable at the option of a member subject to conditions and limitations. See "Business—Capital, Capital Rules and Dividends" and Note 14 to the accompanying combined financial statements.

BUSINESS

General

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 issuing and servicing of the consolidated obligations of the FHLBanks. The Finance Board is an independent agency in the executive branch of the U.S. government charged with the regulation of the FHLBanks and the Office of Finance.

The primary purpose of the FHLBanks is to enable their member financial institutions to assure the flow of credit and other services for housing and community development. The FHLBanks serve the public by providing liquidity to member financial institutions, thereby enhancing the availability of residential mortgage and community investment credit. The FHLBanks provide a readily available, low-cost source of funds to their member institutions. In addition, the FHLBanks provide members a means of enhancing liquidity by selling home mortgages through mortgage purchase programs developed for their members. Under these programs, members are offered the opportunity to originate mortgage loans for sale to an FHLBank. Members can also borrow from an FHLBank to fund low-income housing, helping the members satisfy their Community Reinvestment Act regulatory requirements. Finally, the FHLBanks offer a variety of correspondent banking services, cash management services, security safekeeping, wire transfers and settlement services to their members.

The FHLBanks fund their assets and operations principally through the sale of debt instruments, known as consolidated obligations, to the public through the Office of Finance. Each FHLBank is jointly and severally liable with the other FHLBanks for all consolidated obligations. 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; only member institutions own the capital stock of each FHLBank and receive dividends on their investment in capital stock. Membership is limited to regulated depositories and insurance companies engaged in housing finance. A membership table is included on page 81. Each member must own capital stock in its district FHLBank. Each FHLBank is privately owned with its own board of directors, management and employees. Membership is voluntary. FHLBank members receive dividends on their shares of capital stock from the earnings of their respective FHLBanks.

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 and remain adequately capitalized and able to raise funds in the capital markets. Until 2001, the Finance Board, through the Office of Finance as its agent, was the issuer of consolidated obligations for which the FHLBanks are jointly and severally liable. Effective January 2, 2001, the FHLBanks , through the Office of Finance as their agent, became the issuers of consolidated obligations for which the FHLBanks are also jointly and severally liable.

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 borrower. Advances are the largest category of the FHLBanks' assets representing 62.5 percent of total assets at December 31, 2003. Each FHLBank develops its advances program to meet the particular needs of its members. Advances generally support mortgages held in member portfolios. Advances may also be used to provide funds to any member "community financial institution" for loans to small businesses, small farms and small agri-businesses. 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. Thus, 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.

FHLBank advances can provide funding to smaller lenders that lack diverse funding sources. Smaller community lenders very often do not have access to many of the funding alternatives available to larger financial entities, including repurchase agreements, commercial paper and brokered deposits. The FHLBanks give these lenders access to competitively-priced wholesale funding.

FHLBank credit products also help members in asset/liability management. The FHLBanks offer advances matched to the maturity and prepayment characteristics of mortgage loans. Such advances can reduce a member's interest-rate risk associated with holding long-term fixed-rate mortgages. Alternatively, members can enter into interest-rate exchange agreements directly with an FHLBank to reduce their exposure to interest-rate risk.

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

The FHLBanks serve as a source of liquidity for their members. Access to FHLBank advances can reduce the amount of low-yielding liquid assets a member would otherwise need to hold.

Collateral on Advances. The FHLBanks' members are required to pledge collateral to secure their advances. Eligible collateral includes:

1) one-to-four family and multifamily mortgage loans and mortgage-backed securities;
2) U.S. government and U.S. government agency securities;
3) 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 the collateral.

The FHLBanks may also accept secured small business, small farm and small agribusiness loans as collateral from members that are "community financial institutions" as defined by the FHLBank Act. Each FHLBank has a statutory lien under the FHLBank Act on the FHLBank capital stock held by its members, which serves as further collateral for the indebtedness of members to the FHLBank. The vast majority of advances are collateralized with mortgages, and members must post collateral in the form of a blanket lien, by specific identification or by delivering collateral in order to borrow from their respective FHLBank. The FHLBank Act generally affords any security interest granted to an FHLBank by a member priority over the claims of any other party should the member default on its advances other than claims and rights that would be entitled to priority under otherwise applicable law and are held by actual bona fide purchases for value or by parties that are secured by actual perfected security interests. (See "Supplemental Information—Additional Regulatory Information on Business—Advances" for further information.)

Acquired Member Asset Programs—Mortgage Loans Held for Portfolio

The FHLBanks have developed programs to purchase mortgage loans from their members. The primary programs are Mortgage Partnership Finance®(MPF®) and the Mortgage Purchase Program (MPP). Under these programs, the FHLBanks principally invest in qualifying 10-, 15-, 20-, and 30-year conventional conforming and government-guaranteed fixed-rate mortgage loans on single-family residential properties that are purchased from participating members. Mortgage loans held for portfolio represent 13.8 percent of total assets at December 31, 2003. Under MPF®, one or more FHLBanks may participate in all or a portion of the acquired mortgage loans obtained through a member of another FHLBank. The FHLBanks provide funding for the mortgage loans. Under these 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 member manages the origination and servicing activities. Each FHLBank holding an interest in a mortgage loan and the member originating the mortgage loan share in the credit risk of the mortgage loans as specified in a master agreement and master commitment contract between an FHLBank and its participating member. As described below, a participating member, referred to as a Participating Financial Institution (PFI), provides a measure of credit-loss protection to the FHLBank(s) holding an interest in loans generated by that PFI through the programs. In the case of MPF®, the member receives a credit-enhancement fee, and in the case of MPP, the member benefits from the Lender Risk Account (LRA). The credit risks of MPF® and MPP loans are managed by distributing potential credit losses into certain layers and allocating their risk between the FHLBank(s) holding an interest in a mortgage loan and the related PFI. PFIs can also take advantage of the MPF® and MPP programs by selling previously closed loans to the FHLBanks.

MPF® Loans. Under the MPF® Program, as is customary for conventional mortgage loans, private mortgage insurance (PMI) is required for MPF® loans with a loan-to-value ratio above 80 percent in order to raise the protection level to 20%. Losses beyond this layer are absorbed by the FHLBanks with an interest in the mortgage loan, pro rata up to a predefined limit called the "First Loss Account" (FLA). If losses beyond this layer are incurred, they are then absorbed through and up to the credit enhancement provided by the PFI that sold the mortgage loan to the FHLBank(s), which at December 31, 2003, ranges from 0.52 percent to 1.86 percent of the loan principal by origination pool, without supplemental mortgage insurance, depending on the loan level and portfolio size and other factors. The credit enhancement provided by a PFI ensures that the PFI retains a credit risk in the loans it sells to the FHLBank(s). For managing this risk, a PFI receives monthly "credit enhancement fees" from the FHLBank(s) holding the interest in the mortgage loan. All losses incurred in excess of the credit enhancement are the obligations of the FHLBank(s) holding the interest in the mortgage loan. The size of each PFI's credit enhancement is calculated so that any anticipated losses in excess of the second layer are limited to those expected by an investor in a mortgage-backed security rated at least double-A, although the risk is unrated.

MPP Loans. Under MPP, as is customary for conventional mortgage loans, PMI is required for MPP loans with a loan-to-value ratio above 80 percent in order to raise the protection level to 20%. Losses beyond this layer are absorbed by a "first loss" account (LRA) established by the FHLBank. If "second losses" beyond this layer are incurred, they are absorbed through a credit enhancement provided by the PFI in the form of Supplemental Mortgage Insurance (SMI). All losses incurred in excess of the LRA and SMI are the obligations of the FHLBank(s) holding the interest in the mortgage loan. The size of each PFI's LRA is calculated so that any anticipated losses in excess of this layer plus the SMI are limited to those expected by an investor in a mortgage-backed security rated at least double-A. After five years, excess funds over required balances in the LRA 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.

As of December 31, 2003, the FHLBanks invested in MPF® and MPP loans in all fifty states and the District of Columbia.

(See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Financial Trends—Mortgage Loans Held for Portfolio and Supplemental Information—Additional Regulatory Information on Business—Acquired Member Asset Programs Mortgage Loans Held for Portfolio" for further information.)

Investments

The FHLBanks maintain portfolios of investments for liquidity purposes and to provide additional earnings. Investment income also bolsters the FHLBanks' capacity to meet their commitment to affordable housing and community investment, to cover operating expenditures 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 member credit needs, the FHLBanks maintain portfolios of short-term investments issued by highly rated institutions, including overnight Federal funds, term Federal funds, interest-bearing certificates of deposits and commercial paper. The FHLBanks enhance interest income by maintaining longer-term investment portfolios, which includes mortgage-backed securities that are issued by government-sponsored mortgage agencies and enterprises or that carry the highest ratings at the time of purchase from Moody's Investors Service or Standard & Poor's Ratings Services and securities issued by U.S. government agencies. The long-term investment portfolios provide the FHLBanks with higher returns than those available in the short-term money markets. Investments represent 23.0 percent of total assets at December 31, 2003.

Under Finance Board regulations, the FHLBanks are prohibited from investing in certain types of securities, including:

- instruments, such as common stock, that represent an ownership in an entity, other than stock in small business investment companies, or certain investments targeted to 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, such as Federal funds;
- non-investment grade debt instruments, other than certain investments targeted to low-income persons or communities and instruments that were downgraded after purchase by the FHLBank;
- whole mortgages or other whole loans, other than
  1) those 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 a Nationally Recognized Statistical Rating Organization (NRSRO);
  4) mortgage-backed securities (MBS) 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.

Finance Board regulations further limit the FHLBanks' investment in MBS and asset-backed securities. This provision requires that the total book value of MBS owned by an FHLBank not exceed 300% 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) and real-estate mortgage investment conduits (REMICs); and
- fixed-rate MBS or floating-rate MBS that on the trade date are at rates equal to their contractual cap and that have average lives that vary by more than 6 years under an assumed instantaneous interest rate change of 300 basis points.

Shared Funding Program

The MPF® Shared Funding Program permits the transfer of MPF® mortgage loan assets by an MPF® PFI to a third-party trust. In this transaction, mortgage loans owned by an PFI of an FHLBank participating in the MPF® Program are transferred to a trust sponsored by a member. Upon transfer into the trust, the mortgage loan assets are securitized into CMO tranches having credit risk characteristics consistent with the MPF® Program policy. The tranches are divided into specific credit ratings determined by a NRSRO. The senior tranche, referred to as the "A Certificates" has a credit rating of at least double-A and may be comprised of multiple tranches having different risk profiles and durations. The A Certificates, which are structured to present risk and investment characteristics attractive to different types of investors, are sold to the FHLBanks, either directly out of the trust or after being sold to the PFI that originally owned the mortgage loan assets. Lower-rated CMO tranches are sold to an FHLBank member. Therefore, no residuals are created or retained by the FHLBanks. An FHLBank may subsequently sell its A Certificate to its members and to other FHLBanks and their respective members. The purchased A Certificates are treated by the FHLBanks as investments and included in the balance sheet with mortgage-backed securities.

The Shared Funding Program is a means to share both the benefits and the risks of the FHLBank MPF® Program. Shared Funding was created to: (1) provide the FHLBanks with an additional technique to manage interest-rate and prepayment risk, by transferring those risks to other investors; (2) provide an additional source of liquidity that would allow further expansion of the MPF® program; and (3) benefit other FHLBanks and their members by providing investment opportunities in high quality assets. The Finance Board approved the MPF® Shared Funding Program in December 2002.

(See "Supplemental Information—Additional Regulatory Information on Business—Investments" for further information.)

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. Consolidated obligations represent 90.1 percent of total assets at December 31, 2003. The capital markets have traditionally considered the FHLBanks' obligations as "Federal agency" debt. Consequently, although the U.S. government does not guarantee the FHLBanks' debt, the FHLBanks have 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. Moody's Investors Service currently rates the consolidated obligations Aaa/P-1, and Standard & Poor's Rating Services currently rates them AAA/A-1+. These ratings measure the likelihood of timely payment of principal and interest on consolidated obligations.

Consolidated obligations are generally issued with either fixed or floating-rate payment terms that use a variety of indices for interest rate resets including the London Interbank Offered Rate (LIBOR), Constant Maturity Treasury (CMT), 11th District Cost of Funds Index (COFI), and others. In addition, to meet the specific needs of certain investors in consolidated obligations, both fixed-rate bonds and variable-rate bonds may also contain certain embedded features, which may result in complex coupon payment terms and call features. When such consolidated obligations are issued, an FHLBank concurrently enters into interest rate exchange agreements containing offsetting features, to effectively alter the terms of the bond to a straightforward variable-rate bond tied to an index.

Consolidated bonds are issued primarily to raise intermediate and long-term funds for the FHLBanks. Usually, the maturity of consolidated bonds ranges from one year to ten years, but they are not subject to any statutory or regulatory limits on maturity. Consolidated discount notes are issued to raise short-term funds. These notes are issued at less than their face amount and redeemed at par value when they mature.

Although each FHLBank is primarily liable for the portion of consolidated obligations corresponding to the proceeds received by that FHLBank, 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 and every FHLBank, individually and collectively, must insure 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.

To the extent that an FHLBank makes any 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. However, if the Finance Board determines that an FHLBank is unable to satisfy its obligations, then the Finance Board may allocate the outstanding liability among the remaining FHLBanks on a pro rata basis in proportion to each FHLBank's participation in all consolidated obligations outstanding, or on any other basis the Finance Board may determine.

Finance Board regulations also state that each FHLBank must 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 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, which, among other items, includes securities that a fiduciary or trust fund may purchase under the laws of the state in which the FHLBank is located; and
- Other securities that are assigned a rating or assessment by an NRSRO that is equivalent or higher than the rating or assessment assigned by that NRSRO on consolidated obligations.

(See "Supplemental Information—Additional Regulatory Information on Business—Debt Financing—Consolidated Obligations" for further information.)

Deposits

The FHLBanks offer demand and overnight deposit programs to their members and to qualifying non-members. Short-term deposit programs are also offered to members. To a lesser extent than consolidated obligations, deposits also provide funding for advances and investments. Deposits represent 2.5 percent of total assets at December 31, 2003. (See "Supplemental Information—Additional Regulatory Information on Business—Deposits" for further information.)

Capital, Capital Rules and Dividends

The FHLBank capital stock and retained earnings also provide funding. During 2003, approximately 5 percent of the FHLBanks' assets were funded by capital stock and retained earnings. Total capital represents 4.75 percent of total assets at December 31, 2003.

Capital Pre-GLB Act. On January 30, 2001, the Finance Board published a final rule implementing a new capital structure for the FHLBanks, as required by the Gramm-Leach-Bliley Act (GLB Act). Until an FHLBank implements its new capital plan, the pre-GLB Act capital rules will remain in effect for that FHLBank. Under these rules, members are required to purchase capital stock equal to the greater of 1 percent of their mortgage-related assets or 5 percent of outstanding FHLBank advances. However, the GLB Act removed the provision that required a non-thrift member to purchase additional stock to permit it to borrow from the FHLBanks if the non-thrift member's mortgage-related assets were less than 65 percent of total assets. A member could, at its FHLBank's discretion, redeem at par value any capital stock greater than its statutory requirement or sell it to other members of its FHLBank at par value. Capital stock outstanding under the pre-GLB Act capital rules is redeemable at the option of a member upon withdrawal from membership on six-months notice. As of December 31, 2003, the FHLBanks of Atlanta, Boston, Chicago, New York, Topeka and San Francisco had not yet implemented their respective new capital plans and were therefore continuing to operate under this capital model.

Post-GLB Act New Capital Structure. The Finance Board's final rule implementing a new capital structure for the FHLBanks established risk-based and leverage capital requirements for the FHLBanks, provided for different classes of stock that an FHLBank may issue and the rights and preferences that may be associated with each class of stock, and required each FHLBank to submit a capital plan to the Finance Board for approval by October 29, 2001. As of July 18, 2002, the Finance Board had approved the capital structure plan of each FHLBank. The capital rule provides a transition period that allows each FHLBank up to three years from the effective date of its capital plan to come into compliance with its new capital structure. The FHLBanks of Cincinnati, Pittsburgh and Seattle implemented their respective capital plans during 2002. The FHLBanks of Indianapolis, Des Moines and Dallas implemented their respective capital plans during 2003.

Capital Adequacy and Form Rules. The GLB Act allows for the FHLBanks to have two classes of stock and each class may have sub-classes. Class A stock is redeemable on six months written notice from the member and Class B stock is redeemable on five years written notice from the member, subject, in each case, to certain conditions and limitations that may limit the ability of an FHLBank to effectuate such redemptions. The GLB Act made membership voluntary for all members. A member that withdraws from membership may not acquire shares of any FHLBank before the end of the 5-year period beginning on the date of the completion of its divestiture of FHLBank capital stock, unless the divestiture is a consequence of transfer of membership on an uninterrupted basis between FHLBanks. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy" for more information.)

The GLB Act and implementing final rule define total capital for regulatory capital adequacy purposes for each FHLBank as the sum of the FHLBank's permanent capital, plus the amounts paid-in by its members for Class A stock; any general loss allowance, if consistent with U. S. Generally Accepted Accounting Principles (GAAP) and not established for specific assets; and other amounts from sources determined by the Finance Board as available to absorb losses. The GLB Act defines permanent capital 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 implementing final rule, an FHLBank is subject to risk-based capital rules under its new capital structure plan when it 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, even if that FHLBank is in compliance with its minimum capital requirements. Therefore, a member's right to redeem is conditional on the FHLBank maintaining these leverage requirements.

Description of Capital Plans of FHLBanks that Converted During 2003. The FHLBank of Indianapolis implemented its capital plan during the first quarter of 2003. The FHLBank of

Indianapolis offers a single Class B stock, which the member can elect to have redeemed by the FHLBank of Indianapolis by giving 5 years notice, or earlier at the option of the FHLBank of Indianapolis. The FHLBank of Indianapolis can repurchase the stock at its discretion. 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. The FHLBank of Indianapolis's board of directors may declare and pay dividends out of retained earnings and current earnings in either cash or capital stock.

The FHLBank of Des Moines implemented its capital plan on July 1, 2003. The FHLBank of Des Moines offers a single Class B stock, which the member can elect to have redeemed by the FHLBank of Des Moines by giving 5 years notice, or earlier at the option of the FHLBank of Des Moines. The FHLBank of Des Moines can repurchase the stock at its discretion. 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. The FHLBank of Des Moines's board of directors may declare and pay dividends out of retained earnings and current earnings in either cash or capital stock.

The FHLBank of Dallas implemented its capital plan on September 2, 2003. The FHLBank of Dallas offers a single Class B stock, which the member can elect to have redeemed by the FHLBank of Dallas by giving 5 years notice, or earlier at the option of the FHLBank of Dallas. The FHLBank of Dallas can repurchase the stock at its discretion. 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. The FHLBank of Dallas's board of directors may declare and pay dividends out of retained earnings and current earnings in either cash or capital stock.

Dividends and Retained Earnings. The FHLBanks may pay dividends from retained earnings and current income. An FHLBank's board of directors may declare and pay dividends in either cash or capital stock. In 2003, the Finance Board issued guidance to the FHLBanks calling for each FHLBank, at least annually, to assess the adequacy of its retained earnings in light of alternative possible 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. Each FHLBank's board of directors is expected to adopt 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.

Other Mission-Related Activities

In addition to supporting residential mortgage lending, one of the core missions of the FHLBanks is to support community development. The FHLBanks administer and fund a number of programs 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 the interest rate on FHLBank loans to members, creating 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. (See "Business-Tax Status" for more information.)

Community Investment Program (CIP). CIP makes loans available for home purchase or rehabilitation to families whose incomes do not exceed 115 percent of the area's median level. 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, including those areas where normal lending activity has yet to have the desired effect on housing and community economic development. In addition, each of the FHLBanks has established a number of other voluntary housing and community economic development programs specifically developed for their members. The FHLBanks fund these programs separately from AHP.

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 by that FHLBank. The FHLBanks can use interest-rate swaps, swaptions, interest-rate cap and floor agreements, calls, puts, and futures and forward contracts as part of their interest-rate risk management and funding strategies. The Finance Board's Financial Management Policy and each FHLBank's risk management policy prohibit trading in or the speculative use of these instruments and limits credit risk arising from these instruments. The FHLBanks may use derivatives only to manage their interest-rate risk positions, mortgage prepayment risk positions 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 a forecasted transaction,

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

3) in asset/liability management.

For example, an FHLBank uses 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 also uses interest-rate exchange agreements 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.

An FHLBank may enter into interest-rate exchange agreements concurrently with the issuance of consolidated obligations to reduce funding costs. This allows the FHLBank to create synthetic floating-rate debt at a cost that is lower than the cost of a floating-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. The continued attractiveness of the debt depends on price relationships in both the bond market and interest-rate exchange markets. When conditions in these markets change, the FHLBank may alter the types or terms of consolidated obligations issued. The FHLBanks may enter into interest-rate exchange agreements and/or other transactions with or arranged by the applicable securities dealers, bank, or affiliate, or an unaffiliated third party.

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

- To reduce funding costs by combining a derivative and a consolidated obligation. The combined funding structure can be lower in cost than 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 supporting 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 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—Derivatives and Hedging Activities" for further information.)

Competition

Demand for FHLBank advances is affected by, among other things, the cost of other available sources of liquidity for their members, including deposits. Each FHLBank individually competes with its members' other suppliers of wholesale funding, both secured and unsecured. Such other suppliers may include investment banking concerns, commercial banks and, in certain circumstances, other FHLBanks. Smaller members may have access to alternative funding sources through sales of securities under agreements to resell, while larger members may have access to all the alternatives 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 can vary as a result of a variety of factors including, among others, market conditions, products, structures, members' creditworthiness and availability of collateral.

The FHLBanks compete primarily with the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) for the purchase of mortgage loans held for portfolio. The FHLBanks compete primarily on the basis of price, products, structures, and services offered.

The FHLBanks also compete with the U.S. government, Fannie Mae, Freddie Mac and other government-sponsored entities, as well as corporate, other 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 lesser amounts of debt issued at the same cost than otherwise would be the case. In addition, the availability and cost of funds raised through the issuance of certain types of unsecured debt may be adversely affected by regulatory initiatives that 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. The FHLBanks experienced a record volume of debt issuance in 2003. Although the available supply of funds has kept pace with the funding needs of the FHLBanks' members as expressed through FHLBank debt issuance, there can be no assurance that this will continue to be the case indefinitely.

In addition, the sale of callable debt and the simultaneous execution of callable interest-rate exchange agreements that mirror the debt 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 determinant of the FHLBanks' relative cost of funds. There is considerable competition among high-credit-quality issuers in the markets for callable debt and for interest-rate exchange agreements. There can be no assurance 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, which is an independent agency in the executive branch of the U. S. government. The Finance Board ensures that the FHLBanks carry out their housing and community development finance mission, remain adequately capitalized and able to raise funds in the capital markets, and operate in a safe and sound manner. Also, the Finance Board establishes regulations governing the operations of the FHLBanks. The Finance Board is comprised of a five-member board. Four board members are appointed by the

President, 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 the Secretary's designee. The Finance Board is supported 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 Government Corporation Control Act provides that, before a government corporation issues and offers obligations to the public, the Secretary of the Treasury shall prescribe the form, denomination, maturity, interest rate, and conditions of the obligations; the way and time issued; and the selling price. The FHLBank Act also authorizes the Secretary of the Treasury, at his or her discretion, to purchase consolidated obligations up to an aggregate principal amount of $4 billion. No borrowings under this authority have been outstanding since 1977. The U.S. Department of the Treasury receives the Finance Board's annual report to the Congress, monthly reports reflecting securities transactions of the FHLBanks, and other reports reflecting the operations of the FHLBanks.

Each FHLBank and the Office of Finance has an internal audit department and each FHLBank's board of directors has an audit committee, and an independent public accounting firm audits the annual financial statements of each FHLBank and the annual combined financial statements as prepared by the Office of Finance. The independent 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 the Congress all receive the audit reports. The FHLBanks must submit annual management reports to the 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 authority under the FHLBank Act to audit or examine the Finance Board and the FHLBanks and to decide the extent to which they fairly and effectively fulfill the purposes of the FHLBank Act. Furthermore, the Government Corporation Control Act provides that the Comptroller General may review any audit of the financial statements conducted by an independent public accounting firm. If the Comptroller General conducts such a review, then he or she must report the results and provide his or her recommendations to the Congress, the Office of Management and Budget, and the FHLBank in question. The Comptroller General may also conduct his or her own audit of any financial statements of an FHLBank.

Tax Status

Although the FHLBanks are exempt from all Federal, State, and local taxation except for real property taxes, they are obligated to make payments to the Resolution Funding Corporation (REFCORP) in the amount of 20 percent of net earnings after operating expenses and AHP expense. In addition, annually the FHLBanks must set aside for the AHPs the greater of an aggregate of $100 million or 10 percent of their current year's net income before charges for AHP (but after expenses for REFCORP). Assessments for REFCORP and AHP are the equivalent of a 26.5 percent effective income tax rate for the FHLBanks. The combined REFCORP and AHP assessments were $617 million, $649 million, and $777 million for the years ended December 31, 2003, 2002 and 2001, respectively. All FHLBank cash dividends received by members, however, are taxable; dividends received by members do not benefit from the corporate dividends received exclusion.

PROPERTIES AND GEOGRAPHIC DISTRIBUTION

The FHLBanks operate in all 50 states and U.S. territories. Each FHLBank serves members generally headquartered in a specifically defined geographic district. Each FHLBank's name and address, and the States and territories comprising each district, are 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	471
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	307
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	347
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	1,195
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	755
FHLBank of Indianapolis 8250 Woodfield Crossing Boulevard Indianapolis, Indiana 46240 Business number: (317) 465-0200 The FHLBank of Indianapolis owns this property	Indiana, Michigan	440
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	884

FHLBank Name and Address	States and Territories	Number of Members
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	1,238
FHLBank of Dallas 8500 Freeport Parkway South, Suite 100 Irving, Texas 75063 Business number: (214) 441-8500 The FHLBank of Dallas owns this property	Arkansas, Louisiana, Mississippi, New Mexico, Texas	867
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	868
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	353
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	376
Office of Finance Federal Home Loan Banks 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 1777 F Street, N.W. Washington, D.C. 20006 Business number: (202) 408-2500		

All 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. However, all of these web site addresses are provided as a matter of convenience only, and the contents on the web sites are not made part of this report and are not intended to be incorporated by reference into this report.

EMPLOYEES

The following table represents the number of full-time and part-time personnel employed by the FHLBanks and the Office of Finance at December 31, 2003.

	Employees		
FHLBank	Full-time	Part-time	Total
Boston	154	2	156
New York	204	4	208
Pittsburgh	192	5	197
Atlanta	278	0	278
Cincinnati	144	2	146
Indianapolis	127	7	134
Chicago	295	6	301
Des Moines	154	17	171
Dallas	135	0	135
Topeka	135	2	137
San Francisco	220	4	224
Seattle	148	3	151
Office of Finance	59	1	60

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 STOCK HOLDERS OTHER THAN ELECTION OF DIRECTORS

None.

MARKET FOR FHLBANKS' CAPITAL STOCK AND RELATED STOCKHOLDER MATTERS

Each FHLBank is cooperatively owned. Members own all the stock of the FHLBanks, the majority of the directors of each FHLBank are elected by and from the membership, and the FHLBanks conduct their advances business almost exclusively with members. There is no established marketplace for the FHLBanks' stock. The FHLBanks stock is not publicly traded. It may be redeemed at par value, $100 per share, upon member request, subject to certain conditions and limitations. At December 31, 2003, the FHLBanks had 375 million shares of capital stock outstanding. The FHLBanks do not register their stock under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

Voting Rights. Members holding capital stock at 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. Their year-end minimum required stock holdings determine the voting rights of members. The average number of required shares owned by members in a particular state constitutes the maximum number of shares each member in that state may vote.

Capital Stock. The following table presents information on the 10 largest holders of FHLBank capital stock at December 31, 2003.

Top 10 Capital Stock Holding Members in the FHLBanks at December 31, 2003

Name	City	State	Capital Stock ($Millions)
Washington Mutual Bank, FA(1)(2)	Stockton	CA	$2,664
Citibank (West), FSB	San Francisco	CA	877
World Savings Bank, FSB	Oakland	CA	743
Washington Mutual Bank*	Seattle	WA	741
Superior Guaranty Insurance Company	Minneapolis	MN	654
Charter One Bank, NA*	Cleveland	OH	619
Fleet National Bank	Providence	RI	508
World Savings Bank, FSB (Texas)	Houston	TX	409
US Bank, NA(3)	Cincinnati	OH	472
Mid America Bank, FSB*	Clarendon Hills	IL	385
			$8,072

* An asterisk indicates that an officer of the member was an FHLBank director in 2003.

(1) Includes $386 million in the FHLBank of Dallas capital stock from the acquisition of Bank United, a former member of the FHLBank of Dallas.

(2) Includes $308 million in the 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) Includes $19 million in FHLBank of Des Moines capital stock acquired through a merger with a former member of the FHLBank of Des Moines.

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

For information on the top five holders of capital stock of each FHLBank and their holdings at December 31, 2003, please refer to page 190.

SELECTED FINANCIAL DATA
(Dollar amounts in millions)

	At December 31,				
	2003	2002	2001	2000	1999
Balance Sheet					
Advances	$514,168	$489,598	$472,732	$437,861	$395,747
Mortgage loans, net	113,438	60,554	27,643	16,149	2,026
Investments (1)	189,516	206,355	190,250	186,437	171,425
Other assets (2)	5,668	7,124	6,080	13,240	14,014
Total assets	$822,790	$763,631	$696,705	$653,687	$583,212
Deposits and borrowings	$ 23,205	$ 29,834	$ 26,910	$ 17,100	$ 17,624
Consolidated obligations	740,937	673,709	621,303	591,606	525,419
Other liabilities(3)	19,584	23,764	14,274	13,716	11,154
Total liabilities	$783,726	$727,307	$662,487	$622,422	$554,197
Total capital stock(4)	$ 37,702	$ 35,187	$ 33,289	$ 30,537	$ 28,361
Retained earnings	1,327	1,191	932	729	660
Accumulated other comprehensive income	35	(54)	(3)	(1)	(6)
Total capital	$ 39,064	$ 36,324	$ 34,218	$ 31,265	$ 29,015

	For the Year Ended December 31,				
	2003	2002	2001	2000	1999
Income Statement					
Total interest income	$18,325	$21,026	$31,819	$38,984	$26,520
Total interest expense	15,241	17,699	28,576	35,667	23,986
Net interest income before mortgage loan loss provision	3,084	3,327	3,243	3,317	2,534
Provision for credit losses on mortgage loans	3	6	4	2	1
Net interest income after mortgage loan loss provision(5)	3,081	3,321	3,239	3,315	2,533
Prepayment fees	191	142	93	4	13
Net (losses) gains on securities held at fair value	(319)	707	73		
Net realized (losses) gains from sale of held-to-maturity securities	(158)	1	3		
Net realized and unrealized losses on derivatives and hedging activities(5)	(40)	(1,288)	(55)		
Other non-interest income, net(6)	8	17	20	64	95
Total non-interest (loss) income	(318)	(421)	134	68	108
Operating expenses	449	396	368	333	282
Finance Board	23	23	20	19	19
Office of Finance	18	17	13	10	10
Other, net	16	16	11	11	3
Total other expense	506	452	412	373	314
Affordable Housing Program	190	199	239	246	199
REFCORP(7)	427	450	538	553	
Total assessments	617	649	777	799	199
Cumulative effect of change in accounting principle			(30)		
Net income(7)	$ 1,640	$ 1,799	$ 2,154	$ 2,211	$ 2,128

(1) Investments include held-to-maturity securities, available-for-sale securities, securities held at fair value, interest-bearing deposits, securities purchased under agreements to resell, and 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 accrued interest payable, Affordable Housing Program, payable to REFCORP, and derivative liabilities.

(4) The FHLBanks' capital stock is redeemable at the option of the member subject to conditions and limitations. See "Business—Capital, Capital Rules and Dividends" and Note 14 to the accompanying combined financial statements.

(5) For the years ended December 31, 2002 and 2001, the FHLBanks have reclassified realized gains and losses (e.g., net interest payments) on standalone derivative instruments used in economic hedges. Previously, realized gains and losses on standalone derivatives used in economic hedges were classified within net interest income after mortgage loan loss provision while unrealized gains (losses) on these derivatives were recorded in net realized and unrealized gains (losses) on derivatives and hedging activities within other income. These amounts have been reclassified and are both now included in net realized and unrealized gains (losses) on derivatives and hedging activities within other income for the years ended December 31, 2002 and 2001 in order to be consistent with the 2003 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.

(6) Other non-interest income, net includes service fees and net realized gains on sale of available-for-sale securities.

(7) The FHLBanks' REFCORP payments were charged directly to retained earnings for years through December 31, 1999. Title VI of the GLB Act made FHLBank membership voluntary and effective January 1, 2000, changed the REFCORP payment from a fixed $300 million annual amount to 20 percent of each FHLBank's net earnings. As a result of these statutory changes, the REFCORP payment is similar to a tax and is presented as an expense on the Combined Statements of Income effective for 2000 and all years thereafter. Presentation of operating results for years before 2000 have not been restated. Therefore, net income, the return on average equity, and the return on average assets for the year 2000, 2001, 2002 and 2003 are not comparable to 1999.

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 with the combined financial statements and the notes beginning on page 87 of this Financial Report. See "Explanatory Statement about FHLBanks Combined Financial Report" on page 84.

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

Forward-Looking Information

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

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

- economic and market conditions;
- demand for FHLBank advances resulting from changes in FHLBank members' deposit flows and credit demands;
- volatility of market prices, rates, and indices that could affect the value of 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;
- political events, including legislative, regulatory, judicial, or other developments that affect the FHLBanks, their members, counterparties, and/or investors in the consolidated obligations of the FHLBanks;
- competitive forces, including without limitation other sources of funding available to FHLBank members, other entities borrowing funds in the capital markets, and the ability to attract and retain skilled individuals;
- 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;
- changes in investor demand for consolidated obligations and/or the terms of interest-rate exchange agreements and similar agreements, including without limitation changes in the relative attractiveness of consolidated obligations as compared to other investment opportunities;
- timing and volume of market activity;
- 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;
- risk of loss arising from litigation filed against one or more of the FHLBanks; 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 a dividend. Reflecting the FHLBanks' cooperative nature, the FHLBanks' financial strategies are designed to enable the FHLBanks to expand and contract in response to member credit needs. The FHLBanks invest their capital in high-quality, short- and intermediate-term financial instruments. This strategy 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, investment returns on mortgage loans and investments, as offset by the FHLBank's operating expenses and assessments. Each respective FHLBank's board of directors and management determines the pricing of member credit and dividend policies based on the needs of its members.

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

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

As a result, FHLBanks and their member thrift institutions have become an integral part of the home mortgage financing system in the United States. However, a variety of factors, including a severe recession, record-high interest rates, and deregulation, resulted in significant losses for thrift institutions in the 1980s. In reaction to the very significant cost to the American taxpayer of resolving failed thrift institutions, Congress restructured the home mortgage financing system in 1989 with the passage of 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.

Different FHLBank Business Strategies. Each FHLBank is operated as a separate entity with its own management, employees and board of directors. In addition, all FHLBanks operate under the Finance Board's supervisory and regulatory framework. However, each FHLBank's management and board of directors determine the best approach for meeting its business objectives and serving its members. As such, the management and board of directors of each FHLBank have developed business strategies and initiatives to fulfill the FHLBank's mission and they reevaluate these strategies and initiatives from time to time. For instance, to date a number of 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 member demand for the programs has been limited. As of December 31, 2003, mortgage loans purchased through the acquired member asset program as a percentage of total assets ranged from a high of 55 percent for the FHLBank of Chicago to a low of less than two percent for the FHLBanks of Atlanta, Dallas, New York and Topeka.

2003 Highlights

Financial Highlights. Net income decreased by 8.8 percent to $1,640 million in 2003 from $1,799 million in 2002. Net interest income after mortgage loan loss provision decreased 7.2 percent to $3,081 million in 2003 from $3,321 million in 2002 as a result of the historic low interest rates and the impact of lower interest rates on invested capital, partially offset by the growth in the purchase of higher yielding mortgage loans. The overall decrease in net income was primarily caused by the decline in net interest income, which was partially offset by a reduction in the total loss in other income, and an increase in expenses. The reduction in total loss in other income resulted from lower losses on realized and unrealized losses on derivatives and hedging activities, which was partially offset by net realized losses from sale of held-to-maturity and available-for-sale securities, and net losses on securities held at fair value. The FHLBanks' operating expenses, which were $449 million in 2003 compared to $396 million in 2002, increased by 13.4 percent from 2002. Average assets of $795.4 billion during 2003 were 9.3 percent higher than average assets of $728.0 billion in the prior year.

The FHLBanks' hedge accounting strategies resulted in net realized and unrealized losses on derivatives and hedging activities of $40 million in addition to the net unrealized losses in securities held at fair value of $319 million for 2003 compared to net realized and unrealized losses on derivatives and hedging activities of $1,288 million in addition to the net unrealized gains in securities held at fair value of $707 million for 2002.

Net income for the year ended December 31, 2003 includes an expense of $427 million relating to the FHLBanks' REFCORP payments. REFCORP payments were charged directly to retained earnings for the years through December 31, 1999. The GLB Act, effective January 1, 2000, changed the REFCORP payment from a fixed $300 million annual amount to 20 percent of net income. As a result of these statutory changes, the REFCORP payment is similar to a tax and is now presented as an expense on the Combined Statement of Income.

The return on average assets was 21 basis points in 2003, 4 basis points lower than in 2002. These changes are due primarily to lower income due to the historic low interest rate environment and higher average assets for 2003. The return on average equity was 4.32 percent in 2003, which is 77 basis points lower than in 2002. This decrease was due to the decline in net income as a result of lower interest rates partially offset by the increase in the average invested equity balance. The weighted average dividend rate was 4.10 percent in 2003, compared with 4.51 percent one year earlier.

In 2003, advances increased by 5.0 percent to $514.2 billion, mortgage loans held for portfolio increased by 87.3 percent to $113.5 billion, investments including mortgage-backed securities decreased by 8.2 percent to $189.5 billion, total assets increased by 7.7 percent to $822.8 billion, consolidated obligations outstanding increased by 10.0 percent to $740.9 billion, and total capital increased by 7.5 percent to $39.1 billion.

Advances as a percentage of total assets have decreased to 62.5 percent at December 31, 2003, from 64.1 percent at December 31, 2002. Investments as a percentage of total assets decreased to 23.0 percent from 27.0 percent over the same period. While advances and investments decreased as a percentage of total assets, mortgage loans held for portfolio increased to 13.8 percent of total assets at December 31, 2003, from 7.9 percent one year earlier. The growth in mortgage loans reflects the continued expansion of the mortgage loan programs.

The growth in advances for the FHLBanks reflects demand by members for funding. Some of the advances growth over the past several years has been attributable to convertible advances, which entail one or more put option(s) sold by the member to the FHLBanks that allows the FHLBanks to convert the advance from fixed-rate to floating rate. A convertible advance carries an interest rate lower than a comparable-maturity advance that does not have the conversion feature. In addition, some members have taken advantage of the historic low interest-rate environment, increasing their demand for advances.

Investments, excluding MBS, decreased by 16.7 percent to $91.7 billion. MBS increased by 1.5 percent to $97.9 billion. Finance Board policy limits an FHLBank's investments in MBS to three times its capital, and aggregate MBS investments were 2.51 times aggregate FHLBank capital at December 31, 2003, compared with 2.65 times capital one year earlier.

Consolidated obligations, which are the joint and several obligations of the FHLBanks, are the FHLBanks' principal funding source, and totaled $740.9 billion at December 31, 2003, an increase of $67.2 billion from one year earlier.

The 7.5 percent increase in capital to $39.1 billion in 2003 is attributable to a number of factors, including the 1.1 percent growth in the number of FHLBank members, to 8,101 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" for more information); increases in advances, the accumulation of retained earnings and 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 the adoption of SFAS 133 in order to offset the possible impact of temporary income volatility associated with SFAS 133 and to support the growth in the mortgage asset programs. The FHLBanks' capital to asset ratio was 4.75 percent at December 31, 2003, compared with 4.76 percent at December 31, 2002.

Member deposits at the end of 2003 decreased to $20.5 billion, down 25.7 percent from year-end 2002. Most of these deposits are very short-term, and the FHLBanks, as a matter of prudence, hold short-term assets with maturities similar to the deposits. The majority of deposits are in overnight or demand accounts that reprice daily based upon a market index such as overnight federal funds. The outstanding interest-bearing deposits' interest rates ranged from .01 percent to 4.71 percent at the end of 2003. Member demand and the liquidity situation of the members drive the level of deposits. Factors that generally influence deposit levels include turnover in members' investment and loan portfolios, changes in member demand for liquidity, and the FHLBanks' deposit pricing as compared to other short-term market rates.

Financial Trends

Conditions in Financial Markets. The U.S. real gross domestic product, a measure of all goods and services produced in the U.S., increased 3.1 percent in 2003, compared with an increase of 2.2 percent in 2002, according to the U.S. Commerce Department. The increase was primarily due to growth in consumer and federal government spending along with increased home sales. Home sales were at record levels in 2003. Sales of existing homes rose 9.6 percent in 2003 to a new record high as low mortgage rates spurred buying. The National Association of Realtors reported that 6.1 million previously-owned homes were sold in 2003, breaking the previous record of 5.57 million set in 2002. Sales of new homes reached 1.085 million in 2003, surpassing the previous all-time high of 973,000 in 2002. According to the National Association of Realtors' chief economist, the fundamentals that are driving the housing market include household growth, low interest rates and an improving economy. Mortgage interest rates hit 45-year lows during June 2003 but rose sharply in July and August. Mortgage interest rates declined again in September and remained near historic lows for the remainder of 2003.

The Federal Reserve Board, through its Federal Open Market Committee, cut the Federal funds rate 25 basis points to 1.0 percent on June 25, 2003. The Federal funds rate had been previously adjusted in November 2002, when the Federal Open Market Committee cut the rate by 50 basis points to 1.25 percent. While there were no other reductions in the Federal funds rate during 2002, the Federal Open Market Committee cut the Federal funds rate 11 times for a total of 475 basis points during 2001 to 1.75 percent. Other interest rates dropped to historic lows throughout 2002, and continued to drop during the first half of 2003. Interest rates began to increase during the beginning of the third quarter, but subsequently declined somewhat for the remainder of 2003.

A significant volume of redemptions of callable FHLBank consolidated obligations was triggered as a result of the sustained lower interest rates. Those bonds were replaced by bonds with lower interest rates. The Bond Market Association's February 2004 "Research Quarterly" noted that new issuance volume in the U.S. bond market totaled $6.92 trillion in 2003, an increase of 27.9 percent from the $5.41 trillion issued in 2002. The low interest rate environment continues to attract issuers, and the fixed-income markets continue to appeal to investors looking to protect themselves against stock market volatility, despite some of the lowest bond yields in decades. The Bond Market Association's February 2004 "Research Quarterly" also noted that agency long-term bond issuance volume for 2003 totaled $1.28 trillion, up 21.7 percent from $1.04 trillion issued in 2002. Included in this number is the FHLBanks long-term bond issuance of $569.2 billion, a 30.7 percent increase from 2002. Notwithstanding the absolute low level of interest rates during this period, the cost of funds relative to certain market benchmarks, such as U.S. Treasury rates, rose marginally in 2003. The cost increase was due to a number of factors: (a) the historically low level of interest rates; (b) increased competition for short-lockout callables from other issuers in significant volumes; (c) increased returns required by investors due to perceived political and regulatory risk associated with the GSEs; and (d) increased volumes of unswapped callable bonds to fund mortgage loan purchases.

The continued low level of interest rates during 2003 has had an impact on the FHLBanks' profitability, due primarily to the short-term structure of earning assets and the impact of lower interest rates on invested capital. The majority of investments, excluding mortgage-backed securities, and nearly one-third of the outstanding advances have stated maturities of less than one year. The decline in short-term interest rates as represented by the change in the overnight Federal funds effective rate, the rate at which banks sell excess reserves to one another, as reported by the Board of Governors of the Federal Reserve System, has an impact on the FHLBanks' profitability. The overnight Federal funds average effective rate was 1.12 percent during 2003 compared to an average of 1.67 percent during 2002, a decline of 55 basis points. The residual effects of higher cost funds adversely affect FHLBank profitability as existing higher-yielding assets are matured or re-priced and were replaced with lower-yielding assets.

The lower level of interest rates also directly affects the FHLBanks through lower 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, a relatively higher proportion of FHLBank income is generated from the investment of member-supplied capital at the average asset yield. Consequently, changes in asset yields tend to have a greater effect on FHLBank profitability than on the profitability of financial institutions in general. Because the maturity of FHLBank assets are generally short-term in nature, have rate resets that reference short-term rates, or have been hedged with interest-rate exchange agreements in which a short-term index is received, FHLBank average asset yields and the returns on capital invested in these assets largely reflect the short-term interest rate environment. In addition, the effective yields on mortgage assets were similarly affected as many homeowners during 2003 took advantage of the historic low mortgage rates to refinance their home mortgages, resulting in increased prepayments on mortgages, including those mortgage loans purchased through the acquired member asset programs established by the FHLBanks, and the resulting effect on income of any associated premiums or discounts. The effective yields on the mortgage loans that replaced those prepaid loans reflect the current lower overall level of interest rates. The record refinancing has led to increased volumes and growth for the member mortgage asset programs. This growth in relatively high-yielding mortgage assets has moderated the decline in average asset yields.

The overall deposit balances of FHLBank member institutions may affect their demand for FHLBank advances. For the year-ended December 31, 2003, the FDIC reported that total assets and deposits of all FDIC-insured institutions increased compared to 2002. Total assets for all FDIC-insured institutions increased 7.59 percent. Domestic deposits were $5.95 trillion for all FDIC-insured institutions, a 6.93 percent gain over the 2002 balances, while total loans increased

7.66 percent compared to 2002. The growth in deposits, if sustained, may lower the future demand for advances from the FHLBanks.

Combined Statements of Condition. Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities (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 Statements of Condition for 2003 compared to 2002, the SFAS 133 fair value adjustment information for advances, investments, 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 adjustment information for advances, investments, mortgage loans held for Portfolio and consolidated obligations are as follows.

SFAS 133 Basis Adjustments
(Dollar amounts in millions)

	December 31, 2003	December 31, 2002
Advances at pre-SFAS 133 value	$501,682	$470,475
SFAS 133 basis adjustments	12,486	19,123
Advances at carrying value	$514,168	$489,598
Investments at pre-SFAS 133 value(1)	$188,755	$205,090
SFAS 133 basis adjustments	761	1,265
Investments at carrying value	$189,516	$206,355
Mortgage loans held for portfolio at pre-SFAS value	$113,321	$ 60,372
SFAS 133 basis adjustment	133	195
Mortgage loans held for portfolio at carrying value	$113,454	$ 60,567
Consolidated obligations at pre-SFAS 133 value	$740,127	$667,462
SFAS 133 basis adjustments	810	6,247
Consolidated obligations at carrying value	$740,937	$673,709

(1) Investments include held-to-maturity securities, available-for-sale securities, securities held at fair value, interest-bearing deposits, securities purchased under agreements to resell, and Federal funds sold. Book value includes fair value adjustments under Statement of Financial Accounting Standards No. 115.

Advances. Advances rose to $514.2 billion at December 31, 2003. Even with FHLBank members' improved liquidity resulting from increases in deposits, advances have been increasing modestly in recent years reflecting the use of advances by commercial bank members and the development of advance products tailored to specific member funding needs. Advances at December 31, 2003 increased by $24.6 billion or 5.0 percent from December 31, 2002.

Advance originations totaled $5.7 trillion during 2003, up 41.8 percent from the $4.0 trillion of originations during 2002, generally reflecting modest increased demand by members for short-term advances as a result of the lower interest rate environment and heavy refinancing activity in advances. (See Note 8 to the accompanying combined financial statements.)

The FHLBanks had advances outstanding, including AHP advances, as summarized below by year of maturity (dollar amounts in millions):

	December 31, 2003		December 31, 2002	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Overdrawn demand deposit accounts	$ 89		$ 41	
2003			145,906	2.52%
2004	172,197	1.76%	71,920	3.23%
2005	70,719	2.94%	60,233	3.93%
2006	57,613	2.40%	30,304	3.25%
2007	38,446	3.01%	29,202	3.39%
2008	43,389	3.72%	21,434	5.17%
Thereafter	112,105	4.70%	104,595	5.08%
Index amortizing advances	7,057	4.21%	6,888	4.51%
Total par value	501,615	2.96%	470,523	3.63%
Unamortized commitment fees	(2)		(1)	
Discount on AHP advances	(48)		(47)	
Net premium on advances	109			
SFAS 133 hedging adjustments	12,486		19,123	
Deferred losses on terminated interest-rate exchange agreements, net	11			
Other	(3)			
Total	$514,168		$489,598	

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).

Approximately 66 percent of advances outstanding at December 31, 2003 had a remaining maturity greater than one year compared with 69 percent at December 31, 2002. The FHLBanks make significant use of interest-rate exchange agreements to alter cash flows on certain of their advances.

Many of the FHLBanks' advances are callable at the member's option. However, the FHLBanks charge a prepayment fee when members terminate certain advances. Members may repay other advances on pertinent dates (call dates) without incurring prepayment fees (callable advances). At December 31, 2003 and 2002, the FHLBanks had callable advances outstanding totaling $12,248 million and $11,852 million.

The following table summarizes advances at December 31, 2003 and 2002 by year of maturity or next call date (dollar amounts in millions):

	December 31, 2003	December 31, 2002
Overdrawn demand deposit accounts	$ 89	$ 41
2003		160,153
2004	186,745	68,697
2005	66,579	56,423
2006	53,881	27,437
2007	34,601	26,817
2008	42,023	21,149
Thereafter	110,640	102,918
Index amortizing advances	7,057	6,888
Total par value	$501,615	$470,523

The FHLBanks also offer convertible advances. With a convertible advance, an FHLBank effectively purchases a put option from the member that allows the FHLBank to convert the advance from fixed-rate to floating-rate if interest rates increase or to terminate the advance and extend additional credit on new terms. At December 31, 2003 and 2002, the FHLBanks had convertible advances outstanding totaling $138,793 million and $151,498 million. Approximately 28 percent of the par amount of advances outstanding at December 31, 2003 consisted of convertible advances compared with 32 percent at December 31, 2002.

The following table summarizes advances at December 31, 2003 and 2002 by year of maturity or next put date (dollar amounts in millions):

	December 31, 2003	December 31, 2002
Overdrawn demand deposit accounts	$ 89	$ 41
2003		259,261
2004	274,522	76,798
2005	68,511	50,604
2006	60,852	32,310
2007	35,219	24,177
2008	26,700	4,953
Thereafter	28,665	15,491
Index amortizing advances	7,057	6,888
Total par value	$501,615	$470,523

The following table summarizes additional interest-rate payment terms for advances at December 31, 2003 and 2002 (dollar amounts in millions):

	December 31, 2003		December 31, 2002	
	Amount	Percentage of Total	Amount	Percentage of Total
Fixed-rate	$351,720	70%	$334,682	71%
Variable-rate	149,895	30%	135,841	29%
Total par value	$501,615	100%	$470,523	100%

Approximately 30 percent of the par amount of advances outstanding at December 31, 2003 were floating-rate advances compared with 29 percent at December 31, 2002.

Investments. Total FHLBank investments consist of investment securities classified as held-to-maturity, available-for sale and securities held at fair value and interest-bearing deposits, securities purchased under agreements to resell, and federal funds sold. Investments consist of the following (dollar amounts in millions):

	December 31, 2003	December 31, 2002	Dollar Variance	Percentage Variance
Held-to-maturity securities	$110,010	$110,050	$ (40)	0.0%
Available-for-sale securities	11,370	11,531	(161)	(1.4)%
Securities held at fair value	8,234	8,985	(751)	(8.4)%
Total investment securities	129,614	130,566	(952)	(0.7)%
Interest-bearing deposits ...	16,749	23,865	(7,116)	(29.8)%
Securities purchased under agreements to resell	6,424	5,243	1,181	22.5%
Federal funds sold.........	36,729	46,681	(9,952)	(21.3)%
Total investments	$189,516	$206,355	$(16,839)	(8.2)%

Investment securities classified as held-to-maturity, available-for sale and securities held at fair value consist of the following:

Investment Securities
(Dollar amounts in millions)

	December 31, 2003	December 31, 2002	Dollar Variance	Percentage Variance
U.S. Treasury obligations....	$ 266	$ 205	$ 61	29.8%
Commercial paper..........	3,201	4,364	(1,163)	(26.6)%
U.S. agency obligations	21,883	23,501	(1,618)	(6.9)%
State or local housing agency obligations	5,415	5,154	261	5.1%
Other	983	954	29	3.0%
Mortgage-backed securities ..	97,866	96,388	1,478	1.5%
Total investment securities	$129,614	$130,566	$ (952)	(0.7)%

The principal investments of the FHLBanks are mortgage-backed securities, overnight and term Federal funds sold, agency securities, commercial paper, and U.S. government securities. At December 31, 2003, investments decreased by $16.8 billion, or 8.2 percent from December 31, 2002. The change from December 31, 2002 to December 31, 2003 is a result of the decreases of $10.0 billion in Federal funds sold, $7.2 billion in interest-bearing deposits, $1.6 billion in U.S. agency obligations, and $1.2 billion in commercial paper offset by $1.5 billion increase in mortgage-backed securities

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 capital. Aggregate mortgage-backed security investments of $97.9 billion at December 31, 2003, were 251 percent of total FHLBank capital, while these investments represented 265 percent of total FHLBank capital at December 31, 2002. The FHLBanks make use of interest-rate exchange agreements to alter the cash flows on certain investment securities. (See Notes 5, 6 and 7 to the accompanying combined financial statements.)

The Shared Funding Program allows mortgage loans eligible for purchase through the MPF® program to be sold directly by the PFI to a member of the FHLBank of Chicago, which concurrently sells those loans to a trust organized by that member; the trust then issues senior/subordinate structured securities to the member in exchange for the loans. Under the Shared Funding Program, the FHLBank of Chicago purchases the senior tranche securities from the member, which are rated double-A or triple-A by an NRSRO, and retains or resells all or part of those securities to other FHLBanks or to FHLBank members. The securities offered under the Shared Funding Program are only offered to FHLBanks and FHLBank members and are not guaranteed by the FHLBanks. The member of the FHLBank of Chicago either retains or resells the non-rated tranches. As of December 31, 2003, the FHLBanks held $863 million of mortgage-backed certificates from the senior tranches issued under the MPF® Shared Funding Program, with 98.1 percent rated triple-A and 1.9 percent rated double-A by Standard & Poor's. The Shared Funding Program mortgage-backed certificates are not subject to the Finance Board's Financial Management Policy 300 percent limit on mortgage-backed securities. The Finance Board approved the Shared Funding Program in December 2002 and the first transaction occurred in March 2003.

The FHLBanks' mortgage-backed securities investment portfolio consists of the following categories of securities as of the dates noted:

	December 31, 2003	December 31, 2002
Non-federal agency residential mortgage-backed securities	45%	48%
U.S. agency residential mortgage-backed securities	37%	34%
Home equity loans	9%	10%
Non-federal agency commercial mortgage-backed securities	5%	6%
U.S. agency commercial mortgage-backed securities	2%	0%
Shared Funding Program mortgage-backed certificates	1%	0%
Manufactured housing loans	1%	2%
Total mortgage-backed securities	100%	100%

As of December 31, 2003, 99.98 percent of all mortgage-backed securities were rated triple-A.

Total FHLBank investments consisting of investment securities classified as held-to-maturity, available-for sale and securities held at fair value and interest bearing deposits, securities purchased under agreements to resell, and federal funds sold were composed as follows:

Composition of Investments
(Dollar amounts in millions)

	December 31, 2003		December 31, 2002	
	Amount	Percentage of Total Investments	Amount	Percentage of Total Investments
U.S. Treasury obligations	$ 266	0.1%	$ 205	0.1%
Commercial paper	3,201	1.7%	4,364	2.1%
U.S. agency obligations	21,883	11.6%	23,501	11.4%
State or local housing agency obligations	5,415	2.9%	5,154	2.5%
Other	983	0.5%	954	0.5%
Mortgage-backed securities	97,866	51.6%	96,388	46.7%
Total investment securities	129,614	68.4%	130,566	63.3%
Interest-bearing deposits	16,749	8.8%	23,865	11.6%
Securities purchased under agreements to resell	6,424	3.4%	5,243	2.5%
Federal funds sold	36,729	19.4%	46,681	22.6%
Total investments	189,516	100.0%	206,355	100.0%

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 member borrowing demands. Federal funds sold were $36.7 billion (19.4 percent of total investments) at year-end 2003 and $46.7 billion (22.6 percent of total investments) at year-end 2002.

The FHLBanks held commercial paper investments of $3.2 billion (1.7 percent of total investments) at December 31, 2003, compared with $4.4 billion (2.1 percent of total investments) at year-end 2002. The FHLBanks also invest in U.S. agency obligations, some of which are structured debt issued by other government-sponsored enterprises (GSEs). The FHLBanks use interest-rate exchange agreements to hedge the interest-rate risk associated with a portion of the investments in debt. U.S. agency obligations decreased to $21.9 billion (11.6 percent of total investments) at December 31, 2003, down from $23.5 billion (11.4 percent of total investments at year-end 2002). (See Notes 5, 6, and 7 to the accompanying combined financial statements.)

Finance Board regulation prohibits the FHLBanks from trading investments and the FHLBanks do not operate trading accounts. All securities are held for investment. Certain investments are classified as securities held at fair value in order for the change in fair value to offset the change in fair value of any designated derivative instrument. As of December 31, 2003, the FHLBanks had total investments of $129.6 billion classified on the balance sheet as held-to-maturity, available-for-sale or securities held at fair value; the ratings on these investments were as follows:

Investment Securities Ratings
at December 31, 2003

Investment Rating*	Percentage of Total Investments
Long-term Rating	
Triple-A	96.2%
Double-A	1.3%
Single-A	0.0%(1)
Triple-B	0.0%(1)
Short-term Rating	
A-1 or higher/P-1	2.3%
A-2/P-2	0.2%
A-3/P-3	0.0%(1)
B or lower/NP	0.0%(1)
Unrated investment securities	0.0%(1)
Total	100.0%

* This chart does not reflect changes in any rating, outlook or watch status after December 31, 2003. The ratings were obtained from S&P, Moody's and/or Fitch.

(1) Amount calculated to either less than one-tenth of one percent or there were no investments rated in this category. The aggregate dollar amount of investment securities in these categories is less than one-tenth of one percent of combined total investments.

As of December 31, 2003, 99.96 percent of the total investments classified on the balance sheet as held-to-maturity, available-for-sale or securities held at fair value were rated in the two highest investment rating categories for long-term or short-term investments.

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 backed by manufactured housing loans and certain other uninsured asset-backed securities backed by residential and business loans. 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, the FHLBank of New York sold these securities, incurring a loss on sale of approximately $189 million and reducing the FHLBank of New York's net income for the third quarter by approximately $139 million. The remainder of the FHLBank of New York's mortgage-backed securities and residential asset-backed securities were rated triple-A as of September 30, 2003 and December 31, 2003. The FHLBank of New York reported net income of $45.8 million for the year-ended December 31, 2003 and $234.1 million for the year-ended December 31, 2002.

Held-to-Maturity Securities.

Held-to-maturity securities as of December 31, 2003 and 2002 were as follows (dollar amounts in millions):

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 2,381	$	$	$ 2,381
U.S. agency obligations	8,196	168	(25)	8,339
State or local housing agency obligations	4,637	111	(26)	4,722
Other	606	4		610
	15,820	283	(51)	16,052
Mortgage-backed securities	94,190	1,239	(462)	94,967
Total	$110,010	$1,522	$(513)	$111,019

	December 31, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury obligations	$ 205	$ 5	$	$ 210
Commercial paper	3,579			3,579
U.S. agency obligations	8,746	306	(1)	9,051
State or local housing agency obligations	4,866	173	(25)	5,014
Other	569	16	(11)	574
	17,965	500	(37)	18,428
Mortgage-backed securities	92,085	2,010	(141)	93,954
Total	$110,050	$2,510	(178)	$112,382

The amortized cost and estimated fair value of held-to-maturity securities as of December 31, 2003 and 2002 by contractual maturity, are shown below (dollar amounts in millions). 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.

	December 31, 2003		December 31, 2002	
Year of Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 5,197	$ 5,205	$ 7,199	$ 7,226
Due after one year through five years	4,573	4,659	4,324	4,501
Due after five years through ten years	1,557	1,645	1,496	1,625
Due after ten years	4,493	4,543	4,946	5,076
	15,820	16,052	17,965	18,428
Mortgage-backed securities	94,190	94,967	92,085	93,954
Total	$110,010	$111,019	$110,050	$112,382

As of December 31, 2003, held-to-maturity non-mortgage-backed securities had the following maturity and yield characteristics:

Year of Maturity	December 31, 2003
Non-mortgage-backed securities	
Due in one year or less	2.31%
Due after one year through five years	3.12%
Due after five years through ten years	4.60%
Due after ten years	3.09%

As of December 31, 2003, held-to-maturity mortgage-backed securities had the following maturities (dollar amounts in millions):

Year of Maturity	December 31, 2003 Amortized Cost
Mortgage-backed securities*	
Due in one year or less	$ 40
Due after one year through five years	2,484
Due after five years through ten years	2,372
Due after ten years	89,294
Total mortgage-backed securities	$94,190

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

Available-for-Sale Securities.

Available-for-sale securities as of December 31, 2003 and 2002 were as follows (dollar amounts in millions):

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury obligations	$ 274	$	$ (8)	$ 266
Bankers' acceptances	3			3
Commercial paper	820			820
U.S. agency obligations	7,191	404	(6)	7,589
Other	348	26		374
	8,636	430	(14)	9,052
Mortgage-backed securities	2,182	136		2,318
Total	$10,818	$566	$(14)	$11,370

	December 31, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 785	$	$	$ 785
U.S. agency obligations	7,432	610		8,042
Other	349	36		385
	8,566	646		9,212
Mortgage-backed securities	2,123	197	(1)	2,319
Total	$10,689	$843	$(1)	$11,531

As of December 31, 2003 and 2002, the amortized cost and estimated fair value of available-for-sale securities by contractual maturity, are shown below (dollar amounts in millions). 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.

	December 31, 2003		December 31, 2002	
Year of Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 873	$ 873	$ 790	$ 790
Due after one year through five years	1,265	1,331	1,405	1,498
Due after five years through ten years	4,058	4,159	3,847	4,064
Due after ten years	2,440	2,689	2,524	2,860
	8,636	9,052	8,566	9,212
Mortgage-backed securities	2,182	2,318	2,123	2,319
Total	$10,818	$11,370	$10,689	$11,531

As of December 31, 2003, available-for-sale non-mortgage-backed securities had the following maturity and yield characteristics:

Year of Maturity	December 31, 2003
Non-mortgage-backed securities	
Due in one year or less	1.32%
Due after one year through five years	5.65%
Due after five years through ten years	4.99%
Due after ten years	6.50%

As of December 31, 2003, available-for-sale mortgage-backed securities had the following maturities (dollar amounts in millions):

Year of Maturity	December 31, 2003 Fair Value
Mortgage-backed securities*	
Due in one year or less	$
Due after one year through five years	947
Due after five years through ten years	904
Due after ten years	467
Total mortgage-backed securities	$2,318

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

Securities Held at Fair Value.

Securities held at fair value as of December 31, 2003 and 2002 were as follows (dollar amounts in millions):

	December 31, 2003 Estimated Fair Value	December 31, 2002 Estimated Fair Value
U.S. agency obligations	$6,098	$6,713
State or local housing agency obligations	778	288
	6,876	7,001
Mortgage-backed securities	1,358	1,984
Total	$8,234	$8,985

As of December 31, 2003, non-mortgage-backed securities within securities held at fair value had the following maturity and yield characteristics:

Year of Maturity	December 31, 2003 Estimated Fair Value	December 31, 2003 Yield
Non-mortgage-backed securities		
Due in one year or less	$ 201	3.69%
Due after one year through five years	1,465	3.97%
Due after five years through ten years	4,818	4.82%
Due after ten years	392	6.97%
Total	$6,876	

As of December 31, 2003, mortgage-backed securities within securities held at fair value had the following maturities (dollar amounts in millions):

Year of Maturity	December 31, 2003 Fair Value
Mortgage-backed securities*	
Due in one year or less	$
Due after one year through five years	506
Due after five years through ten years	86
Due after ten years	766
Total	$1,358

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

Mortgage Loans Held for Portfolio. Mortgage loans held for portfolio as of December 31, 2003 and 2002 were as follows (dollar amounts in millions):

	December 31, 2003	December 31, 2002
Fixed medium-term* single-family mortgage	$ 33,864	$12,330
Fixed long-term single-family mortgages	78,547	47,373
Multifamily mortgages	52	77
Nonresidential mortgages	3	3
Total par value	112,466	59,783
Net unamortized premiums	778	550
Deferred loan costs, net	77	39
SFAS 133 hedging adjustments	133	195
Total mortgage loans held for portfolio	$113,454	$60,567

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

Mortgage loans held for portfolio increased significantly to $113.5 billion at December 31, 2003, from $60.6 billion at December 31, 2002. At December 31, 2003, mortgage loans held for portfolio represented 13.8 percent of total assets, up from 7.9 percent of total assets as of December 31, 2002. The significant increase in mortgage loans relates to the expansion of the member mortgage asset purchase programs that enable the FHLBanks to purchase/originate mortgages from/through member financial institutions. Despite lower interest rates leading to homeowners refinancing their mortgage loans, new loan purchases far outpaced the accelerated prepayments. During 2003, repayments and prepayments were approximately $37.8 billion while purchases/originations were approximately $91.2 billion. As of December 31, 2003, the FHLBanks of Chicago, Des Moines and Seattle hold the largest percentage of the mortgage loans held for portfolio balances with 42 percent, 14 percent and 10 percent of the combined mortgage loans held for portfolio balance, respectively. No other FHLBank held more than 10 percent of the combined mortgage loans held for portfolio balance as of December 31, 2003.

MPF®, MPP and Other Mortgage Loan Programs
(Dollar amounts in millions)

	December 31, 2003	December 31, 2002	Dollar Variance	Percentage Variance
MPF®, mortgage loans held for portfolio	$ 86,562	$42,210	$44,352	105.1%
MPP, mortgage loans held for portfolio	26,834	18,275	8,559	46.8%
Other mortgage loans	58	82	(24)	(29.3)%
Total mortgage loans held for portfolio	$113,454	$60,567	$52,887	87.3%
Allowance for credit losses—MPF®	$ 14	$ 12	$ 2	16.7%
Allowance for credit losses—MPP	1		1	100.0%
Allowance for credit losses—Other	1	1		0.0%
Total allowance for credit losses	$ 16	$ 13	$ 3	23.1%
MPF®, mortgage loans held for portfolio, net	$ 86,548	$42,198	$44,350	105.1%
MPP, mortgage loans held for portfolio, net	26,833	18,275	8,558	46.8%
Other mortgage loans, net	57	81	(24)	(29.6)%
Total mortgage loans held for portfolio, net	$113,438	$60,554	$52,884	87.3%

The FHLBank of Chicago pioneered the MPF® program in which nine of the 12 FHLBanks participate. MPF® had net outstanding mortgage loans held for portfolio of $86.5 billion at December 31, 2003, an increase of 105.1 percent from the net outstanding MPF® mortgage loans held for portfolio of $42.2 billion at December 31, 2002. The FHLBanks of Cincinnati, Indianapolis and Seattle developed, and along with the FHLBank of Atlanta, participate in the Mortgage Purchase Program (MPP), which had net outstanding mortgage loans held for portfolio of $26.8 billion at December 31, 2003, an increase of 46.8 percent from the net outstanding mortgage loans held for portfolio of $18.3 billion at December 31, 2002. The FHLBank of Atlanta began its participation in MPP during the third quarter of 2003.

The other "mortgage loans held for portfolio, net" balances of $57 million and $81 million at December 31, 2003 and December 31, 2002 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 Low Income Housing Tax Credit multifamily properties in North Carolina. These assets do not carry external credit enhancements. In 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 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, 2003	December 31, 2002
Government-guaranteed loans	$ 17,596	$16,594
Conventional loans	94,840	43,133
Other loans	30	56
Total par value	$112,466	$59,783

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

	December 31, 2003	December 31, 2002
Balance, beginning of the year	$13	$ 7
Provision for credit losses	3	6
Balance, end of the period	$16	$13

The FHLBanks' outstanding loans, nonperforming loans and loans 90 days or more past due and accruing interest for the years ended December 31, are as follows (dollar amounts in millions):

	2003	2002	2001
Advances	$514,168	$489,598	$472,732
Real estate mortgage loans, net	$113,438	$ 60,554	$ 27,643
Nonperforming real estate mortgage loans	$ 80	$ 31	$ 9
Real estate mortgage loans past due 90 days or more and still accruing interest(1)	$ 289	$ 234	$ 228
Interest contractually due during the year	$ 5	$ 2	$ 1
Interest actually received during the year	2	1	1
Shortfall	$ 3	$ 1	$ 0

(1) Only government-guaranteed loans (e.g., FHA, VA) continue to accrue after 90 days or more delinquent.

Loans in foreclosure were $22 million at December 31, 2003 and $10 million at December 31, 2002. Real estate owned was $16 million at December 31, 2003 and $9 million at December 31, 2002. Realized losses on mortgage loans were $123 thousand in 2003, $74 thousand in 2002 and $91 thousand in 2001.

MPF® Provision for Credit Losses. Each FHLBank that has acquired mortgage loans under the MPF® program has a provision for credit losses on mortgage loans acquired under the MPF® loan program. Each FHLBank bases its allowance on management's estimate of probable credit losses inherent in the FHLBank's mortgage loan portfolio as of the balance sheet date. 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. The credit risks of MPF® loans are managed by structuring potential credit losses into certain layers. As is customary for conventional mortgage loans, private mortgage insurance (PMI) is required for MPF® loans with a loan-to-value ratio above 80 percent. Losses beyond the PMI layer are absorbed by a "first loss" account established by the FHLBank. If "second losses" beyond this layer are incurred, they are absorbed through a credit enhancement provided by the participating member. The credit enhancement held by the participating members ensures that the lender retains a credit risk in the loan it originates. For managing this risk, participating members receive monthly credit enhancement fees from the FHLBank. The size of each member's credit enhancement is calculated so that the likelihood of losses in excess of the second layer are consistent with those of at least a double-A rated mortgage-backed security, although the risk is unrated. All losses in excess of credit enhancement are then absorbed by the respective FHLBank. Each FHLBank's management believes that policies and procedures are in place to manage the MPF® credit risk effectively.

MPP Provision for Credit Losses. Each FHLBank that has acquired mortgage loans under the MPP program has a minimal provision or no provision for credit losses on mortgage loans acquired under the MPP loan program. At the time of purchase of conventional loans, a lender risk account is established by the FHLBank for each selling member. The lender risk account is used to cover potential loan losses attributed to the loans sold by the member. In addition, each member purchases supplemental mortgage insurance, which adds an additional layer of credit support that covers all MPP loans. This insurance reduces the overall loss exposure to fifty percent of the property value at the time of the loan origination. If any loss extends beyond that and the lender risk account is completely exhausted, the FHLBank would be responsible for any remaining loss. Each FHLBank's management believes that policies and procedures are in place to manage the MPP credit risk effectively.

At December 31, 2003, the allowance for credit losses on mortgage loans was $16 million, an increase of $3 million from $13 million at December 31, 2002. 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 this credit risk.

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

The FHLBanks currently have mandatory loan delivery commitments outstanding under the following programs: (1) Original MPF®, (2) MPF® 100, (3) MPF® 125, (4) MPF® Plus, (5) MPF® for FHA/VA, (6) MPP and (7) MPP FHA.

(1) Original MPF® first layer of losses is applied to a First Loss Account (FLA). The member then provides a second loss credit enhancement up to "AA" rating equivalent and loan losses beyond the first two layers are absorbed by an FHLBank.

(2) MPF® 100 first layer of losses is applied to a FLA provided by the FHLBanks. The member then provides a second loss credit enhancement up to "AA" rating equivalent and loan losses beyond the first two layers are absorbed by an FHLBank.

(3) MPF® 125 first layer of losses is applied to a FLA provided by the FHLBanks. The member then provides a second loss credit enhancement up to "AA" rating equivalent and loan losses beyond the first two layers are absorbed by an FHLBank.

(4) MPF® Plus first layer of losses is applied to a FLA equal to a specified percentage of loans in the pool as of the sale date. The member does acquire additional Credit Enhancement (CE) obligation through a supplemental mortgage insurance policy ("SMI") to cover second layer losses that exceed the deductible (FLA) of the SMI policy. Additional losses not covered by the FLA or SMI coverage will be paid by the member's CE obligation up to "AA" rating equivalent. Any losses that exceed the CE obligation will be absorbed by an FHLBank.

(5) MPF® FHA/VA mortgage loans are guaranteed by the U.S. government, while the member is responsible for all unreimbursed servicing expenses.

(6) MPP first layer of losses is applied to the LRA provided by the member. The member then provides the second loss credit enhancement up to "AA" rating equivalent and loan losses beyond the first two layers are absorbed by an FHLBank.

(7) MPP FHA mortgage loans are guaranteed by the U.S. government, while the member is responsible for all unreimbursed servicing expenses.

PRODUCT COMPARISON CHART
MPF® AND MPP PROGRAMS

Product Name	FHLBank First Loss Account Size	PFI Credit Enhancement Description	Average PFI Credit Enhancement Size	Credit Enhancement Fee to PFI	Credit Enhancement Fee Offset[1]	Servicing Fee to PFI
(1) Original MPF®	3 to 5 basis points/ added each year based on the unpaid balance	After First Loss Account to "AA"	1.86%	9 to 11 basis points/year— paid monthly	No	25 basis points/year
(2) MPF® 100	100 basis points fixed based on the size of the loan pool at closing	After First Loss Account to "AA"	0.52%	7 basis points/ year—paid monthly	Yes—after first 3 years	25 basis points/year
(3) MPF® 125	100 basis points fixed based on the size of the loan pool at closing	After First Loss Account to "AA"	0.78%	10 basis points/year— paid monthly	Yes	25 basis points/year
(4) MPF® Plus	35 basis points fixed based on the size of the loan pool at closing	0 to 20 basis points after First Loss Account and SMI	0.03%	13 to 14 basis points/year— paid monthly	Yes	25 basis points/year
(5) MPF® FHA/VA	N/A	Unreimbursed servicing expenses	N/A	2 basis points/ year—paid monthly (Government loan fee)	No	44 basis points/year
(6) MPP	30 to 50 basis points based on the purchase loan balance	After First Loss Account to "AA" using SMI	N/A	N/A	N/A	25 basis points/year
(7) MPP FHA	N/A	Unreimbursed servicing expenses	N/A	N/A	N/A	44 basis points/year

Current as of December 31, 2003

[1] *Limited to fees payable in a given year and may not exceed the First Loss Account amount for the life of the pool.*

The following tables provide the geographic concentration of MPF® and MPP:

Geographic Concentration of MPF®(1) (2)

	December 31, 2003	December 31, 2002
Midwest	30%	35%
Northeast	15%	13%
Southeast	20%	20%
Southwest	15%	17%
West	20%	15%
Total	100%	100%

Geographic Concentration of MPP(1) (2)

	December 31, 2003	December 31, 2002
Midwest	30%	24%
Northeast	13%	13%
Southeast	21%	20%
Southwest	15%	16%
West	21%	27%
Total	100%	100%

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

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

The FHLBanks' MPF® mortgage loans held for portfolio are disbursed across all fifty states, Washington, D.C. and Puerto Rico. No single zip code represented more than 1 percent of MPF® loans outstanding at December 31, 2003. The median size of an MPF® loan is approximately $128 thousand at December 31, 2003. The MPF 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 FHLBanks' MPP mortgage loans held for portfolio are disbursed across all fifty states and Washington, D.C. No single zip code represented more than 1 percent of MPP loans outstanding at December 31, 2003. The median size of an MPP loan is approximately $144 thousand at December 31, 2003. 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.

Consolidated Obligations. The principal funding source for FHLBank operations is consolidated obligations, which consist of consolidated bonds and consolidated discount notes. Member deposits, capital, and, to a lesser extent, repurchase agreements are also funding sources.

Generally, discount notes are consolidated obligations with original maturities up to 360 days, and consolidated bonds have original maturities of one year or longer. Discount notes are a significant funding source for advances with short-term maturities or short repricing intervals, for convertible advances, and for money-market investments. The FHLBanks make significant use of interest-rate exchange agreements to restructure interest rates on consolidated obligations to better match their funding needs and to reduce funding costs. Consolidated obligations outstanding increased 10.0 percent from December 31, 2002 to December 31, 2003 rising to $740.9 billion at December 31, 2003. Consolidated discount notes outstanding increased 11.5 percent from December 31, 2002, reaching $163.7 billion at December 31, 2003. Consolidated bonds outstanding increased by 9.6 percent from December 31, 2002 to $577.2 billion at December 31, 2003. (See Notes 11, 12, and 13 to the accompanying combined financial statements.)

The following is a summary of consolidated bonds outstanding at December 31, 2003 and 2002, by year of maturity (dollar amounts in millions):

	December 31, 2003		December 31, 2002	
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2003	$		$161,460	3.09%
2004	124,329	3.11%	98,006	3.95%
2005	110,422	2.77%	73,831	4.17%
2006	94,429	3.17%	47,593	4.65%
2007	50,458	3.79%	45,369	4.74%
2008	61,851	3.62%	17,916	5.29%
Thereafter	149,414	4.61%	87,556	5.07%
Index amortizing notes	235	4.03%	174	5.16%
Total par value	591,138	3.55%	531,905	4.08%
Bond premiums	727		617	
Bond discounts	(15,439)		(11,795)	
SFAS 133 hedging adjustments	757		6,211	
Deferred net gains on terminated interest-rate exchange agreements	(7)		(7)	
Unearned fees associated with interest-rate exchange agreements	58		24	
Subtotal	577,234		526,955	
Bonds held in treasury	(17)		(60)	
Total	$577,217		$526,895	

The following table summarizes consolidated bonds outstanding at December 31, 2003 and 2002 by year of maturity or next call date (dollar amounts in millions):

	December 31, 2003	December 31, 2002
2003	$	$319,385
2004	351,729	95,218
2005	95,520	46,961
2006	53,333	21,829
2007	20,663	16,126
2008	26,044	17,748
Thereafter	43,614	14,464
Index amortizing notes	235	174
Total par value	$591,138	$531,905

The FHLBanks' consolidated bonds outstanding include (dollar amount in millions):

	December 31, 2003	December 31, 2002
Non callable/nonputable	$305,447	$301,999
Callable	285,145	229,357
Putable	546	549
Total par value	$591,138	$531,905

Debt Financing Activity. Most of the growth in FHLBank assets in 2003 was financed by increases in consolidated obligations of $67.2 billion or 10.0 percent, and total capital of $2.8 billion or 7.5 percent. Most of the increase in FHLBank assets in 2002 was also funded by the increases in consolidated obligations of $52.4 billion or 8.4 percent and deposits and other borrowings of $2.9 billion or 10.9 percent. Bonds composed 77.9 percent and 78.2 percent of consolidated obligations outstanding at year-end 2003 and 2002, respectively, and the remainder of 22.1 percent and 21.8 percent of consolidated obligations outstanding at year-end 2003 and 2002, respectively, were represented by discount notes. Until 2001, the Finance Board through the Office of Finance as its agent, issued consolidated obligations on behalf of the FHLBanks. The Finance Board adopted final rules on June 2, 2000, to govern the issuance of debt directly by the FHLBanks. Beginning January 2, 2001, the FHLBanks issue debt jointly through the Office of Finance as their agent. (See "Business — General," and Notes 13 and 16 to the accompanying financial statements.)

The data in the following table is not adjusted for interbank holdings at par value of consolidated obligations totaling $4.3 billion at December 31, 2003 and less than $1.1 billion at December 31, 2002.

Composition of Bonds Outstanding
(Par amounts in billions)

	2003	2002
Fixed-rate, Non-callable	$254.1	$240.7
Fixed-rate, Callable	209.5	192.8
Step Ups/Step Downs	43.7	22.7
Single-index Floating Rate	54.0	53.0
Zero-coupon, Callable	19.1	14.3
Comparative Index	6.0	3.9
Other	9.2	5.6
Total	$595.6	$533.0

In 2003, 88.1 percent of bond sales by par amount were negotiated transactions and 11.9 percent by par amount were competitively bid. In 2003, 15.5 percent of bonds sold were fixed-rate, fixed-term, non-callable (bullet) bonds; 60.4 percent were callable bonds; 10.7 percent were Step Ups/Step Downs; and 10.3 percent were simple floating-rate bonds. Bonds issued through the Office of Finance often have investor-determined features. The decision to issue a bond using a particular structure is based upon the funding level to be achieved and the ability of the FHLBank(s) receiving the proceeds of the bonds issued to hedge the risks. The issuance of a bond with an associated interest-rate exchange agreement, which effectively converts the consolidated bond into a simple fixed- or floating-rate bond, usually results in a funding vehicle with a lower cost than the FHLBanks could otherwise achieve. The continued attractiveness of such debt depends on price relationships in both the bond and interest-rate exchange markets. If conditions in these markets change, then the FHLBanks may alter the types or terms of the bonds issued. The increase in funding alternatives available to the FHLBanks through negotiated transactions has diversified the investor base, reduced funding costs, and provided additional asset/liability management tools. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Risk Management" and Notes 13 and 16 to the accompanying combined financial statements.)

The FHLBanks through the Office of Finance issued $569.2 billion of bonds at par in 2003. This compares with $435.4 billion at par in 2002. The increase in bond issuance occurred because of greater call activity attributable to the decline in the level of long-term interest rates throughout 2003 and the net increase at par of $62.6 billion in bonds outstanding at December 31, 2003 over December 31, 2002. The FHLBanks are extensive users of callable debt, with $287.3 billion at par outstanding without interbank holding adjustment of $2.2 billion as of year-end 2003 or 48.2 percent of total bonds at par. At December 31, 2003, an estimated $60 billion of bonds had in-the-money calls that could be exercised in 2004 based on interest rates prevailing on December 31, 2003. The amount of bonds that will be called in 2004 will depend on the level and volatility of interest rates and other factors.

Discount notes are a significant funding source for the FHLBanks. Discount notes are short-term instruments, and the issuance of discount notes with maturities of one business day influences the aggregate origination volume. Through a 16-member selling group, the FHLBanks, through the Office of Finance, offer discount notes daily in a range of maturities up to 360 days. In addition, the FHLBanks, through the Office of Finance, offer discount notes in four standard maturities in two auctions each week. The FHLBanks use discount notes to fund short-term advances, longer-term advances with short repricing intervals, convertible advances and money market investments. Discount notes comprised 22.1 percent of outstanding consolidated obligations at year-end 2003 but accounted for 90.1 percent of the proceeds from the sale of consolidated obligations in 2003. Much of the discount note activity reflects the refinancing of overnight discount notes, which averaged $16.0 billion in 2003, up from the average of $12.9 billion in 2002.

Average Consolidated Obligations Outstanding
(Dollar amounts in billions)

	2003	2002
Overnight discount notes	$ 16.0	$ 12.9
Term discount notes	140.2	122.9
Total discount notes	156.2	135.8
Bonds	559.3	520.9
Total consolidated obligations	$715.5	$656.7

The FHLBanks have emphasized diversification of funding sources and channels as the need for funding from the capital markets has grown. The Global Debt Program provided $86.3 billion and $54.6 billion at par in term funds in 2003 and 2002, respectively. In mid-1999, the Office of Finance implemented the TAP issue program. This program consolidates domestic bullet bond issuance through daily auctions of common maturities by re-opening previously issued bonds. In this way, the Office of Finance seeks to enhance the liquidity of these issues. In 2003, TAP issuance was $29.8 billion, down $11.1 billion from 2002. The FHLBanks continue to issue debt that is both competitive and attractive in the market place. In addition, the FHLBanks continuously monitor and evaluate their debt issuance practices to ensure that consolidated obligations are efficiently and competitively priced.

Other Liabilities. Other liabilities decreased by $424 million or 25.5 percent from $1.7 billion at December 31, 2002 to $1.2 billion at December 31, 2003. The change relates primarily to the timing of investments purchased but not settled that are recorded in other liabilities.

Capital. The FHLBanks' total capital grew by $2.8 billion or 7.5 percent between 2002 and 2003 due 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, Chicago, Dallas, San Francisco, and Seattle, and the accumulation of retained earnings to compensate for temporary earnings volatility resulting from SFAS 133. Over the same period, total assets grew faster than total capital, causing the FHLBanks' capital-to-asset ratio to decrease to 4.75 percent at year-end 2003 from 4.76 percent at year-end 2002. The FHLBanks of Pittsburgh, Cincinnati, Indianapolis, Des Moines, Dallas and Seattle converted to their new capital structures before year-end 2003. The conversions were considered 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 14 to the accompanying combined financial statements.)

Effective July 1, 2000, and until its new capital plan is fully implemented, an FHLBank's leverage limit is based on a ratio of assets to capital which generally limits the FHLBank's assets to no more than 21 times capital. Nevertheless, an FHLBank whose non-mortgage assets, after deducting deposits and capital, do not exceed 11 percent of its assets may have total assets in an amount no greater than 25 times its capital. At December 31, 2003, combined FHLBank asset-based leverage was 21.1 to 1. Combined FHLBank asset-based leverage was 21.0 to 1 at year-end 2002. At December 31, 2003, four of the six FHLBanks which have not implemented their respective capital plans had leverage in excess of 21.0 to 1, but less than 25.0 to 1 in all cases. (See "Business—Debt Financing—Consolidated Obligations," and Note 14 to the accompanying combined financial statements.)

Results of Operations

Reclassifications. For the years ended December 31, 2002 and 2001, the FHLBanks have reclassified realized gains and losses (e.g., net interest payments) on standalone derivative instruments used in economic hedges. Previously, realized gains and losses on standalone derivatives used in economic hedges were classified within net interest income after mortgage loan loss provision while unrealized gains (losses) on these derivatives were recorded in net realized and unrealized gains (losses) on derivatives and hedging activities within other income. These amounts have been reclassified and are both now included in net realized and unrealized gains (losses) on derivatives and hedging activities within other income for the years ended December 31, 2002 and 2001 in order to be consistent with the 2003 presentation. As a result of this reclassification, net interest income after mortgage loan loss provision was adjusted up by $382 million and $134 million for the years ended December 31, 2002 and 2001, and net realized and unrealized gains (losses) on derivatives and hedging activities were adjusted down by $382 million and $134 million for the years ended December 31, 2002 and 2001.

Interbank Transfers of Liability on Outstanding Consolidated Bonds and Their Effect on Combined Net Income. During 2003, 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 FHLBank that assumes the direct liability for the debt to achieve equal or lower funding costs than would be available to that FHLBank for a similarly sized transaction in the capital markets at the time of the transfer. The transferring FHLBank treats the transfer as a debt extinguishment. 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 has been no transaction 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 impacts 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.

These amounts have been 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 because the consolidated bonds are the joint and several obligation of all twelve FHLBanks. (See "Explanatory Statement about FHLBanks Combined Financial Report" and Note 1 to the accompanying combined financial statements and the related FHLBanks combining schedules.)

Net Interest Income. The following table presents changes in net interest income (dollar amounts in millions):

	For the Years Ended December 31,			For the Year Ended 2003 vs. 2002		For the Year Ended 2002 vs. 2001	
	2003	2002	2001	Dollar Variance	Percentage Variance	Dollar Variance	Percentage Variance
INTEREST INCOME							
Advances	$ 8,625	$11,234	$20,676	$(2,609)	(23.2)%	$(9,442)	(45.7)%
Mortgage loans held for portfolio	4,055	2,392	1,378	1,663	69.5%	1,014	73.6%
Other	5,645	7,400	9,765	(1,755)	(23.7)%	(2,365)	(24.2)%
Total interest income	18,325	21,026	31,819	(2,701)	(12.8)%	(10,793)	(33.9)%
INTEREST EXPENSE							
Consolidated obligations	14,912	17,224	27,611	(2,312)	(13.4)%	(10,387)	(37.6)%
Other	329	475	965	(146)	(30.7)%	(490)	(50.8)%
Total interest expense	15,241	17,699	28,576	(2,458)	(13.9)%	(10,877)	(38.1)%
NET INTEREST INCOME BEFORE MORTGAGE LOAN LOSS PROVISION	$ 3,084	$ 3,327	$ 3,243	$ (243)	(7.3)%	$ 84	2.6%

The decrease in net interest income before mortgage loan loss provision from 2002 to 2003 is attributable to lower interest rates. Due to the lower interest rate environment, interest income from advances decreased by $2,609 million from 2002 to 2003. Growth in both the mortgage loan programs and the related interest income on mortgage loans partially offset the net decreases in net interest income. Interest income from mortgage loans held for portfolio increased by $1,663 million from 2002 to 2003. However, due to the historic low mortgage rates, many homeowners refinanced their mortgage loans, resulting in increased prepayments on mortgage loans, including mortgage loans purchased through the member mortgage asset programs established by the FHLBanks, and the resulting effect on income of any associated premiums or discounts. The effective yields on the mortgage assets that replaced those prepaid loans reflect the lower overall level of interest rates. The decrease in other interest income relates primarily to the decrease in interest income on investments due to the lower interest rate environment in both 2003 and 2002.

The increase from 2001 to 2002 relates to significant volume increase in mortgage loans offsetting the decrease attributable to lower interest rates. Due to the lower interest rate environment, interest income from advances decreased by $9,442 million from 2001 to 2002. Growth in both the mortgage loan programs and the related interest income on mortgage loans partially offset the net decreases in net interest income from advances. Interest income from mortgage loans held for portfolio increased by $1,014 million from 2001 to 2002.

Net Income. The following table presents changes in net income (dollar amounts in millions).

	For the Years Ended December 31,			For the Year Ended 2003 vs. 2002		For the Year Ended 2002 vs. 2001	
	2003	2002	2001	Dollar Variance	Percentage Variance	Dollar Variance	Percentage Variance
Net income	$1,640	$1,799	$2,154	$(159)	(8.8)%	$(355)	(16.5)%

The FHLBanks' net income for 2003 was $1,640 million, $159 million or 8.8 percent below 2002 net income. The FHLBanks' net income for 2002 was 16.5 percent below 2001 net income.

The decrease in net income for 2003 compared to 2002 is primarily attributable to the effect of lower interest rates and a reduction in the level of net losses in other income and AHP and REFCORP assessments, offset by an increase in operating expenses. In 2003, the FHLBanks had total other losses in other income of $318 million compared to $421 million in 2002. Total operating expenses were $449 million in 2003 compared to $396 million in 2002. In 2003, AHP and REFCORP assessments were $617 million compared to $649 million in 2002.

In 2003, included in other income are the following: the net loss of $189 million related to the sale of certain investment securities by the FHLBank of New York after significant deterioration in creditworthiness of certain investment securities that had been rated triple-A when purchased and the combining adjustment resulting in the elimination of the transfers of interbank consolidated bond liabilities resulted in a temporary reduction in other income of $80 million and a temporary reduction of consolidated obligations bond interest expense of $10 million, for a combined net temporary reduction of $70 million. This decrease resulted from hedge losses associated with the transferred bonds recorded while the interbank bond transfer gains were eliminated.

The decrease in net income for 2002 compared to 2001 is primarily attributable to the effect of lower interest rates, a $555 million decrease in other income, a $40 million increase in other expenses, and a $30 million decrease to net income as the cumulative effect of change in accounting principle for 2001 relating to the adoption of SFAS 133 by FHLBanks on January 1, 2001. The $555 million decrease in other income primarily related to $1,233 million increase in net realized and unrealized losses on derivatives and hedging activities offset by $634 million increase in net gains on securities held at fair value.

The FHLBanks recorded net losses on securities held at fair value of $319 million and net realized and unrealized losses on derivatives and hedging activities of $40 million in 2003. In 2002, the FHLBanks recorded net gains on securities held at fair value of $707 million and net realized and unrealized losses on derivatives and hedging activities of $1,288 million for 2002. Under SFAS 133, all derivatives are recorded at fair value and an FHLBank is required to recognize unrealized losses or gains on derivative positions regardless of whether offsetting gains or losses on the underlying assets or liabilities being hedged are permitted to be recognized in a symmetrical manner. Therefore, SFAS 133 introduces the potential for a considerable timing difference between income recognition from assets or liabilities and the income effects of hedge instruments entered into to mitigate interest-rate risk and cash-flow variability. The adoption of SFAS 133 has led to more volatility in reported earnings due to changes in market prices and interest rates, as 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. The following table presents changes in the components of the FHLBanks' earnings for the past three years:

Change in Earnings Components
(Dollar amounts in millions)

	2003 vs. 2002	2002 vs. 2001	2001 vs. 2000
Income Statement			
Decrease in total interest income	$(2,701)	$(10,793)	$(7,165)
Decrease in total interest expense	(2,458)	(10,877)	(7,091)
(Decrease) increase in net interest income before mortgage loan loss provision	(243)	84	(74)
Provision for credit losses on mortgage loans	(3)	2	2
(Decrease) increase in net interest income after mortgage loan loss provision	(240)	82	(76)
Increase in prepayment fees	49	49	89
(Decrease) increase in net (losses) gains on securities held at fair value	(1,026)	634	73
Change in net realized and unrealized gains (losses) on derivatives and hedging activities	1,248	(1,233)	(55)
Change in other non-interest income, net	(168)	(5)	(41)
Total non-interest income (loss)	103	(555)	66
Increase in operating expenses	53	28	35
Increase in Finance Board expenses		3	1
Increase in Office of Finance expenses	1	4	3
Other		5	
Total other expense	54	40	39
Decrease in Affordable Housing Program assessments	(9)	(40)	(7)
Decrease in REFCORP assessments	(23)	(88)	(15)
Decrease in total assessments	(32)	(128)	(22)
Cumulative effect of change in accounting principle		30	(30)
Decrease in net income	$ (159)	$ (355)	$ (57)

The $159 million reduction in net income for 2003 versus 2002 is primarily due to the decrease in net realized and unrealized losses on derivatives and hedging activities of $1,248 million, which was partially offset by the decrease in net gains on securities held at fair value of $1,026 million and the decrease in the net interest income of $240 million.

The $355 million reduction in net income for 2002 versus 2001 is primarily due to the increase in net gains on securities held at fair value of $634 million, which was partially offset by an increase in net realized and unrealized losses on derivatives and hedging activities of $1,233 million.

The following table presents average balances and yields of major earning asset categories and the sources funding those earning assets. It also presents spreads between yields on total earning assets and the cost of interest-bearing liabilities and spreads between yields on total earning assets and the cost of total funding sources (i.e., interest-bearing liabilities plus capital plus other interest-free liabilities funding earning assets). The primary source of FHLBank earnings is net interest income, which is the interest earned on advances, mortgages, investments and invested capital less interest paid on consolidated obligations, deposits, and other borrowings. The spread between the yield on earning assets and the cost of interest-bearing liabilities in 2003 was 25 basis points, 5 basis points lower than in 2002. The increase in spread on total interest bearing liabilities and net interest margin from 2001 to 2002 was largely attributable to the decline in interest yields and the effects of compressed spreads due to the less attractive execution in the agency debt markets because of the unprecedented U.S. GSE and corporate demand for funding. The decrease in net interest margin from 2002 to 2003 is largely attributable to the decline in interest rates and the effect of lower interest rates on invested capital. In addition, the cost of funds relative to certain open market benchmarks such as U.S. Treasury rates rose somewhat in 2003. The cost increase was due to a number of factors including increased competition for short-lockout callables from other issuers in significant volumes; increased returns required by investors due to perceived political and regulatory risk associated with GSEs; and increased volumes of unswapped callable bonds to fund mortgage loan purchases.

The decrease in spread on total interest bearing liabilities and net interest margin from 2001 to 2002 was largely attributable to the decline in interest yields and the effects of compressed spreads due to the less attractive execution in the agency debt markets because of the unprecedented U.S. GSE and corporate demand for funding.

Spread and Yield Analysis
(Dollar amounts in millions)

	2003		2002		2001	
	Average Balance	Yield	Average Balance	Yield	Average Balance	Yield
Earning assets:						
Advances	$502,147	1.72%	$476,957	2.36%	$457,698	4.52%
Mortgage loans held for portfolio, net	89,005	4.56%	39,642	6.03%	19,810	6.96%
Investments	195,745	2.88%	202,806	3.65%	186,376	5.24%
Total earning assets	$786,897	2.33%	$719,405	2.92%	$663,884	4.79%
Funded by:						
Consolidated obligations	$703,795	2.12%	$645,141	2.67%	$599,754	4.60%
Interest-bearing deposits and other borrowings(1)	30,165	1.09%	29,351	1.62%	26,234	3.68%
Total interest-bearing liabilities	733,960	2.08%	674,492	2.62%	625,988	4.56%
Capital and other non-interest-bearing funds	52,937		44,913		37,896	
Total funding	$786,897	1.94%	$719,405	2.46%	$663,884	4.30%
Spread on:						
Total interest-bearing liabilities		0.25%		0.30%		0.23%
Total funding (net interest margin)		0.39%		0.46%		0.49%

(1) The balances do not include non-interest bearing deposits.

A significant portion of net interest income results from earnings on assets funded by non-interest-bearing capital. Average total capital for 2003 was $38.0 billion, which was $2.7 billion or 7.5 percent greater than average total capital of $35.3 billion for 2002. Growth in FHLBank membership, increased advance levels, payment and use of stock dividends instead of cash dividends, and the accumulation of retained earnings to compensate for temporary earnings volatility resulting from SFAS 133 contributed to the increases in average total capital.

Changes in both volume and interest rates influence changes in net interest income and net interest margin. The following table summarizes changes in interest income and interest expense between 2003 and 2002 and between 2002 and 2001. Changes in interest income and interest expense not identifiable as either volume-related or rate-related, but rather equally attributable to both volume and rate changes, have been allocated to the volume and rate categories based upon the proportion of the absolute value of the volume and rate changes.

Rate and Volume Analysis
(Dollar amounts in millions)

	2003 vs. 2002 Increase (Decrease) Due to			2002 vs. 2001 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Advances	$ 567	$(3,176)	$(2,609)	$ 836	$(10,278)	$ (9,442)
Mortgage loans held for portfolio, net	2,369	(706)	1,663	1,218	(204)	1,014
Investments	(250)	(1,505)	(1,755)	802	(3,167)	(2,365)
Total interest income	2,686	(5,387)	(2,701)	2,856	(13,649)	(10,793)
Interest Expense:						
Consolidated obligations	1,467	(3,779)	(2,312)	1,956	(12,343)	(10,387)
Interest-bearing deposits and other borrowings (1)	13	(159)	(146)	103	(593)	(490)
Total interest expense	1,480	(3,938)	(2,458)	2,059	(12,936)	(10,877)
Changes in net interest income	$1,206	$(1,449)	$ (243)	$ 797	$ (713)	$ 84

(1) The balances used for the calculation do not include non-interest-bearing deposits.

Other (Loss) Income. The following table presents other (loss) income for each of the last three years (dollar amounts are in millions):

	2003	2002	2001
Prepayment fees	$ 191	$ 142	$ 93
Service fees	33	36	40
Net realized (losses) gains from sale of held-to-maturity securities	(158)	1	3
Net realized losses from sale of available-for-sale securities	(27)		
Net (losses) gains on securities held at fair value	(319)	707	73
Net realized and unrealized losses on derivatives and hedging activities	(40)	(1,288)	(55)
Other, net	2	(19)	(20)
Total other (loss) income	$(318)	$ (421)	$134

During 2003, total other loss was $318 million, $103 million less than total other loss in 2002. The decrease in 2003 is mainly attributable to the decrease in net realized and unrealized losses on derivatives and hedging activities of $1,248 million offset by decrease in net gains (losses) on securities held at fair value of $1,026 million and prepayment fees of $49 million. The decrease in total other income from 2001 to 2002 is mainly attributable to the $1,233 million increase in net realized and unrealized losses on derivatives and hedging activities, offset by the $634 million increase in net gains on securities held at fair value and the $49 million increase in prepayment fees.

The FHLBanks charge their members a prepayment fee when they prepay certain advances before their original maturity. The Finance Board's regulations generally require advances with a maturity or repricing period greater than six months to carry a fee sufficient to make an FHLBank financially indifferent to the borrower's decision to prepay the advances. Prepayment fees increased $49 million from 2002 to 2003 as well as from 2001 to 2002. These increases are attributable to the lower interest rates, which resulted in increases in refinancing activities.

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

Operating Expenses
(Dollar amounts in millions)

	For the Year Ended December 31,			Percentage Increase	
	2003	2002	2001	2003 vs. 2002	2002 vs. 2001
Salaries and employee benefits	$267	$238	$218	12.2%	9.2%
Cost of quarters	28	26	23	7.7%	13.0%
Other	154	132	127	16.7%	3.9%
Total operating expenses	$449	$396	$368	13.4%	7.6%

Total FHLBank operating expenses for 2003 were $449 million, $53 million or 13.4 percent above total operating expenses in 2002. Total FHLBank operating expenses for 2002 were $396 million, $28 million or 7.6 percent above total operating expenses in 2001. Operating expenses as a percent of average assets were 5.6 basis points in 2003, 5.4 basis points in 2002, and 5.5 basis points in 2001. The increases in salaries and benefits in 2003 and 2002 reflect general pay and benefits increases, higher staffing levels to manage the mortgage programs and the growth and complexity of the balance sheet, 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.

Finance Board Expenses. The FHLBanks are assessed the costs of operating the Finance Board. These costs are under the sole control of the Finance Board. The Finance Board expenses totaled $23 million in 2003 and 2002. The Finance Board expense for 2002 is an increase of $3 million over the $20 million expense for 2001.

Office of Finance Expenses. The FHLBanks fund the costs of the Office of Finance as a joint office that facilitates issuing and servicing the consolidated obligations of the FHLBanks, preparation of the FHLBanks' combined quarterly and annual financial reports, and certain other functions. The Office of Finance expenses totaled $18 million in 2003, an increase of 5.9 percent over the $17 million expense for 2002. The majority of the increase relates to higher debt issuance volumes, and new technologies being implemented to expedite the issuance and servicing of consolidated obligations. The Office of Finance expense for 2002 is an increase of $4 million from the 2001 expense of $13 million.

Other. Other expenses excluded from operating expenses were $16 million in 2003 and 2002, and $11 million in 2001. The 2003 and 2002 other expense includes approximately $12 million and $7 million of certain MPF® and/or MPP master servicing and custodial fees.

Affordable Housing Program. The AHP assessments for 2003 were $190 million, 4.5 percent less than the 2002 AHP assessments of $199 million. The AHP assessments for 2002 were 16.7 percent less than the 2001 AHP assessments of $239 million. For years 2003, 2002 and 2001, the AHP assessment was 10 percent of net income after the required payment to REFCORP. Changes in the AHP assessments for 2003, 2002, and 2001 reflect the overall trend of the FHLBanks' net income. AHP helps each FHLBank's 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 on the Combined Statement of Income, so all AHP assessments go directly to support affordable housing projects.

For 13 years, the AHP has provided significant resources for housing development across the 50 states and U.S. territories. The FHLBanks awarded AHP subsidies of $238 million in 2003 for projects designed to provide approximately 39 thousand housing units. Since the inception of the AHP in 1990 through 2003, the FHLBanks have set aside approximately $1.9 billion for AHP and awarded $1.9 billion in AHP subsidies to facilitate development of projects designed to create approximately 398 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 9 to the accompanying combined financial statements.)

Community Investment Program (CIP). Through the CIP, FHLBanks make advances available to their members to finance loans made for home purchase or rehabilitation for families whose incomes do not exceed 115% of the area median income levels. CIP advances are also used by members to finance commercial and economic development loans that benefit low- to moderate-income families and neighborhoods. The FHLBanks provide these advances to members essentially at cost. At December 31, 2003, the FHLBanks had $7.9 billion of CIP housing advances and $1.0 billion of CIP commercial and economic development advances outstanding. Since the establishment of the CIP in 1990, $35.1 billion in FHLBank-supported community lending has financed over 530 thousand housing units and over $3.5 billion in FHLBank-supported community lending has helped finance thousands of local community development projects.

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, including those areas where 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. Examples 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 predevelopment and affordable housing capacity initiatives; flood relief assistance programs available for housing rehabilitation and home purchases for families affected by floods; 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.

REFCORP Payment

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

The REFCORP assessment of the FHLBanks was $110 million (cash payment of $101 million) for the fourth quarter of 2003 and $427 million (cash payment of $442 million) for the year 2003. The cash payments are made based on preliminary 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 Combined Statement of Income and the cash payments from the FHLBanks for the fourth quarter and the year ended December 31, 2003 represent amounts due to the FHLBank of New York for overpayment of REFCORP assessment based on preliminary net income amounts. As specified in the Finance Board regulation that implements section 607 of the GLB Act, the amount of a quarter's payment in excess of the $75 million benchmark payment is used to simulate the purchase of zero-coupon Treasury bonds to "defease" all or a portion of the most-distant remaining quarterly benchmark payment. The $11 million fourth-quarter REFCORP payment in excess of the $75 million quarterly benchmark will fully defease the remaining $4 million portion of the benchmark payment due on October 15, 2020, and defease $22 million of the $75 million benchmark payment due on July 15, 2020. These benchmark payments or portions of them could be reinstated if the future actual REFCORP payments of the FHLBanks fall short of $75 million in a quarter.

The FHLBanks' cash payments to REFCORP in 2003 of $442 million less $15 million refunded to FHLBank of New York had the effect of shortening the period during which the FHLBanks must make quarterly payments to July 15, 2020 as of December 31, 2003, from October 15, 2021 as of December 31, 2002. If future payments to REFCORP are less than $75 million in a quarter, some or all of these payments could be reinstated.

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

REFCORP Defeasance Summary
For Fourth Quarter 2003 Payment

Payment Due Date	Amount of Benchmark Payment Defeased*	Interest Rate Used to Discount the Future Benchmark Payment	Present Value of Benchmark Payment Defeased**
	(Dollar amounts in millions)		
October 15, 2020 (most distant remaining payment)	$ 4	5.16%	$ 2
July 15, 2020	22	5.12%	9
Total	$26		$11

* Subject to possible subsequent reinstatement.

** Cash payment of $101 million made on estimated net income, net of approximately $15 million refunded to FHLBank of New York.

Capital Adequacy

The FHLBank Act prescribes minimum member capital stock 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 to the FHLBanks calling for each FHLBank, at least annually, to assess the adequacy of its retained earnings in light of alternative possible 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. Each FHLBank's management and board of directors reviews their respective FHLBank's capital structure, including retained earnings, on a periodic basis to make sure the capital structure supports the risk associated with their respective FHLBank's assets and addresses applicable regulatory and supervisory matters.

Several FHLBank boards of directors and/or managements have agreed with the Office of Supervision of the Finance Board to either maintain higher total capital to assets ratios or limit dividend payments as part of that FHLBank's retained earnings policy. At December 31, 2003, each of the FHLBanks was in compliance with its statutory minimum capital requirements and any internally established or supervisory limitations. Management of each FHLBank where these additional limitations are in place believes that these limitations will not have a material adverse effect on the financial condition or results of operations of its FHLBank. These limitations are subject to change and are therefore more flexible than the statutorily-prescribed minimum requirements.

At December 31, 2003, 96.5 percent of the FHLBanks' capital was capital stock, and 3.5 percent was retained earnings and accumulated other comprehensive income. At December 31, 2003, the FHLBanks had an aggregate capital to asset ratio of 4.75 percent. This compares with a capital to asset ratio of 4.76 percent at December 31, 2002. (See "Business—Debt Financing—Consolidated Obligations," "Business—Capital, Capital Rules and Dividends" and Note 14 to the accompanying financial statements.)

The FHLBanks of Pittsburgh, Cincinnati, Indianapolis, Des Moines, Dallas, and Seattle, each of which implemented its respective new capital plans in 2002 or in 2003, are subject to risk-based capital rules at December 31 2003. Only "permanent" capital, defined as retained earnings and Class B stock, can satisfy the risk-based capital requirement. In addition to the risk-based capital requirements, 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 leverage ratio. The FHLBanks of Pittsburgh, Cincinnati, Indianapolis, Des Moines, Dallas and Seattle are in compliance with their risk-based capital rules at December 31, 2003. (See Note 14 to the accompanying combined financial statements.)

Liquidity

The FHLBanks are required to maintain liquidity in accordance with certain Finance Board regulations and with policies established by their managements and boards of directors. The FHLBanks need liquidity to satisfy member demand for short- and long-term funds, repay maturing consolidated obligations, and meet other obligations. Each FHLBank also maintains liquidity to repurchase excess capital stock in its discretion upon request of a member. In their asset/liability management planning, members may look to the FHLBanks to provide standby liquidity. The FHLBanks seek to be in a position to meet their customers' credit and liquidity needs without maintaining excessive holdings of low-yielding liquid investments or being forced to incur unnecessarily high borrowing costs. The FHLBanks' primary sources of liquidity are short-term investments and the issuance of new consolidated obligation bonds and discount notes. Consolidated obligations enjoy GSE status; however, they are not obligations of the United States and the United States does not guarantee them. Consolidated obligations are rated Aaa/P-1 by Moody's and AAA/A-1+ by Standard and Poor's. These ratings measure the likelihood of timely payment of principal and interest on the consolidated obligations, and were not affected by rating actions taken with respect to individual FHLBanks in 2003. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Recent Rating Agency Actions" for more information.) The GSE status and rating have historically provided excellent capital market access. 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. The FHLBanks maintain contingency liquidity plans designed to enable them to meet their obligations and the liquidity needs of members in the event of operational disruptions at the FHLBanks or the Office of Finance, or short-term capital market disruptions.

Critical Accounting Policies and Estimates

Accounting for Derivatives. The FHLBanks adopted SFAS 133, as amended by Statement of Financial Accounting Standard No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* on January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the statement of condition at their fair values. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. 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—Derivatives and Hedging Activities," by regulation, derivative instruments are only permitted to be used by an FHLBank in order to mitigate identifiable risks. All of an FHLBank's derivatives are positioned to offset some or all of the risk exposure inherent in its member lending, investment, and funding activities. Under SFAS 133, an FHLBank is required to recognize unrealized losses or gains on derivative positions regardless of whether offsetting gains or losses on the underlying assets or liabilities being hedged are permitted to be recognized in a symmetrical manner. Therefore, the accounting framework imposed by SFAS 133 introduces the potential for a considerable mismatch between the timing of income and expense recognition from assets or liabilities and the income effects of hedge instruments positioned to mitigate market risk and cash-flow variability. Hence, during periods of significant changes in interest rates, an FHLBank's reported GAAP earnings may exhibit considerably greater variability than had been reported prior to the implementation of SFAS 133. The FHLBanks have generally continued their practice of utilizing the most cost-efficient hedging techniques available—viewing the resulting accounting consequences to be an important but secondary consideration. 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. In managing derivatives positions with primary emphasis on economic cost-effectiveness as opposed to evenness of accounting result, 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 is dependent upon 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 to changes in the fair value of a financial instruments change in future cash flows attributable to an on balance sheet financial instrument or anticipated transaction. The accounting used by the FHLBanks for typical hedge transactions is 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	Forecasted transaction (including those from recognized asset or liability with variable cash flows	Effective portion of fair value of a derivative is deferred in other comprehensive income (a component of capital) and recognized in earnings when the related forecasted transaction impacts 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 summarizes the FHLBanks' accounting in more detail:

Fair-Value Hedges. A fair-value hedge indicates the derivative is hedging 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 which are changes to the:

1) overall fair value of the hedged item,

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

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

4) 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, and that is designated and qualifies as, a fair-value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (including changes that reflect losses or gains on firm commitments), are recorded in current-period earnings. 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) is also recorded in current-period earnings.

Cash-Flow Hedges. A cash-flow hedge indicates that the derivative is hedging the exposure to variability in expected future cash flows. There are four specific risks that a cash flow hedge can mitigate, which is the risk of 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, and that is designated and qualifies as, a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction. Any hedge ineffectiveness (which represents the amount by which the offsetting change in the fair value of the derivative exceeds from the change in the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings.

Non-SFAS 133 Qualifying Hedge (Economic Hedges). A non-SFAS 133 qualifying hedge (economic hedge) is defined as an interest-rate exchange agreement hedging specific or non-specific underlying assets, liabilities or firm commitments that do not qualify for hedge accounting under the rules of SFAS 133, but is an acceptable hedging strategy under the FHLBank's risk management policy and Finance Board regulatory requirements. 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 the 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: short-cut treatment, highly-effective treatment and 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, the changes in the fair value for the interest-rate swap and the interest-bearing financial instrument will perfectly offset 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, both at hedge inception and on an ongoing basis, the FHLBank assesses both prospective and retrospective effectiveness results to determine whether the derivative and hedged item will be highly-effective in achieving offsetting changes in fair value attributable to the hedged risk. The changes in fair value for the derivative and hedged item may or may not perfectly offset and the difference, if any, will be recognized as a net gain or loss in the income statement. To maintain the highly-effective relationship, hedge effectiveness testing is performed at the inception of the hedge and on an ongoing basis. The FHLBank performs dollar offset prospective testing at hedge inception and calculates retrospective regression testing after a sufficient number of data points have been accumulated to render a statistically significant result. Upon effectiveness review, if at any point the hedge fails to maintain effectiveness, the hedge relationship will be deemed ineffective and 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 implies that, although there may be a demonstrable offsetting relationship between fair values or cash flows of the hedge and hedged items, the relationship is not considered highly effective in accordance with the requirements of SFAS 133. The 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 a non-SFAS 133 hedge of an asset or liability (economic hedge) for asset/liability management are 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 other comprehensive income, depending on whether the hedging relationship satisfies the criteria for a fair-value or cash-flow hedge.

The transition provisions of SFAS 133 also provided that at the date of initial application an entity may transfer any security classified as "held-to-maturity" to "available- for-sale" or "trading" (herein referred to as securities held at fair value), and any security classified as "available-for-sale" to "trading" (securities held at fair value).

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

Fair Values. At December 31, 2003, certain of the FHLBanks' assets and liabilities including investments classified as available-for-sale and securities held at fair value, and all derivatives, 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 FHLBanks' assets, liabilities and hedging transactions. Each FHLBank's management also estimates the fair value of collateral that FHLBank 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 when they are available. If market quotes are not available, fair values are based on discounted cash flows using market estimates of interest rates and volatility or on dealer prices and prices of similar instruments. Pricing models and their underlying assumptions are based on each FHLBank management's best estimates for 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 related income and expense. The use of different assumptions as well as changes in market conditions could result in materially different net income and retained earnings. The FHLBanks may not use the same dealer prices, models and assumptions in determining the fair values of their respective assets, liabilities and derivatives.

Consolidated Obligations. Each FHLBank only records a liability for consolidated obligations on its Statement of Condition for the proceeds it 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. 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. The possibility that an FHLBank would be unable to repay its participation in consolidated obligations is considered remote due to the high credit quality of each FHLBank. Therefore, no liability is recorded on the individual FHLBank statements of condition or the combining schedules accompanying the combined financial statements for the joint and several obligation related to the other FHLBanks' share of the consolidated obligations. The Combined Statement of Condition reflects the total liability for the consolidated obligations. Under current Finance Board regulation, all FHLBanks are required to maintain not less than a double-A rating. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Recent Rating Agency Actions" for more information.)

Provision for Credit Losses.

Advances. No FHLBank has experienced a credit loss on advances since inception, and no FHLBank's 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, and 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. At December 31, 2003 and 2002, the FHLBanks had rights to collateral, either loans or securities, on a member-by-member basis, with an estimated fair value in excess of outstanding advances. Each FHLBank's management believes that policies and procedures are in place to effectively manage their credit risk.

Mortgage Loans—MPF®. Each FHLBank that has acquired mortgage loans under the MPF® program has a provision for credit losses on mortgage loans acquired under the MPF® loan program. Each FHLBank bases its allowance on management's estimate of credit losses inherent in the FHLBank's mortgage loan portfolio as of the balance sheet date. Such losses are estimated net of recoveries under the credit enhancement obligation with the FHLBank's 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. Each FHLBank's management believes that policies and procedures are in place to manage the MPF® credit risk effectively.

Mortgage Loans—MPP. Each FHLBank that has acquired mortgage loans under MPP has a minimal provision or no provision for credit losses on mortgage loans acquired under MPP. At the time of purchase of conventional loans, a lender risk account is established by the FHLBank for each selling member. The lender risk account is used to cover potential loan losses attributed to the loans sold by the member. In addition, each member purchases supplemental mortgage insurance and this adds an additional layer of credit support that covers all MPP loans. This insurance reduces the overall loss exposure to fifty percent of the property value at the time of the loan. If any loss extends beyond that and the lender risk account is completely exhausted, the FHLBank would be responsible for any remaining loss. After five years, excess funds over required balances in the lender risk account are distributed to the member in accordance with a step-down schedule that is established at the time of a master commitment contract. No lender risk account balance is required after eleven years. Each FHLBank's management believes that policies and procedures are in place to manage the MPP credit risk effectively.

REFCORP Payments. The Combined Statements of Financial Condition do not include a liability for the statutorily mandated payments from the FHLBanks to REFCORP. No liability is recorded because each FHLBank must pay 20 percent of net earnings (after 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 are not estimable under Statement of Financial Accounting Standard No. 5 (SFAS 5), *Accounting for Contingencies.*

Accordingly, the REFCORP payments are disclosed as a long-term statutory payment requirement and are treated for accounting purposes similar to a tax.

Contractual Obligations

The following table represents the payments due or expiration terms under the specified contractual obligation type. Consolidated bonds does not include discount notes and is based on contractual maturities and the actual timing of payments could be affected by factors affecting redemptions (dollar amounts in millions).

December 31, 2003	Payments due or expiration terms by period				
Contractual Obligations	< 1 year	1<3 years	3<5 years	>5 years	Total
Consolidated bonds	$124,350	$204,873	$112,492	$149,423	$591,138
Capital lease obligations	8	14	13	22	57
Operating leases	20	39	38	58	155
Unconditional purchase obligations(1)	27,016	5,958	2,451	3,718	39,143
Other long-term obligations			500		500
Total contractual obligations	$151,394	$210,884	$115,494	$153,221	$630,993

December 31, 2002	Payments due or expiration terms by period				
Contractual Obligations	<1 year	1<3 years	3<5 years	>5 years	Total
Consolidated bonds	$161,460	$171,877	$93,015	$105,553	$531,905
Capital lease obligations	9	15	13	29	66
Operating leases	20	37	38	78	173
Unconditional purchase obligations(1)	26,887	9,395	4,107	5,209	45,598
Other long-term obligations			300		300
Total contractual obligations	$188,376	$181,324	$97,473	$110,869	$578,042

(1) Includes commitments for advances, standby letters of credit, standby bond purchase agreements, commitments to fund/purchase mortgage loans, consolidated bonds traded but not settled, unused lines of credit and other commitments.

Legislative and Regulatory Developments

Capital Plans Implementation Status. The FHLBanks of Indianapolis, Dallas and Des Moines implemented their capital plan during 2003 and the FHLBanks of Cincinnati, Pittsburgh and Seattle implemented their capital plans during 2002. The existing capital structures of each of the remaining six FHLBanks will remain in place until its capital plan is implemented. The FHLBanks are subject to risk-based capital rules under their new capital structure plans. Until an FHLBank implements its new capital plan, the prior capital adequacy rules remain in effect. (See Note 14 to the accompanying combined financial statements.)

New OF Board Director. On September 10, 2003, the Finance Board appointed L. Parker Harrell, Jr. to serve as the private citizen director on the OF Board of Directors. Mr. Harrell was appointed to the remainder of a three-year term that expires March 31, 2004, and for a three-year term that follows. As the private citizen member of the OF Board of Directors, Mr. Harrell will serve as its chairman with annual compensation of $26,921. The other two members of the OF Board of Directors are James D. Roy, president of the FHLBank of Pittsburgh, and Terry Smith, president of the FHLBank of Dallas.

Proposed Rule on Registration under the Securities Exchange Act of 1934. On September 10, 2003, the Finance Board published a proposed rule to enhance the financial disclosures of the

FHLBanks through voluntary registration with the Securities Exchange Commission (SEC) under section 12(g) of the Securities Exchange Act of 1934 (1934 Act). Under section 12(g) of the 1934 Act, each FHLBank would register a class of its equity with the SEC, bringing each FHLBank into the periodic disclosure regime as administered and interpreted by the SEC. The proposed rule provided for a 120-day comment period. The Finance Board has taken no further action regarding the proposed regulation as of March 15, 2004.

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, subject to certain exceptions contained in Finance Board regulations. While the FHLBanks fully support expanded financial disclosure, the business structure of the FHLBanks is not the same as typical SEC corporate registrants or other government-sponsored enterprises with publicly traded stock. The FHLBanks, as part of a cooperative system, are not publicly traded corporations and the member financial institutions hold all FHLBank stock. Each FHLBank is working with its Board of Directors to evaluate the structural, operational, legal and economic effects of the voluntary registration issue, including potential liquidity and funding costs, to assist the directors in meeting their fiduciary obligations to the FHLBanks and their members regarding any decision. FHLBank representatives have been discussing issues with the SEC arising from potential voluntary registration under the 1934 Act to reach an understanding as to how various accounting, disclosure and reporting rules generally would be applied to the FHLBanks, should they ultimately determine to become SEC registrants. There can be no assurance as to what the outcome of these discussions might be or whether they ultimately would lead to registration by the FHLBanks.

The FHLBanks are unable to predict whether the proposed Finance Board regulation will be adopted and, even if adopted, when the FHLBanks might be required to register with the SEC. The FHLBanks are also unable to predict what the costs of such registration might be and whether the SEC might require changes to the financial statements of the FHLBanks, and whether such changes might have a material adverse impact on the FHLBanks.

Corporate Governance Review. Early in 2004, the Finance Board held two public hearings to gather information about corporate governance practices and to receive recommendations to strengthen corporate governance at the FHLBanks. Information from the hearings will be used by the Finance Board to determine whether regulatory changes or potential amendments to the FHLBank Act are warranted. The hearings were held to build upon the Finance Board's Office of Supervision's horizontal review of corporate practices at the FHLBanks completed in 2003. It is not possible to predict what, if any, changes will be made and what effect the changes would have on the FHLBanks.

Proposed Change in Federal Reserve Bank Policy Statement on Payments System Risk. The Federal Reserve Board in February 2004 announced that it intends, beginning in July 2006, to require Federal Reserve Banks to release interest and principal payments on securities issued by GSE's and international organizations only when the issuer's Federal Reserve account contains sufficient funds to cover these payments. The Federal Reserve Banks have 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 securities' interest and redemption payments, even if the issuer has not fully funded its payments. The Federal Reserve Board requested comment by April 16, 2004 on how best to promote a smooth market adjustment while implementing this change in its Policy Statement on Payments System Risk. The FHLBanks are evaluating the impact of this proposed change on their operations. If the proposed changes are made, they will impact the FHLBanks. However, it is not possible to predict what, if any, changes will be made and what effect the changes would have on the FHLBanks.

Proposed Changes to GSE Regulation. Several bills have been introduced in Congress that are designed to strengthen the regulation of Fannie Mae, Freddie Mac and the FHLBanks, including a bill which would combine the Office of Federal Housing Enterprise Oversight and the

Finance Board into a new regulatory agency within the U.S. Treasury. Hearings on legislation have been held in the House and Senate. It is impossible to predict what, if any, provisions relating to the Finance Board and the FHLBanks will be included in any such legislation, whether the legislation might require SEC registration of FHLBank securities, whether the House and Senate will approve such legislation, whether any such change in regulatory structure will be signed into law, when any such change would go into effect if enacted, or what effect the legislation would have on the Finance Board or the FHLBanks.

Recent Rating Agency Actions

Standard & Poor's Rating Services ("S&P") announced several rating actions, described below, against individual FHLBanks in 2003, but none of those actions affected its AAA/A-1+ ratings on consolidated obligations of the FHLBanks, as that rating is based on government-sponsored enterprise (GSE) status.

Rating Agency Action Relating to the FHLBanks of Chicago, Indianapolis and Seattle. On November 18, 2003, S&P announced that it affirmed its AAA long-term counterparty credit rating and its A-1+ short-term counterparty credit rating on the FHLBanks of Chicago, Indianapolis and Seattle but changed its outlook on each FHLBank from "stable" to "negative." At the same time, S&P announced that its AAA/A-1+ ratings on the consolidated obligations of the FHLBanks were not affected by this action, as that rating is based on GSE status. On January 20, 2004, Moody's Investors Service (Moody's) announced that it affirmed its Aaa bank deposit and its Prime-1 short-term deposit ratings of the FHLBanks of Chicago, Indianapolis and Seattle and affirmed its "stable" outlook on each of those FHLBanks.

Rating Agency Action Relating to the FHLBanks of Atlanta and Pittsburgh. On October 8, 2003, S&P announced that it affirmed its AAA long-term counterparty credit rating and its A-1+ short-term counterparty credit rating on the FHLBanks of Atlanta and Pittsburgh but changed its outlook on each of those FHLBanks from "stable" to "negative." At the same time, S&P announced that its AAA/A-1+ ratings on the consolidated obligations of the FHLBanks were not affected by this action, as that rating is based on GSE status. On October 14, 2003, Moody's Investors Service (Moody's) announced that it affirmed its Aaa bank deposit and its Prime-1 short-term deposit ratings of the FHLBanks of Atlanta and Pittsburgh and affirmed its "stable" outlook on each of those FHLBanks.

Rating Agency Action Relating to the FHLBank of New York. On September 26, 2003, S&P affirmed the FHLBank of New York's A-1+ short-term counterparty rating, but lowered the FHLBank of New York's long-term counterparty rating from AAA to AA+ while raising its outlook to stable from negative; this followed an earlier action taken on August 8, 2003, when it affirmed the FHLBank's ratings but lowered its outlook from stable to negative. At the same times, S&P said its AAA/A-1+ ratings on the consolidated obligations of the FHLBanks were not affected by this action, as those ratings are based on GSE status. On September 26, 2003, Moody's affirmed its Aaa bank deposit and Prime-1 short-term deposit ratings of the FHLBank of New York.

RISK MANAGEMENT

The fundamental business of the FHLBanks is to provide member institutions and housing associates with advances and other credit products in a wide range of maturities and terms to meet member demand. The principal sources of funds for these activities are consolidated obligations and, to a lesser extent, capital and deposits from members. Lending and investing funds, and engaging in interest-rate exchange agreements, have the potential for exposing the FHLBanks to a number of risks, including credit and interest-rate risk. The FHLBanks are also subject to operational 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 FHLBanks' risk management practices. 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 Combined 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 general approach of the FHLBanks toward managing interest-rate risk is to acquire and maintain a portfolio of assets and liabilities which, together with their associated interest-rate exchange agreements, limit the expected duration mismatch. The FHLBanks manage interest-rate risk in several different ways as more fully discussed below.

The FHLBanks measure interest-rate risk exposure by various methods, including calculation of duration of equity. Duration of equity shows the sensitivity of theoretical market value of equity to changes in interest rates. Higher duration numbers, whether positive or negative, indicate greater volatility of market value of equity in response to changing interest rates. Under the Finance Board regulation, the duration of equity for each FHLBank that has not yet converted to its new capital plan must stay within a range of +5 to −5 years assuming current interest rates. It must stay within a range of +7 to −7 years assuming an instantaneous parallel increase or decrease in interest rates of 200 basis points. The FHLBanks report the results of their duration of equity calculations to the Finance Board each quarter. The Finance Board's capital adequacy rules require each FHLBank that has implemented its capital plan to hold permanent capital in an amount sufficient to cover the sum of its credit, market and operations risks as defined by the Finance Board capital rule, with the market risk component determined by a market risk model developed by that FHLBank. (See Duration of Equity tables in the "Quantitative and Qualitative Disclosures About Market Risk—Quantitative Disclosure about Market Risk" section on pages 72 and 73.)

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

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

The FHLBanks may also use interest-rate exchange agreements to transform the characteristics of investment securities other than mortgage-backed securities.

Derivatives and Hedging Activities

General/Types of Derivatives. The FHLBanks enter into interest-rate swaps, options, swaptions, interest-rate caps and floors agreements, futures and forward contracts (collectively, interest-rate exchange agreements) to manage their exposure to changes in interest rates. These derivatives are used by the FHLBanks to adjust the effective maturity, repricing frequency or option characteristics of financial instruments to achieve risk-management objectives. Derivative financial instruments are used in three ways: either by designating them as a fair-value or cash-flow hedge of an underlying financial instrument, a firm commitment or a forecasted transaction, by acting as an intermediary, or in asset/liability management (i.e., non-SFAS 133 economic hedge). 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 approximate more closely the interest-rate sensitivity of assets (advances, investments and mortgage loans), and/or to effectively adjust the interest-rate sensitivity of advances, investments or mortgage loans to approximate more closely the interest-rate sensitivity of liabilities. In addition to using interest-rate exchange agreements to manage mismatches of interest rates between assets and liabilities, the FHLBanks also use interest-rate exchange agreements to manage embedded options in assets and liabilities, to hedge the market value of existing assets, 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 used or adopt new strategies.

Interest-rate Exchange Agreements. The FHLBanks, consistent with Finance Board regulation, enter into interest-rate exchange agreements only to reduce the market risk exposure inherent in otherwise unhedged assets and funding positions. An FHLBank's management 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, the FHLBanks recognize only the change in fair value of these interest-rate exchange agreements in other income as net realized and unrealized gains (losses) on derivatives and hedging activities with no offsetting fair value adjustments of the asset, liability or firm commitment.

Swaps. A swap is an agreement between two entities to exchange cash flows in the future. The agreement defines the dates when the cash flows are to be paid and the way in which they will be calculated. A "plain vanilla" interest rate swap is an agreement by one party to pay cash flows equal to interest at a predetermined fixed rate on a notional principal for a number of years; in return, the entity receives interest at a floating rate on the same notional principal for the same period of time. The floating rate in most interest-rate swap agreements is the London Interbank Offer Rate (LIBOR).

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

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 provides FHLBanks that are planning future lending or borrowing with protection against interest rate changes. The FHLBanks purchase both payer swaptions, which is the option to pay fixed at a later date, and receiver swaptions, which is the option to receive fixed at a later date.

Interest-rate Caps and Floors. A cap is a contract or financial instrument that generates a cash flow if the price or rate of an underlying variable rises above some threshold "cap" price. A floor is a contract or financial instrument that generates a cash flow if the price or rate of an underlying variable falls below some threshold "floor" price. Caps are used in conjunction with liabilities and floors with assets. Caps and floors are designed to provide protection against the rate of interest on a floating-rate asset or liability rising above a certain level. In addition, some FHLBanks use caps to hedge the extension risk embedded in their fixed-rate mortgage loan portfolio and the caps embedded in their adjustable-rate mortgage-backed securities portfolio.

Futures. The FHLBanks use futures contracts in order to hedge interest rate risk. SFAS 133 permits that the benchmark interest rate maybe 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 the benchmark interest-rate risk, the FHLBanks enter into Eurodollar futures contracts that the FHLBanks believe and can demonstrate are highly correlated to LIBOR.

The FHLBanks use Eurodollar futures contracts to hedge benchmark interest rate. Eurodollar futures are based on 3-month Eurodollar interest rates. All futures contracts are standardized with specific value dates and fixed contract sizes and are traded through an exchange. Eurodollar futures contracts are traded through the Chicago Mercantile Exchange and include daily cash settlements to insure against the risk of counterparty defaults.

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

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

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

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

Mortgage Loans Held for Portfolio. The FHLBanks invest in mortgage assets. The prepayment options embedded in mortgage assets can result in extensions or contractions in the expected maturities of these investments, depending on changes in estimated prepayment speeds. In addition, to the extent the FHLBanks purchase mortgage assets at premiums or discounts, net income could be affected by extensions or contractions in the expected maturities of these investments. Net income could be reduced if the FHLBanks replace the mortgages with lower-yielding assets and if the FHLBanks' higher funding costs are not reduced concomitantly.

The FHLBanks manage the interest-rate and prepayment risk associated with mortgages through a combination of debt issuance and derivatives. The FHLBanks issue both callable and non-callable debt to achieve cash-flow patterns and liability durations similar to those expected on the mortgage loans. The FHLBanks also use derivatives to match the expected prepayment characteristics of the mortgages. Interest-rate swaps, to the extent the payments on the mortgages result in simultaneous reduction of the notional amount on the swaps, may receive fair-value hedge accounting under which changes in the fair value of the swaps, and changes in the fair value of the mortgages that are attributable to the hedged risk, are recorded in current-period earnings.

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 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 which are not identified to specific mortgages. The FHLBanks also purchase interest-rate caps and floors, swaptions, callable swaps, calls, and puts to manage 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.

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

Mortgage Purchase Commitment Strategies. The FHLBanks hedge the market value of commitments to purchase fixed-rate mortgage loans by using derivatives that have similar market value characteristics. The FHLBanks normally hedge these commitments by selling mortgage-backed securities to be announced (TBA MBS) or other derivatives for forward settlement. When the derivatives settle, the current market value of the commitments is included with the basis of the mortgage loans and amortized accordingly. This transaction would be treated as a fair-value hedge.

Effective July 1, 2003, these mortgage purchase commitments are considered derivatives. The FHLBank may hedge these commitments by selling MBS TBA or other derivatives for forward settlement. Both the commitment and the derivatives used in the firm commitment hedging strategy are recorded on the balance sheet 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 as a basis adjustment on the mortgage loan and amortized accordingly. The FHLBank may designate mortgage delivery commitment derivatives as a cash flow hedge of the anticipated purchase of mortgage loans. The change in value of the delivery commitment is recorded as a basis adjustment on the resulting loans with offsetting changes in other comprehensive income in the Statement of Condition. The basis adjustments on the resulting loans and the balance in other comprehensive income are then amortized into net interest income in offsetting amounts over the life of the resulting loans, resulting in no impact on earnings. (See Note 2 to the accompanying combined financial statements.)

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 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 risk associated with these investment securities is managed through a combination of debt issuance and derivatives. The FHLBanks may manage against prepayment and duration risk by funding investment securities with consolidated obligations that have call features. The FHLBanks may also manage the risk arising from changing market prices and volatility of investment securities by matching the cash outflow on the interest-rate exchange agreements with the cash inflow on the investment securities. The FHLBanks' derivatives currently associated with investment securities carried at fair value and held to maturity are designated as economic hedges with the changes in fair values of the derivatives being recorded in current 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, and the amount of the change related to the unhedged risk in 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 other comprehensive income as unrealized gains or losses on hedging activities. The ineffective portion is recorded in other income.

Anticipated Debt Issuance. Certain FHLBanks use derivatives in anticipation of the issuance of debt to "lock in" the cost of funding. 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, and 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 other comprehensive income. If the derivatives are terminated prior to their maturity dates, the amount in 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 enter into offsetting interest-rate exchange agreements, acting as an intermediary between members and other counterparties. This intermediation allows smaller members indirect access to the swap market. The derivatives used in intermediary activities do not receive SFAS 133 hedge accounting and are separately marked-to-market through earnings. The net result of the accounting for these derivatives does not significantly affect the operating results of the FHLBanks.

Derivative Notional Amounts. At December 31, 2003, the FHLBanks had $701.1 billion total notional amount of interest-rate exchange agreements outstanding compared with $645.8 billion at December 31, 2002 and $600.9 billion at December 31, 2001. The notional amount serves as a factor in determining periodic interest payments or cash flows received and paid, and does not represent actual amounts exchanged or the FHLBanks' exposure to credit and market risk. The amount potentially subject to credit loss is much less. Notional values are not meaningful measures of the risks associated with derivatives. The risk of derivatives can only be measured meaningfully on a portfolio basis, taking into account the derivatives, the item being hedged and any offsets between them. The FHLBanks adopted SFAS 133, as amended by Statement of Financial Accounting Standard No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* on January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the Combined Statement of Condition at their fair values. 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. At December 31, 2003, the FHLBanks had combined derivative assets of $1.6 billion and combined derivative liabilities of $13.0 billion. At December 31, 2002 and 2001, the FHLBanks had combined derivative assets of $2.8 billion and $2.1 billion, and combined derivative liabilities of $16.3 billion and $7.2 billion. The $3.3 billion decrease from December 31, 2002 to December 31, 2003 in combined derivative liabilities are the result of interest rate changes and the small growth in derivative volumes.

The table on the following page 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 hedges where hedge accounting is achieved. The category "Economic" represents hedge strategies where hedge accounting is not achieved.

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

	December 31, 2003		December 31, 2002	
	Total Notional	Total Estimated Fair Value (excludes accrued interest)	Total Notional	Total Estimated Fair Value (excludes accrued interest)
Advances				
Fair Value—existing cash item	$262,079	$(12,469)	$242,129	$(19,115)
Fair Value—firm commitments	549		21	
Cash Flow—existing cash item	1,190	63	3,425	257
Cash Flow—anticipated transaction	600	33	650	45
Economic	2,623	(5)	3,051	6
Total	267,041	(12,378)	249,276	(18,807)
Investments				
Fair Value—existing cash item	9,009	(695)	9,131	(1,054)
Cash Flow—anticipated transaction	400	26	400	32
Economic (includes held at fair value hedges)	8,535	(766)	16,602	(1,023)
Total	17,944	(1,435)	26,133	(2,045)
MPF®/MPP Loans Held for Portfolio				
Fair Value—existing cash item	31,226	125	6,132	(101)
Fair Value—firm commitments			3,540	(17)
Cash Flow—delivery commitments	269	1		
Stand alone delivery commitments	1,528	1		
Economic (includes TBAs)	7,481	16	6,390	10
Total	40,504	143	16,062	(108)
Consolidated Obligations—Bonds				
Fair Value—existing cash item	327,031	862	296,170	6,145
Fair Value—firm commitments	100			
Cash Flow—existing cash item	500		1,550	2
Cash Flow—anticipated transaction	176		833	(7)
Economic	21,480	44	27,417	3
Total	349,287	906	325,970	6,143

	December 31, 2003		December 31, 2002	
	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	$ 1,989		$ 2,697	$ 2
Cash Flow—existing cash item	400	$ 4		
Cash Flow—anticipated transaction	5,910	442	3,530	176
Economic	2,213	(2)	100	(1)
Total	10,512	444	6,327	177
Deposits				
Fair Value	20	6	20	7
Cash Flow	1,700	58	3,750	109
Economic			350	
Total	1,720	64	4,120	116
Balance Sheet				
Economic	10,143	100	12,593	108
Total	10,143	100	12,593	108
Intermediary Positions				
Intermediaries	3,981	3	5,351	(1)
Total	3,981	3	5,351	(1)
Total notional and estimated fair value	$701,132	$(12,153)	$645,832	$(14,417)

The following tables categorize the 2003 and 2002 earnings impact by product for the hedging activities (dollar amounts in millions):

Earnings Impact for the Year Ended December 31, 2003	Advances	Investments	MPF®/ MPP Loans	COs- Bonds	COs- Discount Notes	Deposits	Balance Sheet	Intermediary Positions	Total
Amortization/accretion of hedging activities in net margin	$(58)	$ 3	$ (43)	$179	$(135)	$(38)	$	$	$ (92)
Net realized and unrealized gains (losses) on derivatives and hedging activities	43	26	(73)	81	(28)		(90)	1	(40)
Net realized losses on sale from available-for-sale securities		(27)							(27)
Net losses on securities held at fair value		(319)							(319)
Total	$(15)	$(317)	$(116)	$260	$(163)	$(38)	$(90)	$1	$(478)

Earnings Impact for the Year Ended December 31, 2002	Advances	Investments	MPF®/ MPP Loans	COs-Bonds	COs-Discount Notes	Balance Sheet	Total
Amortization/accretion of hedging activities in net margin	$(33)	$ 1	$ (5)	$ 147	$(29)	$	$ 81
Net realized and unrealized gains (losses) on derivatives and hedging activities	15	(1,056)	(90)	(104)	(1)	(52)	(1,288)
Net gains on securities held at fair value		707					707
Total	$(18)	$ (348)	$(95)	$ 43	$(30)	$(52)	$ (500)

Derivative Credit Risk Exposure and Counterparty Ratings. In addition to market risk, each FHLBank is subject to credit risk because of the potential nonperformance by counterparties to the agreements as well as operational risks. The degree of counterparty risk on derivatives depends on the extent to which netting procedures and other credit enhancements are used to mitigate the risk. At December 31, 2003, 5 counterparties represented approximately 50 percent of the total notional amount of outstanding derivative transactions and each had a credit rating of single-A or better. None of the counterparties represented more than 10 percent of the FHLBanks' net exposure after collateral, which was $352 million at December 31, 2003. Each FHLBank manages counterparty credit risk through credit analysis, collateral management and other credit enhancements, and by following the requirements set forth by Finance Board regulation. The FHLBanks require collateral agreements on interest-rate exchange agreements, and maximum net unsecured credit exposure amounts that may exist before collateral requirements are triggered based upon each individual counterparty's rating. For example, a counterparty must deliver collateral to 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 notional amount of interest-rate exchange agreements does not measure the credit-risk exposure of an FHLBank. The maximum credit exposure of an FHLBank is much less than the notional amount. The maximum credit risk is the estimated cost of replacing favorable interest-rate swaps, forward agreements and purchased caps and floors if the counterparty defaults, net of the value of related collateral.

At December 31, 2003, the FHLBanks' maximum credit risk balance, before considering collateral, was approximately $1,576 million. This compares with December 31, 2002, maximum credit risk balances, before considering collateral, of $2,676 million. In determining maximum credit risk, the FHLBanks consider accrued interest receivables and payables, and the legal right to offset assets and liabilities by counterparty. The FHLBanks' net exposure after collateral was approximately $352 million at December 31, 2003 compared to $708 million at December 31, 2002.

Derivative Counterparty Credit Exposure
(Dollar amounts in millions)

At December 31, 2003

Credit Rating*	Notional Amount	Total Net Exposure at Fair Value	Total Net Exposure Collateralized	Net Exposure After Collateral
Triple-A	$ 18,143	$ 132	$ 80	$ 52
Double-A	349,169	888	658	230
Single-A	322,620	524	454	70
Triple-B	6,157			
Unrated(1)	673			
	696,762	1,544	1,192	352
Intermediaries(2)	2,573	27	27	
Delivery commitments(3)	1,797	5		
Total derivatives	$701,132	$1,576	$1,219	$352

At December 31, 2002

Credit Rating**	Notional Balance	Total Net Exposure at Fair Value	Total Net Exposure Collateralized	Net Exposure After Collateral
Triple-A	$ 14,408	$ 222	$ 72	$150
Double-A	350,156	1,338	956	382
Single-A	275,988	1,086	910	176
Triple-B	1,777			
	642,329	2,646	1,938	708
Intermediaries(2)	3,503	30	30	
Total derivatives	$645,832	$2,676	$1,968	$708

* This chart does not reflect changes in any rating, outlook or watch status after December 31, 2003. 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, 2002. 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 related to these unrated counterparties at December 31, 2003.

(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 interest-rate exchange agreements in which the FHLBanks are intermediaries for member institutions which are fully collateralized, over 99 percent of the notional amount of the FHLBanks' outstanding interest-rate exchange agreements are with counterparties rated single-A or higher. At December 31, 2003, 36 counterparties represented 99.99 percent of the total notional amount of the FHLBanks' outstanding interest-rate exchange agreements excluding agreements in which the FHLBanks are intermediaries, and of the agreements with the 36 counterparties, approximately 49.65 percent is with 21 counterparties rated double-A or higher, approximately

50.24 percent is with 12 counterparties rated single-A, approximately 0.01 percent is with 1 counterparty rated "triple B" and approximately 0.09 percent is with 2 unrated counterparties.

Foreign Currencies. The FHLBanks have issued some consolidated obligations denominated in currencies other than U.S. dollars, and the FHLBanks use forward exchange contracts to hedge currency risk. These contracts are agreements to exchange different currencies at specified future dates and at specified rates. The use of these contracts effectively simulates the conversion of these consolidated obligations denominated in foreign currencies to ones denominated in U.S. dollars. At December 31, 2003, consolidated obligations denominated in foreign currencies represented less than 1 percent of consolidated obligations outstanding.

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

Duration of equity is the market value-weighted duration of assets minus the market value-weighted duration of liabilities divided by the market value of equity. For each FHLBank that has not yet converted to its new capital plan, Finance Board policy requires that each FHLBank's duration of equity (at current interest rate levels using the consolidated obligation cost curve or an appropriate discounting methodology) be maintained within a range of +/−5 years. Each FHLBank must maintain its duration of equity, under an assumed instantaneous +/−200 basis points parallel shift in interest rates, within a range of +/−7 years.

Each FHLBank has an internal modeling system for measuring duration of equity and duration gap, and therefore, individual FHLBank measurements may not be directly comparable. The table below reflects the results of each FHLBank's own measurement of its exposure to interest-rate risk in accordance with the Finance Board policy for each FHLBank that has not yet converted to its new capital structure. The table summarizes the interest-rate risk associated with all instruments entered into by the FHLBanks.

Duration of Equity
(In years)

FHLBank	December 31, 2003 Up	December 31, 2003 Base	December 31, 2003 Down	December 31, 2002 Up	December 31, 2002 Base	December 31, 2002 Down
Boston	2.5	1.8	2.4	2.2	1.4	1.4
New York	3.0	2.2	1.8	3.0	0.8	0.5
Atlanta	4.9	2.3	1.8	2.3	(1.6)	(3.1)
Chicago	4.6	2.6	0.4	5.4	3.3	(2.9)
Topeka	2.0	(1.4)	(4.4)	3.2	(1.4)	(1.4)
San Francisco	3.2	1.8	1.0	2.7	1.9	1.1

Up = +200 basis points. Down = −200 basis points. The Finance Board regulation restricts the down rate from assuming a negative interest rate. Therefore, each FHLBank adjusts the down rate accordingly.

Although the FHLBanks that have converted to their new capital structures are not subject by regulation to the duration of equity requirements as previously noted, the duration of equity information for these FHLBanks is provided below for information purposes.

Duration of Equity
(In years)

	December 31, 2003			December 31, 2002		
FHLBank	Up	Base	Down	Up	Base	Down
Pittsburgh	5.0	2.8	2.3	4.2	1.9	1.6
Cincinnati	7.2	2.4	(5.6)	6.2	0.3	(6.7)
Indianapolis	2.1	3.2	3.9	0.0	(1.6)	1.1
Des Moines	0.2	0.1	0.1	2.0	(2.6)	(4.2)
Dallas	5.1	2.7	2.0	3.8	1.8	(0.5)
Seattle	6.4	4.1	(5.2)	2.7	(1.9)	(6.7)

Up = +200 basis points. Down = −200 basis points. The Finance Board regulation restricts the down rate from assuming a negative interest rate. Therefore, each FHLBank adjusts the down rate accordingly.

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

In calculating and measuring duration of equity, the FHLBanks also calculate and measure their duration gap, the difference between the durations of assets and liabilities. The FHLBanks' duration gaps at December 31, 2003 ranged from 1.3 month to −0.8 months. The FHLBanks' duration gaps at December 31, 2002 ranged from 0.9 months to −2.2 months. The low risk profile reflects each FHLBank's conservative asset/liability mix.

Duration Gap
(In months)

	December 31,	
FHLBank	2003	2002
Boston	1.1	0.9
New York	0.9	0.1
Pittsburgh	1.1	0.6
Atlanta	1.0	(1.3)
Cincinnati	0.7	(0.6)
Indianapolis	1.0	(1.4)
Chicago	0.0	0.0
Des Moines	(0.4)	(1.4)
Dallas	1.3	0.7
Topeka	(0.8)	(1.0)
San Francisco	0.6	0.8
Seattle	1.1	(2.2)

Risk-based Capital Requirements. After an FHLBank implements its capital plan under the GLB Act, the FHLBank 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.

An FHLBank's credit risk capital requirement is determined by adding together the credit risk capital charges computed for assets, off-balance sheet items and derivative contracts based on, among other things, the credit risk percentages assigned to each item as required by the Finance Board.

An FHLBank's market risk capital requirement is determined by adding together the market value of the FHLBank's portfolio at risk from movements in interest rates that could occur during times of market stress and the amount, if any, by which the FHLBank's current market value of total capital is less than 85 percent of the FHLBank's book value of total capital. 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 FHLBanks of Pittsburgh, Cincinnati, Indianapolis, Des Moines, Dallas and Seattle in calculating the market risk components of their respective FHLBank's risk-based capital requirement. Although the market risk modeling is performed by the individual FHLBank, each FHLBank's modeling approach and underlying assumptions were subject to Finance Board review and approval prior to implementation and continue to be subject to such review and approval on an ongoing basis.

An FHLBank's operational risk capital requirement is equal to 30 percent of the sum of its credit risk capital and market risk capital requirements, unless the Finance Board approves a reduction in 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 described above.

Each FHLBank is subject to risk-based capital rules under its new capital structure plan when implemented. Only "permanent" capital, defined as retained earnings and Class B stock, can satisfy the risk-based capital requirement. 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 leverage ratio.

As of December 31, 2003, the FHLBanks of Pittsburgh, Cincinnati, Indianapolis, Des Moines, Dallas and Seattle each met its regulatory capital requirements including their new risk-based capital requirements (dollar amounts in millions).

Regulatory Capital Requirements

		At December 31, 2003				
FHLBank*	**Minimum Regulatory Capital Ratio Requirement**	**Minimum Regulatory Capital Requirement**	**Actual Capital Ratio**	**Total Capital**	**Permanent Capital(1)**	**Risk-Based Capital**
Pittsburgh	4.0%	$2,141	4.5%	$2,373	$2,385	$386
Cincinnati	4.0%	3,086	4.8%	3,734	3,737	892
Indianapolis	4.0%	1,796	4.5%	2,009	2,011	353
Des Moines	4.0%	1,802	4.9%	2,207	2,207	431
Dallas	4.0%	2,336	4.7%	2,741	2,769	547
Seattle	4.0%	2,047	4.8%	2,456	2,456	695

FHLBank*	Minimum Regulatory Leverage Ratio Requirement	At December 31, 2003 Minimum Weighted Regulatory Leverage Capital Requirement	Actual Leverage Ratio	Weighted Leverage Capital
Pittsburgh	5.0%	$2,676	6.7%	$3,578
Cincinnati	5.0%	3,857	7.3%	5,606
Indianapolis	5.0%	2,245	6.7%	3,017
Des Moines	5.0%	2,253	7.3%	3,311
Dallas	5.0%	2,920	7.1%	4,155
Seattle	5.0%	2,558	7.2%	3,684

* Only includes FHLBanks that have implemented their new capital plans as of December 31, 2003.

(1) Permanent capital is defined as retained earnings and Class B stock.

Managing Credit Risk. Credit risk is the risk of loss due to default. The FHLBanks face credit risk on advances, investments, mortgage loans and, as previously discussed, on interest-rate exchange agreements. No FHLBank has ever experienced a credit loss on an advance. The FHLBanks protect against credit risk on advances through collateralization of all advances. In addition, each FHLBank can call for additional or substitute collateral during the life of an advance to protect its security interest. The FHLBank Act limits eligible collateral to certain investment securities, residential mortgage loans, deposits with the FHLBank and other real estate related assets. As a result of the FHLBank Act and regulatory implementation by the Finance Board, the FHLBanks are allowed to expand eligible collateral for many of its members. Members that qualify as "community financial institutions" (CFIs)—defined in the FHLBank Act as FDIC-insured depository institutions that had average assets for the past three calendar years totaling no more than $538 million during 2003 and $548 million during 2004—can now pledge small-business, small-farm, and small-agribusiness loans as collateral for advances. The FHLBanks are allowed to make advances to non-member housing associates that also have expanded collateral requirements. The expanded eligible collateral for CFIs and non-member housing associates provides additional credit risk for the FHLBanks. Advances to CFIs secured with the expanded collateral represent approximately $7.4 billion of the total $501.6 billion advances outstanding at December 31, 2003, and housing associates represent $574 million of the total $501.6 billion advances outstanding at December 31, 2003. The management of each FHLBank believes it has the policies and procedures in place to manage this credit risk effectively.

While the FHLBanks face minimal credit risk on advances, they are subject to credit risk on investments and on interest-rate exchange agreements. Each FHLBank follows guidelines established by the Finance Board and its board of directors on unsecured extensions of credit, whether on- or off-balance sheet. The Finance Board 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.

At December 31, 2003, the FHLBanks had Federal funds sold of $36.7 billion and held $3.2 billion of commercial paper.

At December 31, 2003, the FHLBanks' unsecured credit exposure to counterparties other than the U.S. government or U.S. government agencies and instrumentalities was $51.7 billion, most of which was Federal funds sold and commercial paper. This is a $17.2 billion decrease from the $68.9 billion unsecured credit exposure to such counterparties at December 31, 2002. About 51.2 percent of this exposure at December 31, 2003 had an overnight maturity, 30.8 percent had a maturity from 2 to 30 days, 17.2 percent had a maturity from 31 to 90 days, and 0.8 percent had a maturity from 91 to 270 days. At December 31, 2003, the FHLBanks had aggregate unsecured credit exposure of more than $1 billion to each of 15 counterparties. The aggregate unsecured credit exposure to these 15 counterparties represented 48.2 percent of the FHLBanks' unsecured credit exposure to non-government counterparties.

Included in the aggregate unsecured credit exposure total is unsecured credit of $80 million to Washington Mutual Bank and $351 million to Washington Mutual Bank, FA. As of the same date, Washington Mutual Bank had advances of $2.2 billion from the FHLBank of Seattle, its affiliated Washington Mutual Bank, FA, had advances of $46.1 billion from the FHLBank of San Francisco, and its affiliated Washington Mutual Bank, FSB, had advances of $6 million from the FHLBank of Seattle. All these advances were secured borrowings. An officer of Washington Mutual Bank serves as a director of the FHLBank of Seattle. In February 2001, Washington Mutual Bank, FA, acquired Bank United, Houston, Texas. Before its acquisition, Bank United renegotiated $7.6 billion of its advances from the FHLBank of Dallas, principally to extend the term of these advances. After the merger, Washington Mutual Bank, FA, is responsible for the repayment of these advances to the FHLBank of Dallas. The outstanding balance of $7.5 billion is included in the Washington Mutual, FA, 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 $7.9 billion from the FHLBank of New York. After the merger, Washington Mutual Bank, FA, is responsible for the repayment of these advances to the FHLBank of New York. The outstanding balance of $6.2 billion is included in the Washington Mutual Bank, FA, advance amount noted above.

Mortgage Loans Held for Portfolio. All 12 FHLBanks have established member mortgage asset purchase programs as services to their members. The programs all involve the investment by the FHLBank in loans created by members. The Finance Board authorized all of the FHLBanks to hold acquired member assets, such as assets acquired under the Mortgage Partnership Finance® (MPF®) program developed by the FHLBank of Chicago and the Mortgage Purchase Program (MPP) developed by the FHLBanks of Cincinnati, Indianapolis and Seattle. All of the FHLBanks except Cincinnati, Indianapolis and Seattle offer the MPF® program to their members. Under these programs, the FHLBank purchases/originates mortgage assets from or through members or housing associates, and the members or housing associates continue to bear a portion of the credit risk. These assets may have more credit risk than advances, even though the member or housing associate provides credit enhancement. At December 31, 2003, the acquired member asset programs had an outstanding balance of $113.4 billion in mortgage loans held for portfolio, net, all of which were credit enhanced by members to a level equivalent to at least an investment-grade rating. The net balance of outstanding mortgage loans held for portfolio was $60.6 billion at December 31, 2002. All of the FHLBanks participating in these programs have established appropriate loan loss allowances 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 manage appropriately this credit risk. Neither the member credit enhancements nor loans are rated. An FHLBank must hold risk-based capital against acquired member assets or pools of assets that have an implied credit rating less than double-A. The FHLBank of Atlanta began participating in MPP during the third quarter of 2003.

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

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

Business Risk. Business risk is the risk of an adverse impact on the FHLBanks' profitability resulting from external factors that may occur in both the short and long term. Business risk includes political, strategic, reputation and/or regulatory events that are beyond the FHLBanks' control. From time to time, proposals are made, or legislative and regulatory changes are considered, which could affect the FHLBanks' status and their cost of doing business. Each FHLBank's board of directors and management try to mitigate these risks through long-term strategic planning and through continually monitoring economic indicators and the external environment.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Quarterly Results of Operations

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

Selected Quarterly Financial Data (Unaudited)

Statements of Income
(Dollar amounts in millions)

	2003 Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
Income Statement				
Total interest income	$4,761	$4,593	$4,440	$4,531
Total interest expense	3,923	3,884	3,667	3,767
Net interest income before mortgage loan loss provision	838	709	773	764
Provision for credit losses on mortgage loans	2	1	(2)	2
Net interest income after mortgage loan loss provision	836	708	775	762
Prepayment fees	23	47	75	46
Net gains (losses) from sale of held-to-maturity securities		19	(180)	3
Net gains (losses) from sale of available-for-sale securities	4	18	(50)	1
Net (losses) gains on securities held at fair value	(20)	154	(298)	(155)
Net realized and unrealized (losses) gains on derivatives and hedging activities	(107)	(213)	221	59
Other non-interest income (loss), net	4	4	(5)	32
Total non-interest (loss) income	(96)	29	(237)	(14)
Operating	103	114	109	123
Finance Board	8	5	7	3
Office of Finance	5	3	5	5
Other	3	2	5	6
Total other expense	119	124	126	137
Affordable Housing Program	51	50	39	50
REFCORP	114	112	90	111
Total assessments	165	162	129	161
Net income	$ 456	$ 451	$ 283	$ 450

Reclassifications. For the years ended December 31, 2002 and 2001, the FHLBanks have reclassified realized gains and losses (e.g., net interest payments) on standalone derivative instruments used in economic hedges. Previously, realized gains and losses on standalone derivatives used in economic hedges were classified within net interest income after mortgage loan loss provision while unrealized gains (losses) on these derivatives were recorded in net realized and unrealized gains (losses) on derivatives and hedging activities within other income. These amounts have been reclassified and are both now included in net realized and unrealized gains (losses) Regulatory Leverage on derivatives and hedging activities within other income for the years ended December 31, 2002 and 2001 in order to be consistent with the 2003 presentation. As a result of this reclassification, net interest income after mortgage loan loss provision was adjusted up by $382 million and $134 million for the years ended December 31, 2002 and 2001, and net realized and unrealized gains (losses) on derivatives and hedging activities were adjusted down by $382 million and $134 million for the years ended December 31, 2002 and 2001.

	2002 Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
Income Statement				
Total interest income	$5,160	$5,302	$5,370	$5,194
Total interest expense	4,379	4,465	4,508	4,347
Net interest income before mortgage loan loss provision	781	837	862	847
Provision for credit losses on mortgage loans	1	2	1	2
Net interest income after mortgage loan loss provision	780	835	861	845
Prepayment fees	44	15	32	51
Net gains from sale of held-to-maturity securities	1			
Net (losses) gains on securities held at fair value	(152)	335	540	(16)
Net realized and unrealized gains on derivatives and hedging activities	34	(522)	(647)	(153)
Other non-interest income, net	1	12	3	1
Total non-interest (loss) income	(72)	(160)	(72)	(117)
Operating	88	97	97	114
Finance Board	8	6	6	3
Office of Finance	5	4	3	5
Other	(3)	2	13	4
Total other expense	98	109	119	126
Affordable Housing Program	49	48	54	48
REFCORP	112	105	122	111
Total assessments	161	153	176	159
Net income	$ 449	$ 413	$ 494	$ 443

	2001 Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
Total interest income	$9,930	$8,438	$7,407	$6,044
Total interest expense	9,134	7,638	6,581	5,223
Net interest income before mortgage loan loss provision	796	800	826	821
Provision for credit losses on mortgage loans	1	1		2
Net interest income after mortgage loan loss provision	795	799	826	819
Prepayment fees	16	13	25	39
Net gains on sale of held-to-maturity securities				3
Net gains (losses) on securities held at fair value	76	(48)	167	(122)
Net realized and unrealized (losses) gains on derivatives and hedging activities	(47)	59	(322)	255
Other non-interest income, net	16	11	3	(10)
Total non-interest income (loss)	61	35	(127)	165
Operating	85	90	90	103
Finance Board and Office of Finance	10	7	11	5
Other	4	1	2	4
Total other expense	99	98	103	112
Affordable Housing Program	58	61	48	72
REFCORP	134	135	108	161
Total assessments	192	196	156	233
Cumulative effect of accounting principle	(30)			
Net income	$ 535	$ 540	$ 440	$ 639

The financial statements, together with the notes thereto and the report of PricewaterhouseCoopers LLP dated March 10, 2004 thereon, appear on pages 87 through 163.

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

None. See 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 that a board of at least 14 directors will govern each FHLBank. Directors elected by the members to three-year terms are a majority of the directors at each FHLBank. However, the Finance Board appoints at least six public-interest directors to three-year terms. Before the passage of the GLB Act, elected directors served two-year terms and appointed directors served four-year terms. At least two of the directors of each FHLBank appointed by the Finance Board must come from organizations with more than a two-year history of representing consumer or community interests in banking services, credit needs, housing, or financial consumer protections.

The board of directors of each FHLBank has the responsibility to 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 regulation.

Beginning with 2000, the GLB Act requires that each FHLBank's board of directors elects a chair and vice chair from among its members to two-year terms.

Compensation of Directors. The GLB Act limits the annual compensation of FHLBank directors and the Finance Board adjusts these amounts based on the percentage annual increase in the Consumer Price Index. The compensation limits for 2003 were $26,921 for a chair, $21,537 for a vice chair and $16,152 for all other directors.

FHLBank President. Each FHLBank president reports to that FHLBank's board of directors. The FHLBank president's responsibilities include the management of the FHLBank, the administration of the FHLBank's programs and of FHLBank objectives set forth in the FHLBank Act, and the execution of the regulations and policies of the Finance Board. Each FHLBank president participates in regular meetings with the other FHLBank presidents.

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

EXECUTIVE COMPENSATION

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

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.

At December 31, 2003, there were 8,101 members of the FHLBanks, a net increase of 90 since December 31, 2002. As of December 31, 2003, the membership in the FHLBanks was comprised of 5,946 commercial banks, 1,344 thrift institutions (savings and loan associations, and savings banks), 729 credit unions, and 82 insurance companies.

Membership

	Commercial Banks	Thrifts	Credit Unions	Insurance Companies	Total
December 31, 1999	5,329	1,610	405	39	7,383
December 31, 2000	5,681	1,547	497	52	7,777
December 31, 2001(1)	5,765	1,481	574	57	7,877
December 31, 2002	5,886	1,390	660	75	8,011
December 31, 2003	5,946	1,344	729	82	8,101

(1) Revised based on member mergers.

Members. Membership is voluntary. A member must give notice of its intent to withdraw. A member that withdraws from membership may not acquire shares of any FHLBank before the end of the 5-year period beginning on the date of the completion of its divestiture of FHLBank capital stock, unless the divestiture is a consequence of transfer of membership on an uninterrupted basis between FHLBanks. Between January 1, 1993, and December 31, 2003, 84 FHLBank members withdrew and one member has given notice to withdraw before July 1, 2004, for reasons other than merger or acquisition and implementation of the new capital plan by their respective FHLBank. Due to the implementation of the new capital plan by their respective FHLBank, 26 members withdrew during the fourth quarter 2004 and 13 members have given notice to withdraw before

July 1, 2004. The respective FHLBanks do not expect these withdrawals to have a material adverse effect on their results of operations or financial condition.

At December 31, 2003, total capital stock was $37.7 billion, an increase of $2.5 billion since December 31, 2002. Commercial bank members hold 54.4 percent of the capital stock and thrift institution members hold 36.6 percent.

Capital by Member Type
(Dollar amounts in billions)

	Commercial Banks	Thrifts	Credit Unions	Insurance Companies	Other(1)	Total
December 31, 1999	$13.2	$14.0	$0.5	$0.3	$0.4	$28.4
December 31, 2000	13.8	15.3	0.6	0.4	0.4	30.5
December 31, 2001(2)	15.2	16.4	0.9	0.3	0.5	33.3
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

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

(2) Revised based on member mergers.

Member Borrowers. The total number of borrowing members has increased in recent years, and rose to 5,566 at year end 2003 from 5,399 at year end 2002. The percent of total members borrowing rose to 68.7 percent in 2003 from 67.4 percent in 2002.

Member Borrowers

	Commercial Banks	Thrifts	Credit Unions	Insurance Companies	Total
December 31, 1999	3,683	1,211	179	19	5,092
December 31, 2000	3,843	1,165	177	25	5,210
December 31, 2001	3,927	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

While 68.7 percent of the FHLBanks' members held advances at December 31, 2003, the 76 borrowers with advance holdings of $1 billion or more at December 31, 2003, held 59.8 percent of the FHLBanks' total advances. At year-end 2002, 77 borrowers held advances greater than $1 billion, representing 61.3 percent of total FHLBanks' advances.

Advances
(Dollar amounts in billions)

	Commercial Banks	Thrifts	Credit Unions	Insurance Companies	Other(1)	Total(2)
December 31, 1999	$147.7	$238.0	$3.4	$3.2	$ 3.4	$395.7
December 31, 2000	172.1	254.9	3.4	2.5	5.0	437.9
December 31, 2001	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

(1) For December 31, 2002 and 2003, 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 former Bank United, which merged in year 2001. Advances to members involved in mergers must be paid off before or at maturity, if the merger involves a non-member institution.

(2) Total advance amounts for December 31, 2001, 2002 and 2003 are at par value and will not agree to the Combined Statements of Condition. The differences between the par and book value amounts relate to basis adjustments arising from hedges under SFAS 133 for book purposes.

The following table presents information on the 10 largest borrowers at the FHLBanks at December 31, 2003.

Top 10 Advance Holding Members
at December 31, 2003

Name	City	State	Advances ($ Millions) (1)	Percent of Total Advances
Washington Mutual Bank, FA(2)(3)	Stockton	CA	$ 46,087	9.2%
Citibank (West), FSB	San Francisco	CA	16,039	3.2%
World Savings Bank, FSB	Oakland	CA	13,500	2.7%
Charter One Bank, NA*	Cleveland	OH	9,164	1.8%
US Bank, NA(4)	Cincinnati	OH	8,595	1.7%
World Savings Bank, FSB (Texas)	Houston	TX	8,500	1.7%
Treasury Bank, NA	Alexandria	VA	6,875	1.4%
Sovereign Bank*	Wyomissing	PA	6,754	1.3%
Standard Federal Bank, NA*	Troy	MI	6,725	1.3%
SunTrust Bank	Atlanta	GA	6,661	1.3%
			$128,900	25.6%

* An asterisk indicates that an officer of the member was an FHLBank director in 2003.

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

(2) Includes $6,154 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 $7,494 million in FHLBank of Dallas advances from the acquisition of Bank United, a former member of the FHLBank of Dallas.

(4) Includes $423 million in FHLBank of Des Moines advances acquired through a member with a former member of the FHLBank of Des Moines.

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, 2003, please refer to page 192.

Housing Associates. At year-end 2003, the FHLBanks had $574 million in advances outstanding to 23 housing associates, down from $576 million at year-end 2002. Housing associates eligible to borrow include 36 State housing finance agencies, 10 county housing finance agencies, 2 city housing authorities, 1 tribal housing corporation and 3 housing development corporations.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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 business almost exclusively with members. Therefore, in the normal course of business, the FHLBanks extend credit to members whose officers may serve as directors of the FHLBanks. An FHLBank extends credit to members whose officers may serve as directors of the FHLBank on market terms that are no more favorable to them than comparable transactions with other members. At December 31, 2003, the FHLBanks had $72.0 billion of advances outstanding to members whose officers were serving as directors of the FHLBanks. This amounted to 14.4 percent of total advances at par.

EXPLANATORY STATEMENT ABOUT FHLBANKS COMBINED FINANCIAL REPORT

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

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

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

The combined Financial Reports are prepared on behalf of the FHLBanks because it is believed that the presentation of the financial information relating to the FHLBanks on a "combined" basis is more convenient for investors in consolidated obligations than providing financial information relating to each FHLBank on a stand-alone basis only. However, investors should be aware that this combined presentation describes a combination of assets and liabilities only for this purpose, and that these assets and liabilities are not presented on a consolidated basis because the combined assets and liabilities are not under joint management and control, and the individual FHLBanks manage their operations with minimal consideration as to how individual FHLBank transactions impact the combined financial results. (See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Interbank

Transfers of Liability on Outstanding Consolidated Bonds" and Note 1 to the accompanying combined financial statements.)

Interbank Transfers of Liability on Outstanding Consolidated Obligations (Consolidated Bonds) and Their Effect on Combined Net Income. 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 by transferring excess funds held by one FHLBank to another FHLBank that needs funds. These transfers allow the FHLBank that assumes the liability for the debt to achieve equal or lower funding costs than would be available to that FHLBank for a similarly-sized transaction in the capital markets at the time of the transfer. These transactions do not affect the holders of the consolidated bonds because the consolidated bonds are the joint and several obligation of all twelve FHLBanks.

Description of the Transactions. As part of its overall asset/liability management strategy, one FHLBank may issue more debt than it immediately needs at the time of issuance to fund its business in order to take advantage of favorable funding prices for large-size transactions and 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 in anticipation of deploying the funds directly in its business, the FHLBank that initially borrowed the funds can subsequently elect to transfer a portion of its liability to an FHLBank that has more immediate funding needs at the time of the transfer. In this type of transaction, the FHLBank that transfers the liability on a portion of the consolidated bond also transfers funds to the FHLBank that assumes the liability. The FHLBank that assumes this liability does so at an equal or lower all-in cost 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 the hedge transactions it entered into when the consolidated bond was issued and/or takes other steps in order to manage its interest rate exposure on that debt, either by terminating an interest-rate exchange agreement or by the elimination of assets, such as through the sale of investment securities with similar characteristics as those consolidated bonds being offered for transfer or the prepayment of mortgages.

Accounting Treatment—Individual FHLBank Financial Statements. The amount of funds transferred to the FHLBank which assumes the liability in exchange for its assumption of that liability may be more or less than the historical cost of that liability on the balance sheet of the FHLBank transferring the liability, due to changes in interest rates on consolidated bonds between the time of original issuance of the transferred liability and the time of the transfer of the liability.

Under generally accepted accounting principles, the FHLBank that transfers the liability on the consolidated bond records the transfer as a debt extinguishment, and may reflect a gain on the extinguishment of the debt as of the date of the transfer of the liability to the extent that the amount of funds transferred by that FHLBank to the FHLBank that assumes the liability is less than the historical cost of the liability on the balance sheet of the transferring FHLBank. Alternatively, if the amount of proceeds transferred exceeds the historical cost of the liability on the balance sheet of the transferring FHLBank, then the FHLBank that transfers the liability would recognize a loss at the time of the transfer. This gain or loss on debt extinguishment is reflected in other income on the transferring FHLBank's financial statements. The gain or loss on debt extinguishment is generally offset by the amounts recognized through the effects of unwinding the transferring FHLBank's hedge transactions in accordance with generally accepted accounting principles relating to the type of hedge transaction, so that the amount of gain or loss from debt extinguishment does not reflect the total economic effect of the transaction to the transferring FHLBank.

The FHLBank that assumes the liability of the consolidated bond accounts for the assumption of the liability at its historical cost on the books of the FHLBank which transferred the liability, but is required to amortize any difference (premium/discount) between the par bond amount and the amount of funds it receives in exchange for its assumption of the liability over the period the consolidated bond remains outstanding. The amount of this premium or discount is reflected as part of the consolidated bonds on the balance sheet of the assuming FHLBank and the amortization of that amount is reflected in interest expense on consolidated bonds on the assuming FHLBank's income statement.

Accounting Treatment—Combined Financial Statements. As described below, under generally accepted accounting principles these transactions may have a material effect on the combined financial statements due to timing differences between (i) the recognition of the gain or loss incurred at the time of the transfer by the FHLBank which transfers the liability for the consolidated bond and (ii) the amortization of that amount in the financial statements of the FHLBank which assumed the liability over the remaining period of time the consolidated bond remains outstanding.

Under generally accepted accounting principles used in the preparation of the combined financial statements, combining adjustments are required in the combined financial statements to effectively reflect the transaction as if the FHLBank that transferred the liability for that portion of the consolidated bond still retains the liability for that portion of the consolidated bond. This treatment is required because the transfer of the liability for the consolidated bond does not involve a third party independent of the FHLBanks. Therefore, the debt extinguishment transaction at the transferring FHLBank, including any gain or loss on debt extinguishment, is eliminated and all balance sheet and income statement effects on the FHLBank that assumed the liability on the consolidated bond are eliminated, including the amortization of any premium or discount relating to the assumption of the liability. This treatment creates a timing difference in income recognition between the transferring FHLBank and the assuming FHLBank on a combined basis that reverses itself over the remaining life of the transferred consolidated obligation. In addition, under generally accepted accounting principles relating to the combination of financial statements, the accounting impact of the termination of any associated interest-rate exchange agreement or sale of any associated investment securities by the transferring FHLBank are not eliminated because these transactions occur with a third party independent of the FHLBanks.

AVAILABLE INFORMATION ON INDIVIDUAL FHLBANKS

Information is made available from time to time by each of the FHLBanks, including that FHLBank's individual financial reports which provide financial information relating to its financial condition and results of operations. Some of this information is made available on the respective web sites of the FHLBanks and the Office of Finance. The Office of Finance web site address is www.fhlb-of.com. Individual FHLBank web sites can be accessed from the external link at the Office of Finance web site. However, all of these web site addresses are provided as a matter of convenience only, and the contents on the web sites are not made part of this report and are not intended to be incorporated by reference into this report.

FEDERAL HOME LOAN BANKS

INDEX TO COMBINED FINANCIAL STATEMENTS

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 194. 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 recommended that the combined audited financial statements be included in the FHLBanks' 2003 Financial Report.

James D. Roy, Chair
L. Parker Harrell, Jr.
Terry Smith

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying combined statements of condition and the related combined statements of income, of capital, and of cash flows shown on pages 90 to 131 present fairly, in all material respects, the combined financial position of the Federal Home Loan Banks (the FHLBanks) at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These combined financial statements are the responsibility of the management of the Office of Finance and the FHLBanks; our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Also, in accordance with those standards and as part of our audits of the financial statements of the FHLBanks, we issued separate reports on internal control over financial reporting and on compliance with laws and regulations. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 2, the FHLBanks adopted Statement of Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by Statement of Accounting Standards No. 138, on January 1, 2001.

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole; we have also audited each of the individual FHLBank financial statements. The combining information shown on pages 132 to 163 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.

PricewaterhouseCoopers LLP

McLean, Virginia
March 10, 2004

FEDERAL HOME LOAN BANKS
COMBINED STATEMENT OF CONDITION
(Dollar amounts in millions and capital stock shares in thousands)

	December 31, 2003	December 31, 2002
ASSETS		
Cash and due from banks (Note 3)	$ 439	$ 658
Interest-bearing deposits	16,749	23,865
Securities purchased under agreements to resell (Note 4)	6,424	5,243
Federal funds sold	36,729	46,681
Held-to-maturity securities includes $1,715 and $1,749 pledged in 2003 and 2002 (Note 5)	110,010	110,050
Available-for-sale securities includes $1,334 and $1,787 pledged in 2003 and 2002 (Note 6)	11,370	11,531
Securities held at fair value includes $4,494 and $3,522 pledged in 2003 and 2002 (Note 7)	8,234	8,985
Advances (Note 8)	514,168	489,598
Mortgage loans held for portfolio	113,454	60,567
Less: allowance for credit losses on mortgage loans	16	13
Mortgage loans held for portfolio, net (Note 10)	113,438	60,554
Accrued interest receivable	2,864	3,036
Premises and equipment, net	186	160
Derivative assets	1,556	2,812
Other assets	623	458
Total assets	$822,790	$763,631
LIABILITIES		
Deposits (Note 11):		
Demand and overnight	$ 17,943	$ 24,931
Term	1,472	1,214
Other	1,090	1,465
Total deposits	20,505	27,610
Borrowings (Note 12):		
Securities sold under agreements to repurchase	2,700	1,699
Other		525
Total borrowings	2,700	2,224
Consolidated obligations, net (Note 13):		
Discount notes	163,720	146,814
Bonds	577,217	526,895
Total consolidated obligations, net	740,937	673,709
Accrued interest payable	4,563	4,997
Affordable Housing Program (Note 9)	681	695
Payable to REFCORP (Note 14)	101	110
Derivative liabilities	13,002	16,301
Other liabilities	1,237	1,661
Total liabilities	783,726	727,307
Commitments and contingencies (Notes 8, 9, 13, 14, 15, 16 and 18)		
CAPITAL (Note 14)		
Capital Stock:		
Capital stock Class B ($100 par value)—issued and outstanding shares: 150,812 shares in 2003 and 77,330 shares in 2002	15,081	7,733
Capital stock ($100 par value)—issued and outstanding shares: 226,214 shares in 2003 and 274,543 shares in 2002	22,621	27,454
Total capital stock	37,702	35,187
Retained earnings	1,327	1,191
Accumulated other comprehensive income:		
Net unrealized gains on available-for-sale securities (Note 6)	341	491
Net unrealized losses relating to hedging activities (Note 1 and 2)	(300)	(544)
Other	(6)	(1)
Total capital	39,064	36,324
Total liabilities and capital	$822,790	$763,631

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,		
	2003	2002	2001
INTEREST INCOME			
Advances	$ 8,625	$11,234	$20,676
Interest-bearing deposits	259	409	714
Securities purchased under agreements to resell	51	107	190
Federal funds sold	489	886	2,291
Held-to-maturity securities	4,248	5,148	5,772
Available-for-sale securities	153	165	299
Securities held at fair value	440	680	498
Mortgage loans held for portfolio	4,055	2,392	1,378
Other	5	5	1
Total interest income	18,325	21,026	31,819
INTEREST EXPENSE			
Consolidated obligations	14,912	17,224	27,611
Deposits	278	423	953
Securities sold under agreements to repurchase	44	46	6
Other borrowings	7	6	6
Total interest expense	15,241	17,699	28,576
NET INTEREST INCOME BEFORE MORTGAGE LOAN LOSS PROVISION	3,084	3,327	3,243
Provision for credit losses on mortgage loans	3	6	4
NET INTEREST INCOME AFTER MORTGAGE LOAN LOSS PROVISION	3,081	3,321	3,239
OTHER (LOSS) INCOME			
Prepayment fees	191	142	93
Service fees	33	36	40
Net realized (losses) gains from sale of held to maturity securities	(158)	1	3
Net realized losses from sale of available-for-sale securities	(27)		
Net (losses) gains on securities held at fair value	(319)	707	73
Net realized and unrealized losses on derivatives and hedging activities	(40)	(1,288)	(55)
Other, net	2	(19)	(20)
Total other (loss) income	(318)	(421)	134
OTHER EXPENSE			
Operating	449	396	368
Finance Board	23	23	20
Office of Finance	18	17	13
Other, net	16	16	11
Total other expense	506	452	412
INCOME BEFORE ASSESSMENTS	2,257	2,448	2,961
Affordable Housing Program	190	199	239
REFCORP	427	450	538
Total assessments	617	649	777
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	1,640	1,799	2,184
Cumulative effect of change in accounting principle			(30)
NET INCOME	$ 1,640	$ 1,799	$ 2,154

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, 2003, 2002 AND 2001

(Dollar amounts in millions)

	Capital Stock Class B		Capital Stock		Total Capital Stock				
	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, 2000		$	305	$30,537	305	$ 30,537	$ 729	$ (1)	$ 31,265
Proceeds from sale of capital stock			92	9,236	92	9,236			9,236
Redemption of capital stock			(74)	(7,431)	(74)	(7,431)			(7,431)
Comprehensive income:									
Net income							2,154		2,154
Other comprehensive income:									
Net unrealized gains on available-for-sale securities								176	176
Net unrealized losses relating to hedging activities								(215)	(215)
Reclassification adjustment for losses related to hedging activities included in net income								39	39
Cumulative effect of changes in accounting principle								(2)	(2)
Total other comprehensive income									2,152
Total comprehensive income									
Dividend on capital stock:									
Cash							(1,004)		(1,004)
Stock			9	947	9	947	(947)		
BALANCE, DECEMBER 31, 2001		$	332	$33,289	332	$ 33,289	$ 932	$ (3)	$ 34,218
Proceeds from sale of capital stock	4	439	95	9,259	99	9,698			9,698
Redemption of capital stock	(10)	(937)	(76)	(7,633)	(86)	(8,570)			(8,570)
Comprehensive income:									
Net income							1,799		1,799
Other comprehensive income:									
Net unrealized gains on available-for-sale securities								314	314
Reclassification adjustment for losses related to available-for-sale securities included in net income								2	2
Net unrealized losses relating to hedging activities								(304)	(304)
Reclassification adjustment for gains related to hedging activities included in net income								(62)	(62)
Other								(1)	(1)
Total other comprehensive income									1,748
Total comprehensive income									
Conversion to Class B shares	81	8,119	(81)	(8,119)					
Dividend on capital stock:									
Cash							(770)		(770)
Stock	1	112	6	658	7	770	(770)		

	Capital Stock Class B		Capital Stock		Total Capital Stock				
	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	76	$ 7,733	276	$27,454	352	$ 35,187	$ 1,191	$ (54)	$ 36,324
Proceeds from sale of capital stock	37	3,782	80	7,950	117	11,732			11,732
Redemption of capital stock	(32)	(3,240)	(71)	(6,912)	(103)	(10,152)			(10,152)
Comprehensive income:									
Net income							1,640		1,640
Other comprehensive income:									
Net unrealized losses on available-for-sale securities								(112)	(112)
Reclassification adjustment for gains related to available-for-sale securities included in net income								(38)	(38)
Net unrealized gains relating to hedging activities								422	422
Reclassification adjustment for gains related to hedging activities included in net income								(178)	(178)
Other								(5)	(5)
Total other comprehensive income									1,729
Total comprehensive income									
Conversion to Class B shares	65	6,443	(65)	(6,443)					
Dividend on capital stock:									
Cash							(569)		(569)
Stock	4	363	5	572	9	935	(935)		
BALANCE, DECEMBER 31, 2003	150	$15,081	225	$22,621	375	$ 37,702	$ 1,327	$ 35	$ 39,064

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)

	2003	2002	2001
OPERATING ACTIVITIES			
Net income	$ 1,640	$ 1,799	$ 2,154
Cumulative effect of change in accounting principle			30
Income before cumulative effect of change in accounting principle	1,640	1,799	2,184
Adjustments to reconcile income before cumulative effect of change in accounting principle to net cash (used in) provided by operating activities:			
Depreciation and amortization:			
Net premiums and discounts on consolidated obligations, investments, mortgage loans, and deferred costs and fees received on interest-rate exchange agreements	(1,050)	(81)	(1,327)
Concessions on consolidated obligation bonds	365	311	225
Net deferred losses on interest-rate exchange agreements	37	6	11
Premises and equipment	32	27	23
Other	(86)	(3)	(3)
Provision for credit losses on mortgage loans held for portfolio	3	6	4
Net realized losses (gains) from sale of held-to-maturity securities	158	(1)	(3)
Net realized losses from sale of available-for-sale securities	27		
Decrease (increase) in securities held at fair value, net of transfers and transition adjustments	610	(1,332)	(2,279)
(Gains) losses due to change in net fair value adjustment on derivative and hedging activities	(836)	314	(357)
Net realized losses on disposal of premises and equipment		1	
Decrease in accrued interest receivable	210	18	8,294
Decrease (increase) in derivative assets-net accrued interest	359	484	(893)
(Decreases) increase in derivative liabilities-net accrued interest	(17)	104	(297)
Increase in other assets	(329)	(235)	(183)
Net (decrease) increase in Affordable Housing Program (AHP) liability and discount on AHP advances	(13)	3	83
Decrease in accrued interest payable	(434)	(754)	(6,274)
(Decrease) increase in payable to REFCORP	(9)	(51)	15
(Decrease) increase in other liabilities	(732)	991	67
Total adjustments	(1,705)	(192)	(2,894)
Net cash (used in) provided by operating activities	(65)	1,607	(710)

	2003	2002	2001
INVESTING ACTIVITIES			
Net decrease (increase) in interest-bearing deposits	$ 7,116	$ (4,558)	$ (1,038)
Net (increase) decrease in securities purchased under agreements to resell	(1,181)	2,707	(6,534)
Net decrease in Federal funds sold	10,017	1,713	6,869
Net decrease in short-term held-to-maturity securities	1,174	1,232	3,097
Proceeds from sales of long-term held-to-maturity securities	2,676	77	6,832
Proceeds from maturities of long-term held-to-maturity securities	70,267	49,817	30,515
Purchases of long-term held-to-maturity securities	(74,131)	(60,165)	(42,364)
Proceeds from sales of available-for-sale securities	5,827	219	124
Proceeds from maturities of available-for-sale securities	31,021	58,033	60,266
Purchases of available-for-sale securities	(36,963)	(62,492)	(58,748)
Principal collected on advances	5,694,911	4,030,885	3,732,858
Advances made	(5,726,034)	(4,038,063)	(3,758,305)
Principal collected on mortgage loans held for portfolio	37,826	12,913	7,881
Mortgage loans held for portfolio originated or purchased	(91,188)	(45,735)	(19,419)
Principal collected on other loans		1	1
Net increase in premises and equipment	(59)	(57)	(28)
Net cash used in investing activities	(68,721)	(53,473)	(37,993)
FINANCING ACTIVITIES			
Net (decrease) increase in deposits	(7,105)	1,850	8,594
Net increase in securities sold under agreements to repurchase	1,001	300	
Net (decrease) increase in other borrowings	(525)	774	1,150
Net proceeds from issuance of consolidated obligations:			
Discount notes	5,159,012	4,135,261	4,663,947
Bonds	564,263	431,876	415,459
Payments for maturing and retiring consolidated obligations:			
Discount notes	(5,140,486)	(4,127,792)	(4,683,255)
Bonds	(508,598)	(390,410)	(368,411)
Proceeds from issuance of capital stock	11,732	9,698	9,236
Payments for redemption of capital stock	(10,152)	(8,570)	(7,431)
Cash dividends paid	(575)	(782)	(1,019)
Net cash provided by financing activities	68,567	52,205	38,270
Net (decrease) increase in cash and cash equivalents	(219)	339	(433)
Cash and cash equivalents at beginning of the year	658	319	752
Cash and cash equivalents at end of the year	$ 439	$ 658	$ 319
Supplemental Disclosures:			
Interest paid	$ 16,242	$ 18,040	$ 30,043

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

Federal Home Loan Banks

Notes to Combined Financial Statements

Background Information

These financial statements present the combined financial position and results of operations of the 12 Federal Home Loan Banks (FHLBanks). The FHLBanks and the Office of Finance are regulated by the Federal Housing Finance Board (Finance Board). The FHLBanks serve the public by enhancing the availability of 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 the capital stock of each FHLBank and receive dividends on their investment. Regulated financial depositories and insurance companies engaged in residential housing finance can 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 ensures that the FHLBanks operate in a safe and sound manner, carry out their housing finance mission, remain adequately capitalized, and can raise funds in the capital markets. Also, the Finance Board establishes policies and regulations governing the operations of the FHLBanks. 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 (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. The FHLBanks primarily use these funds to provide advances to members and to purchase loans from members through its Mortgage Purchase (MPP) / Mortgage Purchase Finance (MPF®) programs. Some FHLBanks also offer their member institutions with correspondent services, such as item processing, collection, 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. 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. 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 has been no transaction 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 impacts 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 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 the preparer to make assumptions and estimates. These assumptions and estimates may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. Actual results could differ from those estimates.

Investments. The FHLBanks carry, at cost, investments for which they have both the ability and intent to hold to maturity, adjusted for periodic principal repayments, amortization of premiums and accretion of discounts. Amortization of premiums and accretion of discounts are computed on the level-yield method.

The FHLBanks classify investments that they may sell before maturity as available-for-sale and carry them at fair value, with changes in fair value reported in other comprehensive income. The change in value of the available-for-sale securities is recorded in other comprehensive income as net unrealized gains or losses on available-for-sale securities.

The FHLBanks classify certain investments that they may sell before maturity as securities held at fair value and carry them at fair value. The FHLBanks record changes in the fair value of these investments through other income. Under Statement of Financial Accounting Standards No. 115, *"Accounting for Certain Investments in Debt and Equity Securities,"* the investments would be classified (described) as trading. Given that Finance Board regulation prohibits the FHLBanks from trading investments, the FHLBanks do not participate in trading activities. Therefore, the FHLBanks classify the investments as securities held at fair value because they believe the description is more appropriate.

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.

The FHLBanks regularly evaluate outstanding investments for impairment. If there is an other-than-temporary impairment in value of an investment, the decline in value is recognized as a loss in other expense.

Advances. The FHLBanks present advances net of unearned commitment fees and discounts on advances for the Affordable Housing Program (AHP), as discussed below. The FHLBanks credit interest on advances to income as earned. Following the requirements of the Federal Home Loan Bank Act of 1932 as amended (the FHLBank Act), each FHLBank obtains sufficient collateral on advances to protect it from losses. The FHLBank Act limits eligible collateral to certain investment securities, residential mortgage loans, cash or deposits with the FHLBank, and other eligible real estate-related assets. As Note 8 more fully describes, community financial institutions (FDIC-insured institutions with assets of $538 million or less during 2003) are subject to more liberal statutory collateral rules for small business and agricultural loans. The FHLBanks have not incurred any credit losses on advances since their inception. Because of the collateral held as security on the advances and repayment history, management of each FHLBank believes that an allowance for credit losses on advances is unnecessary.

Mortgage Loans Held for Portfolio. All 12 FHLBanks have established member mortgage asset programs as services to their members. The programs involve the investment by the FHLBank in loans created by members. The Finance Board authorized all of the FHLBanks to hold acquired member assets, such as assets acquired under the Mortgage Partnership Finance® (MPF®) program developed by the FHLBank of Chicago and the Mortgage Purchase Program (MPP) developed by the FHLBanks of Cincinnati, Indianapolis, and Seattle, and now also offered by the FHLBank of Atlanta. Under these programs, an FHLBank invests in government-insured and conventional residential mortgage loans, which are either funded by the FHLBanks or purchased from its participating members. The FHLBanks manage the liquidity and interest-rate risk, and optionality of the loans, while the members 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 FHLBanks and the members share the credit risk on the conventional loans. The member assumes credit losses up to a contractually specified credit enhancement obligation amount. This member credit risk is collateralized using various agreements entered into between the member and its FHLBank. Remaining losses are the responsibility of the FHLBanks.

MPF® Credit Enhancement. The credit enhancement is an obligation on the part of the participating member which enables the retention of a layer of credit risk on loans they originate. The amount of the credit enhancement is determined so that any losses in excess of the enhancement are limited to those required for "AA" level of credit risks. The participating member receives from the FHLBanks a credit enhancement fee for managing this portion of the inherent risk in the loans. These fees are paid monthly based upon the remaining unpaid principal balance. The required credit enhancement obligation amount may vary depending on the various product alternatives selected.

MPP Lender Risk Account. To ensure the retention of credit risk on conventional loans originated or acquired by a member, a lender risk account (LRA) is funded by the FHLBanks either up front as a portion of the purchase proceeds or through a portion of the interest paid by the borrower to cover at a minimum the expected losses. This account is established to conform to regulations as established by the Finance Board for all Conventional Mortgage Purchase Programs. The Finance Board regulation stipulates that the member is responsible for all expected losses on the mortgages being sold to the FHLBanks. In order to comply with this regulation, the FHLBanks evaluate the proposed conventional mortgages to be sold (either the specific portfolio or a representative sample) to determine the amount of expected losses that will occur. The expected losses represent the amount to be deposited into the LRA and these 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 LRA is recorded in other liabilities and totaled $42 million and $14 million at December 31, 2003 and 2002.

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 losses over and above losses covered by the LRA. The FHLBanks are listed as the insured and this coverage serves to further limit the exposure to losses. The LRA and the SMI are anticipated to provide the equivalent to an investment grade rating. In the event the LRA and the standard SMI policy does not provide sufficient loss protection to support the investment grade rating, additional mortgage insurance coverage called SMI Plus must also be purchased by the member. This policy covers the expected losses to achieve an investment grade rating over and above the LRA and SMI.

Accounting for Mortgage Loans Held for 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.

The FHLBanks defer and amortize mortgage loan origination fees (agent fees) and premiums/discounts as interest income over the estimated life of the related mortgage loans. The

FHLBanks use actual prepayment experience and estimates of future principal prepayments in calculating the estimated lives of the mortgage loans. The FHLBanks aggregate the mortgage loans by similar characteristics (coupon, type, maturity, note rate and acquisition date) in determining prepayment estimates.

The FHLBanks record credit enhancement fees in interest income. The FHLBank records other non-origination fees, such as delivery commitment extension fees and pair-off fees, in other income. 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. When an FHLBank places a mortgage loan on nonaccrual status, it reverses accrued but uncollected interest against interest income. The FHLBanks record cash payments received on nonaccrual loans first as interest income until they recover all previously accrued interest and then as principal. An FHLBank does not place a government-guaranteed loan on nonaccrual status when the collection of the contractual principal is 90 days or more past due because the member is obligated to repurchase the loan.

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

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

MPF® Shared Funding Program. Several FHLBanks participate in a "Shared Funding Program." This program allows mortgage loans originated through the MPF® Program to be sold to a 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 residual interest is purchased by the sponsor of the program who is unaffiliated with the FHLBanks. The investments are classified as held-to-maturity securities and are reported at amortized cost of $863 million as of December 31, 2003. These securities are not publicly traded and are not guaranteed by the FHLBanks.

Affordable Housing Program. The FHLBank Act requires each FHLBank to establish and fund an AHP (see Note 9). The FHLBanks charge required AHP funding to earnings and establish a liability. The AHP funds provide subsidies to members to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. In addition, some FHLBanks issues AHP advances at interest rates below the customary interest rate for nonsubsidized advances. When an FHLBank makes an AHP advance, the present value of the variation in the cash flow caused by the difference in the interest rate between the AHP advance rate and the FHLBanks' 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 FHLBanks have the authority to make the AHP subsidy available to members as a grant.

Prepayment Fees. The FHLBanks evaluate whether new advances meet the criteria to qualify as a modification of an existing advance or as a new advance. If the advance qualifies as a modification, the net fee on the prepaid advance is deferred, recorded in the basis of the advance, and amortized over the life of the modified advance. This amortization is recorded 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 realized and unrealized gains (losses) on derivatives and hedging activities" in other income. The offsetting amortization amounted to $39 million in 2003. The FHLBanks charge their members a prepayment fee when members prepay certain advances before the original maturity. For advance prepayments that qualify as a termination, the prepayment fees are charged to other income. The FHLBanks net gains and losses on interest-rate exchange agreements associated with prepaid advances with prepayment fees in other income.

The net fees are recorded in other income if it is determined the advance should be treated as a new advance.

Commitment Fees. The FHLBanks defer commitment fees for advances and accrete them into interest income using the straight-line 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 the Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement No. 133*, and as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (herein referred to as "SFAS 133"). Accordingly, all derivatives are recognized on the balance sheet at their fair value and those not used for intermediary purposes are designated as (1) a hedge of the fair value of (a) a recognized asset or liability or (b) an unrecognized firm commitment (a "fair-value" hedge); (2) a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash-flow" hedge); (3) a hedge of the foreign currency component of a hedged item in a fair-value or cash-flow hedge; (4) a non-SFAS 133 hedge of an asset or liability (economic hedge) for asset-liability management purposes. Changes in the fair value of a derivative that is effective as—and that is designated and qualifies as—a fair-value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (including changes that reflect losses or gains on firm commitments), are recorded in current-period earnings. Changes in the fair value of a derivative that is effective as— and that is designated and qualifies as—a cash-flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction (*e.g.*, until periodic settlements of a variable-rate asset or liability are recorded in earnings). Changes in the fair value of a derivative that is effective as—and that is designated and qualifies as—a foreign-currency hedge are recorded in either current-period earnings or other comprehensive income, depending on whether the hedging relationship satisfies the criteria for a fair-value or cash-flow hedge. Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative differs from the change in fair value of hedged item or exceeds the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings. Changes in the fair value of a stand-alone derivative designated as an economic hedge are recorded in current-period earnings with no fair value adjustment to an asset or liability. Hedge ineffectiveness and changes in the fair value of stand-alone derivatives are recorded in other income as net realized and unrealized gains (losses) on derivatives and hedging activities.

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

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

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

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

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

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

Hedging Activities.

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

A non-SFAS 133 economic hedge is defined as an interest-rate exchange agreement hedging specific or non-specific underlying assets, liabilities or firm commitments that do not qualify for hedge accounting under the rules of SFAS 133, but is an acceptable hedging strategy under the FHLBanks' risk management program. These strategies also comply with Finance Board regulatory requirements. 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 FHLBanks, consistent with Finance Board regulation, enter into interest-rate exchange agreements only to reduce the market risk exposures inherent in otherwise unhedged assets and funding positions. In order to achieve greater cost-efficiency, an FHLBank may enter into interest-rate exchange agreements that do not necessarily qualify for hedge accounting under SFAS 133 accounting rules. As a result, the FHLBanks recognize only the change in fair value of these interest-rate exchange agreements in other income as net realized and unrealized gains (losses) on derivatives and hedging activities with no offsetting fair value adjustments for the asset, liability or firm commitment.

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

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

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

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

Mortgage Loans Held for Portfolio. The FHLBanks invest in mortgage assets. The prepayment options embedded in mortgage assets can result in extensions or contractions in the expected maturities of these investments, depending on changes in estimated prepayment speeds.

The FHLBanks manage the interest-rate and prepayment risk associated with mortgages through a combination of debt issuance and derivatives. The FHLBanks issue both callable and non-callable debt to achieve cash-flow patterns and liability durations similar to those expected on the mortgage loans. The FHLBanks may use derivatives to match the expected prepayment characteristics of the mortgages. Interest-rate swaps, to the extent the payments on the mortgages result in simultaneous reduction of the notional amount on the swaps, may receive fair-value hedge accounting under which changes in the fair value of the swaps and changes in the fair value of the mortgages that are attributable to the hedged risk, are recorded in current-period earnings.

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 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 which are not identified to specific mortgages and, therefore, do not receive fair-value or cash-flow hedge accounting treatment. The options are marked-to-market through current earnings. The FHLBanks 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.

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

Anticipated Streams of Future Cash Flows. The FHLBanks may enter into options to hedge specified future variable cash streams as a result of rolling over short-term, fixed-rate financial instruments such as LIBOR advances and discount notes. The options will effectively cap the variable cash streams 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 MBS) or other derivatives for forward settlement. When the derivatives 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 commitment and the derivatives 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 the 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 designate these mortgage purchase commitments as a cash-flow hedge of the anticipated purchase of mortgage loans. The change in value of the delivery commitment is recorded as a basis adjustment on the resulting loans with offsetting changes in accumulated other comprehensive income in the Statement of Condition. The basis adjustments on the resulting performing loans and the balance in accumulated other comprehensive income are then amortized into net interest income in offsetting amounts over the life of these loans, resulting in no impact on earnings.

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.

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

Anticipated Debt Issuance. Certain FHLBanks use derivatives in anticipation of the issuance of debt to "lock in" the cost of funding. The derivative is terminated upon issuance of the debt instrument, and 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.

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 on derivative agreements depends on the extent to which master netting arrangements are included in such contracts to mitigate the risk. The FHLBanks manage counterparty credit risk through credit analysis and collateral requirements and by following the requirements set forth in Finance Board regulations. Based on credit analyses and collateral requirements, the management of the FHLBanks does not anticipate any credit losses on its derivative agreements.

Currency Risk. The FHLBanks have issued some consolidated obligations denominated in currencies other than U.S. dollars, and the FHLBanks use forward exchange contracts to hedge currency risk. These contracts are agreements to exchange different currencies at specified future dates and at specified rates. The use of these contracts effectively simulates the conversion of these consolidated obligations denominated in foreign currencies to ones denominated in U.S. dollars. Such transactions are treated as foreign currency fair-value hedges under SFAS 133, whereby the fair value changes of the foreign-currency-denominated obligation and the forward contract are recorded in current period earnings. At December 31, 2003, consolidated obligations denominated in foreign currencies represented less than 1 percent of consolidated obligations outstanding. The FHLBanks are not exposed to material amounts of foreign currency risk.

Intermediation. To meet the hedging needs of their members, the FHLBanks act as an intermediary between the members and other counterparties. This intermediation allows smaller members access to the swap 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 FHLBank.

Premises and Equipment. The FHLBanks' premises and equipment, net of approximately $186 million and $160 million at December 31, 2003 and 2002 is stated at cost less accumulated depreciation and amortization. The FHLBanks compute depreciation on the straight-line method over the estimated useful lives of 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 $32 million, $27 million and $23 million for the years ended December 31, 2003, 2002 and 2001. The FHLBanks include gains and losses on disposal of premises and equipment in other income. The net realized gains (losses) on disposal of premises and equipment were immaterial.

Concessions on Consolidated Obligations. The FHLBanks defer and amortize, using the level-yield method (or a method that approximates the level-yield method), the amounts paid to dealers in connection with the sale of consolidated obligation bonds over the term of the bonds or estimated life of the bonds. Unamortized concessions were $309 million and $229 million at December 31, 2003 and 2002 and are included in other assets. Amortization of such concessions are included in consolidated obligation interest expense and totaled $332 million, $276 million and $192 million in 2003, 2002, and 2001. The Office of Finance prorates the amount of the concession among the FHLBanks. The FHLBanks charge to expense as incurred the concessions applicable to the sale of consolidated obligation discount notes because of the short maturities of these notes.

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

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). For years through 2000, the FHLBanks charged the $300 million annual capital distribution to the REFCORP directly to retained earnings (see Note 14). Effective January 1, 2000, each FHLBank is required to pay 20 percent of net earnings after AHP to REFCORP. The FHLBanks will expense these amounts until the aggregate amounts actually paid by all 12 FHLBanks are equivalent to a $300 million annual annuity whose final maturity date is April 15, 2030, at which point the required payment of each FHLBank to REFCORP will be fully satisfied. The Finance Board in consultation with the Secretary of the Treasury will select the appropriate discounting factors to be used in this annuity calculation. The cumulative amount to be paid to REFCORP by the FHLBanks are not determinable at this time due to the interrelationships of all future FHLBanks' earnings. The FHLBanks' payments through those for 2003 defease all future benchmark payments after the third quarter of 2020 and $22 million of the $75 million benchmark payment for the third quarter of 2020.

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

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

Cash Flows. In the Statements of Cash Flows, the FHLBanks consider cash and due from banks as cash and cash equivalents.

Reclassifications. Certain amounts in the 2002 and 2001 combined financial statements have been reclassified to conform with the 2003 presentation.

In particular, for the years ended December 31, 2002 and 2001, the FHLBanks have reclassified realized gains and losses (*e.g.*, net interest payments) on standalone derivative instruments used in economic hedges. Previously, realized gains and losses on standalone derivatives used in economic hedges were classified within net interest income after mortgage loan loss provision while unrealized gains (losses) on these derivatives were recorded in net realized and unrealized gains (losses) on derivatives and hedging activities within other income. These amounts have been reclassified and are both now included in net realized and unrealized gains (losses) on derivatives and hedging activities for the years ended December 31, 2002 and 2001. As a result of this reclassification, net interest income after mortgage loan loss provision and net realized and unrealized gains (losses) on derivatives and hedging activities were adjusted by $382 million and $134 million for the years ended December 31, 2002 and 2001, respectively.

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

Adoption of SFAS 145. The FHLBanks adopted Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (herein referred to as "SFAS 145") on June 30, 2002. SFAS 145 rescinds both SFAS 4, "Reporting Gains and Losses from the Extinguishment of Debt" and the amendment to SFAS 4, SFAS 64, "Extinguishment of Debt made to Satisfy Sinking-Fund Requirements," and eliminates the requirement that gains and losses from the extinguishment of debt (except for those considered unusual or infrequent in nature) be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. In accordance with the transition provisions of SFAS 145, previously reported gains and losses on early retirement of debt have been reclassified into other income under "other, net". The amounts reclassified were not material.

Adoption of SFAS 149. FASB issued Statement of Financial Accounting Standards No. 149, *"Amendment of Statement 133 on Derivative Instruments and Hedging Activities"* (herein referred to as "SFAS 149"), which amends and clarifies financial accounting and reporting for derivative instruments and for hedging activities under FASB Statement No. 133, *"Accounting for Derivative Instruments and Hedging Activities"*. In most cases, SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003, and, in most cases, all provisions of SFAS 149 should be applied prospectively. The FHLBanks adopted SFAS 149 as of the effective date and the adoption did not have a material impact on the financial statements.

Adoption of SFAS 150. FASB issued Statement of Financial Accounting Standards No. 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"* (herein referred to as "SFAS 150") in May 2003. The FHLBanks will adopt SFAS 150 as of the effective date, which is expected to be January 1, 2005 and are currently in the process of assessing the impact of SFAS 150 on their financials.

Adoption of FIN 45. FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34" ("FIN 45") on November 25, 2002. FIN 45 expands existing disclosure requirements at December 31, 2002 for guarantees and provides initial recognition and measurement provisions to be applied on a prospective basis for guarantees issued or modified after December 31, 2002. The initial recognition and measurement provisions apply to the FHLBanks' letters of credit. The resulting amounts recognized in other liabilities in 2003 were not material.

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

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

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

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

The FHLBanks also recorded cumulative-effect adjustments in other comprehensive income as of January 1, 2001, and recorded changes in other comprehensive income for the year ended December 31, 2001, 2002 and 2003, as follows (dollar amounts in millions):

Previously deferred hedging gains and losses	$ (1)
Net unrealized losses on investments transferred from "held-to-maturity" to "available-for-sale"	(1)
Total cumulative effect of accounting change on other comprehensive income at January 1, 2001	(2)
Net amounts reclassified as earnings for the year ended December 31, 2001	39
Net change associated with hedging activities for the year ended December 31, 2001	(215)
Net change during period relating to hedging activities	(176)
Total cumulative effect of accounting change on other comprehensive income at January 1, 2001, less net change during the year ended December 31, 2001, related to hedging activities	(178)
Net amounts reclassified to earnings for the year ended December 31, 2002	(62)
Net change associated with hedging activities for the year ended December 31, 2002	(304)
Accumulated other comprehensive income related to hedging activities at December 31, 2002.	(544)
Net amounts reclassified to earnings for the year ended December 31, 2003	(178)
Net change associated with hedging activities for the year ended December 31, 2003.	422
Accumulated other comprehensive income related to hedging activities at December 31, 2003	$(300)

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

As a result of SFAS 133, the FHLBanks had recorded derivative assets of $1,556 million and $2,812 million, and derivative liabilities of $13,002 million and $16,301 million at December 31, 2003 and 2002, respectively. For the years ended December 31, 2003 and 2002, the FHLBanks recorded net realized and unrealized losses on derivatives and hedging activities of $40 million and $1,288 million, respectively, in other income. Net realized and unrealized losses on derivatives and hedging activities for the years ended December 31, 2003 and 2002 are as follows (Dollar amounts in millions):

	For the Years Ended	
	2003	2002
Realized and unrealized gains (losses) related to fair-value hedge ineffectiveness	$ 15	$ (57)
Realized and unrealized gains (losses) on firm commitments no longer qualifying as fair-value hedges	30	(3)
Realized and unrealized losses on economic hedges	(121)	(1,229)
Realized and unrealized gains related to cash-flow hedge ineffectiveness	36	1
Net realized and unrealized losses on derivatives and hedging activities	$ (40)	$(1,288)

There were no material amounts for the year ended December 31, 2003, 2002 and 2001, that were reclassified into earnings as a result of the discontinuance of cash-flow hedges because it became probable that the original forecasted transactions would not occur by the end of the originally specified time period or within a two month period thereafter. As of December 31, 2003, the deferred net losses on derivative instruments accumulated in other comprehensive income expected to be reclassified to earnings during the next twelve months is $32 million. 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 six years.

Note 3—Cash and Due from Banks

Compensating Balances. The FHLBanks maintain collected cash balances with commercial banks in return for certain services. These agreements contain no legal restrictions about the withdrawal of funds. The average compensating balances for the years ended December 31, 2003 and 2002, were approximately $116 million and $106 million.

In addition, the FHLBanks maintained average required clearing balances with various Federal Reserve Banks and branches of approximately $181 million and $168 million for the years ended December 31, 2003 and 2002. These clearing balances are required and may not be withdrawn; however, the FHLBanks may use earnings credits on these balances to pay for services received from the Federal Reserve Banks.

Pass-through Deposit Reserves. The FHLBanks act as 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 $236 million and $221 million as of December 31, 2003 and 2002. The FHLBanks include member reserve balances in other liabilities on the Statements of Condition.

Note 4—Securities Purchased Under Agreements to Resell

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

Note 5—Held-to-Maturity Securities

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 $1,033 million 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 SFAS 115, the FHLBank of New York sold these held-to-maturity securities, incurring a loss on sale of approximately $189 million and reducing the FHLBank of New York's net income for the third quarter by approximately $139 million.

Major Security Types. Held-to-maturity securities as of December 31, 2003, were as follows (dollar amounts in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 2,381	$	$	$ 2,381
U.S. agency obligations	8,196	168	(25)	8,339
State or local housing agency obligations	4,637	111	(26)	4,722
Other	606	4		610
	15,820	283	(51)	16,052
Mortgage-backed securities	94,190	1,239	(462)	94,967
Total	$110,010	$1,522	$(513)	$111,019

Held-to-maturity securities as of December 31, 2002, were as follows (dollar amounts in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury obligations	$ 205	$ 5	$	$ 210
Commercial paper	3,579			3,579
U.S. agency obligations	8,746	306	(1)	9,051
State or local housing agency obligations	4,866	173	(25)	5,014
Other	569	16	(11)	574
	17,965	500	(37)	18,428
Mortgage-backed securities	92,085	2,010	(141)	93,954
Total	$110,050	$2,510	$(178)	$112,382

The following table summarizes the held-to-maturity securities with unrealized losses as of December 31, 2003. 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. agency obligations	$ 768	$ (25)	$	$	$ 768	$ (25)
State or local housing agency obligations	1,546	(15)	255	(11)	1,801	(26)
Mortgage-backed securities	36,969	(450)	2,713	(12)	39,682	(462)
Total temporarily impaired	$39,283	$(490)	$2,968	$(23)	$42,251	$(513)

Each FHLBank judged, based on the creditworthiness of the issuers and the underlying collateral, that all of its unrealized losses in the above table are temporary.

Redemption Terms. The amortized cost and estimated fair value of held-to-maturity securities as of December 31, 2003 and 2002, 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.

	2003		2002	
Year of Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 5,197	$ 5,205	$ 7,199	$ 7,226
Due after one year through five years	4,573	4,659	4,324	4,501
Due after five through ten years	1,557	1,645	1,496	1,625
Due after ten years	4,493	4,543	4,946	5,076
	15,820	16,052	17,965	18,428
Mortgage-backed securities	94,190	94,967	92,085	93,954
Total	$110,010	$111,019	$110,050	$112,382

The amortized cost of the FHLBanks' mortgage-backed securities classified as held-to-maturity includes net discounts (premiums) of $61 million and $(129) million at December 31, 2003 and 2002.

Interest-Rate Payment Terms. The following table details additional interest-rate payment terms for investment securities classified as held-to-maturity at December 31, 2003 and 2002 (dollar amounts in millions):

	2003	2002
Amortized cost of held-to-maturity securities other than mortgage-backed securities:		
Fixed-rate	$ 12,541	$ 15,004
Variable-rate	3,279	2,961
	15,820	17,965
Amortized cost of held-to-maturity mortgage-backed securities:		
Pass-through securities:		
Fixed-rate	15,838	9,201
Variable-rate	772	1,251
Collateralized mortgage obligations:		
Fixed-rate	54,576	59,938
Variable-rate	23,004	21,695
	94,190	92,085
Total	$110,010	$110,050

The FHLBanks realized gains of $33 million and realized losses of $191 million on sales of held-to-maturity securities during the year ended December 31, 2003.

Note 6—Available-for-Sale Securities

Major Security Types. Available-for-sale securities as of December 31, 2003, were as follows (dollar amounts in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury obligations	$ 274	$	$ (8)	$ 266
Bankers' acceptances	3			3
Commercial paper	820			820
U.S. agency obligations	7,191	404	(6)	7,589
Other	348	26		374
	8,636	430	(14)	9,052
Mortgage-backed securities	2,182	136		2,318
Total	$10,818	$566	$(14)	$11,370

Available-for-sale securities as of December 31, 2002, were as follows (dollar amounts in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 785	$	$	$ 785
U.S. agency obligations	7,432	610		8,042
Other	349	36		385
	8,566	646		9,212
Mortgage-backed securities	2,123	197	(1)	2,319
Total	$10,689	$843	$(1)	$11,531

The following table summarizes the available-for-sale securities with unrealized losses as of December 31, 2003. 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	$ 216	$ (8)	$	$	$ 216	$ (8)
U.S. agency obligations	979	(6)			979	(6)
Total temporarily impaired	$1,195	$(14)	$	$	$1,195	$(14)

Each FHLBank judged, based on the creditworthiness of the issuers and the underlying collateral, that all of its unrealized losses in the above table are temporary.

Redemption Terms. The amortized cost and estimated fair value of available-for-sale securities as of December 31, 2003 and 2002, 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.

	2003		2002	
Year of Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 873	$ 873	$ 790	$ 790
Due after one year through five years	1,265	1,331	1,405	1,498
Due after five through ten years	4,058	4,159	3,847	4,064
Due after ten years	2,440	2,689	2,524	2,860
	8,636	9,052	8,566	9,212
Mortgage-backed securities	2,182	2,318	2,123	2,319
Total	$10,818	$11,370	$10,689	$11,531

The amortized cost of the FHLBanks' mortgage-backed securities classified as available-for-sale includes net discounts (premiums) of $14 million and $(14) million at December 31, 2003 and 2002.

Interest-Rate Payment Terms. The following table details additional interest-rate payment terms for investment securities classified as available-for-sale at December 31, 2003 and 2002 (dollar amounts in millions):

	2003	2002
Amortized cost of held-to-maturity securities other than mortgage-backed securities:		
Fixed-rate	$ 8,636	$ 8,462
Variable-rate		104
	8,636	8,566
Amortized cost of held-to-maturity mortgage-backed securities:		
Pass-through securities:		
Fixed-rate	1,106	1,253
Variable-rate		73
Collateralized mortgage obligations:		
Fixed-rate	719	797
Variable-rate	357	
	2,182	2,123
Total	$10,818	$10,689

Gains and losses. The FHLBanks realized $91 million and $16 million in gross gains on the sale of available-for-sale securities for 2003 and 2002. The FHLBanks realized $62 million and $16 million in gross losses on the sale of available-for-sale securities in 2003 and 2002.

Note 7—Securities Held at Fair Value

Major Security Types. Securities held at fair value as of December 31, 2003 and 2002, were as follows (dollar amounts in millions):

	2003	2002
	Estimated Fair Value	Estimated Fair Value
U.S. agency obligations	$6,098	$6,713
State or local housing agency obligations	778	288
	6,876	7,001
Mortgage-backed securities	1,358	1,984
Total	$8,234	$8,985

Net gains on securities held at fair value during the years ended December 31, 2003 and 2002, included a change in net unrealized holding (losses) gains of $(139) million and $668 million for securities held on December 31, 2003 and 2002.

Note 8—Advances

Redemption Terms. At December 31, 2003 and 2002, the FHLBanks had advances outstanding, including AHP advances (see Note 9), 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.

	2003		2002	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Overdrawn demand deposit accounts	$ 89		$ 41	
2003			145,906	2.52%
2004	172,197	1.76%	71,920	3.23%
2005	70,719	2.94%	60,233	3.93%
2006	57,613	2.40%	30,304	3.25%
2007	38,446	3.01%	29,202	3.39%
2008	43,389	3.72%	21,434	5.17%
Thereafter	112,105	4.70%	104,595	5.08%
Index amortizing advances	7,057	4.21%	6,888	4.51%
Total par value	501,615	2.96%	470,523	3.63%
Unamortized commitment fees	(2)		(1)	
Discount on AHP advances	(48)		(47)	
Net premiums on advances	109			
SFAS 133 hedging adjustments	12,486		19,123	
Deferred net losses on terminated interest-rate exchange agreements	11			
Other	(3)			
Total	$514,168		$489,598	

Index amortizing advances require repayment according to predetermined amortization schedules linked to the level of various indices. Usually, as market interest rates rise (fall), the maturity of an index amortizing advance extends (contracts).

Many of the FHLBanks' advances are callable at the member's option. However, the FHLBanks charge a prepayment fee when members terminate certain advances. Members may repay other advances on pertinent dates (call dates) without incurring prepayment fees (callable advances). At December 31, 2003 and 2002, the FHLBanks had callable advances outstanding totaling $12,248 million and $11,852 million.

The following table summarizes advances at December 31, 2003 and 2002, by year of maturity or next call date for callable advances (dollar amounts in millions):

	2003	2002
Overdrawn demand deposit accounts	$ 89	$ 41
2003		160,153
2004	186,745	68,697
2005	66,579	56,423
2006	53,881	27,437
2007	34,601	26,817
2008	42,023	21,149
Thereafter	110,640	102,918
Index amortizing advances	7,057	6,888
Total par value	$501,615	$470,523

The FHLBanks also offer convertible advances. With a convertible advance, the FHLBanks effectively purchase a put option from the member that allows the FHLBank to convert the advance from fixed to floating rate if interest rates increase or to terminate the advance and extend additional credit on new terms. At December 31, 2003 and 2002, the FHLBanks had convertible advances outstanding totaling $138,793 million and $151,498 million.

The following table summarizes advances at December 31, 2003 and 2002, by year of maturity or next put date (dollar amounts in millions):

Advances by Year of Maturity or Next Put Date	2003	2002
Overdrawn demand deposit accounts	$ 89	$ 41
2003		259,261
2004	274,522	76,798
2005	68,511	50,604
2006	60,852	32,310
2007	35,219	24,177
2008	26,700	4,953
Thereafter	28,665	15,491
Index amortizing advances	7,057	6,888
Total par value	$501,615	$470,523

Security Terms. The individual FHLBanks lend to financial institutions involved in housing finance within their districts according to Federal statutes, including the FHLBank Act. The FHLBank Act requires the FHLBanks to obtain sufficient collateral on advances to protect against losses and to accept only certain U.S. government or government agency securities, residential mortgage loans, deposits in the applicable FHLBank, and other eligible real estate-related assets as collateral on such advances. However, community financial institutions (CFIs) are subject to expanded statutory collateral provisions dealing with loans to small businesses or agriculture. Borrowing members pledge their capital stock of the FHLBanks as additional collateral for advances. Until an FHLBank implements its approved capital plan, the FHLBank Act requires that total advances from an FHLBank to a member not exceed 20 times the member's capital stock in the FHLBank. At December 31, 2003 and 2002, the FHLBanks had rights to collateral with an estimated value greater than outstanding advances. Based upon the financial condition of the member, an FHLBank:

- Allows a member to retain possession of the collateral assigned to the FHLBank, if the member executes a written security agreement and agrees to hold such collateral for the benefit of the FHLBank; or

- Requires the member specifically to assign or place physical possession of collateral with the FHLBank or its safekeeping agent.

Beyond these provisions, Section 10(e) of the FHLBank Act affords any security interest granted by a member to an FHLBank priority over the claims or rights of any other party. The exception is any claim that would be entitled to priority under otherwise applicable law and is secured by a perfected security interest.

Credit Risk. While no FHLBank has ever experienced a credit loss on an advance, the expanded eligible collateral for CFIs and non-member housing associates provides the potential for additional credit risk for the FHLBanks. The management of each FHLBank believes it has the policies and procedures in place to manage this credit risk effectively. Accordingly, the FHLBank has not provided any allowances for losses on advances.

The FHLBanks' potential credit risk from advances is concentrated in commercial banks and savings institutions. At year end 2003, 76 borrowers held advances that exceeded $1 billion per member. As of December 31, 2003, the FHLBanks had advances of $300 billion outstanding to these 76 borrowers, and this represented 59.8 percent of total advances outstanding. The FHLBanks held sufficient collateral to cover the advances to these institutions, and the FHLBanks do not expect to incur any credit losses on these advances.

Interest-Rate Payment Terms. The following table details additional interest-rate payment terms for advances at December 31, 2003 and 2002 (dollar amounts in millions):

	2003	2002
Par amount of advances:		
Fixed-rate	$351,720	$334,682
Variable-rate	149,895	135,841
Total	$501,615	$470,523

Note 9—Affordable Housing Program

Section 10(j) of the FHLBank Act requires each FHLBank to establish an AHP. Each FHLBank provides subsidies to members who use the funds to assist the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. The AHP liability represents funds accrued in 2003 to be awarded in 2004 and the portion of previously approved awards that the member has not yet used.

Annually, the FHLBanks must set aside for the AHPs the greater of $100 million or 10 percent of the current year's income before charges for AHP (but after expenses for REFCORP) (see Note 14). The FHLBanks charge the amount set aside to income and recognize it as a liability. As members use subsidies, the FHLBanks reduce the AHP liability. If the result of the aggregate 10 percent calculation described above is less than $100 million, then the FHLBank Act requires the shortfall to be allocated among the FHLBanks based on the ratio of each FHLBank's income before AHP and REFCORP to the sum of the income before AHP and REFCORP of the 12 FHLBanks. There was no shortfall in 2003, 2002, and 2001. The FHLBanks had outstanding principal in AHP-related advances of $268 million and $260 million at December 31, 2003 and 2002.

Note 10—Mortgage Loans Held for Portfolio

Under two programs, the FHLBanks hold single-family mortgage loans that are originated 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, Atlanta, and Seattle. The following table presents information as of December 31, 2003 and 2002 on mortgage loans held by all FHLBanks under all programs (dollar amounts in millions):

	2003	2002
Real Estate:		
Fixed medium-term* single-family mortgages	$ 33,864	$12,330
Fixed long-term single-family mortgages	78,547	47,373
Multifamily mortgages	52	77
Nonresidential mortgages	3	3
	112,466	59,783
Unamortized premiums, net	778	550
Deferred loan costs, net	77	39
SFAS 133 hedging adjustments	133	195
Total mortgage loans held for portfolio	$113,454	$60,567

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

The par value of mortgage loans held for portfolio outstanding at December 31, 2003, and December 31, 2002, was comprised of government-guaranteed loans totaling $17,596 million and $16,594 million, and conventional and other loans totaling $94,870 million and $43,189 million, respectively.

The allowances for credit losses were as follows (dollar amounts in millions):

	2003	2002
Balance, beginning of year (positive number)	$13	$ 7
Provision for credit losses	3	6
Balance, end of year	$16	$13

The estimated fair value of the mortgage loans held for portfolio as of December 31, 2003 and 2002 are reported in Note 17.

MPP. Based on management's analysis of its FHLBank's mortgage loan portfolio, each FHLBank has determined that the credit enhancement (lender risk account) provided by the sellers and mortgage insurance is sufficient to absorb inherent credit losses and that an allowance for credit loss is unnecessary.

At December 31, 2003 and 2002, the FHLBanks had $80 million and $31 million of nonaccrual loans.

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 FHLBanks will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage loan agreement. At December 31, 2003 and 2002, the FHLBanks had no recorded investments in impaired mortgage loans.

Note 11—Deposits

The FHLBanks offer demand and overnight deposits for 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 an 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 Statements of Condition.

Note 12—Borrowings

Securities Sold Under Agreements to Repurchase. Certain FHLBanks have entered into sales of securities under repurchase agreements. The amounts received under these agreements represent borrowings and are liabilities on the Statements of Condition. The FHLBanks have delivered securities sold under agreements to repurchase to the primary dealer. Should the market value of the underlying securities fall below the market value required as collateral, the FHLBanks must deliver additional securities to the dealer. The FHLBanks had $2,700 million of securities sold under agreements to repurchase outstanding at December 31, 2003.

Note 13—Consolidated Obligations

Consolidated obligations are the joint and several obligations of the FHLBanks and consist of consolidated bonds and discount notes. The FHLBanks issue joint debt through the Office of Finance as their agent. Usually, the maturity of consolidated bonds ranges from 1 year to 10 years, but they are not subject to any statutory or regulatory limits on maturity. The FHLBanks, through the Office of Finance, issue consolidated discount notes to raise short-term funds sold at less than the notes' face amount and redeem them at par value when they mature.

The book value of outstanding consolidated obligations for all of the FHLBanks, including consolidated obligations held by other FHLBanks that have been eliminated in combination, was $745,226 million and $674,843 million at December 31, 2003 and 2002. Regulations require the 12 FHLBanks to maintain unpledged Qualifying Assets equal to the consolidated obligations outstanding. Qualifying Assets are defined as cash; secured advances; assets with an assessment or rating at least equivalent to the current assessment or rating of the consolidated obligations; obligations, participations, mortgages, or other securities of or issued by the U.S. or an agency of the U.S.; and such securities as fiduciary and trust funds may invest in under the laws of the State in which the FHLBank is located.

On June 2, 2000, the Finance Board adopted a final rule amending the FHLBanks' leverage limit requirements. Effective July 1, 2000, each FHLBank's leverage limit has been 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. Until an FHLBank's new capital plan is implemented, this new rule deletes the FHLBank System-wide leverage limit from the regulations, but limits that FHLBank's assets generally to no more than 21 times its capital. Nevertheless, under this new rule 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 14).

To provide the holders of consolidated obligations issued before January 29, 1993 (prior bondholders), the protection equivalent to that provided under the FHLBanks' previous leverage limit of 12 times FHLBanks' capital stock, prior bondholders have a claim on a certain amount of the Qualifying Assets (Special Asset Account (SAA)) if capital stock is less than 8.33 percent of consolidated obligations. At December 31, 2003 and 2002, the FHLBanks' capital stock was 5.0 percent and 5.2 percent of the par value of consolidated obligations outstanding, and the required minimum SAA balance was approximately $24 million for both years. Further, the regulations require each FHLBank to transfer Qualifying Assets in the amount of its allocated share of the FHLBanks' SAA to a trust for the benefit of the prior bondholders if its capital-to-assets ratio falls below 2 percent.

General Terms. Consolidated obligations have either fixed-rate coupon payment terms or variable-rate coupon payment terms that use a variety of indices for interest-rate resets including the London Interbank Offered Rate (LIBOR), Constant Maturity Treasury (CMT), 11th District Cost of Funds 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. Contemporaneous with the issuance of such bonds, an FHLBank enters an interest-rate exchange agreement containing offsetting features that effectively convert the terms of the bond to those of a simple variable-rate bond or a fixed-rate bond.

Consolidated obligations, beyond having fixed-rate or simple variable-rate coupon payment terms, may also have the following broad terms regarding either principal repayment or coupon payment terms:

- Indexed principal redemption bonds (index amortizing notes) repay principal according to predetermined amortization schedules that are linked to the level of a certain index. As of December 31, 2003 and 2002, most of the index amortizing notes had fixed-rate coupon payment terms. Usually, as market interest rates rise (fall), the maturity of the index amortizing notes extends (contracts); and
- Optional principal redemption bonds (callable bonds) may be redeemed by the FHLBank in whole or in part at its discretion on predetermined call dates according to the terms of the bond offerings. Callable bonds may be priced at or close to par or at a deep discount (zero-coupon bonds).

With respect to interest payments, consolidated bonds may also have the following terms:

- Step-up bonds generally pay interest at increasing fixed rates for specified intervals over the life of the bond. These bonds generally contain provisions enabling the FHLBanks to call bonds at their option on the step-up dates;
- Inverse floating bonds have coupons that increase as an index declines and decrease as an index rises;
- Conversion bonds have coupons that the FHLBank may convert from fixed to floating, or floating to fixed, or from one U.S. or other currency index to another, at its discretion;
- Range bonds pay interest at variable rates provided a specified index is within a specified range. The computation of the variable interest rate differs for each bond issue, but the bond generally pays zero interest if the specified index is outside the specified range; and
- Comparative index bonds have coupon rates determined by the difference between two or more market indices, typically CMT and LIBOR.
- Zero-coupon bonds are long-term discounted instruments that earn a fixed yield to maturity or the optional principal redemption date. All principal and interest are paid at maturity or on the optional principal redemption date, if exercised prior to maturity.

Redemption Terms. The following is a summary of consolidated bonds outstanding at December 31, 2003 and 2002, by year of maturity (dollar amounts in millions):

Year of Maturity	2003 Amount	2003 Weighted Average Interest Rate	2002 Amount	2002 Weighted Average Interest Rate
2003	$		$161,460	3.09%
2004	124,329	3.11%	98,006	3.95%
2005	110,422	2.77%	73,831	4.17%
2006	94,429	3.17%	47,593	4.65%
2007	50,458	3.79%	45,369	4.74%
2008	61,851	3.62%	17,916	5.29%
Thereafter	149,414	4.61%	87,556	5.07%
Index amortizing notes	235	4.03%	174	5.16%
Total par value	591,138	3.55%	531,905	4.08%
Bond premium	727		617	
Bond discount	(15,439)		(11,795)	
SFAS 133 hedging adjustments	757		6,211	
Deferred net losses on terminated interest-rate exchange agreements	(7)		(7)	
Unearned fees associated with interest-rate exchange agreements	58		24	
Subtotal	577,234		526,955	
Bonds held in treasury	(17)		(60)	
Total	$577,217		$526,895	

Consolidated bonds outstanding at December 31, 2003 and 2002, include callable bonds totaling $285,145 million and $229,357 million. The FHLBanks use fixed-rate callable debt to finance callable advances (see Note 8) and mortgage-backed securities. Contemporaneous with such a debt issue, an FHLBank may also enter an interest-rate exchange agreement (in which the FHLBank pays variable and receives fixed) with a call feature that mirrors the option embedded in the debt (a sold callable swap). The combined sold callable swap and callable debt allows an FHLBank to provide members attractively priced variable-rate advance.

The FHLBanks' consolidated bonds outstanding include (dollar amount in millions):

	2003	2002
Par amount of consolidated bonds:		
Non callable/nonputable	$305,447	$301,999
Callable	285,145	229,357
Putable	546	549
Total par value	$591,138	$531,905

The following table summarizes consolidated bonds outstanding at December 31, 2003 and 2002, by year of maturity or next call date (dollar amounts in millions):

Year of Maturity or Next Call Date	2003	2002
2003	$	$319,385
2004	351,729	95,218
2005	95,520	46,961
2006	53,333	21,829
2007	20,663	16,126
2008	26,044	17,748
Thereafter	43,614	14,464
Index amortizing notes	235	174
Total par value	$591,138	$531,905

Interest-Rate Payment Terms. The following table details interest-rate payment terms for consolidated bonds at December 31, 2003 and 2002(dollar amounts in millions). Range bonds are classified as comparative-index bonds.

	2003	2002
Par value of consolidated bonds:		
Fixed rate	$460,961	$436,239
Step-up	43,336	22,531
Simple variable-rate	53,677	53,028
Inverse floating rate	430	60
Fixed that converts to variable	3,000	1,671
Variable that converts to fixed	3,694	1,488
Comparative-index	6,244	4,475
Zero-coupon	19,773	12,314
Other	23	99
Total par value	$591,138	$531,905

Bonds Denominated in Foreign Currencies. The FHLBanks, through the Office of Finance, issue consolidated bonds denominated in foreign currencies. Contemporaneous with these issuances, the Finance Board requires that the FHLBanks exchange the interest and principal payment obligations related to the issues for equivalent amounts denominated in U.S. dollars. Bonds denominated in foreign currencies and the related forward exchange contracts have been translated into U.S. dollars at the exchange rate as of December 31, 2003 and 2002, and included in the preceding tables that presented these bonds by year of maturity, by year of maturity or next call date, and by interest-rate payment terms.

Bonds denominated in foreign currencies as of December 31, 2003 and 2002, are as follows (dollar amounts in millions):

	Amount Denominated in Foreign Currency				
	2003	2002	Year of Maturity	Par in Dollars	Interest Rate
British Pounds		400	2003	$677.2	5.63%
British Pounds	430	430	2005	664.7	4.36%

Discount Notes. The FHLBanks' consolidated discount notes, all of which are due within one year, are as follows (dollar amounts in millions):

	Book Value	Par Value	Weighted Average Interest Rate
December 31, 2003	$163,720	$163,920	1.02%
December 31, 2002	$146,814	$147,050	1.33%

The FHLBank Act authorizes the Secretary of the Treasury, at his or her discretion, to purchase consolidated obligations of the FHLBanks aggregating not more than $4 billion. The terms, conditions, and interest rates are determined by the Secretary of the Treasury. There were no such purchases by the U.S. Treasury during the two years ended December 31, 2003.

Note 14—Capital

The Gramm-Leach-Bliley (GLB) Act resulted in a number of changes in the capital structure of the FHLBanks. On January 30, 2001, the Finance Board published a final rule implementing a new capital structure for the FHLBanks, as required by the GLB Act. The rule establishes risk-based and leverage capital requirements for the FHLBanks, addresses different classes of stock that an FHLBank may issue and the rights and preferences that may be associated with each class of stock, and requires each FHLBank to submit a capital plan to the Finance Board for approval by October 29, 2001. As of July 18, 2002, the Finance Board approved the capital structure plans of all 12 FHLBanks. The capital rule provides a transition period that allows each FHLBank up to three years from the effective date of its capital plan to come into compliance with its new capital structure.

Each FHLBank is subject to risk-based capital rules under its new capital structure plan when implemented. Only "permanent" capital, defined as retained earnings and Class B stock, can satisfy the risk-based capital requirement. 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 leverage ratio.

Several FHLBank boards of directors and/or managements have agreed with the Office of Supervision of the Finance Board to either maintain higher total capital to assets ratios or limit dividend payments as part of that FHLBank's retained earnings policy. At December 31, 2003, each of the FHLBanks was in compliance with its statutory minimum capital requirements and any internally established or supervisory limitations. These limitations are subject to change and are therefore more flexible than the statutorily-prescribed minimum requirements.

As of December 31, 2003, the FHLBanks of Pittsburgh, Cincinnati, Indianapolis, Des Moines, Dallas 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.

The FHLBanks of Pittsburgh, Cincinnati, Indianapolis, Des Moines, Dallas and Seattle were in compliance with the aforementioned rules and requirements as relevant, during the year ended December 31, 2003. As of December 31, 2003, the FHLBanks of Pittsburgh, Cincinnati, Indianapolis, Des Moines, Dallas and Seattle each met its new capital requirements, including their risk-based capital requirements (dollar amounts in millions).

Regulatory Capital Requirements

FHLBank*	Minimum Regulatory Capital Ratio Requirement	At December 31, 2003				
		Minimum Regulatory Capital Requirement	Actual Capital Ratio	Total Capital	Permanent Capital (1)	Risk-Based Capital
Pittsburgh	4.0%	$2,141	4.5%	$2,373	$2,385	$386
Cincinnati	4.0%	3,086	4.8%	3,734	3,737	892
Indianapolis	4.0%	1,796	4.5%	2,009	2,011	353
Des Moines	4.0%	1,802	4.9%	2,207	2,207	431
Dallas	4.0%	2,336	4.7%	2,741	2,769	547
Seattle	4.0%	2,047	4.8%	2,456	2,456	695

FHLBank*	Minimum Regulatory Leverage Ratio Requirement	At December 31, 2003		
		Minimum Weighted Regulatory Leverage Capital Requirement	Actual Leverage Ratio	Weighted Leverage Capital
Pittsburgh	5.0%	$2,676	6.7%	$3,578
Cincinnati	5.0%	3,857	7.3%	5,606
Indianapolis	5.0%	2,245	6.7%	3,017
Des Moines	5.0%	2,253	7.3%	3,311
Dallas	5.0%	2,920	7.1%	4,155
Seattle	5.0%	2,558	7.2%	3,684

* Only includes FHLBanks that have implemented their new capital plan as of December 31, 2003.

(1) Permanent capital is defined as retained earnings and Class B stock.

The FHLBank of Pittsburgh offers a single Class B stock, which the member can elect to have redeemed by the FHLBank of Pittsburgh by giving 5 years notice, or earlier at the option of the FHLBank of Pittsburgh. The FHLBank of Pittsburgh can repurchase the stock at its discretion. The FHLBank of Pittsburgh requires member institutions to maintain stock based on a percentage of their outstanding FHLBank borrowings and a percentage of their unused borrowing capacity with the FHLBank. The FHLBank of Pittsburgh's board of directors may declare and pay dividends out of retained earnings and current earnings in either cash or capital stock.

The FHLBank of Cincinnati offers a single Class B stock, which the member can elect to have redeemed by the FHLBank of Cincinnati by giving 5 years notice, or earlier at the option of the FHLBank of Cincinnati. The FHLBank of Cincinnati can repurchase the stock at its discretion. 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. The FHLBank of Cincinnati's board of directors may declare and pay dividends out of retained earnings and current earnings in either cash or capital stock.

The FHLBank of Indianapolis implemented their capital plan during the first quarter of 2003. The FHLBank of Indianapolis offers a single Class B stock, which the member can elect to have redeemed by the FHLBank of Indianapolis by giving 5 years notice, or earlier at the option of the FHLBank of Indianapolis. The FHLBank of Indianapolis can repurchase the stock at its discretion.

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. The FHLBank of Indianapolis' board of directors may declare and pay dividends out of retained earnings and current earnings in either cash or capital stock.

The FHLBank of Des Moines implemented their capital plan on July 1, 2003. The FHLBank of Des Moines offers a single Class B stock, which the member can elect to have redeemed by the FHLBank of Des Moines by giving 5 years notice, or earlier at the option of the FHLBank of Des Moines. The FHLBank of Des Moines can repurchase the stock at its discretion. 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. The FHLBank of Des Moines's board of directors may declare and pay dividends out of retained earnings and current earnings in either cash or capital stock.

The FHLBank of Dallas implemented their capital plan on September 2, 2003. The FHLBank of Dallas offers a single Class B stock, which the member can elect to have redeemed by the FHLBank of Dallas by giving 5 years notice, or earlier at the option of the FHLBank of Dallas. The FHLBank of Dallas can repurchase the stock at its discretion. 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. The FHLBank of Dallas's board of directors may declare and pay dividends out of retained earnings and current earnings in either cash or capital stock.

The FHLBank of Seattle offers two sub-classes of Class B stock, Class B1 and Class B2, which the member can elect to have redeemed by the FHLBank of Seattle by giving 5 years notice. The FHLBank of Seattle can repurchase both sub-classes of stock at its discretion. 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 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. The FHLBank of Seattle's board of directors may declare and pay dividends out of retained earnings and current earnings in either cash or capital stock.

The remaining six FHLBanks plan to implement their capital plans within the three-year required time frame. Until such time as a remaining FHLBank fully implements its new capital plan, the current capital structure and capital adequacy rules remain in effect for that FHLBank. In particular, the FHLBank Act, as amended, requires members to purchase capital stock equal to the greater of 1 percent of their mortgage-related assets or 5 percent of outstanding FHLBank advances. However, the GLB Act removed the provision that required a non-thrift member to purchase additional stock to borrow from the FHLBank if the non-thrift member's mortgage-related assets were less than 65 percent of total assets. Members may, at the FHLBank's discretion, redeem at par value any capital stock greater than their statutory requirement or sell it to other FHLBank members at par value.

The GLB Act made membership voluntary for all members. A member must give written notice of its intent to withdraw from membership, and the membership terminates as of the end of the longest stock redemption period, *i.e.*, six months if a member has only Class A stock or five years if the member has Class B stock. A member that withdraws from membership may not acquire shares of any FHLBank before the end of a 5-year period beginning on the date of the completion of its divestiture of FHLBank capital stock, unless its divestiture is a consequence of transfer of membership on an uninterrupted basis between FHLBanks.

An FHLBank's board of directors may declare and pay dividends out of previously retained earnings and current earnings in either cash or capital stock.

Before the GLB Act, the FHLBanks were required to pay $300 million annually through 2030 to fund part of the interest on REFCORP debt. Before paying dividends, each Bank was assessed up to 20 percent of its net income after AHP contributions to meet these required payments. These payments were charged directly to retained earnings for years through December 31, 1999.

The GLB Act changed these required payments to 20 percent of annual net earnings for each FHLBank without the $300 million aggregate limit, with the final payment date to be adjusted by the Finance Board so that the aggregate payments made by all 12 FHLBanks would be equivalent to a $300 million annual annuity whose final maturity date is April 15, 2030. The Finance Board will shorten or lengthen the period during which the FHLBanks must make payments to REFCORP depending on actual payments relative to the referenced annuity. The cumulative amount to be paid to REFCORP by any FHLBank is not determinable at this time because the value is dependent on the future earnings of each FHLBank, as well as on future interest rates.

At December 31, 2003, the 10 largest holders of capital stock held $8,072 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 $3,462 million of FHLBanks' capital stock.

Note 15—Employee Retirement Plans

The FHLBanks, except for the FHLBank of San Francisco, participate in the Financial Institutions Retirement Fund (FIRF), a defined-benefit plan. The plan covers substantially all officers and employees of the FHLBanks. The FHLBanks' contributions to FIRF through June 30, 1987, represented the normal cost of the plan. The plan reached the full-funding limitation, as defined by the Employee Retirement Income Security Act, for the plan year beginning July 1, 1987, because of favorable investment and other actuarial experience during previous years. As a result, FIRF suspended employer contributions for all plan years ending after June 30, 1987. As of 2003, contributions to the plan resumed for five FHLBanks. Funding and administrative costs of FIRF charged to other operating expenses were approximately $18 million and $9 million and $5 million in 2003, 2002 and 2001. The FIRF is a multi-employer plan and does not segregate its assets, liabilities, or costs by participating employer. As a result, disclosure of the accumulated benefit obligations, plan assets, and the components of annual pension expense attributable to the FHLBanks cannot be made.

The FHLBanks, except for the FHLBanks of Atlanta and Seattle, also participate in the Financial Institutions Thrift Plan, a defined-contribution plan. The FHLBanks of Atlanta and Seattle have similar defined-contribution plans. The FHLBanks' contributions are equal to a percentage of participants' compensation and a matching contribution equal to a percentage of voluntary employee contributions, subject to certain limitations. The FHLBanks contributed $7 million, $6 million and $5 million in the years ended December 31, 2003, 2002 and 2001.

In addition, several FHLBanks maintain deferred compensation plans, which are, in substance, unfunded supplemental retirement plans. 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, 2003 and 2002 were $59 million and $29 million. Operating expense includes deferred compensation and accrued earnings of $9 million, $7 million and $6 million in the years ended December 31, 2003, 2002, and 2001. At December 31, 2003, $6 million is recorded as a minimum pension liability adjustment in other comprehensive income.

Note 16—Interest-Rate Exchange Agreements

The contractual or notional amount of interest-rate exchange agreements reflects the involvement of an FHLBank in the various classes of financial instruments. The notional amount of interest-rate exchange agreements does not measure the credit-risk exposure of an FHLBank. The maximum credit exposure of an FHLBank is much less than the notional amount. The maximum credit risk is the estimated cost of replacing favorable interest-rate swaps, forward agreements, and mandatory delivery for mortgage loans executed after June 30, 2003, and purchased caps and floors if the counterparty defaults, and the related collateral, if any, is of no value to the FHLBank.

At December 31, 2003 and 2002, the FHLBanks' maximum credit risk, as defined above, was $1,576 million and $2,743 million. These totals include $1,137 million and $745 million of net accrued interest receivable. In determining maximum credit risk, the FHLBanks consider accrued interest receivables and payables, and the legal right to offset assets and liabilities by counterparty. The FHLBanks held securities and cash with a fair value of $1,232 million and $2,036 million as collateral as of December 31, 2003 and 2002. Additionally, collateral with respect to interest-rate exchange agreements with member institutions includes collateral assigned to the FHLBanks, as evidenced by a written security agreement and held by the member institution for the benefit of the FHLBanks.

The FHLBanks transact most of their interest-rate exchange agreements with large banks and major broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell, and distribute consolidated obligations. Note 18 discusses assets pledged by the FHLBanks to these counterparties.

Intermediation. Interest-rate exchange agreements in which an FHLBank is an intermediary may arise when the FHLBank: (1) enters into interest-rate exchange agreements with members and offsetting interest-rate exchange agreements with members and other counterparties to meet the needs of their members, (2) enters into interest-rate exchange agreements to offset the economic effect of other interest-rate exchange agreements that are no longer designated to either advances, investments, or consolidated obligations, or (3) purchases consolidated obligations of other FHLBanks that have interest-rate exchange agreements associated with them either by the FHLBank that issued the bond or by the FHLBank that purchased the bond.

The notional principal of interest-rate exchange agreements in which the FHLBanks were intermediaries is $3,999 million and $5,351 million as of December 31, 2003 and 2002.

Note 17—Estimated Fair Values

The following estimated fair value amounts have been determined by the FHLBanks using available market information and the FHLBanks' best judgment of appropriate valuation methods. These estimates are based on pertinent information available to the FHLBanks as of December 31, 2003 and 2002. Although the FHLBanks use their 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 a going concern, which would take into account future business opportunities.

Cash and due from banks. The estimated fair value approximates the recorded book balance.

Investments. The FHLBanks determine the fair value of investments based on quoted prices, excluding accrued interest, as of the last business day of the year.

Securities purchased under agreements to resell. The estimated fair value approximates the recorded book balance.

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 floating-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. Following the Finance Board's advances regulations, advances with a maturity or repricing period greater than six months require a prepayment fee sufficient to make an FHLBank financially indifferent to the borrower's decision to prepay the advances. Therefore, the estimated fair value of advances does not assume prepayment risk. The estimated fair value approximates the recorded book balance of advances with floating rates and fixed rates with three months or less to maturity or repricing.

Mortgage loans held for portfolio. The estimated fair values for mortgage loans are determined based on quoted market prices of similar mortgage loans. These prices, however, are highly dependent upon market conditions and are highly dependent on the underlying prepayment assumptions. Changes in the prepayment rates used often have a material effect on the fair value estimates. Since these estimates are made as of a specific point in time, they are susceptible to material near-term changes.

Accrued interest receivable and payable. The estimated fair value approximates the recorded book value.

Derivative assets/liabilities. The FHLBanks base the estimated fair values of interest-rate exchange agreements with similar terms or available market prices including accrued interest receivable and payable. However, active markets do not exist for many types of financial instruments. Consequently, fair values for these instruments must be estimated using techniques such as discounted cash-flow analysis and comparisons to similar instruments. Estimates developed using these methods are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Changes in these judgments often have a material effect on the fair value estimates. Since these estimates are made as of a specific point in time, they are susceptible to material near term changes. The fair values are netted by counterparty where such legal right exists. If these netted amounts are positive, they are classified as an asset and if negative, a liability.

Deposits. The FHLBanks determine fair values of deposits with fixed-rates and more than three months to maturity by calculating the present value of expected future cash flows from the deposits and reducing this amount for accrued interest payable. The discount rates used in these calculations are the cost of deposits with similar terms. The estimated fair value approximates the recorded book balance for deposits with floating-rates and fixed-rates with three months or less to maturity or repricing.

Consolidated obligations. The FHLBanks determine daily the estimated cost of issuing comparable-term debt based on the secondary market for debt of government-sponsored enterprises and other indications from the Office of Finance and securities dealers. The estimated cost of issuing debt includes non-interest selling costs.

Borrowings. The FHLBanks determine the estimated fair value of borrowings with fixed-rates and more than three months to maturity by calculating the present value of expected future cash flows from the borrowings and reducing this amount for accrued interest payable. The discount rates used in these calculations are the cost of borrowings with similar terms. For borrowings with floating-rates and fixed-rates with three months or less to maturity or repricing, the estimated fair value approximates the recorded book balance.

Commitments. The estimated fair value of the FHLBanks' commitments to extend credit, including letters of credit, was immaterial at December 31, 2003 and 2002.

The carrying values and estimated fair values of the FHLBanks' financial instruments at December 31, 2003 and 2002 are as follows (dollar amounts in millions):

Financial Instruments	2003 Carrying Value	2003 Net Unrealized Gains/(Losses)	2003 Estimated Fair Value
Assets:			
Cash and due from banks	$ 439	$	$ 439
Interest-bearing deposits	16,749		16,749
Securities purchased under agreements to resell	6,424		6,424
Federal funds sold	36,729		36,729
Held-to-maturity securities	110,010	1,009	111,019
Available-for-sale securities	11,370		11,370
Securities held at fair value	8,234		8,234
Advances	514,168	1,809	515,977
Mortgage loans held for portfolio, net	113,438	446	113,884
Accrued interest receivable	2,864		2,864
Derivative assets	1,556		1,556
Liabilities:			
Deposits	(20,505)	2	(20,503)
Securities sold under agreements to repurchase	(2,700)	(58)	(2,758)
Consolidated obligations:			
Discount notes	(163,720)	(1)	(163,721)
Bonds	(577,217)	(4,455)	(581,672)
Accrued interest payable	(4,563)		(4,563)
Derivative liabilities	(13,002)		(13,002)
Other:			
Commitments to extend credit for advances		1	1
Standby bond purchase agreements		1	1
Other		1	1

2002 FAIR VALUE SUMMARY TABLE

Financial Instruments	2002 Carrying Value	2002 Net Unrealized Gains/(Losses)	2002 Estimated Fair Value
Assets:			
Cash and due from banks	$ 658	$	$ 658
Interest-bearing deposits	23,865	1	23,866
Securities purchased under agreements to resell	5,243		5,243
Federal funds sold	46,681	2	46,683
Held-to-maturity securities	110,050	2,332	112,382
Available-for-sale securities	11,531		11,531
Securities held at fair value	8,985		8,985
Advances	489,598	3,597	493,195
Mortgage loans held for portfolio, net	60,554	1,524	62,078
Accrued interest receivable	3,036		3,036
Derivative assets	2,812		2,812
Liabilities:			
Deposits	(27,610)	1	(27,609)
Securities sold under agreements to repurchase	(1,699)	(45)	(1,744)
Other borrowings	(525)		(525)
Consolidated obligations:			
Discount notes	(146,814)	(23)	(146,836)
Bonds	(526,895)	(8,721)	(535,616)
Accrued interest payable	(4,997)		(4,997)
Derivative liabilities	(16,301)		(16,301)
Other:			
Commitments to extend credit for advances		2	2
Commitments to extend credit for mortgage loans held for portfolio		45	45
Standby letters of credit		3	3

Note 18—Commitments and Contingencies

As described in Note 13, 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. Each FHLBank does not recognize a liability for its joint and several obligation related to other FHLBanks' consolidated obligations.

Commitments that legally bind and unconditionally obligate the FHLBanks for additional advances totaled approximately $4,094 million and $2,735 million at December 31, 2003 and 2002. Commitments generally are for periods up to 12 months. Standby letters of credit are executed for members for a fee. A standby letter of credit is a short-term financing arrangement between the FHLBank and its member. If the FHLBanks are required to make payment for a beneficiary's draw, these amounts are converted into a collateralized advance to the member. Outstanding standby letters of credit were approximately $10,422 million and $9,765 million at December 31, 2003 and 2002 and had original terms of up to 20 years and final expiration up to 2023. Unearned fees on standby letters of credit are recorded in other liabilities and amount to $1 million at December 31, 2002. Unearned fees for transactions prior to 2003 as well as the value of the guarantees related to standby letters of credit entered into after 2002 are recorded in other liabilities and amount to $8 million at December 31, 2003. Based on management's credit analyses and collateral requirements, the FHLBanks do not deem it necessary to have any provision for credit losses on these commitments and letters of credit. Commitments and letters of credit are fully collateralized at the time of issuance (see Note 8). The estimated fair value of commitments as of December 31, 2003 and 2002 is reported in Note 17.

The FHLBanks have entered into standby bond purchase agreements with state housing authorities within their state district whereby each 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 an FHLBank to purchase the bond. The bond purchase commitments entered into by the FHLBanks have expiration periods up to 5 years, no later than 2008, though some are renewable at the option of an FHLBank. Total commitments for bond purchases were $2,234 million at December 31, 2003, with 9 state housing authorities. Total commitments for bond purchases were $1,932 million at December 31, 2002, with 6 state housing authorities. During 2003 and 2002, no FHLBank was required to purchase any bonds under these agreements.

Commitments which unconditionally obligate the FHLBanks to fund/purchase mortgage loans totaled $2,177 million and $5,449 million at December 31, 2003 and 2002. Commitments are generally for periods not to exceed 365 days. In accordance with SFAS 149, certain commitments entered into after June 30, 2003, were recorded as derivatives at their fair value. Unused line of credit and other commitments totaled $13,753 million and $12,592 million at December 31, 2003 and 2002.

The FHLBanks generally execute interest-rate exchange agreements with major banks and broker-dealers and generally enter bilateral collateral agreements. As of December 31, 2003, the FHLBanks had pledged, as collateral, securities with a book value of $515 million, which cannot be sold or repledged, to broker-dealers who have market risk exposure from the FHLBanks related to interest-rate exchange agreements.

The FHLBanks entered into $6,463 million par value of consolidated bonds and $2,922 million par value of consolidated discount notes that had traded but not settled as of December 31, 2003.

The FHLBanks charged to operating expenses net rental costs of approximately $22 million, $19 million and $18 million for the years ended December 31, 2003, 2002 and 2001. Future minimum rentals at December 31, 2003, are as follows (dollar amounts in millions):

Year	Premises	Equipment	Total
2004	$ 18	$2	$ 20
2005	18	2	20
2006	19	1	20
2007	19		19
2008	18		18
Thereafter	58	—	58
Total	$150	$5	$155

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 8, 9, 13, 14, 15, and 16 discuss other commitments and contingencies.

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CONDITION
DECEMBER 31, 2003

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
ASSETS						
Cash and due from banks	$ 439	$	$ 9	$ 21	$ 83	$ 20
Interest-bearing deposits	16,749		100	1,654	828	602
Deposits with other FHLBanks for mortgage loan programs		(28)		1	7	7
Securities purchased under agreements to resell	6,424		500			
Federal funds sold	36,729		2,426	1,143	1,000	4,925
Held-to-maturity securities	110,010	(3,520)	6,544	11,359	7,444	14,594
Available-for-sale securities	11,370	(410)	1,098		358	
Securities held at fair value	8,234	(434)	399		355	5,071
Advances	514,168		26,074	63,923	34,672	88,235
Mortgage loans held for portfolio	113,454		4,538	672	8,066	1,756
Less: allowance for credit losses on mortgages loans	16		1	1	1	
Mortgage loans held for portfolio, net	113,438		4,537	671	8,065	1,756
Loans to other FHLBanks		(60)		60		
Accrued interest receivable	2,864	(23)	138	288	490	481
Premises and equipment, net	186		6	16	8	29
Derivative assets	1,556		40	59	165	300
Other assets	623	5	25	35	44	94
Total assets	$822,790	$(4,470)	$41,896	$79,230	$53,519	$116,114
LIABILITIES						
Deposits:						
Demand and overnight	$ 17,943	$	$ 913	$ 1,958	$ 1,239	$ 4,258
Term	1,472		29	138	11	21
Deposits from other FHLBanks for mortgage loan programs		(28)				
Other	1,090		4	4	56	314
Total deposits	20,505	(28)	946	2,100	1,306	4,593
Borrowings:						
Loans from other FHLBanks		(60)			60	
Securities sold under agreements to repurchase	2,700					1,000
Other						
Total borrowings	2,700	(60)			60	1,000
Consolidated obligations, net:						
Discount notes	163,720		5,346	16,805	11,537	4,144
Bonds	577,217	(4,289)	32,058	54,052	36,622	96,695
Total consolidated obligations, net	740,937	(4,289)	37,404	70,857	48,159	100,839
Accrued interest payable	4,563	(23)	268	426	312	745
Affordable Housing Program	681		32	93	17	91
Payable to REFCORP	101		6		2	12
Derivative liabilities	13,002		737	1,913	1,242	3,580
Other liabilities	1,237		31	78	48	122
Total liabilities	783,726	(4,400)	39,424	75,467	51,146	110,982
CAPITAL						
Capital stock Class B ($100 par value) issued and outstanding	15,081				2,342	
Capital stock outstanding ($100 par value) issued and outstanding	22,621		2,428	3,638		4,921
Total capital stock	37,702		2,428	3,638	2,342	4,921
Retained earnings	1,327	(70)	62	127	43	211
Accumulated other comprehensive income:						
Net unrealized gains (losses) on available-for sale securities	341		(24)			
Net unrealized (losses) gains relating to hedging activities	(300)		6		(12)	
Other	(6)			(2)		
Total capital	39,064	(70)	2,472	3,763	2,373	5,132
Total liabilities and capital	$822,790	$(4,470)	$41,896	$79,230	$53,519	$116,114

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 7	$ 51	$ 4	$ 57	$ 164	$ 1	$ 18	$ 4
6,285	243		281	302	2,397	3,287	770
				1		12	
		419	305			5,100	100
7,251	1,067	5,023	1,200	2,957	1,797	5,434	2,506
11,240	5,726	5,139	2,155	7,011	7,628	18,263	16,427
823	1,184	605	1,546	5,950	216		
12	101	794	36	142	597	917	244
43,129	28,925	26,443	23,303	40,595	26,886	92,330	19,653
8,101	7,434	47,609	16,005	972	684	6,445	11,172
	1	5	6	1			
8,101	7,433	47,604	15,999	971	684	6,445	11,172
201	119	337	98	174	121	218	222
5	11	61	2	25	10	8	5
51	6	454	43	72	54	266	46
39	27	63	26	32	126	92	15
$77,144	$44,893	$86,946	$45,051	$58,396	$40,517	$132,390	$51,164
$ 1,090	$ 1,212	$ 1,319	$ 968	$ 1,967	$ 1,062	$ 832	$ 1,125
261		538	34	150	53	66	171
		28					
62	1	463		49	26	90	21
1,413	1,213	2,348	1,002	2,166	1,141	988	1,317
		1,200	500				
		1,200	500				
29,443	10,441	20,456	5,472	11,627	9,958	31,882	6,609
40,361	29,831	57,470	34,880	40,703	26,174	92,751	39,909
69,804	40,272	77,926	40,352	52,330	36,132	124,633	46,518
350	246	502	249	332	254	528	374
86	32	65	24	34	24	135	48
12	7	18	5	6	8	16	9
1,311	1,077	224	692	636	1,102	181	307
434	37	62	20	151	56	63	135
73,410	42,884	82,345	42,844	55,655	38,717	126,544	48,708
3,645	1,918		2,116	2,661			2,399
		4,155			1,740	5,739	
3,645	1,918	4,155	2,116	2,661	1,740	5,739	2,399
92	93	326	91	108	68	119	57
	(1)	2		372	(8)		
		118		(400)		(12)	
(3)	(1)						
3,734	2,009	4,601	2,207	2,741	1,800	5,846	2,456
$77,144	$44,893	$86,946	$45,051	$58,396	$40,517	$132,390	$51,164

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CONDITION
DECEMBER 31, 2002

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
ASSETS						
Cash and due from banks	$ 658	$	$ 14	$ 65	$ 131	$ 85
Interest-bearing deposits	23,865		665	7,649	587	2,420
Deposits with other FHLBanks for mortgage loan programs		(70)			5	5
Securities purchased under agreements to resell	5,243		39			
Federal funds sold	46,681		2,768	2,932	982	3,344
Held-to-maturity securities	110,050	(179)	6,564	12,967	6,988	13,557
Available-for-sale securities	11,531	(369)	1,159		421	
Securities held at fair value	8,985	(586)	571		1,223	3,635
Advances	489,598		26,931	68,926	29,262	82,449
Mortgage loans held for portfolio	60,567		2,489	436	4,952	686
Less: allowance for credit losses on mortgages loans	13		1	1	1	1
Mortgage loans held for portfolio, net	60,554		2,488	435	4,951	685
Loans to other FHLBanks		(240)		50	190	
Accrued interest receivable	3,036	(16)	161	377	525	489
Premises and equipment, net	160		6	15	9	30
Derivative assets	2,812		96	142	244	532
Other assets	458		15	48	37	63
Total assets	$763,631	$(1,460)	$41,477	$93,606	$45,555	$107,294
LIABILITIES						
Deposits:						
Demand and overnight	$ 24,931	$	$ 1,746	$ 2,480	$ 2,247	$ 5,463
Term	1,214		38	255	32	41
Deposits from other FHLBanks for mortgage loan programs		(70)				
Other	1,465		6	8	135	414
Total deposits	27,610	(70)	1,790	2,743	2,414	5,918
Borrowings:						
Loans from other FHLBanks		(240)	190			
Securities sold under agreements to repurchase	1,699					
Other	525					
Total borrowings	2,224	(240)	190			
Consolidated obligations, net:						
Discount notes	146,814		7,007	22,011	10,395	1,356
Bonds	526,895	(1,134)	28,903	61,501	28,967	89,008
Total consolidated obligations, net	673,709	(1,134)	35,910	83,512	39,362	90,364
Accrued interest payable	4,997	(16)	305	539	297	828
Affordable Housing Program	695		31	110	26	102
Payable to REFCORP	110		6	14	3	13
Derivative liabilities	16,301		890	2,356	1,516	4,860
Other liabilities	1,661		60	36	37	483
Total liabilities	727,307	(1,460)	39,182	89,310	43,655	102,568
CAPITAL						
Capital stock Class B ($100 par value) issued and outstanding	7,733				1,840	
Capital stock outstanding ($100 par value) issued and outstanding	27,454		2,278	4,051		4,497
Total capital stock	35,187		2,278	4,051	1,840	4,497
Retained earnings	1,191		45	245	66	229
Accumulated other comprehensive income:						
Net unrealized gains (losses) on available-for sale securities	491		(32)		(4)	
Net unrealized (losses) gains relating to hedging activities	(544)		4		(2)	
Other	(1)					
Total capital	36,324		2,295	4,296	1,900	4,726
Total liabilities and capital	$763,631	$(1,460)	$41,477	$93,606	$45,555	$107,294

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 13	$ 50	$ 4	$ 103	$ 166	$	$ 9	$ 18
3,753			494	520	2,228	4,834	715
				1	1	58	
200		404				4,400	200
11,446	1,029	3,421	5,751	3,445	1,846	6,068	3,649
10,604	5,537	5,629	5,254	6,054	6,841	17,879	12,355
786	1,608	1,383	778	5,765			
20	103	2,328	66	326	514	533	252
40,063	28,945	24,945	24,008	36,870	25,926	81,237	20,036
3,767	5,411	26,191	5,664	1,396	200	263	9,112
		5	3	1			
3,767	5,411	26,186	5,661	1,395	200	263	9,112
210	125	258	66	182	121	285	253
5	11	32	6	26	10	7	3
180	33	423	48	357	162	518	77
24	21	33	19	29	117	38	14
$71,071	$42,873	$65,046	$42,254	$55,136	$37,966	$116,129	$46,684
$ 1,968	$ 1,447	$ 2,375	$ 1,610	$ 2,229	$ 1,469	$ 352	$ 1,545
165		235	24	186	26	35	177
		70					
199	6	368		227	49	20	33
2,332	1,453	3,048	1,634	2,642	1,544	407	1,755
			50				
		1,399	300				
						525	
		1,399	350			525	
25,617	13,858	14,526	7,758	12,873	8,540	12,447	10,426
37,417	23,710	41,244	29,573	35,921	24,820	95,822	31,143
63,034	37,568	55,770	37,331	48,794	33,360	108,269	41,569
346	252	401	292	420	271	715	347
82	36	47	20	32	24	132	53
13	8	17	4	2	5	14	11
1,624	1,535	437	710	673	1,033	345	322
29	22	568	8	76	60	37	245
67,460	40,874	61,687	40,349	52,639	36,297	110,444	44,302
3,548							2,345
	1,956	3,126	1,858	2,471	1,631	5,586	
3,548	1,956	3,126	1,858	2,471	1,631	5,586	2,345
64	48	191	50	77	38	101	37
	(5)	8	(3)	527			
		34		(578)		(2)	
(1)							
3,611	1,999	3,359	1,905	2,497	1,669	5,685	2,382
$71,071	$42,873	$65,046	$42,254	$55,136	$37,966	$116,129	$46,684

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2003

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
INTEREST INCOME						
Advances	$ 8,625	$	$ 627	$1,285	$455	$1,235
Interest-bearing deposits	259		4	67	7	25
Deposits for mortgage loan programs with other FHLBanks		(1)			1	
Securities purchased under agreements to resell	51		9			
Federal funds sold	489		38	16	16	52
Held-to-maturity securities	4,248	(22)	260	652	293	575
Available-for-sale securities	153	(19)	14		14	
Securities held at fair value	440	(32)	26		23	245
Mortgage loans held for portfolio	4,055		193	29	187	62
Loans to other FHLBanks		(4)		3		
Other	5					
Total interest income	18,325	(78)	1,171	2,052	996	2,194
INTEREST EXPENSE						
Consolidated obligations	14,912	(83)	1,005	1,734	864	1,670
Deposits	278		14	28	21	58
Deposits from other FHLBanks for mortgage loan programs		(1)				
Borrowings from other FHLBanks		(4)			2	
Securities sold under agreements to repurchase	44				2	6
Other borrowings	7				2	
Total interest expense	15,241	(88)	1,019	1,762	891	1,734
NET INTEREST INCOME BEFORE MORTGAGE LOAN LOSS PROVISION	3,084	10	152	290	105	460
Provision for credit losses on mortgage loans	3					(1)
NET INTEREST INCOME AFTER MORTGAGE LOAN LOSS PROVISION	3,081	10	152	290	105	461
OTHER (LOSS) INCOME						
Prepayment fees	191		57	6	7	13
Service fees	33		2	5	6	3
Net (losses) gains from sale of held-to-maturity securities	(158)			(189)	3	
Net (losses) gains from sale of available-for-sale securities	(27)		4		4	
Net losses on securities held at fair value	(319)		(10)		(12)	(187)
Net realized and unrealized (losses) gains on derivatives and hedging activities	(40)	22	(11)	2	(40)	(10)
Other, net	2	(102)	(35)	(1)	3	1
Total other income (loss)	(318)	(80)	7	(177)	(29)	(180)
OTHER EXPENSE						
Operating	449		31	48	35	54
Finance Board	23		2	2	1	3
Office of Finance	18		1	3	2	2
Other, net	16			(2)		4
Total other expense	506		34	51	38	63
INCOME BEFORE ASSESSMENTS	2,257	(70)	125	62	38	218
Affordable Housing Program	190		10	5	3	18
REFCORP	427		23	11	7	40
Total assessments	617		33	16	10	58
NET INCOME	$ 1,640	$ (70)	$ 92	$ 46	$ 28	$ 160

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 697	$ 509	$ 560	$ 461	$ 725	$425	$1,129	$ 517
60	3		5	6	28	44	10
3		5	3			30	1
104	18	46	36	32	24	78	29
481	215	179	108	147	253	581	526
10	15	32	13	71	3		
1	6	69	3	24	29	31	15
343	345	1,853	347	72	22	138	464
1							
				1	4		
1,700	1,111	2,744	976	1,078	788	2,031	1,562
1,480	906	2,047	817	885	643	1,597	1,347
20	21	35	15	29	15	4	18
		1					
			2				
		28	8				
2					3		
1,502	927	2,111	842	914	661	1,601	1,365
198	184	633	134	164	127	430	197
	1		3				
198	183	633	131	164	127	430	197
30	3	4	20	11	4	15	21
2	5	1	2	2	1	1	3
5					1		22
		(36)	1				
(1)	(2)	(57)	(2)	(13)	(12)	(15)	(8)
26	(3)	(93)	4	(12)	16	65	(6)
4	2	117	3	3	3	4	
66	5	(64)	28	(9)	13	70	32
25	28	74	24	30	18	54	28
2	1	2	1	2	1	4	2
2	1	1	1	1	1	2	1
2	1	9					2
31	31	86	26	33	20	60	33
233	157	483	133	122	120	440	196
19	13	39	11	10	10	36	16
43	29	89	24	22	22	81	36
62	42	128	35	32	32	117	52
$ 171	$ 115	$ 355	$ 98	$ 90	$ 88	$ 323	$ 144

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2002

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
INTEREST INCOME						
Advances	$11,234	$	$ 806	$1,644	$ 610	$1,571
Interest-bearing deposits	409		13	114	19	27
Deposits for mortgage loan programs with other FHLBanks		(1)			1	
Securities purchased under agreements to resell	107		29			
Federal funds sold	886		73	47	18	120
Held-to-maturity securities	5,148	(28)	298	725	361	588
Available-for-sale securities	165	(24)	18		17	
Securities held at fair value	680	(38)	40		85	320
Mortgage loans held for portfolio	2,392		72	26	150	40
Loans to other FHLBanks		(5)		3		1
Other	5					
Total interest income	21,026	(96)	1,349	2,559	1,261	2,667
INTEREST EXPENSE						
Consolidated obligations	17,224	(90)	1,182	2,167	1,017	2,084
Deposits	423		30	43	33	89
Deposits from other FHLBanks for mortgage loan programs		(1)				
Borrowings from other FHLBanks		(5)			2	
Securities sold under agreements to repurchase	46				6	
Other borrowings	6				1	
Total interest expense	17,699	(96)	1,212	2,210	1,059	2,173
NET INTEREST INCOME BEFORE MORTGAGE LOAN LOSS PROVISION	3,327		137	349	202	494
Provision for credit losses on mortgage loans	6		1	1	1	
NET INTEREST INCOME AFTER MORTGAGE LOAN LOSS PROVISION	3,321		136	348	201	494
OTHER (LOSS) INCOME						
Prepayment fees	142		32	39	1	15
Service fees	36		2	4	7	3
Net realized gains from sale of held-to-maturity securities	1					
Net gains (losses) on securities held at fair value	707		7		7	287
Net realized and unrealized losses on derivatives and hedging activities	(1,288)		(28)	(8)	(111)	(361)
Other, net	(19)		(15)	(27)	(2)	1
Total other (loss) income	(421)		(2)	8	(98)	(55)
OTHER EXPENSE						
Operating	396		28	39	36	49
Finance Board	23		2	2	1	2
Office of Finance	17		1	2	1	2
Other, net	16			(6)		5
Total other expense	452		31	37	38	58
INCOME BEFORE ASSESSMENTS	2,448		103	319	65	381
Affordable Housing Program	199		8	26	5	31
REFCORP	450		19	59	12	70
Total assessments	649		27	85	17	101
NET INCOME	$ 1,799	$	$ 76	$ 234	$ 48	$ 280

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 870	$ 658	$ 619	$ 594	$ 840	$553	$1,818	$ 651
81	8		5	5	39	78	20
		4	22			48	4
216	44	51	60	48	35	119	55
520	306	226	178	154	290	820	710
27	29	6	10	82			
2	6	155	6	36	20	33	15
107	178	1,239	262	92	8	2	216
		1					
				1	4		
1,823	1,229	2,301	1,137	1,258	949	2,918	1,671
1,554	1,006	1,708	973	1,040	796	2,396	1,391
28	26	46	26	40	27	7	28
		1					
			3				
		36	2				2
2		1			2		
1,584	1,032	1,792	1,004	1,080	825	2,403	1,421
239	197	509	133	178	124	515	250
		2		1			
239	197	507	133	177	124	515	250
26	3	1	6	4	3	9	3
2	6	1	3	3	2	1	2
							1
(1)	7	295	(2)	10	45	23	29
(1)	(9)	(446)	(41)	(59)	(82)	(83)	(59)
4	1	9	3	1	3	3	
30	8	(140)	(31)	(41)	(29)	(47)	(24)
21	27	49	23	31	18	53	22
2	1	2	1	2	1	5	2
2	1	1	1	1	1	3	1
1	1	5				9	1
26	30	57	25	34	20	70	26
243	175	310	77	102	75	398	200
20	14	25	6	8	6	33	17
45	32	57	14	19	14	73	36
65	46	82	20	27	20	106	53
$ 178	$ 129	$ 228	$ 57	$ 75	$ 55	$ 292	$ 147

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2001

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
INTEREST INCOME						
Advances	$20,676	$	$1,206	$2,574	$1,181	$2,974
Interest-bearing deposits	714		4	266	37	39
Deposits for mortgage loan programs with other FHLBanks		(2)			2	
Securities purchased under agreements to resell	190		30			
Federal funds sold	2,291		198	198	94	328
Held-to-maturity securities	5,772	(89)	358	794	394	755
Available-for-sale securities	299	(26)	36		11	
Securities held at fair value	498	(30)	64		132	169
Mortgage loans held for portfolio	1,378		9	34	140	34
Loans to other FHLBanks		(7)		3		1
Other	1					
Total interest income	31,819	(154)	1,905	3,869	1,991	4,300
INTEREST EXPENSE						
Consolidated obligations	27,611	(145)	1,640	3,353	1,689	3,604
Deposits	953		92	106	61	203
Deposits from other FHLBanks for mortgage loan programs		(2)				
Borrowings from other FHLBanks		(7)	1	1	2	
Securities sold under agreements to repurchase	6		1			
Other borrowings	6			1	2	
Total interest expense	28,576	(154)	1,734	3,461	1,754	3,807
NET INTEREST INCOME BEFORE MORTGAGE LOAN LOSS PROVISION	3,243		171	408	237	493
Provision for credit losses on mortgage loans	4					1
NET INTEREST INCOME AFTER MORTGAGE LOAN LOSS PROVISION	3,239		171	408	237	492
OTHER INCOME (LOSS)						
Prepayment fees	93		35	10	1	7
Service fees	40		2	4	12	3
Net realized gains from sale of held-to-maturity securities	3			3		
Net gains (losses) on securities held at fair value	73		12		22	(4)
Net realized and unrealized (losses) gains on derivatives and hedging activities	(55)		(10)	3	(89)	(21)
Other, net	(20)		(26)	(4)	1	2
Total other income (loss)	134		13	16	(53)	(13)
OTHER EXPENSE						
Operating expenses	368		25	35	44	46
Finance Board	20		1	3	1	3
Office of Finance	13		1	1	1	1
Other, net	11					7
Total other expense	412		27	39	46	57
INCOME BEFORE ASSESSMENTS	2,961		157	385	138	422
Affordable Housing Program	239		13	32	10	33
REFCORP	538		28	71	24	75
Total assessments	777		41	103	34	108
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	2,184		116	282	104	314
Cumulative effect of change in accounting principle	(30)		(3)	3	(9)	(16)
NET INCOME	$ 2,154	$	$ 113	$ 285	$ 95	$ 298

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$1,498	$1,179	$ 882	$1,012	$1,351	$ 869	$4,734	$1,216
114	6		6	4	67	142	29
	1	2	86			64	7
481	89	97	117	98	104	349	138
544	315	296	221	241	334	829	780
67	57		2	149	3		
2	6	51	11	36	11	41	5
14	7	718	259	103	3		57
1					1	1	
				1			
2,721	1,660	2,046	1,714	1,983	1,392	6,160	2,232
2,393	1,410	1,742	1,510	1,713	1,196	5,581	1,925
55	56	80	72	88	64	16	60
		2					
			3				
		1					4
2				1			
2,450	1,466	1,825	1,585	1,802	1,260	5,597	1,989
271	194	221	129	181	132	563	243
		2	1				
271	194	219	128	181	132	563	243
2	2	1	17		1	6	11
1	6	1	4	3	1	1	2
1	2	(5)	1	30	6	8	
1	(6)	46	(8)	(28)	(10)	55	12
5	2	2	(7)	1	2	2	
10	6	45	7	6		72	25
20	24	38	23	28	16	49	20
2	1	1	1	1	1	4	1
2	1	1	1	1		2	1
		4					
24	26	44	25	30	17	55	22
257	174	220	110	157	115	580	246
21	14	18	9	13	9	47	20
47	31	41	20	28	22	106	45
68	45	59	29	41	31	153	65
189	129	161	81	116	84	427	181
(1)	(4)	1	1	(1)	4	(2)	(3)
$ 188	$ 125	$ 162	$ 82	$ 115	$ 88	$ 425	$ 178

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(Shares in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
CAPITAL STOCK CLASS B SHARES						
BALANCE, DECEMBER 31, 2001						
Proceeds from sale of capital stock	4				4	
Redemption of capital stock	(10)				(7)	
Conversion to Class B shares	81				21	
Capital stock dividends	1					
BALANCE, DECEMBER 31, 2002	76				18	
Proceeds from sale of capital stock	37				27	
Redemption of capital stock	(32)				(22)	
Conversion to Class B shares	65					
Capital stock dividends	4					
BALANCE, DECEMBER 31, 2003	150				23	
CAPITAL STOCK SHARES						
BALANCE, DECEMBER 31, 2000	305		19	36	21	35
Proceeds from sale of capital stock	92		2	8	33	13
Redemption of capital stock	(74)		(1)	(7)	(35)	(7)
Capital stock dividends	9					
BALANCE, DECEMBER 31, 2001	332		20	37	19	41
Proceeds from sale of capital stock	95		3	10	35	12
Redemption of capital stock	(76)			(6)	(33)	(8)
Conversion to Class B shares	(81)				(21)	
Capital stock dividends	6					
BALANCE, DECEMBER 31, 2002	276		23	41		45
Proceeds from sale of capital stock	80		5	15		23
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
TOTAL CAPITAL SHARES						
BALANCE, DECEMBER 31, 2000	305		19	36	21	35
Proceeds from sale of capital stock	92		2	8	33	13
Redemption of capital stock	(74)		(1)	(7)	(35)	(7)
Capital stock dividends	9					
BALANCE, DECEMBER 31, 2001	332		20	37	19	41
Proceeds from sale of capital stock	99		3	10	39	12
Redemption of capital stock	(86)			(6)	(40)	(8)
Capital stock dividends	7					
BALANCE, DECEMBER 31, 2002	352		23	41	18	45
Proceeds from sale of capital stock	117		5	15	27	23
Redemption of capital stock	(103)		(4)	(20)	(22)	(19)
Capital stock dividends	9					
BALANCE, DECEMBER 31, 2003	375		24	36	23	49

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
							(3)
35							25
							1
35							23
	1		6	2			1
	(2)		(4)	(3)			(1)
	19		19	27			
1	1			1			1
36	19		21	27			24
28	15	16	17	21	12	63	22
2	2	11	5	4	3	7	2
		(4)	(7)	(5)	(1)	(6)	(1)
2		1		1		4	1
32	17	24	15	21	14	68	24
3	3	11	4	4	4	5	1
(1)		(5)		(1)	(2)	(20)	
(35)							(25)
1		1		1		3	
	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	
28	15	16	17	21	12	63	22
2	2	11	5	4	3	7	2
		(4)	(7)	(5)	(1)	(6)	(1)
2		1		1		4	1
32	17	24	15	21	14	68	24
3	3	11	4	4	4	5	1
(1)		(5)		(1)	(2)	(20)	(3)
1		1		1		3	1
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

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
CAPITAL STOCK CLASS B PAR VALUE						
BALANCE, DECEMBER 31, 2001	$	$	$	$	$	$
Proceeds from sale of capital stock	439				421	
Redemption of capital stock	(937)				(648)	
Conversion to Class B shares	8,119				2,067	
Capital stock dividends	112					
BALANCE, DECEMBER 31, 2002	7,733				1,840	
Proceeds from sale of capital stock	3,782				2,727	
Redemption of capital stock	(3,240)				(2,225)	
Conversion to Class B shares	6,443					
Capital stock dividends	363					
BALANCE, DECEMBER 31, 2003	$15,081	$	$	$	$ 2,342	$
CAPITAL STOCK PAR VALUE						
BALANCE, DECEMBER 31, 2000	$30,537	$	$1,858	$3,626	$ 2,065	$3,506
Proceeds from sale of capital stock	9,236		200	843	3,364	1,307
Redemption of capital stock	(7,431)		(73)	(736)	(3,540)	(686)
Capital stock dividends	947					
BALANCE, DECEMBER 31, 2001	33,289		1,985	3,733	1,889	4,127
Proceeds from sale of capital stock	9,259		299	968	3,494	1,121
Redemption of capital stock	(7,633)		(6)	(650)	(3,316)	(751)
Conversion to Class B shares	(8,119)				(2,067)	
Capital stock dividends	658					
BALANCE, DECEMBER 31, 2002	27,454		2,278	4,051		4,497
Proceeds from sale of capital stock	7,950		504	1,508		2,284
Redemption of capital stock	(6,912)		(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
TOTAL CAPITAL STOCK PAR VALUE						
BALANCE, DECEMBER 31, 2000	$30,537	$	$1,858	$3,626	$ 2,065	$3,506
Proceeds from sale of capital stock	9,236		200	843	3,364	1,307
Redemption of capital stock	(7,431)		(73)	(736)	(3,540)	(686)
Capital stock dividends	947					
BALANCE, DECEMBER 31, 2001	33,289		1,985	3,733	1,889	4,127
Proceeds from sale of capital stock	9,698		299	968	3,915	1,121
Redemption of capital stock	(8,570)		(6)	(650)	(3,964)	(751)
Capital stock dividends	770					
BALANCE, DECEMBER 31, 2002	35,187		2,278	4,051	1,840	4,497
Proceeds from sale of capital stock	11,732		504	1,508	2,727	2,284
Redemption of capital stock	(10,152)		(354)	(1,921)	(2,225)	(1,860)
Capital stock dividends	935					
BALANCE, DECEMBER 31, 2003	$37,702	$	$2,428	$3,638	$ 2,342	$4,921

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$	$	$	$	$	$	$	$
							18
							(289)
3,508							2,544
40							72
3,548							2,345
12	116		633	205			89
(58)	(184)		(364)	(250)			(159)
	1,917		1,847	2,679			
143	69			27			124
$3,645	$1,918	$	$2,116	$2,661	$	$	$ 2,399
$2,789	$1,550	$1,631	$1,744	$2,127	$1,218	$6,268	$ 2,155
226	193	1,064	491	424	299	665	160
(16)	(2)	(422)	(696)	(491)	(121)	(568)	(80)
199		122		83		387	156
3,198	1,741	2,395	1,539	2,143	1,396	6,752	2,391
276	263	1,089	360	392	406	503	88
(82)	(48)	(505)	(41)	(133)	(171)	(1,922)	(8)
(3,508)							(2,544)
116		147		69		253	73
	1,956	3,126	1,858	2,471	1,631	5,586	
		1,365	409	279	178	1,423	
	(39)	(556)	(420)	(103)	(84)	(1,575)	
	(1,917)		(1,847)	(2,679)			
		220		32	15	305	
$	$	$4,155	$	$	$1,740	$5,739	$
$2,789	$1,550	$1,631	$1,744	$2,127	$1,218	$6,268	$ 2,155
226	193	1,064	491	424	299	665	160
(16)	(2)	(422)	(696)	(491)	(121)	(568)	(80)
199		122		83		387	156
3,198	1,741	2,395	1,539	2,143	1,396	6,752	2,391
276	263	1,089	360	392	406	503	106
(82)	(48)	(505)	(41)	(133)	(171)	(1,922)	(297)
156		147		69		253	145
3,548	1,956	3,126	1,858	2,471	1,631	5,586	2,345
12	116	1,365	1,042	484	178	1,423	89
(58)	(223)	(556)	(784)	(353)	(84)	(1,575)	(159)
143	69	220		59	15	305	124
$3,645	$1,918	$4,155	$2,116	$2,661	$1,740	$5,739	$ 2,399

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(Dollar amounts in millions)

	Combined	Combining Adjustment	Boston	New York	Pittsburgh	Atlanta
RETAINED EARNINGS						
BALANCE, DECEMBER 31, 2000	$ 729	$	$ 47	$ 121	$ 110	$ 143
Net income	2,154		113	285	95	298
Dividends on capital stock:						
Cash	(1,004)		(113)	(229)	(118)	(267)
Stock	(947)					
BALANCE, DECEMBER 31, 2001	932		47	177	87	174
Net income	1,799		76	234	48	280
Dividends on capital stock:						
Cash	(770)		(78)	(166)	(69)	(225)
Stock	(770)					
BALANCE, DECEMBER 31, 2002	1,191		45	245	66	229
Net income	1,640	(70)	92	46	28	160
Dividends on capital stock:						
Cash	(569)		(75)	(164)	(51)	(178)
Stock	(935)					
BALANCE, DECEMBER 31, 2003	$ 1,327	$(70)	$ 62	$ 127	$ 43	$ 211

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 53	$ 31	$ 70	$ 29	$ 39	$ 49	$ 24	$ 13
188	125	162	82	115	88	425	178
	(123)		(68)		(86)		
(199)		(122)		(83)		(387)	(156)
42	33	110	43	71	51	62	35
178	129	228	57	75	55	292	147
	(114)		(50)		(68)		
(156)		(147)		(69)		(253)	(145)
64	48	191	50	77	38	101	37
171	115	355	98	90	88	323	144
	(1)		(57)		(43)		
(143)	(69)	(220)		(59)	(15)	(305)	(124)
$ 92	$ 93	$ 326	$ 91	$108	$ 68	$ 119	$ 57

COMBINING SCHEDULES—STATEMENTS OF CAPITAL—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001, AND 2000

(Dollar amounts in millions)

	Combined	Combining Adjustment	Boston	New York	Pittsburgh	Atlanta
ACCUMULATED OTHER COMPREHENSIVE INCOME						
BALANCE, DECEMBER 31, 2000	$ (1)	$	$ 1	$	$ (1)	$
Net unrealized gains (losses) on available-for-sale securities	176		(12)		2	
Net unrealized losses relating to hedging activities	(215)					
Reclassification adjustment for losses (gains) included in net income relating to hedging activities	39		(2)			
Cumulative effect of change in accounting principle	(2)		14		1	
BALANCE, DECEMBER 31, 2001	(3)		1		2	
Net unrealized gains (losses) on available-for-sale securities	314		(21)		(7)	
Reclassification adjustment for losses included in net income relating to available-for-sale securities	2				2	
Net unrealized (losses) gains relating to hedging activities	(304)		(8)		(3)	
Reclassification adjustment for (gains) losses included in net income relating to hedging activities	(62)					
Other	(1)					
BALANCE, DECEMBER 31, 2002	(54)		(28)		(6)	
Net unrealized (losses) gains on available-for-sale securities	(112)		8		(1)	
Reclassification adjustment for (gains) losses included in net income relating to available-for-sale securities	(38)				5	
Net unrealized gains (losses) relating to hedging activities	422		(1)		(15)	
Reclassification adjustment for (gains) losses included in net income relating to hedging activities	(178)		3		5	
Other	(5)			(2)		
BALANCE, DECEMBER 31, 2003	$ 35	$	$(18)	$(2)	$(12)	$

	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
	$(1)	$	$	$	$	$	$	$
	1	(1)			186			
			(31)		(184)			
			29				12	
							(17)	
		(1)	(2)		2		(5)	
		(4)	8	(3)	341			
			102		(394)		(1)	
			(66)				4	
	(1)							
	(1)	(5)	42	(3)	(51)		(2)	
		4	37	3	(155)	(8)		
			(43)					
			268		178		(8)	
			(184)				(2)	
	(2)	(1)						
	$(3)	$ (2)	$120	$	$(28)	$(8)	$(12)	$

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL—(Continued) FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(Dollar amounts in millions)

	Combined	Combining Adjustment	Boston	New York	Pittsburgh	Atlanta
TOTAL CAPITAL						
BALANCE, DECEMBER 31, 2000	$31,265	$	$1,906	$3,747	$ 2,174	$3,649
Proceeds from sale of capital stock	9,236		200	843	3,364	1,307
Redemption of capital stock	(7,431)		(73)	(736)	(3,540)	(686)
Comprehensive income:						
Net income	2,154		113	285	95	298
Other comprehensive income:						
Net unrealized gains (losses) on available-for-sale securities	176		(12)		2	
Net unrealized losses relating to hedging activities	(215)					
Reclassification adjustment for losses (gains) included in net income relating to hedging activities	39		(2)			
Cumulative effect of change in accounting principle	(2)		14		1	
Total comprehensive income	2,152		113	285	98	298
Dividend on capital stock:						
Cash	(1,004)		(113)	(229)	(118)	(267)
BALANCE, DECEMBER 31, 2001	34,218		2,033	3,910	1,978	4,301
Proceeds from sale of capital stock	9,698		299	968	3,915	1,121
Redemption of capital stock	(8,570)		(6)	(650)	(3,964)	(751)
Comprehensive income:						
Net income	1,799		76	234	48	280
Other comprehensive income:						
Net unrealized gains (losses) on available-for-sale securities	314		(21)		(7)	
Reclassification adjustment for losses included in net income relating to available-for-sale securities	2				2	
Net unrealized (losses) gains relating to hedging activities	(304)		(8)		(3)	
Reclassification adjustment for (gains) losses included in net income relating to hedging activities	(62)					
Other	(1)					
Total comprehensive income	1,748		47	234	40	280
Dividend on capital stock:						
Cash	(770)		(78)	(166)	(69)	(225)
BALANCE, DECEMBER 31, 2002	36,324		2,295	4,296	1,900	4,726
Proceeds from sale of capital stock	11,732		504	1,508	2,727	2,284
Redemption of capital stock	(10,152)		(354)	(1,921)	(2,225)	(1,860)
Comprehensive income:						
Net income	1,640	(70)	92	46	28	160
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale securities	(112)		8		(1)	
Reclassification adjustment for (gains) losses included in net income relating to available-for-sale securities	(38)				5	
Net unrealized gains (losses) relating to hedging activities	422		(1)		(15)	
Reclassification adjustment for (gains) losses included in net income relating to hedging activities	(178)		3		5	
Other	(5)			(2)		
Total comprehensive income	1,729	(70)	102	44	22	160
Dividend on capital stock:						
Cash	(569)		(75)	(164)	(51)	(178)
BALANCE, DECEMBER 31, 2003	$39,064	$ (70)	$2,472	$3,763	$ 2,373	$5,132

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$2,841	$1,581	$1,701	$1,773	$2,166	$1,267	$6,292	$2,168
226	193	1,064	491	424	299	665	160
(16)	(2)	(422)	(696)	(491)	(121)	(568)	(80)
188	125	162	82	115	88	425	178
1	(1)			186			
		(31)		(184)			
		29				12	
						(17)	
189	124	160	82	117	88	420	178
	(123)		(68)		(86)		
3,240	1,773	2,503	1,582	2,216	1,447	6,809	2,426
276	263	1,089	360	392	406	503	106
(82)	(48)	(505)	(41)	(133)	(171)	(1,922)	(297)
178	129	228	57	75	55	292	147
	(4)	8	(3)	341			
		102		(394)		(1)	
		(66)				4	
(1)							
177	125	272	54	22	55	295	147
	(114)		(50)		(68)		
3,611	1,999	3,359	1,905	2,497	1,669	5,685	2,382
12	116	1,365	1,042	484	178	1,423	89
(58)	(223)	(556)	(784)	(353)	(84)	(1,575)	(159)
171	115	355	98	90	88	323	144
	4	37	3	(155)	(8)		
		(43)					
		268		178		(8)	
		(184)				(2)	
(2)	(1)						
169	118	433	101	113	80	313	144
	(1)		(57)		(43)		
$3,734	$2,009	$4,601	$2,207	$2,741	$1,800	$5,846	$2,456

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2003

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
OPERATING ACTIVITIES						
Net income	$ 1,640	$ (70)	$ 92	$ 46	$ 28	$ 160
Adjustments to reconcile 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 interest-rate exchange agreements	(1,050)		10	(38)	117	(1,280)
Concessions on consolidated obligation bonds	365		9	26	31	80
Net deferred losses on interest-rate exchange agreements	37					9
Premises and equipment	32		2	4	3	3
Other	(86)		1			
Provision for credit losses from sale of mortgage loans held for portfolio	3					(1)
Net realized losses (gains) from sale of held-to-maturity securities	158			189	(3)	
Net realized losses (gains) on available for sale securities	27		(4)		(4)	
Decrease (increase) in securities held at fair value	610	(131)	172		868	(1,431)
(Gains) losses due to change in net fair value adjustment on derivative and hedging activities	(836)		(18)	3	(92)	42
Decrease (increase) in accrued interest receivable	210	7	23	89	35	8
Decrease in derivative assets-net accrued interest	359		2	40	20	84
(Decrease) increase in derivative liabilities-net accrued interest	(17)		(24)	(11)	(15)	(46)
(Increase) decrease in other assets	(329)	(5)	(5)	(14)	(7)	(110)
Net (decrease) increase in Affordable Housing Program (AHP) liability and discount on AHP advances	(13)		1	(17)	(9)	(12)
(Decrease) increase in accrued interest payable	(434)	(7)	(37)	(113)	15	(83)
(Decrease) increase in payable to REFCORP	(9)			(14)	(1)	(1)
(Decrease) increase in other liabilities	(732)		(4)	38	3	(348)
Total adjustments	(1,705)	(136)	128	182	961	(3,086)
Net cash (used in) provided by operating activities	(65)	(206)	220	228	989	(2,926)
INVESTING ACTIVITIES						
Net decrease (increase) in interest-bearing deposits	7,116		565	5,995	(241)	1,818
Net (increase) decrease in securities purchased under agreements to resell	(1,181)		(461)			
Net decrease (increase) in Federal funds sold	10,017		342	1,789	(18)	(1,581)
Net decrease (increase) in short-term held-to maturity securities	1,174				(240)	
Proceeds from sales of long-term held-to-maturity securities	2,676			1,598	87	
Proceeds from maturities of long-term held-to-maturity securities	70,267	(670)	2,689	4,635	5,610	12,036
Purchases of long-term held-to-maturity securities	(74,131)	4,020	(2,695)	(4,816)	(5,900)	(13,186)
Proceeds from sales of available-for-sale securities	5,827		31		1,820	
Proceeds from maturities of available-for-sale securities	31,021		175		957	
Purchases of available-for-sale securities	(36,963)	97	(175)		(2,713)	
Principal collected on advances	5,694,911		542,650	845,456	1,249,544	89,057
Advances made	(5,726,034)		(542,045)	(841,200)	(1,255,454)	(97,083)
Principal collected on mortgage loans held for portfolio	37,826		1,267	633	3,515	181
Mortgage loans held for portfolio originated or purchased	(91,188)		(3,336)	(870)	(6,701)	(1,252)
Net (increase) decrease in deposits to other FHLBanks for mortgage loan programs		(42)		(1)	(2)	(2)
Net (increase) decrease in loans to other FHLBanks		(180)		(10)	190	
Net (increase) decrease in premises and equipment	(59)		(1)	(5)	(2)	(3)
Net cash (used in) provided by investing activities	(68,721)	3,225	(994)	13,204	(9,548)	(10,015)

	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
	$ 171	$ 115	$ 355	$ 98	$ 90	$ 88	$ 323	$ 144
	(14)	(26)	281	(143)	2	14	8	19
	20	24	20	31	39	24	44	17
	24		1	1			2	
	1	2	10	1	2	1	2	1
		(86)		(1)				
		1		3				
	(5)					(1)		(22)
			36	(1)				
	8	2	1,368	29	184	(83)	(384)	8
	(13)	(23)	(357)	(11)	(53)	(63)	(229)	(22)
	9	6	(41)	(32)	8		67	31
	4	19	22	35	64	51	18	
	10	(1)	(6)	77	4	(40)	28	7
	(4)	(3)	(50)	(38)	(39)	3	(40)	(17)
	5	(4)	18	5	2		3	(5)
	4	(6)	101	(43)	(88)	(17)	(187)	27
	(1)	(1)	1	1	4	3	2	(2)
	30	15	(506)	12		(4)	25	7
	78	(81)	898	(74)	129	(112)	(641)	49
	249	34	1,253	24	219	(24)	(318)	193
	(2,532)	(243)		213	218	(169)	1,547	(55)
	200		(15)	(305)			(700)	100
	4,195	(38)	(1,602)	4,551	488	49	634	1,208
			(94)	1,332		(91)	267	
	86		97			78		730
	8,330	4,615	2,651	2,633	3,622	4,691	10,884	8,541
	(8,673)	(4,796)	(2,182)	(857)	(4,504)	(5,478)	(11,545)	(13,519)
		325	3,600	51				
	29,403	23			463			
	(29,430)		(2,864)	(832)	(820)	(226)		
	1,090,073	37,923	24,399	49,699	870,729	299,087	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	16,696	3,532	658	115	641	4,512
	(7,688)	(4,779)	(38,326)	(13,955)	(239)	(600)	(6,832)	(6,610)
						1	46	
	(1)	(1)	(40)	4	(2)	(1)	(3)	(4)
	(6,350)	(2,598)	(23,920)	(3,264)	(3,973)	(2,907)	(16,769)	(4,812)

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS — (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2003

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
FINANCING ACTIVITIES						
Net (decrease) increase in deposits	$ (7,105)	$	$ (844)	$ (643)	$ (1,108)	$ (1,325)
Net decrease in deposits from other FHLBanks for mortgage loan programs		42				
Net increase (decrease) in securities sold under agreements to repurchase	1,001					1,000
Net (decrease) increase in loans from other FHLBanks		180	(190)		60	
Net decrease other borrowings	(525)					
Net proceeds from issuance of consolidated obligations:						
Discount notes	5,159,012		325,921	1,023,314	640,821	52,055
Bonds	564,263	(4,118)	24,331	44,535	39,662	103,715
Payments for maturing and retiring consolidated obligations:						
Discount notes	(5,140,486)		(327,578)	(1,028,535)	(639,691)	(47,916)
Bonds	(508,598)	877	(20,944)	(51,570)	(31,693)	(94,886)
Proceeds from issuance of capital stock	11,732		504	1,508	2,727	2,284
Payments for redemption of capital stock	(10,152)		(354)	(1,921)	(2,225)	(1,860)
Cash dividends paid	(575)		(77)	(164)	(42)	(191)
Net cash provided by (used in) financing activities	68,567	(3,019)	769	(13,476)	8,511	12,876
Net (decrease) increase in cash and cash equivalents	(219)		(5)	(44)	(48)	(65)
Cash and cash equivalents at beginning of the year	658		14	65	131	85
Cash and cash equivalents at end of the year	$ 439	$	$ 9	$ 21	$ 83	$ 20
Supplemental Disclosures:						
Interest paid	$ 16,242	$	$ 1,078	$ 2,254	$ 763	$ 1,740

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ (919)	$ (240)	$ (658)	$ (632)	$ (476)	$ (403)	$ 581	$ (438)
		(42)					
		(199)	200				
			(50)				
						(525)	
791,167	617,245	357,817	389,217	116,070	489,249	182,666	173,470
28,879	34,135	46,346	40,578	48,198	26,320	103,601	28,081
(787,323)	(620,654)	(351,679)	(391,485)	(117,312)	(487,832)	(163,220)	(177,261)
(25,663)	(27,813)	(29,727)	(34,835)	(42,859)	(24,453)	(105,855)	(19,177)
12	116	1,365	1,042	484	178	1,423	89
(58)	(223)	(556)	(784)	(353)	(84)	(1,575)	(159)
	(1)		(57)		(43)		
6,095	2,565	22,667	3,194	3,752	2,932	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	$ 978	$ 696	$ 2,131	$ 1,338

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2002

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
OPERATING ACTIVITIES						
Net income	$ 1,799	$	$ 76	$ 234	$ 48	$ 280
Adjustments to reconcile 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 interest-rate exchange agreements	(81)		(42)	162	63	42
Concessions on consolidated obligation bonds	311		7	24	24	60
Net deferred losses (gains) on interest-rate exchange agreements	6			(1)		2
Premises and equipment	27		2	2	3	2
Other	(3)					
Provision for credit losses on mortgage loans held for portfolio	6		1	1	1	
Net realized gains from sale of held-to-maturity securities	(1)					
(Increase) decrease in securities held at fair value	(1,332)	2	198		(56)	(1,012)
Losses (gains) due to change in net fair value adjustment on derivative and hedging activities	314		13	2	65	295
Net realized losses on disposal of premises and equipment	1					
Decrease (increase) in accrued interest receivable	18	(30)	4	1	7	(3)
Decrease (increase) in derivative assets-net accrued interest	484			71	(3)	(43)
Increase (decrease) in derivative liabilities-net accrued interest	104		7	18	41	147
(Increase) decrease in other assets	(235)			(31)	6	(36)
Net increase (decrease) in Affordable Housing Program (AHP) liability and discount on AHP advances	3		(5)	5	(14)	5
(Decrease) increase in accrued interest payable	(754)	30	(20)	(92)	(43)	(133)
(Decrease) increase in payable to REFCORP	(51)		2	(7)	(3)	(7)
Increase (decrease) in other liabilities	991		2	(12)	13	345
Total adjustments	(192)	2	169	143	104	(336)
Net cash provided by (used in) operating activities	1,607	2	245	377	152	(56)
INVESTING ACTIVITIES						
Net (increase) decrease in interest-bearing deposits	(4,558)		(590)	(1,734)	594	(1,243)
Net decrease (increase) decrease in securities purchased under agreements to resell	2,707		1,511			
Net decrease (increase) in Federal funds sold	1,713		1,012	(1,498)	145	4,148
Net decrease (increase) in short-term held-to maturity securities	1,232				249	100
Proceeds from sales of long-term held-to-maturity securities	77					
Proceeds from maturities of long-term held-to-maturity securities	49,817	(2,450)	1,607	3,471	4,757	9,959
Purchases of long-term held-to-maturity securities	(60,165)	1,000	(2,132)	(4,635)	(3,539)	(10,994)
Proceeds from sales of available-for-sale securities	219					
Proceeds from maturities of available-for-sale securities	58,033		120		451	
Purchases of available-for-sale securities	(62,492)		(124)		(1,733)	
Principal collected on advances	4,030,885		177,812	820,552	964,844	50,533
Advances made	(4,038,063)		(179,855)	(826,906)	(963,791)	(58,302)
Principal collected on mortgage loans held for portfolio	12,913		210	198	1,053	175
Mortgage loans held for portfolio originated or purchased	(45,735)		(2,373)	(209)	(4,076)	(351)
Net decrease (increase) in deposits to other FHLBanks for mortgage loan programs		49		1	2	
Principal collected on other loans	1		1			
Net (increase) decrease in loans to other FHLBanks		65			(190)	
Net increase in premises and equipment	(57)		(1)	(9)	(2)	(2)
Net cash (used in) provided by investing activities	(53,473)	(1,336)	(2,802)	(10,769)	(1,236)	(5,977)

	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
	$ 178	$ 129	$ 228	$ 57	$ 75	$ 55	$ 292	$ 147
	(65)	(41)	142	(178)	5	(14)	(117)	(38)
	13	32	12	22	34	17	45	21
			2	1			2	
	1	1	7	1	5		2	1
	(2)	(1)						
			2		1			
								(1)
	11	(7)	(297)	82	108	(344)	(5)	(12)
		(10)	(372)	84	(4)	121	59	61
			1					
	12		(68)	(10)	(25)	(11)	134	7
	(10)	3	9	203	82	39	120	13
	74	34	6	(91)	(3)	(6)	(112)	(11)
	(2)	21	(31)	(23)	(31)	(93)	3	(18)
	9	3	11	(7)	(7)	(3)	5	1
	(33)	(9)	(46)	(2)	(51)	(24)	(365)	34
	1		(1)	(3)	(6)	(1)	(23)	(3)
	14	8	546	3	28	47	(1)	(2)
	23	34	(77)	82	136	(272)	(253)	53
	201	163	151	139	211	(217)	39	200
	(607)	296		(359)	(354)	(218)	(347)	4
	(200)		(354)	4,000			(2,250)	
	(136)	2,067	(256)	(4,281)	(1,264)	(125)	2,377	(476)
			274	(1,241)	600	15	935	300
				33				44
	5,307	2,811	2,384	1,717	1,852	3,068	8,067	7,267
	(6,908)	(3,502)	(3,033)	(1,735)	(3,386)	(3,973)	(10,286)	(7,042)
		219						
	57,137	38			287			
	(56,296)	(592)	(1,344)	(493)	(1,910)			
	495,270	37,943	18,060	27,065	765,151	274,837	353,940	44,878
	(499,211)	(39,774)	(20,669)	(29,691)	(769,294)	(277,262)	(332,850)	(40,458)
	526	576	7,077	1,681	593	34	3	787
	(3,734)	(5,579)	(16,681)	(3,605)	(553)	(134)	(266)	(8,174)
					7	(1)	(58)	
	100						25	
	(3)	(2)	(21)		(2)	(10)	(4)	(1)
	(8,755)	(5,499)	(14,563)	(6,909)	(8,273)	(3,769)	19,286	(2,871)

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS—(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2002

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
FINANCING ACTIVITIES						
Net increase (decrease) in deposits	$ 1,850	$	$ (754)	$ (119)	$ 696	$ 911
Net increase in deposits from other FHLBanks for mortgage loan programs		(49)				
Net increase in securities sold under agreements to repurchase	300					
Net increase (decrease) in loans from other FHLBanks		(65)	190			
Net increase (decrease) other borrowings	774					
Net proceeds from issuance of consolidated obligations:						
Discount notes	4,135,261		238,921	533,020	581,039	3,007
Bonds	431,876	(1,328)	16,703	44,339	26,329	74,755
Payments for maturing and retiring consolidated obligations:						
Discount notes	(4,127,792)		(239,950)	(533,841)	(581,704)	(2,422)
Bonds	(390,410)	2,776	(12,761)	(33,107)	(25,071)	(70,346)
Proceeds from issuance of capital stock	9,698		299	968	3,915	1,121
Payments for redemption of capital stock	(8,570)		(6)	(650)	(3,964)	(751)
Cash dividends paid	(782)		(81)	(166)	(69)	(234)
Net cash provided by (used in) financing activities	52,205	1,334	2,561	10,444	1,171	6,041
Net increase (decrease) in cash and cash equivalents	339		4	52	87	8
Cash and cash equivalents at beginning of the year	319		10	13	44	77
Cash and cash equivalents at end of the year	$ 658	$	$ 14	$ 65	$ 131	$ 85
Supplemental Disclosures:						
Interest paid	$ 18,040	$	$ 1,279	$ 1,936	$ 928	$ 2,167

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 697	$ (91)	$ 1,239	$ (344)	$ 36	$ 178	$ (345)	$ (254)
		49					
			300				
					(125)		
		599				325	(150)
731,863	405,921	328,045	426,478	179,155	409,214	96,801	201,797
31,793	32,020	23,675	33,421	30,581	18,062	71,761	29,765
(730,997)	(401,482)	(322,520)	(426,025)	(172,880)	(407,306)	(105,551)	(203,114)
(24,993)	(31,120)	(17,257)	(27,290)	(28,970)	(16,206)	(80,890)	(25,175)
276	263	1,089	360	392	406	503	106
(82)	(48)	(505)	(41)	(133)	(171)	(1,922)	(297)
	(114)		(50)		(68)		
8,557	5,349	14,414	6,809	8,181	3,984	(19,318)	2,678
3	13	2	39	119	(2)	7	7
10	37	2	64	47	2	2	11
$ 13	$ 50	$ 4	$ 103	$ 166	$	$ 9	$ 18
$ 1,589	$ 859	$ 1,637	$ 1,053	$ 1,094	$ 852	$ 3,258	$ 1,388

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
OPERATING ACTIVITIES						
Net income	$ 2,154	$	$ 113	$ 285	$ 95	$ 298
Cumulative effect of change in accounting principle	30		3	(3)	9	16
Income before cumulative effect of change in accounting principle	2,184		116	282	104	314
Adjustments to reconcile income before cumulative effect of change in accounting principle to net cash (used in) provided by operating activities:						
Depreciation and amortization:						
Net premiums and discounts on consolidated obligations, investments, mortgage loans, and deferred costs and fees received on interest-rate exchange agreements	(1,327)		(114)	58	(27)	11
Concessions on consolidated obligation bonds	225		4	8	12	53
Net deferred losses (gains) on interest-rate exchange agreements	11					2
Premises and equipment	23		2	2	3	2
Other	(3)					
Provision for credit losses on mortgage loans held for portfolio	4					1
Net realized gains from sale of held-to-maturity securities	(3)			(3)		
(Increase) decrease in securities held at fair value, net of transfers and transition adjustments	(2,279)	(140)	343		(2,086)	(37)
(Gains) losses due to change in net fair value adjustment on derivative and hedging activities	(357)		7	1	47	(28)
Decrease in accrued interest receivable	8,294	11	321	229	830	1,263
(Increase) decrease in derivative assets-net accrued interest	(893)		(26)	168	(47)	(131)
(Decrease) increase in derivative liabilities-net accrued interest	(297)		(46)	8	(50)	(146)
(Increase) decrease in other assets	(183)		(2)	(18)	(3)	(25)
Net increase (decrease) in Affordable Housing Program (AHP) liability and discount on AHP advances	83		3	16	(4)	12
Decrease in accrued interest payable	(6,274)	(11)	(171)	(48)	(605)	(1,174)
Increase (decrease) in payable to REFCORP	15		(6)	2	(4)	
Increase (decrease) in other liabilities	67		(6)	10	10	28
Total adjustments	(2,894)	(140)	309	433	(1,924)	(169)
Net cash (used in) provided by operating activities	(710)	(140)	425	715	(1,820)	145
INVESTING ACTIVITIES						
Net (increase) decrease in interest-bearing deposits	(1,038)		25	2,105	(19)	(565)
Net (increase) decrease in securities purchased under agreements to resell	(6,534)		(1,450)			
Net decrease (increase) in Federal funds sold	6,869		3,322	1,594	4,340	(1,419)
Net decrease (increase) in short-term held-to maturity securities	3,097		1,539		197	100
Proceeds from sales of long-term held-to-maturity securities	6,832			80		5,343
Proceeds from maturities of long-term held-to-maturity securities	30,515	(2,400)	1,298	2,863	3,093	
Purchases of long-term held-to-maturity securities	(42,364)	2,300	(1,989)	(3,432)	(1,500)	(7,158)
Proceeds from sales of available-for-sale securities	124		124			
Proceeds from maturities of available-for-sale securities	60,266	(204)	1		251	
Purchases of available-for-sale securities	(58,748)	28	(338)			
Principal collected on advances	3,732,858		474,620	1,032,747	570,136	65,399
Advances made	(3,758,305)		(476,967)	(1,040,022)	(572,669)	(76,572)
Principal collected on mortgage loans held for portfolio	7,881		16	317	964	159
Mortgage loans held for portfolio originated or purchased	(19,419)		(330)	(215)	(886)	(245)
Net decrease (increase) in deposits to other FHLBanks for mortgage loan programs		(16)		1	23	
Principal collected on other loans	1		1			
Net increase in loans to other FHLBanks		125				
Net (increase) decrease in premises and equipment	(28)		(5)	1		(1)
Net cash (used in) provided by investing activities	(37,993)	(167)	(133)	(3,961)	3,930	(14,959)

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 188	$ 125	$ 162	$ 82	$ 115	$ 88	$ 425	$ 178
1	4	(1)	(1)	1	(4)	2	3
189	129	161	81	116	84	427	181
(428)	(24)	44	(180)	(23)	(37)	(423)	(184)
7	21	6	14	19	19	50	12
		(2)	1			10	
1	1	5	1	4		2	
(1)	(2)						
		2	1				
17	(3)	6	56	185	113	(521)	(212)
(1)	3	(291)	(48)	(20)	18	(46)	1
256	442	336	629	627	289	2,718	343
(21)	(25)	(27)	(258)	(163)	(108)	(231)	(24)
(44)	2	(29)	(29)	(57)	(31)	144	(19)
(4)	(16)	2	(1)	(114)		(3)	1
14	6	5	(1)	3	2	17	10
(6)	(400)	(217)	(135)	(365)	(132)	(2,808)	(202)
(1)	(1)	9	(1)		(1)	12	6
5		(49)	(8)	103	5	3	(34)
(206)	4	(200)	41	199	137	(1,076)	(302)
(17)	133	(39)	122	315	221	(649)	(121)
155	(296)		135		(869)	(1,789)	80
	45	(4)	(3,200)			(1,750)	(175)
(3,065)	(686)	(768)	2,485	424	(102)	(69)	813
		(49)	(61)	(579)	(27)	1,593	384
				1,359	40		10
4,067	1,601	1,983	2,176		1,800	4,771	9,263
(4,581)	(1,755)	(3,239)	(1,054)	(1,525)	(2,142)	(7,243)	(9,046)
59,286	628			279	25		
(57,837)	(274)		(223)	(104)			
357,375	68,662	23,060	50,903	471,382	237,538	343,438	37,598
(359,721)	(70,246)	(26,017)	(50,163)	(473,534)	(242,188)	(334,746)	(35,460)
25	13	3,903	1,619	675	6		184
(561)	(371)	(12,406)	(2,074)	(736)	(100)		(1,495)
				(8)			
(100)						(25)	
	(1)	(12)	(1)	(3)	(1)	(3)	(2)
(4,957)	(2,680)	(13,549)	542	(2,370)	(6,020)	4,177	2,154

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS—(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2001

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
FINANCING ACTIVITIES						
Net increase (decrease) in deposits	$ 8,594	$ (1)	$ 1,229	$ 700	$ 273	$ 1,715
Net decrease in deposits from other FHLBanks for mortgage loan programs		17				
Net increase in loans from other FHLBanks		(125)				
Net increase other borrowings	1,150					
Net proceeds from issuance of consolidated obligations:						
Discount notes	4,663,947		183,082	737,921	717,361	50,785
Bonds	415,459	(2,328)	14,453	31,219	15,764	84,614
Payments for maturing and retiring consolidated obligations:						
Discount notes	(4,683,255)		(188,501)	(743,621)	(707,992)	(56,023)
Bonds	(368,411)	2,744	(10,554)	(22,863)	(27,619)	(66,600)
Proceeds from issuance of capital stock	9,236		200	843	3,364	1,307
Payments for redemption of capital stock	(7,431)		(73)	(736)	(3,540)	(686)
Cash dividends paid	(1,019)		(128)	(229)	(118)	(267)
Net cash provided by (used in) financing activities	38,270	307	(292)	3,234	(2,507)	14,845
Net (decrease) increase in cash and cash equivalents	(433)			(12)	(397)	31
Cash and cash equivalents at beginning of the year	752		10	25	441	46
Cash and cash equivalents at end of the year	$ 319	$	$ 10	$ 13	$ 44	$ 77
Supplemental Disclosures:						
Interest paid	$ 30,043	$	$ 1,861	$ 3,590	$ 2,088	$ 4,132

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 499	$ 787	$ (233)	$ 843	$ 1,049	$ 296	$ 375	$ 1,062
		(17)					
					125		
		800				200	150
1,035,803	422,821	377,412	152,059	229,438	287,557	196,443	273,265
18,476	18,792	47,661	21,535	33,749	17,601	92,898	21,025
(1,037,760)	(419,431)	(373,377)	(152,721)	(230,441)	(286,378)	(206,940)	(280,070)
(12,256)	(20,489)	(39,302)	(22,115)	(31,721)	(13,493)	(86,604)	(17,539)
226	193	1,064	491	424	299	665	160
(16)	(2)	(422)	(696)	(491)	(121)	(568)	(80)
	(123)		(68)		(86)		
4,972	2,548	13,586	(672)	2,007	5,800	(3,531)	(2,027)
(2)	1	(2)	(8)	(48)	1	(3)	6
12	36	4	72	95	1	5	5
$ 10	$ 37	$ 2	$ 64	$ 47	$ 2	$ 2	$ 11
$ 1,482	$ 1,153	$ 1,742	$ 1,659	$ 1,719	$ 1,299	$ 7,175	$ 2,143

FEDERAL HOME LOAN BANKS

INDEX TO SUPPLEMENTAL INFORMATION

ADDITIONAL REGULATORY INFORMATION ON BUSINESS

The additional business overview is included to provide a summary of certain regulatory policies and rules that the FHLBanks operate within relating to the major balance sheet categories of advances, investments, acquired member asset programs mortgage loans held for portfolio, debt financing-consolidated obligations and deposits.

Advances

Each FHLBank develops its advances program to meet the particular needs of its members, as authorized in the FHLBank Act and regulations established by the Finance Board.

Prepayment Fees. The FHLBanks price advances based on the FHLBanks' marginal cost of raising matching-maturity funds and related administrative and operating costs. Advances with a maturity or repricing period greater than six months generally require a fee sufficient to make the FHLBanks financially indifferent should the borrower decide to prepay the advance.

Collateral. On June 29, 2000, the Finance Board adopted a final rule that implemented the collateral provisions of the Gramm-Leach-Bliley Act (GLB Act).

The FHLBank Act, as amended, requires each FHLBank, at the time it originates or renews an advance, to obtain and maintain a security interest in collateral eligible in one or more of the following categories:

- fully disbursed, whole first mortgages on improved residential property (not more than 90 days delinquent) or securities representing a whole interest in such mortgages;
- securities issued, insured, or guaranteed by the U.S. Government or any of its agencies (including, without limitation, mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac, or the Government National Mortgage Association (Ginnie Mae));
- cash or deposits in an FHLBank;
- other real estate-related collateral acceptable to the FHLBank, provided such collateral has a readily ascertainable value and the FHLBank can perfect a security interest in such property; or
- in the case of any "community financial institution," which is an FDIC-insured institution with assets of $538 million or less for 2003 and $548 million or less for 2004, secured loans for small business, agriculture, or securities representing a whole interest in such secured loans.

Each FHLBank retains the right to require additional collateral at any time (whether or not such additional collateral would be eligible to originate an advance) or substitutions of collateral by the borrower. As additional security for a member's indebtedness, an FHLBank has a statutory lien upon that member's FHLBank stock.

The FHLBank Act affords any security interest granted to an FHLBank by any member of an FHLBank or any affiliate of any such member priority over the claims and rights of any party (including any receiver, conservator, trustee, or similar party having rights of a lien creditor) other than claims and rights that would be entitled to priority under otherwise applicable law and are held by actual bona fide purchasers for value or by parties that are secured by actual perfected security interests.

Residential mortgage loans are the principal form of collateral for advances. The FHLBanks perfect the security interests granted to it if the financial condition of a particular borrower so warrants. In addition, the FHLBanks must take any steps necessary to ensure that the security interest in all collateral pledged by non-depository institutions for an advance is as secure as the security interest in collateral pledged by depository institutions.

No FHLBank has ever experienced a credit loss on an advance. The management of each FHLBank believes it has the policies and procedures in place to manage appropriately the credit risk associated with advances.

Letters of Credit. The FHLBanks also issue letters of credit for members. Members must collateralize letters of credit.

Housing Associates. The FHLBank Act permits the FHLBanks to make advances to non-members that are approved mortgagees under Title II of the National Housing Act. Eligible housing associates must also be chartered under law and have succession, be subject to inspection and supervision by some governmental agency, and lend their own funds as their principal activity in the mortgage field. Housing associates are not subject to certain provisions applicable to members in the FHLBank Act. For example, they do not purchase capital stock in an FHLBank. However, the same regulatory lending requirements generally apply to them as apply to members.

Commitments for Advances. An FHLBank may make commitments for advances to a member covering a predefined period. This program aids members and the FHLBanks in their cash-flow planning and enables members to reduce their funding risk.

Investments

FHLBank Statutory Investment Authority. Subject to such regulations, restrictions, and limitations as the Finance Board may impose, the FHLBanks are authorized by statute to hold the following investments in its portfolios:

- obligations of the U.S.;
- deposits in banks or trust companies;
- obligations, participations, or other instruments of or issued by Fannie Mae or Ginnie Mae;
- mortgages, obligations, or other securities that are, or ever have been, sold by Freddie Mac pursuant to 12 U.S.C. §§ 1454 or 1455;
- stock, obligations, or other securities of any small business investment company (SBIC) formed pursuant to 15 U.S.C. § 681(d) (when made for the purpose of aiding FHLBank members); and
- such securities as fiduciary and trust funds may be invested in under the laws of the State in which the FHLBank is located.

Investment Regulation. On July 17, 2000, a new Finance Board regulation governing FHLBank investments became effective. Unlike the Financial Management Policy, which provides a finite list of specific investments that the FHLBanks are permitted to make, the new regulation generally permits the FHLBanks to make any of the investments that are authorized under the FHLBank Act. However, the new regulation sets forth several specific limitations on this general authority, which prohibit the FHLBanks from investing in:

- instruments, such as common stock, that represent an ownership interest in an entity, other than stock in SBICs, or certain investments targeted to low-income persons or communities;
- instruments issued by non-U.S. entities, other than those issued by U.S. branches and agency offices of foreign commercial banks, such as Federal funds;
- non-investment-grade debt instruments, other than certain investments targeted to low-income persons or communities and instruments that were downgraded after purchase by the FHLBank;
- whole mortgages or other whole loans, other than: those acquired under the FHLBanks' Acquired Member Asset programs; certain investments targeted to low-income persons or communities; certain marketable direct obligations of State, local, or tribal government units

or agencies, having at least the second highest credit rating from a nationally-recognized statistical rating organization (NRSRO); mortgage-backed securities (MBS) or asset-backed securities backed by manufactured housing loans or home equity loans; and certain foreign housing loans authorized under section 12(b) of the FHLBank Act (which are no longer made, but which the FHLBanks may still hold in their portfolios).

Under the new investment regulation, all requirements and restrictions regarding specific investments that are set forth in the Financial Management Policy (for example, maturity limits, investment grade requirements and certain limitations on MBS) remain in effect. In addition, the new regulation requires that an FHLBank provide notice to the Finance Board before undertaking any investment of a type that the FHLBank has not previously made, or that involves risks not previously and regularly managed by the FHLBank.

Financial Management Policy. Until July 17, 2000, the Finance Board's Financial Management Policy regulated and primarily limited the FHLBanks' statutory investment authority. The Financial Management Policy contains a list of specific investments, falling within the parameters of the investment authority set forth in the FHLBank Act, that FHLBanks were permitted to hold in their portfolios. To the extent specifically authorized under the Act, or to the extent an FHLBank determined that they are securities that a fiduciary or trust fund may purchase under the laws of the State in which the FHLBank is located, these permissible investments were as follows:

- overnight and term fund placements, having maturities not exceeding 271 days, with eligible financial institutions;
- overnight and term resale agreements, having maturities not exceeding 271 days, with eligible counterparties, using for collateral securities that are eligible investments under the investment guidelines and FHA-insured and VA-guaranteed mortgages;
- deposits, having a term to maturity of not more than 271 days, placed with eligible financial institutions;
- commercial paper, having a term to maturity of not more than 271 days, issued in the domestic market by financial companies rated P-1 by Moody's or A-1 by Standard & Poor's;
- bankers' acceptances, having a term to maturity of not more than 271 days, drawn on and accepted by eligible financial institutions;
- marketable direct obligations of the U.S.;
- marketable direct obligations of U.S. government-sponsored agencies and instrumentalities (including consolidated obligations of other FHLBanks) for which such institutions have pledged their credit for repayment of both principal and interest;
- securities representing an interest in pools of mortgages issued, guaranteed, or fully insured by Ginnie Mae, Freddie Mac, or Fannie Mae, and collateralized mortgage obligations (CMOs), including real estate mortgage investment conduits (REMICs), backed by mortgage securities issued, guaranteed, or fully insured by Ginnie Mae, Freddie Mac, or Fannie Mae;
- non-federal agency mortgage-backed securities rated Aaa by Moody's or AAA by Standard & Poor's;
- asset-backed securities collateralized by manufactured housing loans or home equity loans rated Aaa by Moody's or AAA by Standard & Poor's;
- marketable direct obligations of State or local governments or agencies, rated at least Aa by Moody's or AA by Standard & Poor's, where the purchase of such obligations by an FHLBank provides the issuer the customized terms, necessary liquidity, or favorable pricing required to generate needed funding for housing or community development; and

- other investments that support housing and community development, if, before entering such investments, the FHLBank:
    - ensures the appropriate levels of expertise, establishes policies, procedures, and controls, and provides for any reserves required to limit and manage risk exposure and preserves the triple-A credit rating on consolidated obligations;
    - ensures its involvement in such investment activity helps in providing housing and community development financing that is not generally available, or that is available at lower levels or under less attractive terms;
    - ensures that such investment activity promotes (or at the very least, does not detract from) the cooperative nature of the FHLBanks;
    - provides a complete description of the contemplated investment activity to the Finance Board; and
    - receives written confirmation from the Finance Board, before entering such investments, that the FHLBank has met the eligibility standards and requirements.

The Financial Management Policy further limits FHLBank investment in MBS and asset-backed securities. This provision requires that the total book value of MBS owned by an FHLBank not exceed 300 percent of the FHLBank's previous month end capital on the day it purchases the securities. In addition, the FHLBanks are prohibited from purchasing:

- interest-only or principal-only stripped MBS;
- residual-interest or interest-accrual classes of CMOs and REMICs;
- fixed-rate MBS or floating-rate MBS that on the trade date are at rates equal to their contractual cap and that have average lives that vary more than 6 years under an assumed instantaneous interest rate change of 300 basis points; and
- non-U.S. dollar denominated securities.

Acquired Member Asset Programs—Mortgage Loans Held for Portfolio

Each FHLBank has established a member mortgage asset purchase program as a service to its members. The programs involve the investment by the FHLBank in loans created by members. The Finance Board authorized the FHLBanks to hold acquired member assets, under the Mortgage Partnership Finance® (MPF®) program and the Mortgage Purchase Program (MPP). Neither the member credit enhancements nor loans are rated. An FHLBank must hold risk-based capital against acquired member assets or pools of assets that have an implied credit rating less than double-A.

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

Debt Financing—Consolidated Obligations

The primary source of funds for the FHLBanks is the sale of debt securities, known as consolidated obligations, in the capital markets. Consolidated obligations are the joint and several obligations of the FHLBanks, backed only by the financial resources of the 12 FHLBanks. Consolidated obligations are not obligations of the United States and the United States does not guarantee them.

The Finance Board adopted final rules on June 2, 2000, to govern the issuance of debt on behalf of the FHLBanks and related activities. Through December 31, 2000, the Finance Board issued consolidated obligations, on which the FHLBanks are jointly and severally liable, through the Office of Finance as agent for the Finance Board under the authority of section 11(c) of the FHLBank Act. The final rule authorizes the FHLBanks to issue consolidated obligations, through the Office of Finance as their agent under the authority of section 11(a) of the FHLBank Act. All of the FHLBanks will continue to be jointly and severally liable for the consolidated obligations issued under section 11(a). No FHLBank will be permitted to issue individual debt under section 11(a) without Finance Board approval. The final rule represents a technical change in the issuer of FHLBank debt. The change ends the anomaly of having the Finance Board, the safety-and-soundness regulator, issue the debt of the entities it regulates. The FHLBanks started to issue debt through the Office of Finance on January 2, 2001.

Leverage Limits. In conjunction with the final rule transferring the debt-issuance function to the FHLBanks, the Finance Board adopted a final rule amending the FHLBanks' leverage limit requirements. Each FHLBank's leverage limit is based on a ratio of assets to capital. The final rule generally limits each FHLBank's assets to no more than 21 times capital. However, an FHLBank may have total assets in an amount no greater than 25 times capital as long as its non-mortgage assets, after deducting deposits and capital, do not exceed 11 percent of its assets. (See "Business-Capital, Capital Rules and Dividends" for a description of the capital rules which apply to an FHLBank that has implemented its new capital plan.)

In addition to the Finance Board leverage limits, the FHLBanks must maintain the following types of assets free from any lien or pledge in an amount at least equal to the amount of consolidated obligations outstanding:

- cash;
- obligations of, or fully guaranteed by, the United States;
- secured advances;
- mortgages, which have any guaranty, insurance, or commitment from the United States or any agency of the United States;
- investments described in Section 16(a) of the FHLBank Act, which, among other items, includes securities that a fiduciary or trust fund may purchase under the laws of the State in which the FHLBank is located; and
- other securities that have been assigned a rating or assessment by an NRSRO that is equivalent to or higher than the rating or assessment assigned by that NRSRO to the consolidated obligations.

The Office of Finance, a joint office of the FHLBanks, has responsibility for facilitating and executing the issuance of the consolidated obligations. It also services all outstanding debt, provides the FHLBanks with credit information for counterparties for which they have unsecured credit exposure, serves as a source of information for the FHLBanks on capital market developments, and administers REFCORP and the Financing Corporation (FICO), and manages the FHLBanks' relationship with the rating agencies as it relates to the consolidated obligations.

With prior Finance Board approval, an FHLBank may issue its own obligations. However, as of the date of this Report, the Finance Board has not granted such approval, and no individual FHLBank obligations are outstanding.

Consolidated Bonds. FHLBank consolidated bonds satisfy term funding requirements. Typically, the maturity of these securities ranges from 1 year to 10 years, but their maturity is not subject to any statutory or regulatory limit. Consolidated bonds can be issued and distributed through negotiated or competitively bid transactions with approved underwriters or selling group members.

The FHLBanks also have the TAP issue program for fixed-rate, non-callable (bullet) bonds. This program uses specific maturities that may be reopened daily during a three-month period through competitive auctions. The goal of the TAP program is to aggregate frequent smaller issues into a larger bond issue that may have greater market liquidity.

Consolidated Discount Notes. The Office of Finance also sells consolidated discount notes to provide short-term funds for advances to members for seasonal and cyclical fluctuations in savings flows and mortgage financing, short-term investments, and variable-rate and putable or convertible advance programs. These securities have maturities up to 360 days, and are offered daily through a 16-member consolidated discount-note selling group. Discount notes are sold at a discount and mature at par. Daily discount note issuances have increased significantly since 1993 with the advent of discount notes with original maturities less than 30 days.

Deposits

The FHLBank Act allows the FHLBanks to accept deposits from its members, from any institution for which it is providing correspondent services, from other FHLBanks, or from other U.S. government instrumentalities. Deposit programs provide some of the FHLBanks' funding resources, while also giving members a low-risk earning asset that satisfies their regulatory liquidity requirements. The FHLBanks offer several types of deposit programs to its members including demand, overnight, and term deposits.

Liquidity Requirements. To support its member deposits, the FHLBank Act requires each FHLBank to have an amount equal to the current deposits invested in obligations of the U.S., deposits in eligible banks or trust companies, or advances with a maturity not exceeding five years. In addition, the liquidity guidelines in the Finance Board's Financial Management Policy require each FHLBank to maintain a daily average liquidity level each month in an amount not less than the sum of:

- 20 percent of the sum of its daily average demand and overnight deposits and other overnight borrowings, and
- 10 percent of the sum of its daily average term deposits, consolidated obligations, and other borrowings that mature within one year.

Assets eligible for meeting these liquidity requirements include:

- overnight funds and overnight deposits placed with eligible financial institutions;
- overnight and term resale agreements with eligible counterparties, which mature in 271 days or less, using for collateral securities that are eligible investments under the investment guidelines, and FHA-insured and VA-guaranteed mortgages;
- negotiable certificates of deposit placed with eligible financial institutions, bankers' acceptances drawn on and accepted by eligible financial institutions, and commercial paper issued in U.S. financial markets and rated P-1 by Moody's or A-1 by Standard & Poor's, all having a remaining term to maturity of not more than 271 days;
- marketable direct obligations of the U.S. that mature in 36 months or less;
- marketable direct obligations of U.S. government-sponsored agencies and instrumentalities that mature in 36 months or less for which the credit of such institution is pledged for repayment of both principal and interest; and
- cash and collected balances held at a Federal Reserve Bank and other eligible financial institutions, net of member pass-throughs.

A security pledged under a repurchase agreement cannot satisfy liquidity requirements.

Other Non-Regulatory Information

Certain securities dealers and banks and their affiliates engage in transactions with and perform services for the FHLBanks, including the purchase and sale of investment securities.

In connection with the sale of any particular issue of consolidated obligations, the FHLBank(s) receiving the proceeds may enter into interest-rate exchange agreements or other transactions with or arranged by the applicable securities dealer, bank, or affiliate, or an unaffiliated third party.

FHLBANKS' REGULATOR

The FHLBanks are supervised and regulated by the Finance Board, which is an independent agency in the executive branch of the U. S. government. The Finance Board ensures that the FHLBanks carry out their housing and community development finance mission, remain adequately capitalized and able to raise funds in the capital markets, and operate in a safe and sound manner. Also, the Finance Board establishes regulations governing the operations of the FHLBanks. The Finance Board is comprised of a five-member board. Four board members are appointed by the President, 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 the Secretary's designee. The Finance Board is supported 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.

Members of the board of directors of the Finance Board hold office for terms of seven years. The President designates one of the four appointed directors to serve as chairman of the Finance Board. Each of the four appointed directors must have experience or training in housing finance or a commitment to providing specialized housing credit. Not more than three directors may be members of the same political party. At least one director must come from an organization with more than a two-year history of representing consumer or community interests in banking services, credit needs, housing, or financial consumer protections. The directors serve on a full-time basis.

At December 31, 2003, the directors of the Finance Board were chairman John T. Korsmo, Alphonso Jackson, Acting Secretary of HUD (HUD secretary designee: John C. Weicher), Alicia R. Castaneda, Franz S. Leichter and Allan I. Mendelowitz.

FHLBANK MANAGEMENT AND COMPENSATION

FHLBank Directors. The following persons served as chair and vice chair of the FHLBanks during 2003 or are serving in 2004:

Robert F. Verdonck, 57, was elected chair of the FHLBank of Boston effective January 1, 2004. He is president and chief executive officer of East Boston Savings Bank, located in Peabody, Massachusetts. He also serves as chairman, president and chief executive officer of Meridian Financial Services, Inc.; independent trustee of John Hancock Variable Series Trust; director of SBLI Massachusetts; and director of Depositors Insurance Fund.

William P. Morrissey, 77, served as chair of the FHLBank of Boston in 2003. He is also senior vice president of Central Bank, headquartered in Somerville, Massachusetts. He is a member of the Federal Liaison Committee of the Massachusetts Bankers Association and vice president and director of McLaughlin House in Charlestown, a transitional housing program for women in recovery. He formerly served as executive vice president at Boston Five Cents Savings Bank, vice president of Atlantic Savings Bank and deputy commissioner of banking for the Commonwealth of Massachusetts.

Jay F. Malcynsky, 49, was elected vice chair of the FHLBank of Boston effective January 1, 2004. He is a co-founder and managing partner of Gaffney, Bennett and Associates, a New Britain, Connecticut-based corporation specializing in government relations and political consulting. In addition to managing that company's daily operations, Mr. Malcynsky has been operating his own law office in New Britain since 1996.

Louis C. D'Allesandro, 65, served as vice chair of the FHLBank of Boston in 2003. He is a three-term Senator of the New Hampshire State Senate, located in Concord, New Hampshire, and chairs the Ways and Means Committee. He previously served three terms as a New Hampshire Executive Councilor and two terms in the New Hampshire House of Representatives.

Atwood ("Woody") Collins III, 57, is chair of the FHLBank of New York. Mr. Collins holds the position of executive vice president of M&T Bank Corporation and president and chief operating officer of its Mid-Atlantic Division. In 2002, Mr. Collins relocated from Darien, Connecticut to Baltimore in conjunction with M&T's acquisition of the $17 billion Allfirst Financial. He has been an executive vice president of M&T Bank since 1988 and has served as president of a number of its divisions in New York. Prior to joining M&T, he was a senior vice president of J.P. Morgan & Company. He held a number of positions in the U.S. and overseas in Brussels, Belgium.

George L. Engelke, Jr., 65, is vice chair of the FHLBank of New York. Mr. Engelke is 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, chair 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 on the Federal Reserve Bank of New York's Thrift Institutions Advisory Panel. Mr. Engelke is a past chair and current member of the board of directors and Executive/Finance Committee of the Community Bankers Association of New York State 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 Advisory Council.

Marvin N. Schoenhals, 57, was elected chair of the FHLBank of Pittsburgh effective January 1, 2004. Mr. Schoenhals joined the board of directors in 1997 and served as vice chair in 2002. He is chairman and president of WSFS Financial Corporation and Wilmington Savings Fund Society, FSB, in Wilmington, Delaware. Active in trade and community affairs, Mr. Schoenhals is chairman of the Delaware State Chamber of Commerce, the Delaware Public Policy Institute and the Sunday Breakfast Mission. He is a director of Wilmington Renaissance Corporation. He is a past member of the board of directors of the Wilmington Housing Partnership, the Delaware Family Foundation and United Way of Delaware. He is a former mayor of Owosso, Michigan.

John T. Connelly, 68, was chair of the FHLBank of Pittsburgh from 2002 through 2003. Mr. Connelly also served as vice chair from 1998 to 2001. He has been in banking for 40 years, most recently with the First National Bank of Leesport, Leesport, Pennsylvania (now the Leesport Bank), where he was president and chief executive officer from 1976 until 1998, when he became chairman of the board. A graduate of Williams College, he is a past president of the Pennsylvania Bankers Association and is active in many civic organizations in Berks County, Pennsylvania.

Rev. Luis Antonio Cortés Jr., age 46, was elected vice chair of the FHLBank of Pittsburgh effective January 1, 2004. Rev. Cortés joined the board of directors in 2002. He is founder and president of Nueva Esperanza, Inc. in Philadelphia, Pennsylvania. Rev. Cortés has played a major role in the economic development of Hispanic communities in Philadelphia and beyond. Ordained as an American Baptist minister, he founded the Hispanic Clergy of Philadelphia, an ecumenical Latino faith network in 1982. He has served on the economic development committees of Eastern University in Pennsylvania, North Park University in Illinois and Southern New Hampshire

University. He also served as a board member of Regional Housing Legal Services and the Pennsylvania Minority Business Development Board.

Michael L. Middleton, 56, was elected chair of the FHLBank of Atlanta in December 2003 and served as the vice chair during 2003. Mr. Middleton joined the board of directors of the FHLBank of Atlanta in 1996. He is president and chairman of Tri-County Financial Corporation and its banking subsidiary, Community Bank of Tri-County, Waldorf, MD. Mr. Middleton joined the bank in 1973 and assumed the Office of President in 1979. Previously, he was employed by KPMG-Peat Marwick, Baltimore, MD. Mr. Middleton graduated from Bellarmine College, Louisville, KY, with a bachelor's degree in accounting and was awarded a master's of business administration with a concentration in finance from the University of Maryland. His professional accreditation includes a Certificate of Public Accounting and the Program for Negotiation for Senior Executives at Harvard University. Mr. Middleton is a past chairman of the Maryland League of Financial Institutions and is active in the Maryland Bankers Association. In addition to his role with the FHLBank of Atlanta, Mr. Middleton is currently a board representative to the Council of Federal Home Loan Banks.

J. Edward Norris, III, 53, was chair of the FHLBank of Atlanta during 2003. Mr. Norris joined the board of directors in 1996. He serves as president and chief executive officer of Plantation Federal Bank, Inc., in Pawleys Island, S.C. Mr. Norris has served as Chairman of the Community Financial Institutions of S.C. (CFISC) and is a Board member of the South Carolina Bankers Association (SCBA). A graduate of Clemson University, Mr. Norris presently serves on the Board of Directors of the America's Community Bankers (ACB) and chairs the ACB's Governmental Affairs Committee. He serves on the ACB's FHLB System Committee and the Audit/Finance Committee. Mr. Norris has been active in banking in South Carolina for 31 years.

Robert F. Dozier, Jr., 35, was elected vice chair of the FHLBank of Atlanta, in December 2003. Mr. Dozier currently serves as president of Homeowners Mortgage in Columbia, S.C., and was executive vice president of that firm for eight years. Since 1997, Mr. Dozier has been a National Trainer with Fannie Mae's Housing Finance Institute, responsible for delivering Fannie Mae underwriting and origination seminars. He was a mortgage columnist from 1998 to 2000 for The State, a Knight-Ridder newspaper in Columbia, and is a former residential real estate appraiser. Mr. Dozier serves on the South Carolina Commission on Higher Education Foundation and the Midlands Technical College Board of Trustees. He was formerly a commissioner for the East Richland Public Service District and chairman of the Richland School District Board of Trustees. He joined the board of directors of the FHLBank of Atlanta in 2002, and he serves as a representative of the Council of Federal Home Loan Banks.

Robert T. Bennett, 65, was elected chair of the FHLBank of Cincinnati board of directors effective January 2004. He has served as an appointed Director since January 2002, where he has been a member of the Congressional Outreach and Asset Liability Policy Committees as well as served as vice chair in 2003. Mr. Bennett is a certified public accountant and attorney who formerly was a partner in the law firms of Bennett & Harbarger and Bartunek, Bennett, Garofoli & Hill, where he specialized in tax and business law. He is a former finance director for the City of Strongsville and began his career as a CPA for Ernst & Ernst. Mr. Bennett is serving in his eighth term as full-time chairman of the Ohio Republican Party, a position he has held since 1988. He has been a member of the Republican National Committee (RNC) since 1988 and serves as chairman of the Midwestern State Chairmen's Association of the RNC.

Buckner Woodford, 59, was chair of the FHLBank of Cincinnati in 2003. He has served as a director since 1996, and served as vice chair during 2002 and until he was named chair in February 2003. In addition, Mr. Woodford is chairman and chief executive officer of Kentucky Bank, Paris, Kentucky, with which he has been associated since 1971. Mr. Woodford is a past president of The Kentucky Bankers Association. He has also served as president of Bluegrass Tomorrow and the Paris Bourbon County YMCA. He is a past chairman of Bourbon General Hospital and has served as a member of the Small Bank Advisory Committee of The Federal Reserve Bank of Cleveland.

Jerry Taylor, 60, was elected to serve as vice chair of the Federal Home Loan Bank of Cincinnati, effective 2004. Mr. Taylor has served on the Board since 1997 when Tennessee members elected him to a two-year term. He was re-elected to serve three-year terms in 1999 and again in 2002. During his tenure on the Board, Mr. Taylor has served on numerous committees including Budget, Personnel, Congressional Outreach, and Credit Policy. Mr. Taylor is the president and CEO of The Farmers Bank, Portland, Tennessee. Mr. Taylor joined The Farmers Bank, Portland, in 1984 as senior vice president before being promoted to his current position in 1985. He has also served as president and CEO of First Farmers Bancshares, Inc. since 1985. Mr. Taylor sits on the board of Plateau Group Incorporated and Plateau Insurance Company and serves as chairman and director of the Tennessee Business and Industrial Development Corporation. He is also a representative for the Tennessee Conference of State Bank Supervisors.

William R. White, 50, is chair of the FHLBank of Indianapolis. He served as vice chair from 1999 through 2001. He has been president and chief executive officer of Dearborn Federal Savings Bank, Dearborn, Michigan since March 1989 and has additionally served as its chairman since March 1998. Before his current appointment, Mr. White served the bank in the positions of president, executive vice president, and treasurer. Mr. White is a certified public accountant, having worked 13 years with Deloitte & Touche, LLP, primarily serving financial institution clients. He is involved in many professional and community organizations, including: Michigan League of Community Banks, Dearborn Chamber of Commerce, West Dearborn Downtown Development Authority, Henry Ford Community College Foundation Board, Financial Managers Society, and the President's Advisory Council for Henry Ford Museum and Greenfield Village.

Charles L. Crow, 60, is vice chair of the FHLBank of Indianapolis having served as a member of the Board of Directors since January, 2002. He has been the president and chief executive officer of Community Bank, Noblesville, Indiana since October, 1990. He is involved in many professional organizations including the ABA Community Bankers Council and the Chicago Federal Reserve Community Bank Council. He also serves on the Board of Directors of the Community Bankers Association of Indiana. He is actively involved in his community serving with the Noblesville Chamber of Commerce, as the United Way Chairman for the City of Noblesville, and as an active member of the Kiwanis Club for 25 years.

Michael J. Hannigan, Jr., 59, was vice chair of the FHLBank of Indianapolis in 2003. He also served as vice chair of the Council of Federal Home Loan Banks. While serving as vice chair of the FHLBank of Indianapolis, he was executive vice president of The Precedent Companies, a holding company with divisions in residential, commercial, and industrial development. From 1986 to 1996, he served as president of Precedent Financial Corporation, a corporation he co-founded that grew into a regional mortgage banking company with seven branches and wholesale operations in 15 states. Prior to that, he was senior vice president of Waterfield Financial Corp/Union Federal Savings Bank from 1971 to 1986. Mr. Hannigan is state Treasurer and a director of the Indiana Builders Association and a director of the National Association of Homebuilders. He is a trustee of the St. Mary's Child Center Endowment and a trustee of The Wellness Center. Mr. Hannigan completed his 3-year term as a director of the FHLBank of Indianapolis in December, 2003.

Allen H. Koranda, 56, has served as chair of the FHLBank of Chicago since January 1, 2004. He was re-elected to a three-year term beginning January 1, 2003. Mr. Koranda is chairman and chief executive officer of Mid America Bank, FSB, in Clarendon Hills, Illinois and chairman and chief executive officer of MAF Bancorp, the holding company for the bank. He also serves on the board of America's Community Bankers and is a member of the Economic Club of Chicago. He is a past chairman of the Illinois League of Financial Institutions and past chairman of the Chicagoland Association of Financial Institutions.

Richard W. Graber, 47, has served as vice chair of the FHLBank of Chicago since 2002. Mr. Graber is a shareholder in the law firm Reinhart Boerner Van Deuren sc in their Business Organizations Department. Mr. Graber serves on the Board of Trustees of the Medical College of Wisconsin. Mr. Graber is chairman of the Republican Party of Wisconsin, and formerly was president of the Milwaukee North Shore Rotary Club and chair of The Village of Shorewood Board of Appeals. Mr. Graber has served on the board of the FHLBank since 2002.

Randy L. Newman, 50, is chair of the board of the FHLBank of Des Moines effective January 1, 2004. Mr. Newman is chairman, chief executive officer, and president of Alerus Financial Corporation and Alerus Financial in Grand Forks, North Dakota. Previously, he held numerous management positions at First National Bank North Dakota and served as president, chief executive officer and chairman of the Board. For several years prior, Mr. Newman was a full-time instructor in the Management and Finance Department of the University of North Dakota and continued to teach part-time. He is very active in the Grand Forks community and is a past committee member and chairman of various North Dakota Bankers Association committees. Mr. Newman was elected to the board in January 1999. His term will expire December 31, 2004.

Dale J. Torpey, 58, was chair of the board of the FHLBank of Des Moines during 2003. He is president of Federation Bank in Washington, Iowa, and has been a dynamic source in the banking world for 30 years. He has served in various bank management positions in Iowa, Colorado, and Missouri. Mr. Torpey was president and chief executive officer of Community State Bank in Tipton, Iowa prior to moving to Federation Bank. He is currently serving as chairman of the Lending Committee of the Independent Community Bankers of America association. Mr. Torpey served on several committees for the Iowa Bankers Association and has taught classes at the Iowa School of Banking. Mr. Torpey was elected to the board in January 1996. His term expired December 31, 2003.

Thomas E. Woods, 57, is vice chair of the board of the FHLBank of Des Moines effective January 1, 2004. Mr. Woods is president and owner of T.E. Woods Construction, Inc., and Heritage Homes Designer and Builders, Inc., in Independence, Missouri. He has over 35 years of professional experience as a home builder. Mr. Woods is also actively involved in the community. He serves on the Kansas City Mayor's Task Force, Jackson County Economic Development Commission. He has been a board member and chairman for numerous committees of the National Association of Home Builders and participated in Habitat for Humanity. Mr. Woods was a member of the Blue Spring's City Council and served as the community's mayor from 1979 to 1981. Mr. Woods was appointed to the board in March 2002. His term will expire December 31, 2004.

F. Joseph Du Bray, 60, was vice chair of the board of the FHLBank of Des Moines during 2003. Mr. Du Bray is senior vice president/general counsel of Wellmark, Inc., Des Moines, Iowa and a member of its Board of Directors. He was formerly president and chief executive officer of Wellmark of South Dakota, Inc., Sioux Falls, South Dakota. Prior to joining Wellmark in 1994, Mr. Du Bray practiced law for 21 years, and was a founding partner in the Sioux City, Iowa, law firm of Shull, Cosgrove, Hellige, Du Bray & Lundberg. A native of South Dakota, he has served on a number of South Dakota boards of directors, including the American Lung Association, Life and Health Insurance Guaranty Association, Industry and Commerce Association, Governor's Health Benefits Plan Committee, Center for Active Generations, and Caring Program for Children. Mr. Du Bray was appointed to the board in January 1998. His term expired December 31, 2003.

Fred Miller, Jr., 54, began his term as chair of the FHLBank of Dallas in January 2004. He was elected to the Board in 1997, and served as vice chair during 2003. Mr. Miller is president and CEO of Bank of Anguilla, a $75 million institution in the Mississippi Delta. He is a graduate of Louisiana State University, The Graduate School of Banking of the South, and the Mississippi School of Banking. He is a past president of the Mississippi Bankers Association, and served on national committees for the Independent Community Bankers of America and the American Bankers Association, including the Task Force for 21st Century Agricultural Banking. Mr. Miller currently serves on the board of directors for the Mississippi National Bankers Bank, and is a member of the ABA's Agriculture and Rural Bankers Committee.

Henry Flores, 48, has been chair of the FHLBank of Dallas from January 1995 to December 2003 and a community interest director on the board since January 1994. Mr. Flores is involved in public finance and real estate development. He previously served as a principal with Flores, Elizondo and Associates, a company specializing in real estate development, public/private investment partnerships, tax-credit syndication and property management. Mr. Flores is a past executive director of the Texas Department of Housing and Community Affairs. He also serves on the executive boards of the Austin Housing Authority, Texas Housing Finance Corporation, National Housing Trust, and was a founding member and the first president of the National Hispanic Housing Council.

Pat Brister, 57, was elected vice chair of the Federal Home Loan Bank of Dallas Board of Directors in January 2004. She joined the Board in 2002 as a public interest director, and previously chaired the board's Affordable Housing and Economic Development Committee. She currently serves as councilwoman for St. Tammany Parish in Mandeville, La. Until a recent sale to employees, she and her husband operated a successful company for more than 30 years. Ms. Brister attended Loyola University and the University of New Orleans. She serves as chair of the Republican Party of Louisiana, on the board of directors for the Louisiana State Museum, and as a member of the St. Tammany Parish Environmental Services Commission.

Ronald K. Wente, 53, is chair of the FHLBank Topeka and has served in that position since 2000. He is president and chief executive officer of Golden Belt Bank, FSA, Hays, Kansas. He joined Golden Belt Bank in 1973 after graduating from Fort Hays State University. He began serving as president and CEO the following year. He is past chairman of the Heartland Community Bankers Association and serves on the board of directors of the Ellis County Economic Development Corp.

J. Michael Davis, 64, was elected vice chair for the FHLBank Topeka effective 2004. Mr. Davis is a member of the governing board and president of The Gathering Place, a daytime shelter for women and children experiencing poverty or homelessness in Greenwood, Colo. Davis served as executive vice president and chief operating officer of the Farm Credit Council from 1990 until his retirement in 1997. He was formerly CEO of Farmbank Services and was vice president and chief credit officer of the Federal Intermediate Credit Bank of Houston. He began his career in financial services as a loan officer for the Richmond (Texas) Production Credit Association. Davis is also an active volunteer with The Children's Hospital in Denver.

James C. Orbison, 60, was the vice chair for FHLBank Topeka during 2003. Mr. Orbison is a senior partner of the Tulsa, Okla., law firm of Riggs, Abney, Neal, Turpen, Orbison & Lewis. He is a member of the Tulsa County, Oklahoma and American Bar Associations and practices in several areas, including banking, business, finance and public service. Mr. Orbison is a former chairman of the Oklahoma Turnpike Authority and a director of the Osteopathic Founders Foundation Advisory Board, the vice chairman of the Tulsa County Public Facilities Authority and a director of The University of Tulsa College of Law Alumni Association. He also is a former director of several banks as well as the Tulsa County Bar Association, Downtown Tulsa Unlimited, the Tulsa Boys Home and the Tulsa Regional Center Foundation Board.

Robert N. Barone, 59, is chair of the FHLBank of San Francisco effective 2004. Mr. Barone is a director of Nevada Security Bank in Reno, Nevada. He served as a director of First Security Bank of Nevada prior to its merger with Wells Fargo. He was also Chairman and CEO of Comstock Bank/Bancorp from 1984 to 1999 and is currently Chairman of Adagio Trust Company, a multi-client family office trust company in Reno, Nevada. Mr. Barone is a director of the California State Automobile Association; sits on the board of managers of InTo Homes, LLC, a northern Nevada mortgage company; is a director of Allied Mineral Products in Columbus, Ohio; and is a member of the Reno South Rotary Club.

Mary Lee Widener, 65, was chair of the FHLBank of San Francisco during 2003. She is president and chief executive officer of Neighborhood Housing Services of America, Inc., in Oakland, California. She developed, co-founded and administers this nonprofit secondary market program to provide liquidity to community loan funds nationally. She serves on the board of The PMI Group, Inc., Social Compact, the S. H. Cowell Foundation, and the Advisory Board of the

Pew Partnership for Civic Change. She also is trustee emeritus of The San Francisco Foundation and Partners for Livable Communities.

Timothy R. Chrisman, 57, is vice chair of the FHLBank of San Francisco effective 2004. Mr. Chrisman is chairman of the Board of Hawthorne Savings, FSB, and Hawthorne Financial Corporation in El Segundo, California. As the founder and chief executive officer of Chrisman & Company, Inc., a retained executive search firm, Mr. Chrisman has provided board of director and executive management placement and human capital consulting to organizations and corporations for the past 23 years. He is on the board of directors of Operation HOPE, Inc., a nonprofit investment-banking firm for inner-city urban development, and of WATTSHealth Charities, the fund-raising arm of the WATTSHealth Foundation, Inc. Mr. Chrisman is also a mayor-appointed executive committee member of the board of directors of the Workforce Investment Board of Los Angeles.

D. Tad Lowrey, 51, was vice chair of the FHLBank of San Francisco during 2003 and has served as a director of the FHLBank of San Francisco since 1996. Mr. Lowrey is chairman, president and chief executive officer of Jackson Federal Bank in Brea, California, a federally chartered savings bank with approximately $1.8 billion in assets. He is an appointed member and vice president of the Thrift Institutions Advisory Council (TIAC) to the Board of Governors of the Federal Reserve Bank. Mr. Lowrey is serving a second term as director of America's Community Bankers and also serves on its Executive Committee. He is a former chairman of the Western League of Savings Institutions and formerly served on the Savings Association Industry Advisory Committee to the FDIC. Mr. Lowrey is also treasurer, director, and a member of the executive committee of the Pasadena Playhouse State Theatre of California, and is a member of the Board of Trustees of the University of La Verne (ULV). He serves on the executive, finance, investment and real estate committees of the ULV Board.

Michael P. Radway, 50, has served as chair of the FHLBank of Seattle since 1999 and is a past chairman of the Council of Federal Home Loan Banks, a trade association dedicated to enhancing public awareness and understanding of the FHLBank System. Mr. Radway was legislative director from 1985 to 1999 for U.S. Representative Paul Kanjorski (D-PA) and served from 1995 through 1999 as the Democratic staff of the Subcommittee on Capital Markets, Securities and Government-Sponsored Enterprises for the House Banking Committee. On that subcommittee, Mr. Radway worked on legislation to modernize the FHLBank System. Mr. Radway is also former deputy staff director of the Subcommittee on Economic Growth and Credit Formation for the House Banking Committee.

Daniel L. Stevens, 60, has served as vice chair of the FHLBank of Seattle since June 2003. Mr. Stevens is chairman, president, and chief executive officer of Home Federal Savings and Loan Association of Nampa, Idaho, where he has served for over nine years. Home Federal Savings and Loan Association is a member of the Seattle Bank. Mr. Stevens has been in the financial services industry for over 30 years and has served as a senior officer or chief executive officer for four other mutual and stock thrifts through his career. He serves on America's Community Bankers (ACB) FHLB System Committee, as well as the ACB Credit Union Working Group and co-chairs the Idaho Banker's Association Credit Union Task Force. He is a member of the ACB Small Institutions Committee and is a former director and president of the Iowa Mortgage Bankers Association. He serves as chairman of the board of directors and Executive Committee of the Boise Area Chamber of Commerce and serves as a director for the Idaho Community Bankers Association, Idaho Community Reinvestment Corporation, and the Midwest Conference of Community Bankers.

Richard Swanson, 53, was vice chair of the FHLBank of Seattle from January 2002 until June 2003. Mr. Swanson was chairman of HomeStreet Bank, formerly Continental Savings Bank, Seattle Washington, where he held various positions, including president, executive vice president and general counsel from 1984 until 2003. Mr. Swanson serves on the Board of Governors of the Mortgage Bankers Association of America, is a director of the Washington Financial League, a trustee of the Greater Seattle Chamber of Commerce, and a director of the Washington Roundtable.

FHLBank Presidents. The following persons served as presidents of the FHLBanks during 2003 and 2004:

Michael A. Jessee, 57, 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, 57, has been president of the FHLBank of New York since December 1992. His experience includes 11 years of executive service with the U.S. government. From June 1989 to November 1992, he served as the deputy secretary and chief operating officer of HUD. Before that, he worked at the U.S. Department of Transportation's Urban Mass Transportation Administration as administrator and regional administrator. Mr. DelliBovi was also a member of, and worked for, the New York State Assembly.

James D. Roy, 63, has been president of the FHLBank of Pittsburgh since November 1987. Before that, he spent 25 years with Mellon Bank, N.A., serving as the senior vice president, finance; as vice president and manager, corporate financial planning and control; and in various management positions within the finance department. Mr. Roy currently serves on the board of directors of the FHLBank Office of Finance.

Raymond R. Christman, 54, has been president of FHLBank of Atlanta since July 1, 1999. Previously, he had served for six years as chair of the FHLBank of Pittsburgh. During that period, Mr. Christman also was president and chief executive officer of the Pittsburgh Technology Council, a regional business association and economic development organization. Before that, Mr. Christman served as secretary of commerce for the Commonwealth of Pennsylvania, and was executive director of the Urban Redevelopment Authority of Pittsburgh. Mr. Christman holds an undergraduate degree 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. He serves on the boards of directors of several community and civic organizations, including the Community Foundation of Greater Atlanta, the Georgia Trust for Historic Preservation, and the Atlanta Neighborhood Development Partnership.

David H. Hehman, 55, is president and Chief Executive Officer of the FHLBank of Cincinnati. He was named president and CEO 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. Mr. Hehman was an Assistant Professor of finance and economics at Xavier University. He currently serves on the Board of Directors of Brighton Properties, Inc., a nonprofit affordable housing and social services agency in Covington, Kentucky, *The Cincinnati Enquirer*'s six-member Board of Economists, and the Economic Advisory Committee for the Greater Cincinnati Chamber of Commerce.

Charles L. Thiemann, 66, was the president of the FHLBank of Cincinnati from January 1976 to March 2003. The board of directors of the FHLBank of Cincinnati announced at its October 18, 2002 meeting the retirement of Mr. Charles L. Thiemann, and named as his successor David H. Hehman, executive vice president, both effective March 1, 2003. Before his position as the president, he spent 12 years with the FHLBank of Cincinnati as the executive vice president; senior vice president; vice president, director of research; and economist. Mr. Thiemann also worked as an economist with the Federal Reserve Bank of St. Louis where he served as an advisor to the president and the board of directors. He has served on the boards of First Step Home in Cincinnati and Social

Compact in Washington, D.C. He currently serves as a Director and Treasurer of the Habitat for Humanity International Board and as a member of the Board of Trustees of Bellarmine University in Louisville, Kentucky.

Martin L. Heger, 58, has been president of the FHLBank of Indianapolis since February 1992. During the previous 12 years, he served as the FHLBank of Indianapolis' executive vice president and chief operating officer, and vice president and division head for the Michigan division. Earlier, Mr. Heger spent 13 years in various management positions with the National Bank of Detroit.

Alex J. Pollock, 60, has been president of the FHLBank of Chicago since September 1991. Before that, he was a visiting scholar at the Federal Reserve Bank of St. Louis and served as president and chief executive officer of the Community Federal Savings and Loan Association in St. Louis; president of Marine Bank, Milwaukee; and senior vice president of Continental Illinois National Bank, where he served in various capacities in Europe and the United States. He is a past president of the International Union for Housing Finance and the Bankers Club of Chicago; a director of Allied Capital Corporation; a director of the Great Lakes Higher Education Corporation and the Great Books Foundation; and a trustee of the Illinois Council on Economic Education. Mr. Pollock is an honors graduate of Williams College and holds masters degrees from the University of Chicago in philosophy and Princeton University in international relations.

Patrick J. Conway, 53, became president of the FHLBank of Des Moines in October 1999. Before that, he served as executive vice president of Finance and Banking at the FHLBank of San Francisco for nearly two years. He joined the San Francisco Bank in 1975 and held a variety of credit, finance, and management positions before being named executive vice president. Earlier, Mr. Conway spent six years with Merrill Lynch in institutional operations, largely supporting the mortgage and government securities functions. Mr. Conway currently serves on the boards of directors of the Financing Corporation, Financial Institutions Thrift Plan, and Greater Des Moines Partnership. He is also chair of the 2004 Hope Gala for Juvenile Diabetes Research Foundation. In addition, Mr. Conway was a member of the FHLBanks' Office of Finance board until his term expired on March 31, 2003.

Terry Smith, 47, became president of the FHLBank of Dallas in August 2000. He joined the Bank in 1986, and was named executive vice president and chief operating officer in 1991. Mr. Smith has been appointed to the FHLBanks' Office of Finance Board effective April 1, 2003.

Andrew J. Jetter, 48, became president and CEO of FHLBank Topeka on September 19, 2002. Mr. Jetter joined the FHLBank in 1987 as an attorney and was promoted to general counsel in 1989, vice president in 1993, senior vice president in 1996 and executive vice president and chief operating officer in 1998. Before joining the FHLBank, Mr. Jetter was engaged in the private practice of law in Omaha, Neb., and served as a full-time instructor in the areas of finance and management at the University of Nebraska at Omaha. He has a bachelor's degree in business administration and economics from Midland Lutheran College, Fremont, Neb., and juris doctor and master of business administration degrees from the University of Nebraska-Lincoln.

Dean M. Schultz, 57, has been president of the FHLBank of San Francisco since April 1991. His experience includes serving seven years as executive vice president of the FHLBank of New York; four years as senior vice president, general counsel, and director of corporate services and human resources for First Federal Savings and Loan Association in Rochester, New York; and seven years with the law firm of Robinson, Williams and Angeloff in Rochester. 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.

Norman B. Rice, 60, has served as president and Chief Executive Officer of the FHLBank of Seattle since February 1, 1999. He joined the Seattle Bank in March 1998 as its executive vice president. Prior to that, Mr. Rice served two terms as the Mayor of Seattle from 1990 through 1997 and served three terms as a member of the City of Seattle Council from 1979 until 1990. He has served as a Director of Safeco Corporation since 1999 and is also a Director of the YMCA.

Managing Director, FHLBanks' Office of Finance. *John K. Darr,* 59, 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, 2003, the directors of the FHLBanks' Office of Finance were L. Parker Harrell, Jr., James D. Roy, the president of the FHLBank of Pittsburgh, and Terry Smith, the president of the FHLBank of Dallas.

L. Parker Harrell, Jr, 66, was appointed to serve as the private citizen director on the OF Board of Directors by the Finance Board on September 10, 2003. Mr. Harrell was appointed to the remainder of a three-year term that expires 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

Before the enactment of the GLB Act, the FHLBank Act provided that an FHLBank may select, employ, and fix the compensation of such officers and employees as may be necessary for the transaction of its business, subject to the approval of the Finance Board. After the GLB Act, all selection and compensation of FHLBank officers and employees are subject to the approval of the individual FHLBank's board of directors and FHLBank management.

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. In 2000, the Finance Board amended its regulations governing the operations of the Office of Finance. The final rule, which took effect July 1, 2000, requires the Office of Finance board of directors to select, employ, determine the compensation for, and assign the duties of the managing director/chief executive officer. Before this change, the Finance Board regulations governing the Office of Finance made selection and employment of the managing director a responsibility of the Office of Finance board of directors, subject to Finance Board approval.

The following table presents information on the compensation of the FHLBank presidents and the managing director of the Office of Finance for 2003, 2002 and 2001.

Federal Home Loan Bank Presidents
Summary Compensation Table

		Annual Compensation*			Long Term 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	2003	500,000	196,850					45,040(3)(4)
President, FHLBank	2002	475,000	198,360					36,367(3)(4)
of Boston	2001	450,000	86,985					39,681(3)(4)
Alfred A. DelliBovi	2003	511,846						36,217(5)(6)
President, FHLBank	2002	483,786	334,640					31,550(5)(6)
of New York	2001	459,000	298,889					29,307(5)(6)
James D. Roy	2003	505,000						40,726(7)
President, FHLBank	2002	490,000	173,774				315,805(11)	38,758(7)
of Pittsburgh	2001	440,000	155,971					32,491(7)
Raymond R. Christman	2003	486,700	228,408					222,019(12)
President, FHLBank	2002	468,000	280,800					33,350(7)
of Atlanta	2001	450,000	214,650					16,884(7)
David H. Hehman	2003	440,192	287,002					36,651(7)
President, FHLBank of Cincinnati (9)								
Charles L. Thiemann	2003	107,693	64,949	94,316				32,660(7)
President, FHLBank	2002	535,500	374,850	60,294				52,178(7)
of Cincinnati (9)	2001	510,000	275,293	51,374				46,464(7)
Martin L. Heger	2003	472,524	353,141				(8)	28,351(7)
President, FHLBank	2002	450,008	352,933					27,000(7)
of Indianapolis	2001	420,030	320,813					25,202(7)
Alex J. Pollock	2003	588,000	319,000				449,361(13)	35,280(7)
President, FHLBank	2002	555,000	277,500					33,300(7)
of Chicago	2001	525,000	224,490					31,500(7)
Patrick J. Conway	2003	461,167	103,463					33,878(7)
President, FHLBank	2002	439,167	149,573					35,324(7)
of Des Moines	2001	414,167	178,187					35,541(7)
Terry Smith	2003	475,000	90,602					42,750(7)
President, FHLBank	2002	425,000	105,318					25,500(7)
of Dallas	2001	353,000	44,834					21,180(7)
Andrew J. Jetter	2003	387,500	133,946					29,642(7)
President, FHLBank	2002	290,000	106,533					22,591(7)
Topeka(10)								
Dean M. Schultz	2003	520,000	164,700				217,800(13)	31,303(7)
President, FHLBank	2002	480,700	271,800					26,346(7)
of San Francisco	2001	460,000	215,600					27,600(7)
Norman B. Rice	2003	442,000	80,621					29,442(7)
President, FHLBank	2002	425,000	211,457					8,320(7)
of Seattle	2001	360,000	101,800					12,825(7)
John K. Darr	2003	476,000	180,880					40,047(7)
Managing Director,	2002	457,000	191,451					39,405(7)
Office of Finance	2001	425,000	199,750					34,493(7)

* Certain prior year compensation amounts have been changed to reflect amounts on an accrual basis instead of on a cash basis.

(1) Perquisite and other personal benefits, securities or property are only reported with respect to a person named in the Summary Compensation Table ("Named Person") if they exceed the lesser of $50,000 or 10 percent of the total of annual salary and incentive payment for the year.

(2) Except as indicated in notes (4) and (6) below, the dollar value of premiums paid for group term life insurance is not reported because the plans under which these benefits are provided do not discriminate in scope, terms, or operation in favor of executive officers or directors of the FHLBank or the Office of Finance and are available generally to all salaried employees.

(3) Includes $41,902, $33,719 and $37,356 in contributions or other allocations made by the FHLBank to qualified and/or non-qualified vested and unvested defined contribution plans in 2003, 2002 and 2001, and $3,138, $2,648 and $2,325 in insurance premiums paid by, or on behalf of, the FHLBank with respect to term life insurance for the benefit of the president in 2003, 2002 and 2001.

(4) To match and fund the FHLBank's Benefit Equalization Plan liability, the FHLBank is providing a collateral assignment split-dollar life insurance policy in which the president has rights to a cash surrender value, not to exceed the present value of his benefit under the Benefit Equalization Plan. To the extent the cash value offsets a liability under the Benefit Equalization Plan, the liability under the Plan will be reduced. The premium of the term-life component of the policy has been separately disclosed in note (3) above. The benefits under the Benefit Equalization Plan are reported below.

(5) Includes $33,192, $29,028 and $27,540 in contributions or other allocations made by the FHLBank to qualified and/or non-qualified vested and unvested contribution plans in 2003, 2002 and 2001, and $3,025, $2,522 and $1,767 in insurance premiums paid by, or on behalf of, the FHLBank with respect to term life insurance for the benefit of the president in 2003, 2002 and 2001.

(6) To fund the FHLBank's Benefit Equalization Plan liability, the FHLBank obtained a collateral assignment of each split-dollar life insurance policy in which the president has rights to a cash surrender value, not to exceed the present value of his benefit under the Benefit Equalization Plan. To the extent the assigned cash value offsets a liability under the Benefit Equalization Plan, the liability under the Plan will be reduced. The benefits under the Benefit Equalization Plan are reported below.

(7) Represents contributions or other allocations made by the FHLBank with whom the Named Person is employed or the Office of Finance to qualified and/or non-qualified vested and unvested defined contribution plans.

(8) During 2001, the FHLBank implemented a key employee severance agreement for the President/CEO. Under the terms of the agreement, if a termination occurs under certain specific circumstances, the President/CEO is entitled to 2.99 times the average of the three preceding years' base salary, bonus, and other cash compensation, salary deferrals and matching contributions to the qualified and 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.

(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.

(10) Andrew J. Jetter became president and CEO of the FHLBank Topeka on September 19, 2002. Before that, Mr. Jetter served as executive vice president and chief operating officer since 1998.

(11) Long-Term Incentive Plan payout, although paid in a lump sum as 2002 compensation, reflects results attained over a two-year performance period (2001 through 2002).

(12) Includes $27,989 in contributions or other allocations made by the FHLBank to qualified and/or non-qualified vested and unvested contribution plans in 2003 and $194,030 relating to the interest in the split dollar life insurance transferred to the president upon termination of this plan by the FHLBank of Atlanta on December 31, 2003.

(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 through 2003).

Compensation of Directors

In accordance with the Finance Board's regulations and the Gramm-Leach-Bliley Act of 1999, the FHLBanks have established formal policies governing the compensation and travel reimbursement provided its 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 is comprised 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, for preparing for meetings, for participating in any other activities for the FHLBanks and for 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 2003 were $26,921 for a chair, $21,537 for a vice chair and $16,152 for all other directors. Total directors' fees and other travel expense paid by the FHLBanks during 2003, 2002 and 2001, were $5.9 million, $5.5 million and $5.4 million.

FHLBank Presidents and Managing Director of the Office of Finance Pension Plans and Benefit Equalization Plans

All of the FHLBank presidents and the managing director of the Office of Finance, except the president of the FHLBank of San Francisco, participate in the Financial Institutions Retirement Fund (FIRF), a tax-qualified defined-benefit plan. All of the FHLBank presidents and the managing director of the Office of Finance have retirement Benefit Equalization Plans (BEP), a non-qualified retirement plan. A BEP ensures, among other things, that participants receive the full amount of benefits to which they would have been entitled under their pension plans in the absence of limits on benefit levels imposed by the Internal Revenue Service (IRS).

The following tables show estimated annual benefits payable from FIRF and BEP combined upon retirement at age 65 and calculated in accordance with the formula currently in effect for specified years-of-service and remuneration classes for the FHLBank presidents participating in both plans and the managing director of the Office of Finance. 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, 2003, 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
$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 (not to exceed 80 percent of high three-year average compensation).
- Compensation is the highest three-year compensation (base and incentive) paid in the year.
- Credited years of service as of December 31, 2003, is 26 years.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

President, FHLBank of New York

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

- Formula: 2.5 percent x years of benefit service (not to exceed 30) x high three-year average salary.
- Salary includes basic annual salary rate plus incentive payments.
- Credited years of service as of December 31, 2003, is 10 years and 9 months.
- The regular form of retirement benefits is a straight-life annuity with a death benefit equal to 12 times the annual retirement allowance less the sum of such allowance payments made before death.

President, FHLBank of Pittsburgh

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

- 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, 2003, is 16 years.
- The regular form of retirement benefits provides a life annuity; a lump-sum option is also available.

President, FHLBank of Atlanta

Remuneration	Years of Service 15	20	25	30	35	40
$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

- Formula: 2.5 percent x years of service (not to exceed 30 years) x high three-year average salary.
- Compensation includes salary and incentive compensation.
- Credited years of service as of December 31, 2003, is 4 years and 6 months.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

President, FHLBank of Cincinnati

Remuneration	Years of Service 15	20	25	30	35	40
$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

- Formula: 2.5 percent x years of benefit service x high three-year average salary.
- Salary is defined as the basic annual salary rate plus overtime and incentive. Salary is recognized annually on a paid basis versus an earned basis.
- Credited years of service as of December 31, 2003, is 26 years.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

President, FHLBank of Indianapolis

Remuneration	Years of Service 15	20	25	30	35	40
$ 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

- Formula: 2.5 percent x years of benefit service x high three-year average compensation without regard to the IRS limits.
- The remuneration covered by the qualified and non-qualified supplemental plan includes salary, bonus, and any other compensation, that is reflected on the Internal Revenue Service Form W-2 (exclusive of any compensation deferred from a prior year).
- Credited years of service as of December 31, 2003, is 23 years.
- The retirement benefits are computed on a straight-life annuity basis, including a lump sum active service retirement death benefit.

President, FHLBank of Chicago

Remuneration	Years of Service 15	20	25	30	35	40
$ 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

- Formula: 2.25 percent x years and months of benefit service x high three-year average salary.
- Salary equals basic annual salary rate plus overtime and short-term incentives.
- Credited years of service as of December 31, 2003, is 11 years.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

President, FHLBank of Des Moines

Remuneration	Years of Service 15	20	25	30	35	40
$300,000	$101,250	$129,493	$174,493	$219,493	$264,493	$309,493
$400,000	$135,000	$174,555	$234,555	$294,555	$354,555	$414,555
$500,000	$168,750	$219,618	$294,618	$369,618	$444,618	$519,618
$600,000	$202,500	$264,680	$354,680	$444,680	$534,680	$624,680
$700,000	$236,250	$309,743	$414,743	$519,743	$624,743	$729,743
$800,000	$270,000	$354,805	$474,805	$594,805	$714,805	$834,805

- Formula: Regular Retirement Plan:
  2.25 percent x years of benefit service x high three-year average compensation minus a constant factor of $5,695 for years of service after 15, to account for plan differences related to benefits earned while employed by the FHLBanks of Des Moines and San Francisco.
  Supplemental Retirement Plan:
  0.75 percent x years of benefit service x high three-year average compensation.
- The compensation covered by each plan is base salary plus incentive compensation (as paid in a calendar year) without regard to IRS limitations.
- Credited years of service as of December 31, 2003 was 24 years and 6 months for the Regular Retirement Plan and 4 years and 7 months for the Supplemental Retirement Plan. Table is blended for both benefits and shown based on credited years of service for the Regular Retirement Plan.
- Benefits are computed on the basis of a modified cash refund form of annuity with a death benefit equal to 12 times the annual retirement allowance less the sum of such allowance payments made before death.

President, FHLBank of Dallas

Remuneration	Years of Service 15	20	25	30	35	40
$300,000	$120,038	$150,714	$177,389	$204,064	$204,064	$204,064
$400,000	$149,288	$187,439	$220,614	$253,789	$253,789	$253,789
$500,000	$178,538	$224,164	$263,839	$303,514	$303,514	$303,514
$600,000	$207,788	$260,889	$307,064	$353,239	$353,239	$353,239
$700,000	$237,038	$297,614	$350,289	$402,964	$402,964	$402,964
$800,000	$266,288	$334,339	$393,514	$452,689	$452,689	$452,689

- Formula: Starting July 2003–2 percent x years of service (not exceed 30 years) x high three-year average salary.
  Prior to July 2003–3 percent x years of service (not exceed 30 years) x high three-year average salary.
- Compensation includes all W-2 earnings, excluding deferred compensation distributions, without regard to IRS limitation. For salary above the IRS limitation of $205,000, the BEP/SERP restores 65 percent of the lost defined benefit pension plan benefit upon retirement on or after age 62. The BEP/SERP benefit is not vested until age 62.
- Credited years of service as of December 31, 2003, is 17 years.
- The regular form of retirement benefits is a straight-life annuity that includes a lump-sum death benefit. The normal retirement age is 65, but the plan does provide for an unreduced retirement benefit beginning at age 60.

President, FHLBank of Topeka

Remuneration	Years of Service 15	20	25	30	35	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 FIRF 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, 2003, is 15 years.
- The regular form of retirement benefits provides a straight-life annuity with 10 years certain.

President, FHLBank of San Francisco

The Federal Home Loan Bank of San Francisco ("FHLBSF" or the "Bank") provides a retirement pension to the Bank President with benefits provided under four plans (which are also available to other eligible Bank employees): (i) the Cash Balance Plan, a qualified plan consisting of a transition benefit component and a cash balance benefit component; (ii) the Benefit Equalization Plan, a non-qualified plan which restores benefits lost under the Cash Balance Plan (including both the transition benefit component and the cash balance benefit component) due to limitations under the Internal Revenue Code; (iii) the Deferred Compensation Plan, a non-qualified plan which provides benefits otherwise provided under the Cash Balance Plan (including both the transition benefit component and the cash balance benefit component) based on deferred compensation; and (iv) the Supplemental Executive Retirement Plan ("SERP"), a non-qualified cash balance plan which provides targeted retirement income to a select group of Bank executives.

Prior to January 1, 1996, the FHLBSF participated in the Financial Institutions Retirement Fund ("FIRF"), a qualified pension plan. Effective December 31, 1995, the FHLBSF withdrew from the FIRF and adopted the Cash Balance Plan. The full value of benefits earned under the FIRF at age 65 calculated as of December 31, 1995 is preserved and vested for those employees who participated in the FIRF prior to January 1, 1996 (the "frozen FIRF benefit account"), including the Bank President. The FIRF benefits were based on the highest three consecutive years average pay multiplied by credited years of benefit service multiplied by 2%.

The transition benefit component of the Cash Balance Plan is designed to supplement the frozen FIRF benefit by maintaining the employee's percentage ratio of his or her frozen FIRF annuity payments to the employee's highest three consecutive years average pay, calculated as of December 31, 1995 (the "annuity ratio"). At December 31, 1995, the FHLBSF Bank President's annuity ratio was twenty-two percent (22%). Upon retirement, the employee will receive benefits equal to his or her highest three consecutive years average pay multiplied by his or her annuity ratio. The benefits would be comprised of the frozen FIRF benefit plus the Cash Balance Plan transition benefit.

If the Bank President terminated his service at the Bank as of December 31, 2003 with approximately 19 years of service, the Bank President's pension annuity payments associated with the frozen FIRF benefit and the transition benefit component of the Cash Balance Plan would be

$159,721 per year beginning in 2012 (at age 65), which is equal to his highest three consecutive years average pay of $726,004 multiplied by 22%. The qualified annuity payments paid from the frozen FIRF benefit would be $48,004 annually, with the remainder paid from the transition benefit component under the Benefit Equalization Plan and Deferred Compensation Plan. If the Bank President continues his service at the Bank until he reaches age 65 and assuming: (i) he received an annual base salary of $520,000 for 2003 and short-term incentive pay of $271,800 in 2003 (earned in 2002); and (ii) his annual base salary increases by 4% each year and he receives an annual short-term incentive pay of 45% of his prior year's base salary for 9 years until the year 2012, his annuity payment would be $215,792 per year.

The cash balance benefit component under the Cash Balance Plan provides the Bank President with benefits comprised of a service credit equal to 6% of the Bank President's total annual pay (base salary plus short-term incentive pay) and an interest credit equal to 6% of the opening balance at the beginning of each plan year. The Bank President may withdraw this amount in a lump sum or convert the amount into an annuity. The Bank President will have a lump sum pension benefit in the amount of $333,025 accrued under the cash balance benefit component of the Cash Balance Plan as of December 31, 2003. This amount includes benefits accrued under, and payable from, both the qualified and non-qualified plans. If the Bank President terminated his service at the Bank as of December 31, 2003 and immediately annuitized his cash balance benefit component, his annuity payments would be $49,088 per year beginning in 2012. If the Bank President continues his service at the Bank until he reaches age 65 and assuming: (i) he received an annual base salary of $520,000 for 2003 and short-term incentive pay of $271,800 in 2003 (earned in 2002); and (ii) his annual base salary increases by 4% each year and he receives an annual short-term incentive pay of 45% of his prior year's base salary for 9 years until the year 2012, his annuity payments attributable to the cash balance benefit component under the Cash Balance Plan would be $99,623 per year beginning in 2012.

Beginning in 2003, the SERP provides the Bank President with a cash balance-like benefit. This benefit is comprised of an annual service credit, which for the period 2003 through 2005 is equal to 10% of the Bank President's total annual pay (base salary plus short-term incentive pay), and an annual indexation credit equal to 6% of the opening cash balance-like account at the beginning of each plan year. In 2006, the annual service credit is scheduled to increase to 15% of total annual pay, with a final increase to 20% of total annual pay beginning with the 2011 plan year. The Bank President may withdraw this amount in a lump sum, convert the amount into an annuity, or take installment payments over a period of time. The Bank President will have a SERP benefit in the amount of $79,180 as of December 31, 2003. If the Bank President terminated his service at the Bank as of December 31, 2003, he would receive no benefit under the SERP, as annual service credits are not vested until three years after they are accrued. If the Bank President continues his service at the Bank until he reaches age 65 and assuming: (i) he received an annual base salary of $520,000 for 2003 and short-term incentive pay of $271,800 in 2003 (earned in 2002); and (ii) his annual base salary increases by 4% each year and he receives an annual short-term incentive pay of 45% of his prior year's base salary for 9 years until the year 2012, his annuity payments from the SERP would be $133,809 per year beginning in 2012.

The benefits under the Cash Balance Plan, the Benefit Equalization Plan, and the Deferred Compensation Plan vest 20% per year and are fully vested after completing five years of service. SERP benefits vest three years after they are accrued, with full vesting on all accruals upon the attainment of age 62 while still in service with the Bank.

President, FHLBank of Seattle

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

- Formula: 2.5 percent x years of benefit service (less 1 year waiting period) x high three-year average salary.
- Compensation includes base salary and incentive compensation.
- Credited years of service as of December 31, 2003, is 5 years.
- The regular form of retirement benefit is a straight-life annuity including a lump-sum retirement death benefit, which is 12 times the annual retirement allowance less the sum of such allowance payments made before death.

Managing Director, Office of Finance

Remuneration	Years of Service 15	20	25	30	35	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

- 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, 2003, is 16 years.
- The regular form of retirement benefit is a straight-life annuity including a lump-sum retirement death benefit.

FIVE LARGEST CAPITAL STOCK HOLDERS OF AND BORROWERS FROM EACH FHLBANK

The following table identifies the five largest holders of capital stock of each FHLBank and their holdings at December 31, 2003.

Top 5 Capital Stock Holding Members by FHLBank at December 31, 2003

District	Name	City	State	Capital Stock ($Millions)	Percent of FHLBank Capital Stock(1)
Boston	Fleet National Bank	Providence	RI	$ 508	20.9%
	Webster Bank	Waterbury	CT	134	5.5%
	Banknorth, NA	Portland	ME	102	4.2%
	State Street Bank and Trust Company	Boston	MA	100	4.1%
	People's Bank	Bridgeport	CT	94	3.9%
				$ 938	38.6%
New York	Washington Mutual Bank, FA(2)	Stockton	CA	$ 308	8.5%
	HSBC Bank, USA	Buffalo	NY	286	7.9%
	Astoria FS&LA*	Astoria	NY	213	5.9%
	New York Community Bank	Westbury	NY	171	4.7%
	GreenPoint Bank	New York	NY	170	4.7%
				$1,148	31.7%
Pittsburgh	Sovereign Bank*	Wyomissing	PA	$ 344	14.7%
	Lehman Brothers Bank*	Wilmington	DE	298	12.7%
	ING Bank	Wilmington	DE	130	5.6%
	PNC Bank, NA	Pittsburgh	PA	122	5.2%
	Waypoint Bank	Harrisburg	PA	98	4.2%
				$ 992	42.4%
Atlanta	Treasury Bank, NA	Alexandria	VA	$ 354	7.2%
	SunTrust Bank	Atlanta	GA	333	6.8%
	BB&T of NC	Winston-Salem	NC	306	6.2%
	AmSouth Bank*	Birmingham	AL	283	5.8%
	First Union Direct Bank	Augusta	GA	250	5.1%
				$1,526	31.1%
Cincinnati	Charter One Bank, NA*	Cleveland	OH	$ 619	17.0%
	US Bank, NA	Cincinnati	OH	453	12.4%
	Fifth Third Bank	Cincinnati	OH	317	8.7%
	Union Planters National Bank	Memphis	TN	216	5.9%
	Ohio Savings Bank	Cleveland	OH	184	5.1%
				$1,789	49.1%
Indianapolis	Standard Federal Bank, NA*	Troy	MI	$ 358	18.7%
	Flagstar Bank, FSB	Troy	MI	198	10.3%
	Fifth Third Bank (Michigan)	Grand Rapids	MI	197	10.3%
	Republic Bank	Lansing	MI	80	4.2%
	National City Bank of Indianapolis	Indianapolis	IN	69	3.6%
				$ 902	47.1%
Chicago	Mid America Bank, FSB*	Clarendon Hills	IL	$ 385	9.3%
	Bank One, NA	Chicago	IL	378	9.1%
	LaSalle National Bank*	Chicago	IL	278	6.7%
	The Private Bank & Trust Co	Chicago	IL	209	5.0%
	The Northern Trust Company	Chicago	IL	115	2.8%
				$1,365	32.9%

District	Name	City	State	Capital Stock ($Millions)	Percent of FHLBank Capital Stock(1)
Des Moines	Superior Guaranty Insurance Company	Minneapolis	MN	$ 654	30.9%
	Wells Fargo Bank Minnesota, NA	Minneapolis	MN	212	10.0%
	Transamerica Life Insurance Company	Cedar Rapids	IA	68	3.2%
	AmerUs Life Insurance Company	Des Moines	IA	50	2.4%
	TCF National Bank	Minneapolis	MN	45	2.1%
				$1,029	48.6%
Dallas	World Savings Bank, FSB (Texas)	Houston	TX	$ 409	15.4%
	Washington Mutual Bank, FA(3)	Stockton	CA	386	14.5%
	Guaranty Bank*	Dallas	TX	238	9.0%
	International Bank of Commerce	Laredo	TX	80	3.0%
	Beal Bank	Plano	TX	73	2.7%
				$1,186	44.6%
Topeka	MidFirst Bank	Oklahoma City	OK	$ 322	18.5%
	Commercial Federal Bank, FSB	Omaha	NE	243	14.0%
	Capitol Federal Savings Bank	Topeka	KS	171	9.8%
	Security Life of Denver Ins. Co	Denver	CO	74	4.2%
	U. S. Central Credit Union	Lenexa	KS	51	2.9%
				$ 861	49.4%
San Francisco	Washington Mutual Bank, FA	Stockton	CA	$1,970	34.3%
	Citibank (West), FSB	San Francisco	CA	877	15.3%
	World Savings Bank, FSB	Oakland	CA	743	12.9%
	IndyMac Bank, FSB	West Covina	CA	313	5.5%
	Bank of the West	San Francisco	CA	129	2.2%
				$4,032	70.2%
Seattle	Washington Mutual Bank*	Seattle	WA	$ 741	30.9%
	Bank of America Oregon, NA	Portland	OR	323	13.5%
	Washington Federal Savings*	Seattle	WA	146	6.1%
	Merrill Lynch Bank USA	Salt Lake City	UT	118	4.9%
	American Savings Bank, FSB	Honolulu	HI	95	4.0%
				$1,423	59.4%

* An asterisk indicates that an officer of the member was an FHLBank director in 2003.

(1) For consistency with the individual FHLBank's presentation of its top 5 capital stock holders at December 31, 2003, some of the amounts used to calculate percentages of FHLBank 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 capital stock of Dime Savings Bank of New York, FSB, a former member of the FHLBank of New York, which was acquired by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco, during 2002. The outstanding capital stock of the FHLBank of New York owned by Washington Mutual Bank, FA, results from the acquisition.

(3) The amount relates to the outstanding capital stock of Bank United, a former member of the FHLBank of Dallas, which was acquired by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco, during 2001. The outstanding capital stock of the FHLBank of Dallas owned by Washington Mutual Bank, FA, results from the acquisition.

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

The following table presents information on the five largest borrowers by FHLBank at December 31, 2003.

Top 5 Advance Holding Members by FHLBank at December 31, 2003

District	Name	City	State	Advances(1) ($Millions)	Percent of FHLBank Advances(2)
Boston	Webster Bank	Waterbury	CT	$ 2,510	9.9%
	Banknorth, NA	Portland	ME	1,430	5.6%
	Travelers Insurance Company	Hartford	CT	1,000	3.9%
	People's Bank	Bridgeport	CT	964	3.8%
	Citizens Bank of Rhode Island	Providence	RI	834	3.3%
				$ 6,738	26.5%
New York	Washington Mutual Bank, FA(3)	Stockton	CA	$ 6,154	10.0%
	Astoria FS&LA*	Astoria	NY	4,269	6.9%
	New York Community Bank	Westbury	NY	3,418	5.5%
	GreenPoint Bank	New York	NY	3,400	5.5%
	Hudson City Savings Bank	Paramus	NJ	3,200	5.2%
				$20,441	33.1%
Pittsburgh	Sovereign Bank*	Wyomissing	PA	$ 6,754	20.3%
	Lehman Brothers Bank, FSB*	Wilmington	DE	4,050	12.1%
	Waypoint Bank	Harrisburg	PA	1,825	5.5%
	PNC Bank, NA	Pittsburgh	PA	1,113	3.3%
	ING Bank, FSB	Wilmington	DE	898	2.7%
				$14,640	43.9%
Atlanta	Treasury Bank, NA	Alexandria	VA	$ 6,875	8.1%
	SunTrust Bank	Atlanta	GA	6,661	7.8%
	BB&T of NC	Winston-Salem	NC	6,116	7.2%
	AmSouth Bank*	Birmingham	AL	5,669	6.7%
	First Union Direct Bank	Augusta	GA	5,004	5.9%
				$30,325	35.7%
Cincinnati	Charter One Bank, NA*	Cleveland	OH	$ 9,164	21.9%
	US Bank, NA	Cincinnati	OH	8,172	19.6%
	Fifth Third Bank	Cincinnati	OH	4,278	10.2%
	National Bank of Commerce	Memphis	TN	1,914	4.6%
	Ohio Savings Bank	Cleveland	OH	1,296	3.1%
				$24,824	59.4%
Indianapolis	Standard Federal Bank, NA*	Troy	MI	$ 6,725	24.1%
	Flagstar Bank, FSB	Troy	MI	3,246	11.6%
	Fifth Third Bank (Michigan)	Grand Rapids	MI	2,711	9.7%
	National City Bank of Indianapolis	Indianapolis	IN	1,384	5.0%
	Republic Bank	Lansing	MI	1,365	4.9%
				$15,431	55.3%
Chicago	Bank One, NA	Chicago	IL	$ 4,865	18.8%
	LaSalle National Bank, NA*	Chicago	IL	3,802	14.7%
	Mid America Bank, FSB*	Clarendon Hills	IL	2,104	8.1%
	Marshall & Ilsley Bank	Milwaukee,	WI	1,094	4.2%
	State Farm Bank, FSB	Bloomington	IL	873	3.4%
				$12,738	49.2%

District	Name	City	State	Advances(1) ($Millions)	Percent of FHLBank Advances(2)
Des Moines	Wells Fargo Bank Minnesota, NA	Minneapolis	MN	$ 4,535	20.0%
	Transamerica Life Insurance Company	Cedar Rapids	IA	1,300	5.7%
	AmerUs Life Insurance Company	Des Moines	IA	889	3.9%
	TCF National Bank	Minneapolis	MN	773	3.4%
	Bank Midwest, NA	Kansas City	MO	713	3.2%
				$ 8,210	36.2%
Dallas	World Savings Bank, FSB (Texas)	Houston	TX	$ 8,500	21.1%
	Washington Mutual Bank, FA(4)	Stockton	CA	7,494	18.6%
	Guaranty Bank*	Dallas	TX	4,992	12.4%
	Beal Bank	Plano	TX	1,212	3.0%
	Hibernia National Bank	New Orleans	LA	1,102	2.7%
				$23,300	57.8%
Topeka	Commercial Federal Bank, FSB	Omaha	NE	$ 4,513	17.4%
	MidFirst Bank	Oklahoma City	OK	4,030	15.5%
	Capitol Federal Savings Bank	Topeka	KS	3,200	12.3%
	Security Life of Denver Ins. Co	Denver	CO	1,459	5.6%
	Security Benefit Life Insurance Company	Topeka	KS	844	3.3%
				$14,046	54.1%
San Francisco	Washington Mutual Bank, FA	Stockton	CA	$32,439	35.3%
	Citibank (West), FSB	San Francisco	CA	16,039	17.4%
	World Savings Bank, FSB	Oakland	CA	13,500	14.7%
	IndyMac Bank, FSB	West Covina	CA	4,935	5.4%
	Bank of the West	San Francisco	CA	2,577	2.8%
				$69,490	75.6%
Seattle	Bank of America Oregon, NA	Portland	OR	$ 5,989	30.9%
	Washington Mutual Bank*	Seattle	WA	2,232	11.5%
	Washington Federal Savings*	Seattle	WA	1,650	8.5%
	Sterling Savings Bank*	Spokane	WA	1,026	5.3%
	American Savings Bank	Honolulu	HI	1,017	5.2%
				$11,914	61.4%

* An asterisk indicates that an officer of the member was an FHLBank director in 2003.

(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 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, 2003, some of the 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 Dime Savings Bank of New York, FSB, a former member of the FHLBank of New York, which was acquired by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco, during 2002. The outstanding advances of Dime Savings Bank of New York, FSB, with the FHLBank of New York result from the acquisition.

(4) The amount relates to the outstanding advances of Bank United, a former member of the FHLBank of Dallas, which was acquired by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco during 2001. The outstanding advances of Bank United with the FHLBank of Dallas result from the acquisition.

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, 2003 and 2002 by their external accounting firm PricewaterhouseCoopers LLP (Dollar amounts in millions):

	2003	2002
Audit fees	$3.1	$2.0
Audit related fees	0.5	0.6
All other fees	0.4	0.4
Total fees	$4.0	$3.0

The audit fees as of the years ended December 31, 2003 and 2002, respectively, were for professional services rendered for the audits of the individual and combined financial statements of the FHLBanks.

The audit related fees as of the years ended December 31, 2003 and 2002, respectively, were for assurance and related services primarily related to accounting consultations and FHLBank capital plan conversions.

All other fees as of the years ended December 31, 2003 and 2002, respectively, were for services rendered for non-information system related consulting.

No fees were paid to the external accounting firm for financial information system design and implementation. The FHLBanks' audit committees and the OF board acting as the audit committee for the combined financial reports 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 Director, Accounting Policy & Financial Reporting's goals and objectives.
- Approving the external auditor's annual engagement letter, which shall require the external auditor to review the FHLBanks' combined financial statements prior to their inclusion in the FHLBanks' quarterly combined financial reports.
- Reviewing and approving audit plans of the external auditors relating to the combined financial statements.
- Reviewing the performance of the FHLBanks' external auditor.
- Making determinations regarding the appointment, renewal, or termination of the external auditor.
- Providing an independent, direct communication channel between the OF Board and the OF's Director, Internal Audit & Compliance, the FHLBanks' external auditors and Finance Board examiners.
- Conducting or authorizing investigations into any matters within the OF Board's scope or responsibilities as it relates to the FHLBanks' combined financial reports.
- Reviewing the programs and policies of the OF designed to ensure compliance with applicable laws, regulations and policies relating to the disclosure process supporting the FHLBanks' joint debt issuance programs and monitoring the results of these compliance efforts.
- Determining that no restrictions are imposed on combined audit scope.
- Determining the extent to which internal auditors review computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of a systems breakdown.
- Obtaining reasonable assurance that significant findings and recommendations made by the Director, Internal Audit & Compliance and external auditors relating to the FHLBanks' combined financial reports are received and discussed on a timely basis, including evaluating management's response to the findings and reports.
- Coordinating the OF's response to Finance Board examination reports as they relate to the FHLBanks' combined financial reports.
- Considering such other matters in relation to the preparation and publication of the FHLBanks' combined financial reports as the OF Board may, in its discretion, determine to be advisable.
- Prepare a report for inclusion in the FHLBanks' combined annual financial report describing the discharge of its responsibilities in this capacity, to the extent required by law.

Interaction with External Auditors

The continued independence of the independent auditors in accordance with professional auditing standards and Securities and Exchange Commission ("SEC") requirements, as practicable, shall be reviewed periodically with management, as well as with the external auditors. The Committee shall require annually the written statement and letter from the external auditors disclosing relationships between the system and the external auditors, consistent with Independence Standards Board Standard No. 1, and shall discuss with the external auditors their independence in fact, as well as consulting and other non-audit services provided by the external auditors, to determine any potential impact on independence.

Subsequent to each audit, the OF Board shall meet with the external auditors to review and discuss accounting and audit matters, including, but not limited to:

- Significant auditing or accounting areas of concern,
- New or unusual transactions, balances or financial statement disclosures of significance,
- The external auditors' judgments about the quality of the FHLBanks' combined accounting principles as applied,
- The representation letters provided to the external auditors by the FHLBanks,
- The level of support provided by each FHLBank's management, accounting and internal audit personnel, and
- Any other matters required to be discussed by Statement of Auditing Standards (SAS) 61 (as amended by SAS 90) and other concerns the external auditors have with respect to positions taken in the combined financial statements.

The OF Board shall also review and discuss any matters that the external auditors are required under professional auditing standards to communicate to the OF Board, such as:

- Significant audit adjustments,
- Disagreements with management, and
- Any irregularities or illegal acts detected during the audit.

The OF Board will also review the responses of management with regard to these matters.

Prior to release to the public, the annual combined audited financial statements of the FHLBanks shall be reviewed by the OF Board and discussed with management and the external auditors. The purpose of the review shall be to determine whether to accept the audited financial statements presented to it for publication in the annual financial report. The OF Board shall inquire about the following:

- Significant variations in financial information between reporting periods.
- Consistency of the Discussion and Analysis of Financial Condition and Results of Operations section of the annual financial report with information reflected in the combined financial statements.
- Changes or proposed changes in accounting standards or rules issued by the Financial Accounting Standards Board or the SEC or the Finance Board that have an impact on the financial statements.
- Significant reporting or operational issues affecting the combined financial statements.
- Accounting accruals, reserves and estimates made by management of the FHLBanks having a material impact on the financial statements.

The above responsibilities of the OF Board will be discharged through review of combined audit reports and discussions with the external auditors, and the Director, Accounting Policy & Financial Reporting. The Director, Internal Audit & Compliance and external auditors shall have access to the OF Board on matters concerning the financial reports without the need for any prior management knowledge or approval.

Charters

The OF Board shall review, assess the adequacy of, and, where appropriate, amend the Charter of the OF Board acting as "Audit Committee" in connection with the financial report function on an annual basis. Amendments to the Charter can be adopted and approved at any time. This Charter shall be re-adopted and re-approved not less often than every three years.

Meetings

The OF Board shall meet at least twice annually with the OF's Director, Accounting Policy & Financial Reporting. The OF Board shall meet in executive session with each of the Director, Internal Audit & Compliance, Director, Accounting Policy and Financial Reporting, the external auditors and other senior management of the OF at least annually to review the matters which are the subject of this charter. Written minutes shall be prepared for each meeting. The OF Board, or its chairman, shall also meet with the external auditors, the Director, Accounting Policy & Financial Reporting, and other senior management of the OF quarterly to review each quarterly financial report prior to its publication.