

## **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 2002 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The original 2002 FHLBanks Combined Financial Report is made available for informational purposes and historical reference only.

# FEDERAL HOME LOAN BANKS

2002

## UNAUDITED COMBINED FINANCIAL INFORMATION

The Federal Home Loan Banks Office of Finance is providing an unaudited Combined Statement of Condition as of December 31, 2002, and the unaudited Combined Statements of Income, Capital and Cash Flows for the year ended December 31, 2002. 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 2002 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 2002. 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](http://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, 2002. This document is available on the Federal Home Loan Banks' Office of Finance web site at: [www.fhfb-of.com](http://www.fhfb-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.fhfb-of.com](http://www.fhfb-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](http://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)

	<u>December 31,</u> <u>2002</u>
	<u>(As Restated)</u>
<b>ASSETS</b>	
Cash and due from banks .....	\$ 648
Interest-bearing deposits .....	23,865
Securities purchased under agreements to resell .....	5,243
Federal funds sold .....	46,681
Trading securities includes \$3,522 pledged .....	9,009
Available-for-sale securities includes \$1,787 pledged .....	11,538
Held-to-maturity securities includes \$1,749 pledged .....	110,047
Advances .....	489,338
Mortgage loans held for portfolio .....	60,467
Less: allowance for credit losses on mortgage loans .....	12
Mortgage loans held for portfolio, net .....	<u>60,455</u>
Accrued interest receivable .....	2,719
Premises and equipment, net .....	168
Derivative assets .....	2,792
Other assets .....	549
Total assets .....	<u>\$763,052</u>
<b>LIABILITIES</b>	
Deposits:	
Demand and overnight .....	\$ 25,053
Term .....	1,214
Other .....	<u>1,415</u>
Total deposits .....	<u>27,682</u>
Borrowings:	
Securities sold under agreements to repurchase .....	1,699
Other .....	<u>525</u>
Total borrowings .....	<u>2,224</u>
Consolidated obligations, net:	
Discount notes .....	146,814
Bonds .....	<u>526,569</u>
Total consolidated obligations, net .....	<u>673,383</u>
Accrued interest payable .....	4,997
Affordable Housing Program .....	643
Payable to REFCORP .....	72
Derivative liabilities .....	16,260
Other liabilities .....	<u>1,591</u>
Total liabilities .....	<u>726,852</u>
<b>CAPITAL</b>	
Capital Stock:	
Capital stock Class B putable (\$100 par value) — issued and outstanding shares: 77,330 shares .....	7,733
Capital stock Pre-conversion putable (\$100 par value) — issued and outstanding shares: 274,543 shares .....	<u>27,453</u>
Total capital stock .....	<u>35,186</u>
Retained earnings .....	716
Accumulated other comprehensive income:	
Net unrealized gains on available-for-sale securities .....	235
Net unrealized gains relating to hedging activities .....	64
Other .....	<u>(1)</u>
Total capital .....	<u>36,200</u>
Total liabilities and capital .....	<u>\$763,052</u>

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)

	<b>For the Year Ended December 31, 2002</b>
	<b>(As Restated)</b>
<b>INTEREST INCOME</b>	
Advances .....	\$11,401
Prepayment fees on advances, net .....	140
Interest-bearing deposits .....	409
Securities purchased under agreements to resell .....	107
Federal funds sold .....	894
Trading securities .....	548
Available-for-sale securities .....	265
Held-to-maturity securities .....	5,283
Mortgage loans held for portfolio .....	2,424
Other .....	<u>5</u>
Total interest income .....	<u>21,476</u>
<b>INTEREST EXPENSE</b>	
Consolidated obligations .....	17,280
Deposits .....	425
Securities sold under agreements to repurchase .....	46
Other borrowings .....	<u>3</u>
Total interest expense .....	<u>17,754</u>
<b>NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES</b> .....	3,722
Provision for credit losses .....	<u>9</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES</b> .....	<u>3,713</u>
<b>OTHER (LOSS) INCOME</b>	
Service fees .....	35
Net gains on trading securities .....	708
Net losses on derivatives and hedging activities .....	(1,931)
Other, net .....	<u>(23)</u>
Total other loss .....	<u>(1,211)</u>
<b>OTHER EXPENSE</b>	
Operating .....	393
Finance Board .....	26
Office of Finance .....	16
Other, net .....	<u>17</u>
Total other expense .....	<u>452</u>
<b>INCOME BEFORE ASSESSMENTS</b> .....	<u>2,050</u>
Affordable Housing Program .....	168
REFCORP .....	<u>375</u>
Total assessments .....	<u>543</u>
<b>NET INCOME</b> .....	<u><u>\$ 1,507</u></u>

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, 2002**

(Dollar amounts in millions)

	Capital Stock Class B*		Capital Stock Pre-conversion*		Total Capital Stock*		Retained Earnings	Accumulated Other Comprehensive Income	Total Capital
	Shares (In millions)	Par Value	Shares (In millions)	Par Value	Shares (In millions)	Par Value			
<b>BALANCE, DECEMBER 31, 2001 (As Restated)</b> .....		\$	332	\$33,288	332	\$33,288	\$ 749	\$ 59	\$34,096
Proceeds from sale of capital stock .....	4	439	95	9,258	99	9,697			9,697
Repurchase/redemption of capital stock .....	(10)	(937)	(76)	(7,633)	(86)	(8,570)			(8,570)
Conversion to Class B shares .....	81	8,119	(81)	(8,119)					
Comprehensive income:									
Net income .....							1,507		1,507
Other comprehensive income:									
Net unrealized gains on available-for-sale securities .....								180	180
Net unrealized gains relating to hedging activities .....								122	122
Reclassification adjustment for gains included in net income relating to hedging activities .....								(62)	(62)
Other .....								(1)	(1)
Total comprehensive income .....									1,746
Dividends on capital stock:									
Cash .....	1	112	6	659	7	771	(769)		(769)
Stock .....							(771)		
<b>BALANCE, DECEMBER 31, 2002 (As Restated)</b> .....	<u>76</u>	<u>\$7,733</u>	<u>276</u>	<u>\$27,453</u>	<u>352</u>	<u>\$35,186</u>	<u>\$ 716</u>	<u>\$298</u>	<u>\$36,200</u>

\* Puttable

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)**

	<b>For the Year  Ended  December 31,  2002</b> <hr/> <b>(As Restated)</b>
<b>OPERATING ACTIVITIES</b>	
Net income .....	\$ 1,507
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 .....	(255)
Concessions on consolidated obligation bonds .....	300
Net deferred losses on derivatives .....	6
Premises and equipment .....	29
Other .....	(3)
Provision for credit losses .....	9
Net realized gains from sale of held-to-maturity securities .....	(1)
Gains due to change in net fair value adjustment on derivative and hedging activities .....	(287)
Losses on extinguishment of debt .....	25
Net realized losses on disposal of premises and equipment .....	1
Net change in:	
Trading securities, net of transfers and transition adjustments .....	(1,251)
Accrued interest receivable .....	18
Derivative assets-net accrued interest .....	368
Derivative liabilities-net accrued interest .....	1,195
Other assets .....	(94)
Affordable Housing Program (AHP) liability and discount on AHP advances .....	(29)
Accrued interest payable .....	(755)
Payable to REFCORP. ....	(115)
Other liabilities .....	896
Total adjustments .....	<u>57</u>
Net cash provided by operating activities .....	<u>1,564</u>

	For the Year Ended December 31, 2002 <u>(As Restated)</u>
<b>INVESTING ACTIVITIES</b>	
Net change in:	
Interest-bearing deposits .....	\$ (4,550)
Securities purchased under agreements to resell .....	2,707
Federal funds sold .....	1,713
Short-term held-to-maturity securities .....	1,222
Principal collected on other loans .....	(40)
Premises and equipment .....	(60)
Held-to-maturity securities:	
Proceeds from sales .....	77
Proceeds from maturities .....	50,444
Purchases .....	(60,930)
Available-for-sale securities:	
Proceeds from sales .....	619
Proceeds from maturities .....	57,633
Purchases .....	(62,493)
Advances:	
Principal collected .....	4,030,883
Made .....	(4,038,070)
Mortgage loans held for portfolio:	
Principal collected .....	12,918
Purchased .....	<u>(45,734)</u>
Net cash used in investing activities .....	<u>(53,661)</u>
<b>FINANCING ACTIVITIES</b>	
Net change in:	
Deposits .....	\$ 1,951
Securities sold under agreements to repurchase .....	300
Other borrowings .....	774
Net proceeds from issuance of consolidated obligations:	
Discount notes .....	4,135,259
Bonds .....	431,864
Payments for maturing and retiring consolidated obligations:	
Discount notes .....	(4,127,789)
Bonds .....	(390,272)
Proceeds from issuance of capital stock .....	9,697
Payments for redemption/repurchase of capital stock .....	(8,570)
Cash dividends paid .....	<u>(781)</u>
Net cash provided by financing activities .....	<u>52,433</u>
Net increase in cash and cash equivalents .....	336
Cash and cash equivalents at beginning of the year .....	<u>312</u>
Cash and cash equivalents at end of the year .....	<u>\$ 648</u>
<b>Supplemental Disclosure:</b>	
Interest paid .....	\$ 18,211

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.

*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.

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

*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 2002 Combined Financial Statements**

The combined financial statements of the 12 FHLBanks have been restated as of and for the year ended December 31, 2002 as a result of restatements at seven of the 12 FHLBanks, as discussed in detail below. 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.

All of the above restatements are summarized in the following chart:

<b>Restatement of Financial Statements (Net Income Effect)</b>						
<b>(Dollar amounts in millions)</b>						
<b>FHLBank:</b>	<b>SFAS 133 Accounting Errors</b>			<b>SFAS 91 or Amortization Errors</b>	<b>Correction for Errors Previously Identified as Immaterial</b>	<b>Total Change in Net Income</b>
	<b>Short-Cut Methodology</b>	<b>Long-Haul/ Effectiveness/ Valuation Issues</b>	<b>Miscellaneous SFAS 133 Adjustments</b>			
Atlanta . . . . .	\$ (13)	\$	\$	\$	\$	\$ (13)
Chicago . . . . .		(23)				(23)
Dallas . . . . .	(119)	(7)		1		(125)
Des Moines . . . . .	(11)					(11)
Indianapolis . . . . .	(43)				(5)	(48)
Pittsburgh . . . . .	(1)	(77)		3		(75)
Topeka . . . . .	(1)	(1)	6		(1)	3
Total . . . . .	<u>\$ (188)</u>	<u>\$ (108)</u>	<u>\$ 6</u>	<u>\$ 4</u>	<u>\$ (6)</u>	<u>\$ (292)</u>

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 deriva-

tives, 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, 2002

(Dollar amounts in millions)

	<u>As Previously Reported</u>	<u>Pittsburgh</u>	<u>Atlanta</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>Reclassification/ Rounding</u>	<u>As Restated</u>
<b>ASSETS</b>										
Cash and due from banks	\$ 658		\$ (10)		\$	\$ (1)	\$	\$	\$ 25	\$ 648
Trading securities	8,985					1				9,009
Available-for-sale securities	11,531	2		4						11,538
Held-to-maturity securities	110,050	(2)						(1)		110,047
Advances	489,598	(11)	(205)	(1)		(37)		(5)		489,338
Mortgage loans held for portfolio	60,567	(99)								60,467
Less: allowance for credit losses on mortgages loans	13									12
Mortgage loans held for portfolio, net	60,554	(99)								60,455
Accrued interest receivable	3,036	(317)								2,719
Premises and equipment, net	160		6					2		168
Derivative assets	2,812	(32)	11					1		2,792
Other assets	458	26	26	9		1	31	(2)		549
Total assets	\$763,631	\$ (433)	\$ (172)	\$ 12	\$	\$ (36)	\$ 31	\$ (5)	\$ 24	\$763,052
<b>LIABILITIES</b>										
Deposits:										
Demand and overnight	\$ 24,931		\$ 121		\$	\$ 1	\$	\$	\$	\$ 25,053
Term	1,214	1							(1)	1,214
Other	1,465		(50)							1,415
Total deposits	27,610	1	71			1			(1)	27,682
Consolidated obligations, net:										
Bonds	526,895	(307)	6			(8)	(58)	17	24	526,569
Total consolidated obligations, net	673,709	(307)	6			(8)	(58)	17	24	673,383
Accrued interest payable	4,997	1	(1)							4,997
Affordable Housing Program	695	(9)	(17)	(8)	(2)	(2)	(14)	(1)		643
Payable to REFCORP	110	(3)	(13)	(8)	(5)	(4)	(2)	(2)		72
Derivative liabilities	16,301	(33)	(3)	4		(1)		(11)		16,260
Other liabilities	1,661	(1)	(69)			(2)			2	1,591
Total liabilities	727,307	(351)	(23)	(12)	(7)	(16)	(74)	3	25	726,852
<b>CAPITAL</b>										
Capital stock Pre-conversion putable (\$100 par value) — issued and outstanding	27,454								(1)	27,453
Total capital stock	35,187								(1)	35,186
Retained earnings	1,191	(82)	(149)	(69)	(21)	(19)	(126)	(8)		716
Accumulated other comprehensive income:										
Net unrealized gains (losses) on available-for sale securities	491	(1)		93		(1)	(347)			235
Net unrealized (losses) gains relating to hedging activities	(544)				28		578		1	64
Total capital	36,324	(82)	(149)	24	7	(20)	105	(8)	(1)	36,200
Total liabilities and capital	\$763,631	\$ (433)	\$ (172)	\$ 12	\$	\$ (36)	\$ 31	\$ (5)	\$ 24	\$763,052

**Reconciliation of Statements of Income  
For the Year Ended December 31, 2002  
(Dollar amounts in millions)**

	<u>As Previously Reported</u>	<u>Pittsburgh</u>	<u>Atlanta</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>Reclassification/ Rounding</u>	<u>As Restated</u>
<b>INTEREST INCOME</b>										
Advances	\$ 11,234	\$ 6	\$ 177	\$ 2	\$(29)	\$ 11	\$ 4	\$ 3	\$ 107	\$ 11,401
Prepayment fees on advances, net	886	1	15	3	8	6				140
Federal funds sold	680		(131)						(1)	548
Trading securities	165			32			70		(2)	265
Available-for-sale securities	5,148		132					(1)	4	5,283
Held-to-maturity securities	2,392	30							2	2,424
Mortgage loans held for portfolio			(1)						1	
Loans to other FHLBanks										
Total interest income	<u>21,026</u>	<u>37</u>	<u>192</u>	<u>37</u>	<u>(20)</u>	<u>17</u>	<u>74</u>	<u>2</u>	<u>111</u>	<u>21,476</u>
<b>INTEREST EXPENSE</b>										
Consolidated obligations	17,224	26	23		(34)	12	30		(1)	17,280
Deposits	423								2	425
Other borrowings	6								(3)	3
Total interest expense	<u>17,699</u>	<u>26</u>	<u>23</u>		<u>(34)</u>	<u>12</u>	<u>30</u>		<u>(2)</u>	<u>17,754</u>
<b>NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES</b>	<u>3,327</u>	<u>11</u>	<u>169</u>	<u>37</u>	<u>14</u>	<u>5</u>	<u>44</u>	<u>2</u>	<u>113</u>	<u>3,722</u>
Provision for credit losses	6	3								9
<b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES</b>	<u>3,321</u>	<u>8</u>	<u>169</u>	<u>37</u>	<u>14</u>	<u>5</u>	<u>44</u>	<u>2</u>	<u>113</u>	<u>3,713</u>
<b>OTHER INCOME (LOSS)</b>										
Prepayment fees	142	(1)	(15)	(3)	(1)	(6)	(4)	(3)	(109)	35
Service fees	36								(1)	708
Net gains (losses) on trading securities	707		1							
Net realized gains (losses) from sale of held-to-maturity securities	1								(1)	
Net losses on derivatives and hedging activities	(1,288)	(113)	(171)	(99)	(44)	(14)	(210)	5	3	(1,931)
Other, net	(19)								(4)	(23)
Total other (loss) income	<u>(421)</u>	<u>(114)</u>	<u>(185)</u>	<u>(102)</u>	<u>(45)</u>	<u>(20)</u>	<u>(214)</u>	<u>2</u>	<u>(112)</u>	<u>(1,211)</u>
<b>OTHER EXPENSE</b>										
Operating	396	(4)								393
Finance Board	23		1						2	26
Office of Finance	17								(1)	16
Other	16								1	17
Total other expense	<u>452</u>	<u>(4)</u>	<u>1</u>				<u>1</u>		<u>2</u>	<u>452</u>
<b>INCOME BEFORE ASSESSMENTS</b>	<u>2,448</u>	<u>(102)</u>	<u>(17)</u>	<u>(65)</u>	<u>(31)</u>	<u>(15)</u>	<u>(171)</u>	<u>4</u>	<u>(1)</u>	<u>2,050</u>
Affordable Housing Program	199	(8)	(1)	(5)	(2)	(1)	(14)		(1)	168
REFCORP	450	(19)	(3)	(12)	(6)	(3)	(32)	1	(1)	375
Total assessments	<u>649</u>	<u>(27)</u>	<u>(4)</u>	<u>(17)</u>	<u>(8)</u>	<u>(4)</u>	<u>(46)</u>	<u>1</u>	<u>(1)</u>	<u>543</u>
<b>NET INCOME</b>	<u>\$ 1,799</u>	<u>\$ (75)</u>	<u>\$ (13)</u>	<u>\$ (48)</u>	<u>\$ (23)</u>	<u>\$ (11)</u>	<u>\$ (125)</u>	<u>\$ 3</u>	<u>\$</u>	<u>\$ 1,507</u>

**Reconciliation of Statements of Capital  
For the Year Ended December 31, 2002  
(Dollar amounts in millions)**

	<u>As Previously Reported</u>	<u>Pittsburgh</u>	<u>Atlanta</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>Reclassification/ Rounding</u>	<u>As Restated</u>
<b>TOTAL CAPITAL</b>										
<b>BALANCE, DECEMBER 31, 2001</b> . . . . .	\$34,218	\$ (6)	\$(136)	\$(10)	\$(1)	\$ (9)	\$ 52	\$(12)	\$	\$34,096
Proceeds from sale of capital stock . . . . .	9,698								(1)	9,697
Comprehensive income:										
Net income . . . . .	1,799	(75)	(13)	(48)	(23)	(11)	(125)	3		1,507
Other comprehensive income:										
Net unrealized gains (losses) on available-for-sale securities . . . . .	314	1		82		(1)	(216)			180
Reclassification adjustment for losses (gains) included in net income relating to available-for-sale securities . . . . .	2	(2)								
Net unrealized (losses) gains relating to hedging activities . . . . .	(304)				31		394	1		122
Total comprehensive income . . . . .	1,748	(76)	(13)	34	8	(12)	53	4		1,746
Dividend on capital stock:										
Cash . . . . .	(770)					1				(769)
<b>BALANCE, DECEMBER 31, 2002</b> . . . . .	\$36,324	\$ (82)	\$(149)	\$ 24	\$ 7	\$(20)	\$ 105	\$ (8)	\$(1)	\$36,200

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**FEDERAL HOME LOAN BANKS**  
**UNAUDITED COMBINING SCHEDULES — STATEMENTS OF CONDITION**  
**DECEMBER 31, 2002**  
**(Dollar amounts in millions)**

	<u>Combined</u> <u>(Restated)</u>	<u>Combining</u> <u>Adjustments</u> <u>(Restated)</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u> <u>(Restated)</u>	<u>Atlanta</u> <u>(Restated)</u>
<b>ASSETS</b>						
Cash and due from banks	\$ 648	\$	\$ 14	\$ 65	\$ 131	\$ 75
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
Trading securities	9,009	(561)	571		1,223	3,635
Available-for-sale securities	11,538	(369)	1,159		423	
Held-to-maturity securities	110,047	(179)	6,564	12,967	6,986	13,557
Advances	489,338		26,931	68,926	29,251	82,244
Mortgage loans held for portfolio	60,467		2,489	436	4,853	686
Less: allowance for credit losses on mortgages loans	12		1	1	1	1
Mortgage loans held for portfolio, net	60,455		2,488	435	4,852	685
Loans to other FHLBanks		(240)		50	190	
Accrued interest receivable	2,719	(16)	161	377	208	489
Premises and equipment, net	168		6	15	9	36
Derivative assets	2,792		96	142	212	543
Other assets	549		15	48	63	89
Total assets	<u>\$763,052</u>	<u>\$(1,435)</u>	<u>\$41,477</u>	<u>\$93,606</u>	<u>\$45,122</u>	<u>\$107,122</u>
<b>LIABILITIES</b>						
Deposits:						
Demand and overnight	\$ 25,053	\$	\$ 1,746	\$ 2,480	\$ 2,247	\$ 5,584
Term	1,214		38	255	33	41
Deposits from other FHLBanks for mortgage loan programs		(70)				
Other	1,415		6	8	135	364
Total deposits	27,682	(70)	1,790	2,743	2,415	5,989
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	526,569	(1,109)	28,903	61,501	28,660	89,014
Total consolidated obligations, net	673,383	(1,109)	35,910	83,512	39,055	90,370
Accrued interest payable	4,997	(16)	305	539	298	827
Affordable Housing Program	643		31	110	17	85
Payable to REFCORP	72		6	14		
Derivative liabilities	16,260		890	2,356	1,483	4,860
Other liabilities	1,591		60	36	36	414
Total liabilities	726,852	(1,435)	39,182	89,310	43,304	102,545
<b>CAPITAL</b>						
Capital Stock:						
Capital stock Class B putable (\$100 par value) — issued and outstanding	7,733				1,840	
Capital stock Pre-conversion putable (\$100 par value) — issued and outstanding	27,453		2,278	4,051		4,497
Total capital stock	35,186		2,278	4,051	1,840	4,497
Retained earnings	716		45	245	(16)	80
Accumulated other comprehensive income:						
Net unrealized gains (losses) on available-for sale securities	235		(32)		(5)	
Net unrealized gains (losses) relating to hedging activities	64		4		(1)	
Other	(1)					
Total capital	36,200		2,295	4,296	1,818	4,577
Total liabilities and capital	<u>\$763,052</u>	<u>\$(1,435)</u>	<u>\$41,477</u>	<u>\$93,606</u>	<u>\$45,122</u>	<u>\$107,122</u>

<u>Cincinnati</u>	<u>Indianapolis</u> (Restated)	<u>Chicago</u> (Restated)	<u>Des Moines</u> (Restated)	<u>Dallas</u> (Restated)	<u>Topeka</u> (Restated)	<u>San Francisco</u>	<u>Seattle</u>
\$ 13	\$ 50	\$ 4	\$ 103	\$ 166	\$ 2,228	\$ 9	\$ 18
3,753			494	520		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
20	103	2,328	65	326	514	533	252
786	1,612	1,383	779	5,765			
10,604	5,537	5,629	5,254	6,054	6,840	17,879	12,355
40,063	28,944	24,945	23,971	36,869	25,921	81,237	20,036
3,767	5,411	26,191	5,664	1,396	200	262	9,112
		5	3				
<u>3,767</u>	<u>5,411</u>	<u>26,186</u>	<u>5,661</u>	<u>1,396</u>	<u>200</u>	<u>262</u>	<u>9,112</u>
210	125	258	66	182	121	285	253
5	11	32	6	26	12	7	3
180	33	423	48	356	163	519	77
24	30	33	20	60	115	38	14
<u>\$ 71,071</u>	<u>\$42,885</u>	<u>\$65,046</u>	<u>\$42,218</u>	<u>\$55,166</u>	<u>\$37,961</u>	<u>\$116,129</u>	<u>\$ 46,684</u>
\$ 1,968	\$ 1,447	\$ 2,375	\$ 1,611	\$ 2,229	\$ 1,469	\$ 352	\$ 1,545
165		235	24	185	26	35	177
		70					
199	6	368		227	49	20	33
<u>2,332</u>	<u>1,453</u>	<u>3,048</u>	<u>1,635</u>	<u>2,641</u>	<u>1,544</u>	<u>407</u>	<u>1,755</u>
			50				
		1,399	300				
						525	
		<u>1,399</u>	<u>350</u>			<u>525</u>	
25,617	13,858	14,526	7,758	12,873	8,540	12,447	10,426
37,417	23,710	41,244	29,565	35,862	24,837	95,822	31,143
<u>63,034</u>	<u>37,568</u>	<u>55,770</u>	<u>37,323</u>	<u>48,735</u>	<u>33,377</u>	<u>108,269</u>	<u>41,569</u>
346	252	401	292	420	271	715	347
82	28	45	18	19	23	132	53
12		12			3	14	11
1,624	1,539	437	709	673	1,022	345	322
30	22	569	6	76	60	37	245
<u>67,460</u>	<u>40,862</u>	<u>61,681</u>	<u>40,333</u>	<u>52,564</u>	<u>36,300</u>	<u>110,444</u>	<u>44,302</u>
3,548							2,345
	1,956	3,125	1,858	2,471	1,631	5,586	
<u>3,548</u>	<u>1,956</u>	<u>3,125</u>	<u>1,858</u>	<u>2,471</u>	<u>1,631</u>	<u>5,586</u>	<u>2,345</u>
64	(21)	169	31	(49)	30	101	37
	88	8	(4)	180			
		63				(2)	
(1)							
3,611	2,023	3,365	1,885	2,602	1,661	5,685	2,382
<u>\$ 71,071</u>	<u>\$42,885</u>	<u>\$65,046</u>	<u>\$42,218</u>	<u>\$55,166</u>	<u>\$37,961</u>	<u>\$116,129</u>	<u>\$ 46,684</u>

**FEDERAL HOME LOAN BANKS**  
**UNAUDITED COMBINING SCHEDULES — STATEMENTS OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

(Dollar amounts in millions)

	<u>Combined</u> (Restated)	<u>Combining</u> <u>Adjustments</u> (Restated)	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u> (Restated)	<u>Atlanta</u> (Restated)
<b>INTEREST INCOME</b>						
Advances	\$11,401	\$	\$ 806	\$1,644	\$ 616	\$1,748
Prepayment fees on advances, net	140		29	40	1	15
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	894		73	47	18	120
Trading securities	548	(38)	40		84	189
Available-for-sale securities	265	(25)	18		16	
Held-to-maturity securities	5,283	(28)	302	725	361	720
Mortgage loans held for portfolio	2,424		72	26	181	40
Loans to other FHLBanks		(5)		3	1	
Other	5					
<b>Total interest income</b>	<u>21,476</u>	<u>(97)</u>	<u>1,382</u>	<u>2,599</u>	<u>1,298</u>	<u>2,859</u>
<b>INTEREST EXPENSE</b>						
Consolidated obligations	17,280	(91)	1,182	2,167	1,043	2,107
Deposits	425		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	3				1	
<b>Total interest expense</b>	<u>17,754</u>	<u>(97)</u>	<u>1,212</u>	<u>2,210</u>	<u>1,085</u>	<u>2,196</u>
<b>NET INTEREST INCOME BEFORE</b>						
<b>PROVISION FOR CREDIT LOSSES</b>	3,722		170	389	213	663
Provision for credit losses	9		1	1	4	
<b>NET INTEREST INCOME AFTER</b>						
<b>PROVISION FOR CREDIT LOSSES</b>	<u>3,713</u>		<u>169</u>	<u>388</u>	<u>209</u>	<u>663</u>
<b>OTHER (LOSS) INCOME</b>						
Service fees	35		2	4	7	3
Net gains (losses) on trading securities	708		7		7	288
Net losses on derivatives and hedging activities	(1,931)		(25)	(9)	(223)	(532)
Other, net	(23)		(19)	(27)	(2)	1
<b>Total other (loss) income</b>	<u>(1,211)</u>		<u>(35)</u>	<u>(32)</u>	<u>(211)</u>	<u>(240)</u>
<b>OTHER EXPENSE</b>						
Operating	393		28	39	32	49
Finance Board	26		2	3	2	3
Office of Finance	16		1	1	1	2
Other, net	17			(6)		5
<b>Total other expense</b>	<u>452</u>		<u>31</u>	<u>37</u>	<u>35</u>	<u>59</u>
<b>INCOME BEFORE ASSESSMENTS</b>						
Affordable Housing Program	168		8	26	(3)	30
REFCORP	375		19	59	(7)	67
<b>Total assessments</b>	<u>543</u>		<u>27</u>	<u>85</u>	<u>(10)</u>	<u>97</u>
<b>NET INCOME</b>	<u>\$ 1,507</u>	<u>\$</u>	<u>\$ 76</u>	<u>\$ 234</u>	<u>\$ (27)</u>	<u>\$ 267</u>

<u>Cincinnati</u>	<u>Indianapolis</u> (Restated)	<u>Chicago</u> (Restated)	<u>Des Moines</u> (Restated)	<u>Dallas</u> (Restated)	<u>Topeka</u> (Restated)	<u>San Francisco</u>	<u>Seattle</u>
\$ 870	\$ 660	\$ 590	\$ 605	\$ 841	\$552	\$1,818	\$ 651
26	3	1	6	4	3	9	3
81	8		5	5	39	78	20
		4	22			48	4
216	44	59	60	48	35	119	55
2	6	154	6	36	21	33	15
27	61	6	10	152			
520	306	226	178	154	289	820	710
107	178	1,240	262	92	8	2	216
		1					
				1	4		
<u>1,849</u>	<u>1,266</u>	<u>2,281</u>	<u>1,154</u>	<u>1,333</u>	<u>951</u>	<u>2,927</u>	<u>1,674</u>
1,554	1,006	1,674	985	1,070	796	2,396	1,391
30	26	46	26	40	27	7	28
		1					
			3				
		36	2				2
					2		
<u>1,584</u>	<u>1,032</u>	<u>1,757</u>	<u>1,016</u>	<u>1,110</u>	<u>825</u>	<u>2,403</u>	<u>1,421</u>
265	234	524	138	223	126	524	253
		2		1			
<u>265</u>	<u>234</u>	<u>522</u>	<u>138</u>	<u>222</u>	<u>126</u>	<u>524</u>	<u>253</u>
2	6	1	3	3	1	1	2
(1)	7	295	(2)	10	45	23	29
(1)	(108)	(490)	(55)	(270)	(76)	(83)	(59)
4	1	9	3	1	2	3	1
4	(94)	(185)	(51)	(256)	(28)	(56)	(27)
21	27	49	23	32	18	53	22
2	1	2	1	2	1	5	2
2	1	1	1	1	1	3	1
1	1	6				9	1
26	30	58	25	35	20	70	26
243	110	279	62	(69)	78	398	200
20	9	23	5	(6)	6	33	17
45	20	51	11	(13)	14	73	36
65	29	74	16	(19)	20	106	53
<u>\$ 178</u>	<u>\$ 81</u>	<u>\$ 205</u>	<u>\$ 46</u>	<u>\$ (50)</u>	<u>\$ 58</u>	<u>\$ 292</u>	<u>\$ 147</u>

**FEDERAL HOME LOAN BANKS**  
**UNAUDITED COMBINING SCHEDULES — STATEMENTS OF CAPITAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

(Shares in millions)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>CAPITAL STOCK CLASS B</b>						
<b>PUTABLE SHARES</b>						
<b>BALANCE, DECEMBER 31, 2001</b>						
Proceeds from sale of capital stock . . . . .	4				4	
Repurchase/redemption of capital stock . . .	(10)				(7)	
Conversion to Class B shares . . . . .	81				21	
Capital stock dividends . . . . .	1					
<b>BALANCE, DECEMBER 31, 2002 . . . . .</b>	<u>76</u>	==	==	==	<u>18</u>	==
<b>CAPITAL STOCK PRE-CONVERSION</b>						
<b>PUTABLE SHARES</b>						
<b>BALANCE, DECEMBER 31, 2001 . . . . .</b>						
Proceeds from sale of capital stock . . . . .	332		20	37	19	41
Repurchase/redemption of capital stock . . .	(76)		3	(6)	(33)	(8)
Conversion to Class B shares . . . . .	(81)				(21)	
Capital stock dividends . . . . .	6					
<b>BALANCE, DECEMBER 31, 2002 . . . . .</b>	<u>276</u>	==	<u>23</u>	<u>41</u>	==	<u>45</u>
<b>TOTAL CAPITAL PUTABLE SHARES</b>						
<b>BALANCE, DECEMBER 31, 2001 . . . . .</b>						
Proceeds from sale of capital stock . . . . .	332		20	37	19	41
Repurchase/redemption of capital stock . . .	(86)			(6)	(40)	(8)
Capital stock dividends . . . . .	7					
<b>BALANCE, DECEMBER 31, 2002 . . . . .</b>	<u>352</u>	==	<u>23</u>	<u>41</u>	<u>18</u>	<u>45</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
							(3)
35							25
							1
<u>35</u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>23</u>
32	17	24	15	21	14	68	24
3	3	11	4	4	4	5	1
(1)		(5)		(1)	(2)	(20)	
(35)							(25)
<u>1</u>	<u>    </u>	<u>1</u>	<u>    </u>	<u>1</u>	<u>    </u>	<u>3</u>	<u>    </u>
<u>    </u>	<u>20</u>	<u>31</u>	<u>19</u>	<u>25</u>	<u>16</u>	<u>56</u>	<u>    </u>
32	17	24	15	21	14	68	24
3	3	11	4	4	4	5	1
(1)		(5)		(1)	(2)	(20)	(3)
<u>1</u>	<u>    </u>	<u>1</u>	<u>    </u>	<u>1</u>	<u>    </u>	<u>3</u>	<u>1</u>
<u>35</u>	<u>20</u>	<u>31</u>	<u>19</u>	<u>25</u>	<u>16</u>	<u>56</u>	<u>23</u>

**FEDERAL HOME LOAN BANKS**  
**UNAUDITED COMBINING SCHEDULES — STATEMENTS OF CAPITAL (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>CAPITAL STOCK CLASS B</b>						
<b>PUTABLE PAR VALUE</b>						
<b>BALANCE, DECEMBER 31, 2001</b> .....	\$	\$	\$	\$	\$	\$
Proceeds from sale of capital stock .....	439				421	
Repurchase/redemption of capital stock .....	(937)				(648)	
Conversion to Class B shares .....	8,119				2,067	
Capital stock dividends .....	112					
<b>BALANCE, DECEMBER 31, 2002</b> .....	<u>\$ 7,733</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$1,840</u>	<u>\$</u>
<b>CAPITAL STOCK PRE-CONVERSION</b>						
<b>PUTABLE PAR VALUE</b>						
<b>BALANCE, DECEMBER 31, 2001</b> .....	\$33,288	\$	\$1,985	\$3,733	\$1,889	\$4,127
Proceeds from sale of capital stock .....	9,258		299	968	3,494	1,121
Repurchase/redemption of capital stock .....	(7,633)		(6)	(650)	(3,316)	(751)
Conversion to Class B shares .....	(8,119)				(2,067)	
Capital stock dividends .....	659					
<b>BALANCE, DECEMBER 31, 2002</b> .....	<u>\$27,453</u>	<u>\$</u>	<u>\$2,278</u>	<u>\$4,051</u>	<u>\$</u>	<u>\$4,497</u>
<b>TOTAL CAPITAL STOCK</b>						
<b>PUTABLE PAR VALUE</b>						
<b>BALANCE, DECEMBER 31, 2001</b> .....	\$33,288	\$	\$1,985	\$3,733	\$1,889	\$4,127
Proceeds from sale of capital stock .....	9,697		299	968	3,915	1,121
Repurchase/redemption of capital stock .....	(8,570)		(6)	(650)	(3,964)	(751)
Capital stock dividends .....	771					
<b>BALANCE, DECEMBER 31, 2002</b> .....	<u>\$35,186</u>	<u>\$</u>	<u>\$2,278</u>	<u>\$4,051</u>	<u>\$1,840</u>	<u>\$4,497</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$	\$	\$	\$	\$	\$	\$	\$
							18
							(289)
3,508							2,544
40							72
<u>\$ 3,548</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,345</u>
\$ 3,198	\$ 1,741	\$2,394	\$1,539	\$2,143	\$1,396	\$ 6,752	\$ 2,391
276	263	1,088	360	392	406	503	88
(82)	(48)	(505)	(41)	(133)	(171)	(1,922)	(8)
(3,508)							(2,544)
116		148		69		253	73
<u>\$</u>	<u>\$ 1,956</u>	<u>\$3,125</u>	<u>\$1,858</u>	<u>\$2,471</u>	<u>\$1,631</u>	<u>\$ 5,586</u>	<u>\$</u>
\$ 3,198	\$ 1,741	\$2,394	\$1,539	\$2,143	\$1,396	\$ 6,752	\$ 2,391
276	263	1,088	360	392	406	503	106
(82)	(48)	(505)	(41)	(133)	(171)	(1,922)	(297)
156		148		69		253	145
<u>\$ 3,548</u>	<u>\$ 1,956</u>	<u>\$3,125</u>	<u>\$1,858</u>	<u>\$2,471</u>	<u>\$1,631</u>	<u>\$ 5,586</u>	<u>\$ 2,345</u>

**FEDERAL HOME LOAN BANKS**  
**UNAUDITED COMBINING SCHEDULES — STATEMENTS OF CAPITAL (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

(Dollar amounts in millions)

	<u>Combined</u> (Restated)	<u>Combining</u> <u>Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u> (Restated)	<u>Atlanta</u> (Restated)
<b>RETAINED EARNINGS</b>						
<b>BALANCE, DECEMBER 31, 2001</b> .....	\$ 749	\$	\$ 47	\$ 177	\$ 80	\$ 38
Net income .....	1,507		76	234	(27)	267
Dividends on capital stock:						
Cash .....	(769)		(78)	(166)	(69)	(225)
Stock .....	(771)					
<b>BALANCE, DECEMBER 31, 2002</b> .....	<u>\$ 716</u>	<u>\$</u>	<u>\$ 45</u>	<u>\$ 245</u>	<u>\$ (16)</u>	<u>\$ 80</u>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>						
<b>BALANCE, DECEMBER 31, 2001</b> .....	\$ 59	\$	\$ 1	\$	\$ 3	\$
Net unrealized gains (losses) on available-for-sale securities .....	180		(21)		(6)	
Net unrealized gains (losses) relating to hedging activities .....	122		(8)		(3)	
Reclassification adjustment for (gains) losses included in net income relating to hedging activities .....	(62)					
Other .....	(1)					
<b>BALANCE, DECEMBER 31, 2002</b> .....	<u>\$ 298</u>	<u>\$</u>	<u>\$ (28)</u>	<u>\$</u>	<u>\$ (6)</u>	<u>\$</u>
<b>TOTAL CAPITAL</b>						
<b>BALANCE, DECEMBER 31, 2001</b> .....	\$34,096	\$	\$2,033	\$3,910	\$ 1,972	\$4,165
Proceeds from sale of capital stock .....	9,697		299	968	3,915	1,121
Repurchase/redemption of capital stock .....	(8,570)		(6)	(650)	(3,964)	(751)
Comprehensive income:						
Net income .....	1,507		76	234	(27)	267
Other comprehensive income:						
Net unrealized gains (losses) on available-for-sale securities .....	180		(21)		(6)	
Net unrealized gains (losses) relating to hedging activities .....	122		(8)		(3)	
Reclassification adjustment for (gains) losses included in net income relating to hedging activities .....	(62)					
Other .....	(1)					
Total comprehensive income .....	<u>1,746</u>		<u>47</u>	<u>234</u>	<u>(36)</u>	<u>267</u>
Dividends on capital stock:						
Cash .....	(769)		(78)	(166)	(69)	(225)
<b>BALANCE, DECEMBER 31, 2002</b> .....	<u>\$36,200</u>	<u>\$</u>	<u>\$2,295</u>	<u>\$4,296</u>	<u>\$ 1,818</u>	<u>\$4,577</u>

<u>Cincinnati</u>	<u>Indianapolis</u> (Restated)	<u>Chicago</u> (Restated)	<u>Des Moines</u> (Restated)	<u>Dallas</u> (Restated)	<u>Topeka</u> (Restated)	<u>San Francisco</u>	<u>Seattle</u>
\$ 42	\$ 12	\$ 112	\$ 34	\$ 70	\$ 40	\$ 62	\$ 35
178	81	205	46	(50)	58	292	147
	(114)		(49)		(68)		
(156)		(148)		(69)		(253)	(145)
<u>\$ 64</u>	<u>\$ (21)</u>	<u>\$ 169</u>	<u>\$ 31</u>	<u>\$ (49)</u>	<u>\$ 30</u>	<u>\$ 101</u>	<u>\$ 37</u>
\$	\$ 10	\$ (4)	\$	\$ 55	\$ (1)	\$ (5)	\$
	78	8	(4)	125			
		133			1	(1)	
		(66)				4	
(1)							
<u>\$ (1)</u>	<u>\$ 88</u>	<u>\$ 71</u>	<u>\$ (4)</u>	<u>\$ 180</u>	<u>\$</u>	<u>\$ (2)</u>	<u>\$</u>
\$3,240	\$1,763	\$2,502	\$1,573	\$2,268	\$1,435	\$ 6,809	\$2,426
276	263	1,088	360	392	406	503	106
(82)	(48)	(505)	(41)	(133)	(171)	(1,922)	(297)
178	81	205	46	(50)	58	292	147
	78	8	(4)	125			
		133			1	(1)	
		(66)				4	
(1)							
<u>177</u>	<u>159</u>	<u>280</u>	<u>42</u>	<u>75</u>	<u>59</u>	<u>295</u>	<u>147</u>
	(114)		(49)		(68)		
<u>\$3,611</u>	<u>\$2,023</u>	<u>\$3,365</u>	<u>\$1,885</u>	<u>\$2,602</u>	<u>\$1,661</u>	<u>\$ 5,685</u>	<u>\$2,382</u>

**FEDERAL HOME LOAN BANKS**  
**UNAUDITED COMBINING SCHEDULES — STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

(Dollar amounts in millions)

	<u>Combined</u> (Restated)	<u>Combining</u> <u>Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u> (Restated)	<u>Atlanta</u> (Restated)
<b>OPERATING ACTIVITIES</b>						
Net income	\$ 1,507	\$	\$ 76	\$ 234	\$ (27)	\$ 267
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 derivatives	(255)		(42)	162	(16)	42
Concessions on consolidated obligation bonds	300		7	24	25	60
Net deferred losses (gains) on derivatives	6			(1)		2
Premises and equipment	29		2	2	3	2
Other	(3)					
Provision for credit losses	9		1	1	4	
Net realized gains from sale of held-to-maturity securities	(1)					
(Gains) losses due to change in net fair value adjustment on derivative and hedging activities	(287)		13	2	(643)	250
Losses (gains) on extinguishment of debt	25		19		3	
Net realized losses on disposal of premises and equipment	1					
Net change in:						
Trading securities, net of transfers and transition adjustments	(1,251)	2	198		(56)	(1,012)
Accrued interest receivable	18	(30)	4	1	6	(3)
Derivative assets-net accrued interest	368			71	(90)	(43)
Derivative liabilities-net accrued interest	1,195		7	18	918	147
Other assets	(94)			(31)	12	(36)
Affordable Housing Program (AHP) liability and discount on AHP advances	(29)		(5)	5	(22)	5
Accrued interest payable	(755)	30	(20)	(92)	(43)	(133)
Payable to REFCORP.	(115)		2	(7)	(23)	(10)
Other liabilities	896		2	(12)	2	327
Total adjustments	57	2	188	143	80	(402)
Net cash provided by (used in) operating activities	1,564	2	264	377	53	(135)
<b>INVESTING ACTIVITIES</b>						
Net change in:						
Interest-bearing deposits	(4,550)		(590)	(1,734)	594	(1,243)
Securities purchased under agreements to resell	2,707		1,511			
Federal funds sold	1,713		1,012	(1,498)	145	4,148
Short-term held-to maturity securities	1,222				254	100
Deposits to other FHLBanks for mortgage loan programs		49		1		2
Principal collected on other loans	(40)		1			
Loans to other FHLBanks		65			(190)	
Premises and equipment	(60)		(1)	(9)	(2)	(3)
Held-to-maturity securities:						
Proceeds from sales	77					
Proceeds from maturities	50,444	(2,450)	1,607	3,471	4,757	9,959
Purchases	(60,930)	1,000	(2,132)	(4,635)	(3,545)	(10,994)
Available-for-sale securities:						
Proceeds from sales	619				400	
Proceeds from maturities	57,633		120		51	
Purchases	(62,493)		(124)		(1,734)	
Advances:						
Principal collected	4,030,883		177,812	820,552	964,844	50,531
Made	(4,038,070)		(179,855)	(826,906)	(963,796)	(58,304)
Mortgage loans held for portfolio:						
Principal collected	12,918		210	198	1,053	175
Purchased	(45,734)		(2,373)	(209)	(4,076)	(351)
Net cash (used in) provided by investing activities	(53,661)	(1,336)	(2,802)	(10,769)	(1,243)	(5,982)

<u>Cincinnati</u>	<u>Indianapolis</u> (Restated)	<u>Chicago</u> (Restated)	<u>Des Moines</u> (Restated)	<u>Dallas</u> (Restated)	<u>Topeka</u> (Restated)	<u>San Francisco</u>	<u>Seattle</u>
\$ 178	\$ 81	\$ 205	\$ 46	\$ (50)	\$ 58	\$ 292	\$ 147
(65)	(38)	77	(165)	7	(62)	(117)	(38)
13	32	11	12	33	17	45	21
1	1	2	1			2	
(2)	(1)	7	1	6	1	2	1
		2		1			
							(1)
	52	(274)	98	166	116	59	(126)
		2					
		1					
11	(7)	(215)	82	107	(344)	(5)	(12)
12		(68)	(9)	(25)	(11)	134	7
(10)	3	9	202	82	39	120	(15)
74	34	6	(91)	(3)	(6)	(113)	204
1	13	(36)	(2)			3	(18)
9	(3)	8	(8)	(21)	(3)	5	1
(33)	(9)	(46)	(2)	(51)	(25)	(365)	34
1	(3)	(7)	(5)	(37)		(23)	(3)
13	8	546	2	10	1	(1)	(2)
25	82	25	116	275	(277)	(254)	53
203	163	230	162	225	(219)	38	200
(607)	296		(350)	(354)	(219)	(347)	4
(200)		(354)	4,000			(2,250)	
(136)	2,067	(256)	(4,281)	(1,264)	(125)	2,377	(476)
(2)		274	(1,253)	600	14	935	300
				7	(1)	(58)	
					(41)		
100						25	
(3)	(2)	(21)		(3)	(12)	(3)	(1)
			33				44
5,307	2,811	3,011	1,717	1,852	3,068	8,067	7,267
(6,908)	(3,502)	(3,742)	(1,734)	(3,386)	(4,023)	(10,287)	(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	7,082	1,681	593	34	3	787
(3,734)	(5,579)	(16,681)	(3,605)	(553)	(133)	(266)	(8,174)
(8,757)	(5,499)	(14,640)	(6,911)	(8,274)	(3,863)	19,286	(2,871)

**FEDERAL HOME LOAN BANKS**  
**UNAUDITED COMBINING SCHEDULES — STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

(Dollar amounts in millions)

	<u>Combined</u> (Restated)	<u>Combining</u> <u>Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u> (Restated)	<u>Atlanta</u> (Restated)
<b>FINANCING ACTIVITIES</b>						
Net change in:						
Deposits .....	\$ 1,951	\$	\$ (754)	\$ (119)	\$ 714	\$ 981
Deposits from other FHLBanks for mortgage loan programs .....		(49)				
Securities sold under agreements to repurchase .....	300					
Loans from other FHLBanks .....		(65)	190			
Other borrowings .....	774					(50)
Net proceeds from issuance of consolidated obligations:						
Discount notes .....	4,135,259		238,921	533,020	581,039	3,007
Bonds .....	431,864	(1,328)	16,703	44,339	26,317	74,817
Payments for maturing and retiring consolidated obligations:						
Discount notes .....	(4,127,789)		(239,950)	(533,841)	(581,704)	(2,422)
Bonds .....	(390,272)	2,776	(12,780)	(33,107)	(24,971)	(70,346)
Proceeds from issuance of capital stock .....	9,697		299	968	3,915	1,121
Payments for redemption/repurchase of capital stock ..	(8,570)		(6)	(650)	(3,964)	(751)
Cash dividends paid .....	(781)		(81)	(166)	(69)	(234)
Net cash provided by (used in) financing activities ..	52,433	1,334	2,542	10,444	1,277	6,123
Net increase (decrease) in cash and cash equivalents ..	336		4	52	87	6
Cash and cash equivalents at beginning of the year ...	312		10	13	44	69
Cash and cash equivalents at end of the year .....	<u>\$ 648</u>	<u>\$</u>	<u>\$ 14</u>	<u>\$ 65</u>	<u>\$ 131</u>	<u>\$ 75</u>
<b>Supplemental Disclosures:</b>						
Interest paid .....	\$ 18,211	\$	\$ 1,279	\$ 1,919	\$ 928	\$ 2,237

<u>Cincinnati</u>	<u>Indianapolis</u> (Restated)	<u>Chicago</u> (Restated)	<u>Des Moines</u> (Restated)	<u>Dallas</u> (Restated)	<u>Topeka</u> (Restated)	<u>San Francisco</u>	<u>Seattle</u>
\$ 697	\$ (92)	\$ 1,239	\$ (343)	\$ 53	\$ 174	\$ (345)	\$ (254)
		49					
			300				
					(125)		
		599			50	325	(150)
731,863	405,921	328,045	426,476	179,155	409,214	96,801	201,797
31,793	32,020	23,673	33,392	30,550	18,062	71,761	29,765
(730,997)	(401,482)	(322,519)	(426,023)	(172,880)	(407,306)	(105,551)	(203,114)
(24,993)	(31,120)	(17,257)	(27,284)	(28,969)	(16,156)	(80,889)	(25,175)
276	263	1,088	360	392	406	503	106
(82)	(48)	(505)	(41)	(133)	(171)	(1,922)	(297)
	(114)		(49)		(68)		
8,557	5,348	14,412	6,788	8,168	4,080	(19,317)	2,678
3	12	2	39	119	(2)	7	7
10	38	2	64	47	2	2	11
<u>\$ 13</u>	<u>\$ 50</u>	<u>\$ 4</u>	<u>\$ 103</u>	<u>\$ 166</u>	<u>\$</u>	<u>\$ 9</u>	<u>\$ 18</u>
\$ 1,589	\$ 859	\$ 1,637	\$ 1,053	\$ 1,153	\$ 911	\$ 3,258	\$ 1,388

# FEDERAL HOME LOAN BANKS

2002

## FINANCIAL REPORT

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

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

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

Neither this Financial Report nor any offering material provided by the Office of Finance on behalf of the Federal Home Loan Banks concerning any offering of consolidated obligations describes all the risks of investing in consolidated 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, 2002. This document is available on the Federal Home Loan Banks' Office of Finance web site, [www.fhlf-of.com](http://www.fhlf-of.com).

You should direct questions about the Federal Home Loan Banks' Combined Financial Statements to the Federal Home Loan Banks' Office of Finance, Director of Accounting Policy & Financial Reporting. You should direct questions about the Federal Home Loan Banks' consolidated obligations to the Federal Home Loan Banks' Office of Finance, Marketing & Information Services. The address for both is Federal Home Loan Banks' Office of Finance, 11921 Freedom Drive, Suite 1000, Reston, VA 20190, (703) 467-3600, [www.fhlf-of.com](http://www.fhlf-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, 2002.**

The date of this Financial Report is March 28, 2003.

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

## FEDERAL HOME LOAN BANKS

### SUMMARY FINANCIAL DATA

(Dollar amounts in millions)

	2002	2001	2000	1999	1998
<b>At December 31,</b>					
Advances	\$489,598	\$472,732	\$437,861	\$395,747	\$288,189
Mortgage loans held for portfolio, net	60,554	27,643	16,149	2,026	966
Investments(1)	206,355	190,250	186,437	171,425	137,193
Total assets	763,631	696,705	653,687	583,212	434,002
Deposits and borrowings	29,834	26,910	17,100	17,624	25,805
Consolidated obligations	673,709	621,303	591,606	525,419	376,715
Capital stock—Class B(2)	7,733				
Capital stock(2)	27,454	33,289	30,537	28,361	22,287
Total capital stock	35,187	33,289	30,537	28,361	22,287
Retained earnings	1,190	932	729	660	468
<b>Average balances for the year ended December 31,</b>					
Advances	\$476,957	\$457,698	\$418,123	\$327,605	\$229,932
Mortgage loans held for portfolio, net	39,642	19,810	8,509	1,399	344
Investments(1)	202,806	186,376	171,961	151,035	144,946
Total assets	728,036	672,571	609,491	488,459	381,909
Deposits and borrowings	29,401	26,251	14,058	19,378	22,185
Consolidated obligations	645,141	599,754	553,262	434,385	332,265
Capital stock—Class B(2)	981				
Capital stock(2)	33,190	31,627	29,280	24,798	20,026
Total capital stock	34,171	31,627	29,280	24,798	20,026
Retained earnings	1,185	1,010	945	796	330
<b>Operating results for the year ended December 31,</b>					
Net interest income(3)	\$ 2,964	\$ 3,116	\$ 3,317	\$ 2,534	\$ 2,116
Net income(4)	1,799	2,154	2,211	2,128	1,778
Dividends paid in cash and stock	1,540	1,951	2,142	1,636	1,354
Weighted average dividend rate(5)	4.51%	6.17%	7.32%	6.60%	6.76%
Return on average equity	5.09%	6.60%	7.32%	8.31%	8.73%
Return on average assets	0.25%	0.32%	0.36%	0.44%	0.47%
Net interest margin(6)	0.41%	0.47%	0.55%	0.52%	0.57%
<b>At December 31,</b>					
Total capital ratio(7)	4.8%	4.9%	4.8%	5.0%	5.2%
Ratio of total unsecured liabilities to total capital(8)				19.1:1	17.9:1
Leverage ratio(8)	21.0:1	20.4:1	20.9:1		

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

(2) The FHLBank of Seattle implemented its capital plan during the third quarter of 2002, and the FHLBank of Pittsburgh and the FHLBank of Cincinnati implemented their respective capital plans during the fourth quarter of 2002. See "Financial Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Developments."

(3) Net interest income is net interest income before mortgage loan loss provision.

(4) Net income for the years ended December 31, 2002, 2001 and 2000, include expenses of \$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 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 2000, 2001 and 2002 are not comparable to prior years.

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

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

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

(8) 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.

## **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.

Each FHLBank combines private capital and public sponsorship that enables the member financial institutions to assure the flow of credit and other services for housing and community development. The FHLBanks serve the public through member financial institutions by providing members liquidity, 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 liquefying home mortgages through the mortgage programs developed for their members. Under the programs, members are offered the opportunity to originate mortgage loans for sale to an FHLBank. The FHLBanks are cooperatives; only member institutions own the capital stock of each FHLBank and the members receive dividends on their investment. Certain regulated depositories and insurance companies engaged in housing finance can apply for membership. Each member must own stock in its district FHLBank. Each FHLBank is privately owned with its own board of directors, management, and employees. 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. The Finance Board, through the Office of Finance and through the period ended December 31, 2000, was the issuer of consolidated obligations for which the FHLBanks are jointly and severally liable. Effective January 2, 2001, the FHLBanks issue debt for which the FHLBanks are also jointly and severally liable through the Office of Finance as their agent.

### **Advances**

The FHLBanks have a unique role in housing finance. The FHLBanks make loans, called advances, to their members and eligible housing associates on the security of mortgages and other collateral that the members pledge. Advances generally support mortgages held in member portfolios, and may 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.

The 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.

The 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 for liquidity purposes can reduce the amount of low-yielding liquid assets a member would otherwise need to hold. The FHLBanks also provide correspondent services, such as the purchase, sale, and safekeeping of securities on behalf of and at the direction of their members. (See “Supplemental Information—Additional Information on Business—Advances” for further information.)

### **Mortgage Loans Held for Portfolio**

The FHLBanks have developed mortgage programs for their members. Under these programs, the FHLBanks invest in mortgage loans that are purchased from participating members. The FHLBanks manage the liquidity, interest-rate and prepayment option risk of the mortgage loans, while the member retains the marketing and servicing activities. Participating members provide a measure of credit-loss protection to the FHLBanks on loans generated through the programs, for which they receive a credit-enhancement fee. (See “Supplemental Information—Additional Information on Business—Mortgage Loans Held for Portfolio” for further information.)

### **Investments**

The FHLBanks maintain a portfolio 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 REFCORP assessment. To ensure the availability of funds to meet member credit needs, the FHLBanks maintain a portfolio 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 a longer-term investment portfolio, which includes securities issued by United States government agencies and mortgage-backed securities that are issued by government sponsored mortgage agencies or that carry the highest ratings from Moody’s Investors Service or Standard and Poor’s. The long-term investment portfolio provides the FHLBanks with higher returns than those available in the short-term money markets. (See “Supplemental Information—Additional 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 and investments. All consolidated obligations are issued through the Office of Finance. The capital markets have traditionally considered the FHLBanks’ obligations as “Federal agency” debt. Consequently, although the United States 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. (See “Supplemental Information—Additional 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. (See “Supplemental Information—Additional Information on Business—Deposits” for further information.)

## Capital, Capital Rules and Dividends

The FHLBank capital stock and retained earnings also provide funding.

*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. In particular, the FHLBank Act required 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 permit it to borrow from the FHLBanks if the non-thrift member’s mortgage-related assets were less than 65 percent of total assets. Members could, at the FHLBanks’ discretion, redeem at par value any capital stock greater than their statutory requirement or sell it to other FHLBank members at par value. Capital stock outstanding under the pre-GLB Act capital rules is redeemable at the option of a member on six-months notice.

*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, addressed 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 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 implement its new capital structure. The FHLBank of Seattle implemented its new capital plan during the third quarter of 2002, and the FHLBank of Pittsburgh and the FHLBank of Cincinnati implemented their respective capital plans during the fourth quarter of 2002. The FHLBank of Indianapolis implemented its capital plan during the first quarter of 2003. The remaining eight FHLBanks will implement their respective new capital plans within the required three-year time frame. The existing capital structure of each FHLBank that has not yet converted will remain in place until its capital plan is implemented.

*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 conditionally redeemable on six months written notice from the member and Class B stock is conditionally redeemable on five years written notice from the member. The capital rule provides a transition period that allows each FHLBank up to three years from the effective date of its capital plan to implement its new capital structure. The GLB Act made membership voluntary for all members. Members that withdraw from membership may not reapply for membership for 5 years.

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 United States 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 members' right to redeem is conditional on the FHLBank maintaining these leverage requirements.

*Description of Capital Plans of FHLBanks Converted at December 31, 2002.* 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 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 the 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 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. 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 the member's outstanding FHLBank borrowings and a percentage of their unused borrowing capacity with the FHLBank.

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. 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.

*Dividends.* 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.

### **Use of Interest-Rate Exchange Agreements**

The Finance Board's Financial Management Policy establishes guidelines for interest-rate exchange agreements. The FHLBanks can use interest-rate swaps, swaptions, interest-rate cap and floor agreements, calls, puts, and futures and forward contracts as part of their interest-rate risk management and funding strategies. The Financial Management Policy prohibits 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.

### **Competition**

Demand for FHLBank advances is affected by, among other things, the cost of other available sources of liquidity for their members, including deposits. The FHLBanks individually compete with 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, members' creditworthiness and availability of collateral.

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

The FHLBanks also compete with Fannie Mae, Freddie Mac and other government-sponsored entities as well as corporate, sovereign and supranational entities for funds raised through the issuance of unsecured debt in the national and global debt markets. Increases in the supply of competing debt products may, in the absence of increases in demand, result in higher debt costs or 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 2002. 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 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 accountant conducts these audits following generally accepted auditing standards of the United States of America 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 cash flows, a statement of internal accounting and administrative control systems, and the report of the independent public accountants on the financial statements. In addition, the Finance Board conducts an annual on-site examination of each FHLBank and the Office of Finance and off-site reviews of their financial operations.

The Comptroller General has authority under the FHLBank Act to audit or examine the Finance Board and the FHLBanks and to decide the extent to which they fairly and effectively fulfill the purposes of the FHLBank Act. Furthermore, the Government Corporation Control Act provides that the Comptroller General may review any audit of the financial statements conducted by an independent public accounting firm. If the Comptroller General conducts such a review, then he 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 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 \$649 million, \$777 million and \$799 million for the years ended December 31, 2002, 2001 and 2000, 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 operates in a specifically defined geographic district. The FHLBank’s name and address, and the States and territories comprising each district are as follows:

<u>FHLBank Name and Address</u>	<u>States and Territories</u>	<u>Number of Members</u>
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	465
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	296
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	360

<u>FHLBank Name and Address</u>	<u>States and Territories</u>	<u>Number of Members</u>
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	1,177
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	747
FHLBank of Indianapolis 8250 Woodfield Crossing Boulevard Indianapolis, Indiana 46240 Business number: (317) 465-0200 The FHLBank of Indianapolis owns this property.	Indiana, Michigan	430
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	873
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	1,233
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	860
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	853

<u>FHLBank Name and Address</u>	<u>States and Territories</u>	<u>Number of Members</u>
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	342
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, Guam, Hawaii, Idaho, Montana, Oregon, Pacific Islands, Utah, Washington, Wyoming	375
Office of Finance Federal Home Loan Banks 11921 Freedom Drive, Suite 1000 Reston, Virginia 20190 Business number: (703) 467-3600 <i>www.fhlf-of.com</i> 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.

### 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, 2002.

<u>FHLBank</u>	<u>Employees</u>		
	<u>Full-time</u>	<u>Part-time</u>	<u>Total</u>
Boston .....	148	5	153
New York .....	195	5	200
Pittsburgh.....	178	5	183
Atlanta .....	278	9	287
Cincinnati.....	134	4	138
Indianapolis .....	159	7	166
Chicago .....	218	11	229
Des Moines .....	153	17	170
Dallas .....	122	0	122
Topeka .....	125	1	126
San Francisco .....	222	5	227
Seattle .....	122	3	125
Office of Finance.....	57	0	57

## **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. The 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 advanced 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 request, subject to certain regulatory and statutory limits. At December 31, 2002, the FHLBanks had 352 million shares of capital stock outstanding. The FHLBanks do not register their stock under the Securities Act of 1933, as amended or the Securities 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. Their year-end minimum required stock holdings determine the voting rights of members. The average required shares in each state constitutes the maximum number of shares each member may vote. 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.

*Capital Stock.* The following table presents information on the 10 largest holders of FHLBanks capital stock at December 31, 2002.

**Top 10 Capital Stock Holding Members in the FHLBanks  
at December 31, 2002**

<u>Name</u>	<u>City</u>	<u>State</u>	<u>Capital Stock (\$Millions)</u>	<u>Percent of Total Capital Stock</u>
Washington Mutual Bank, FA(1)(2)	Stockton	CA	\$2,940	8.4%
Citibank (West), FSB	Los Angeles	CA	1,005	2.9%
World Savings Bank, FSB*	Oakland	CA	710	2.0%
Washington Mutual Bank*	Seattle	WA	707	2.0%
Charter One Bank, NA*	Cleveland	OH	594	1.7%
US Bank, NA	Cincinnati	OH	465	1.3%
BB&T of NC	Winston-Salem	NC	436	1.2%
Wells Fargo Bank Minnesota, NA	Minneapolis	MN	401	1.1%
World Savings Bank, FSB (Texas)	Houston	TX	363	1.0%
Standard Federal Bank, NA*	Troy	MI	358	1.0%
			<u>\$7,979</u>	<u>22.6%</u>

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

- (1) Includes \$408 million in the FHLBank of Dallas capital stock from the acquisition of Bank United, a former member of the FHLBank of Dallas, by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco.
- (2) Includes \$393 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, by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco.

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, 2002, please refer to page 150.

**SELECTED FINANCIAL DATA**  
**(Dollar amounts in millions)**

	At December 31,				
	2002	2001	2000	1999	1998
<b>Balance Sheet</b>					
Advances	\$489,598	\$472,732	\$437,861	\$395,747	\$288,189
Mortgage loans held for portfolio, net	60,554	27,643	16,149	2,026	966
Investments (1)	206,355	190,250	186,437	171,425	137,193
Other assets (2)	7,124	6,080	13,240	14,014	7,654
Total assets	<u>\$763,631</u>	<u>\$696,705</u>	<u>\$653,687</u>	<u>\$583,212</u>	<u>\$434,002</u>
Deposits and borrowings	\$ 29,834	\$ 26,910	\$ 17,100	\$ 17,624	\$ 25,805
Consolidated obligations, net	673,709	621,303	591,606	525,419	376,715
Other liabilities (3)	23,764	14,274	13,716	11,154	8,730
Total liabilities	<u>\$727,307</u>	<u>\$662,487</u>	<u>\$622,422</u>	<u>\$554,197</u>	<u>\$411,250</u>
Capital stock outstanding	\$ 35,187	\$ 33,289	\$ 30,537	\$ 28,361	\$ 22,287
Retained earnings	1,190	932	729	660	468
Accumulated other comprehensive income	(53)	(3)	(1)	(6)	(3)
Total capital	<u>\$ 36,324</u>	<u>\$ 34,218</u>	<u>\$ 31,265</u>	<u>\$ 29,015</u>	<u>\$ 22,752</u>
<b>Income Statement</b>					
Total interest income	\$20,705	\$31,713	\$38,984	\$26,520	\$21,478
Total interest expense	17,741	28,597	35,667	23,986	19,362
Net interest income before mortgage loan loss provision	2,964	3,116	3,317	2,534	2,116
Provision for credit losses on mortgage loans	6	4	2	1	
Net interest income after mortgage loan loss provision	2,958	3,112	3,315	2,533	2,116
Prepayment fees	142	93	4	13	80
Net gains on securities held at fair value	707	73			
Net realized and unrealized (losses) gains on derivatives and hedging activities	(906)	79			
Other non-interest income, net (4)	18	23	64	95	39
Total non-interest income	(39)	268	68	108	119
Operating expenses	396	368	333	282	258
Finance Board costs	23	20	19	19	18
Office of Finance expense	17	13	10	10	10
Other	35	18	11	3	2
Total other expense	471	419	373	314	288
Affordable Housing Program	199	239	246	199	169
REFCORP (5)	450	538	553		
Total assessments	649	777	799	199	169
Cumulative effect of change in accounting principle		(30)			
Net income (5)	<u>\$ 1,799</u>	<u>\$ 2,154</u>	<u>\$ 2,211</u>	<u>\$ 2,128</u>	<u>\$ 1,778</u>

- (1) Investments also include interest-bearing deposits, securities purchased under agreements to resell, and Federal funds sold.
- (2) Other assets also include cash and due from banks, accrued interest receivable, premises and equipment, net, and derivative assets.
- (3) Other liabilities also include accrued interest payable, Affordable Housing Program, payable to REFCORP, and derivative liabilities.
- (4) Other non-interest income, net also includes service fees and net realized gains on sale of available-for-sale securities.
- (5) 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 2000, 2001 and 2002 are not comparable to prior years.

## **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 55 of this Financial Report. See “Explanatory Statement about FHLBanks Combined Financial Report” on page 53.

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

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

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

- risk of loss arising from litigation filed against one or more of the FHLBanks; and
- inflation/deflation.

## **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 reduces the risk of loss if investments have to be liquidated to redeem 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, 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 their individual member needs.

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

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.

## **2002 Highlights**

*Financial Highlights.* Net income decreased by 16.5 percent to \$1,799 million in 2002 from \$2,154 million in 2001. Net interest income after mortgage loan loss provision decreased 4.9 percent to \$2,958 million in 2002 from \$3,112 million in 2001 because of generally lower interest rates and the impact of lower interest rates on invested capital. The overall decrease in net income was primarily caused by a decline in net interest income as noted previously and a decline in other income, resulting from realized and unrealized losses on derivatives and hedging activities partly offset by an increase in net gains on securities held at fair value, and an increase in expenses. The FHLBanks' operating expenses, which were \$396 million in 2002 compared to \$368 million in 2001, increased by 7.6 percent from 2001 operating expenses. Average assets of \$728 billion during 2002 were 8.2 percent higher than average assets of \$673 billion a year ago.

The FHLBanks adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) on January 1, 2001. The FHLBanks' hedge accounting strategies resulted in net realized and unrealized losses on derivatives and hedging activities of \$906 million which was offset by net unrealized gains in securities held at fair value of \$707 million for 2002.

Net income for the year ended December 31, 2002 includes an expense of \$450 million relating to the FHLBanks' REFCORP payments. REFCORP payments were charged directly to retained earnings for the years through December 31, 2000. The GLB Act, effective January 1, 2001, 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 Statements of Income. Because of the change in accounting presentation, neither the return on average equity nor the return on average assets for 2000 are comparable to 2002 and 2001.

The return on average assets was 25 basis points in 2002, 7 basis points lower than in 2001. These changes are due primarily to lower income and higher average assets for 2002. The return on average equity was 5.09 percent in 2002, which is 151 basis points lower than in 2001. 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 4.51 percent in 2002, compared with 6.17 percent one year earlier.

In 2002, advances increased by 3.6 percent to \$489.6 billion, mortgage loans held for portfolio increased by 119.0 percent to \$60.6 billion, investments including mortgage-backed securities increased by 8.5 percent to \$206.4 billion, total assets increased by 9.6 percent to \$763.6 billion, consolidated obligations outstanding increased by 8.4 percent to \$673.7 billion, and total capital increased by 6.2 percent to \$36.3 billion.

Advances as a percentage of total assets have decreased to 64.1 percent at December 31, 2002, from 67.9 percent at December 31, 2001. Investments as a percentage of total assets decreased slightly to 27.0 percent from 27.3 percent over the same period. While advances decreased and investments changed slightly as a percentage of total assets, mortgage loans held for portfolio increased to 7.9 percent of total assets at December 31, 2002, from 4.0 percent one year earlier.

The growth in advances for the FHLBanks reflects demand by members for funding. A significant part of advances growth over the past several years has been attributable to convertible advances, which entail one or more put option(s) sold by the member to the 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.

Investments, excluding mortgage-backed securities (MBS), increased by 6.2 percent to \$110.0 billion. MBS increased by 11.1 percent to \$96.4 billion. Finance Board policy limits an FHLBank's investments in MBS to three times its capital, and aggregate MBS investments were 2.65 times aggregate FHLBank capital at December 31, 2002, compared with 2.53 times capital one year earlier.

Mortgage loans held for portfolio increased by 119.0 percent from \$27.7 billion at December 31, 2001 to \$60.6 billion at December 31, 2002. The growth reflects the continued expansion of the mortgage loan programs.

Consolidated obligations, which are the joint and several obligations of the FHLBanks, are the FHLBanks' principal funding source, and they reached \$673.7 billion outstanding at December 31, 2002, an increase of \$52.4 billion from one year earlier.

The 6.2 percent increase in capital to \$36.3 billion in 2002 is attributable to a number of factors, including the 1.7 percent growth in the number of FHLBank members, to 8,011 and the requirement that each new member must purchase stock in its FHLBank based on each FHLBank's

capital stock purchase requirements (See “Capital, Capitalization and Dividends” under Business—General for more information); 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 4.8 percent at December 31, 2002, compared with 4.9 percent at December 31, 2001.

The FHLBanks operate deposit programs for the benefit of their members, and member deposits at the end of 2002 increased to \$27.6 billion, up 7.2 percent from year-end 2001. 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 deposits’ interest rates ranged from zero percent to 6.86 percent at the end of 2002. 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.

#### *Legislation and Regulatory Developments*

*Capital Plans.* On January 30, 2001, the Finance Board published a final rule implementing a new capital structure for the FHLBanks, as required by the GLB Act. The rule established risk-based and leverage capital requirements for the FHLBanks, addressed 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 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 implement its new capital structure. As of December 31, 2002, the FHLBanks of Cincinnati, Pittsburgh and Seattle have implemented their capital plans. The FHLBank of Indianapolis implemented its capital plan during the first quarter of 2003. The remaining eight FHLBanks plan to implement their respective capital plans within the three-year required time frame. The existing capital structures of each of these eight FHLBanks will remain in place until its capital plan is implemented. The FHLBanks are subject to risk-based capital rules under the new capital structure plan.

Until an FHLBank implements its new capital plan, the prior capital adequacy rules remain in effect.

*Multiple Membership Petitions.* On October 3, 2001, the Finance Board published in the Federal Register a solicitation of comments on the implications for the FHLBanks that are raised by structural changes occurring in its membership. The solicitation was prompted by the submission of several petitions requesting that the Finance Board permit a single depository institution to be a member of two or more FHLBanks concurrently. On January 22, 2002, the Finance Board announced that it intends to defer action on multi-district membership petitions until it decides on a course of action to address broader membership issues. In December 2002, the Finance Board announced that it would consider a proposed regulation during 2003. The Finance Board has requested additional comments from the FHLBanks. Each FHLBank has responded to the Finance Board’s solicitation of comments, with some of the FHLBanks expressing support for changes in membership terms, and other FHLBanks expressing reservations about such changes.

*Discussions of Expanded Financial Disclosures.* In 2002, the Chairman of the Finance Board participated in discussions with the staff of the Division of Corporation Finance of the Securities Exchange Commission (SEC) and the U.S. Department of Treasury about the possible voluntary registration of the equity stock of each of the FHLBanks under the Securities Exchange Act of 1934 (1934 Act). 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 the Finance Board regulations. While the FHLBanks fully support expanded financial disclosure, the business structure of the FHLBanks is not the same as 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. Although the issue of voluntary registration has not been decided, possible measures range from an expanded disclosure regime administered by the Finance Board to registration under the 1934 Act.

*Shared Funding Program.* In December 2002, the Finance Board approved a new business application for a Shared Funding Program submitted by the FHLBank of Chicago. The Shared Funding Program will allow mortgage loans eligible for purchase through the Mortgage Partnership Finance® (MPF®) program to be sold to a member of the FHLBank of Chicago, which will concurrently sell those loans to a trust organized by that member; the trust will issue senior/subordinate structured securities to the member. Under the Shared Funding Program, the FHLBank of Chicago would purchase the senior tranche securities from the member, which would be rated at least double A by a nationally-recognized statistical rating organization, and could retain or resell all or part of those securities to other FHLBanks or to FHLBank member institutions. The securities offered under the Shared Funding Program will only be offered to FHLBanks and FHLBank member institutions and will not be guaranteed by the FHLBanks. No transactions occurred under the Shared Funding Program prior to December 31, 2002 and the first Shared Funding Program transaction occurred in March 2003.

## **Financial Trends**

*Conditions in Financial Markets.* The financial markets in 2002 continued to exhibit volatility reflecting concern over the modest pace of the current economic recovery and the state of the equities market, among other factors. The U.S. stock market remained depressed in the context of continuing corporate scandals involving questionable business and accounting practices, and lower current earnings coupled with only modest growth expectations into 2003 by companies in numerous industries. Two key elements identified by the U.S. Commerce Department that have buoyed the national economy, the strong housing market and brisk consumer spending, have recently begun to slow, reflecting, in part, consumer concerns about any sustained improvement in the economy and looming military actions abroad.

In response to economic conditions, the Federal Reserve Board, through its Federal Open Market Committee, cut the federal funds rate 11 times for a total of 475 basis points during 2001. While the federal funds rate had not been further adjusted until November 6, 2002, when the Federal Open Market Committee cut the rate by 50 basis points, other interest rates continued to drop to historic lows throughout the year ended 2002. As a result of sustained lower interest rates, which reached 40+ year lows for some maturities during the year due to continued concerns about the economy and the crisis with Iraq, a significant volume of redemptions of callable FHLBank consolidated obligations was triggered. Those bonds were replaced by bonds with lower interest rates. For the year-ended 2002, the latest period for which data is available, The Bond Market Association's February 2003 "Research Quarterly" noted that new issue volume in the U.S. bond market totaled \$5.4 trillion during 2002, an increase of 18.4 percent from the \$4.6 trillion issued during 2001. The low interest rate environment continues to attract issuers, and the fixed-income markets appeal to investors looking to protect themselves against stock market volatility, despite some of the lowest bond yields in decades.

The continued low level of interest rates during 2002 has had an impact on the FHLBanks' profitability, due primarily to the short-term structure of its 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 3.90 percent during 2001. During 2002, that rate averaged 1.67 percent, a decline from the prior year of 223 basis points. The residual effects of higher cost funds adversely affects the FHLBanks profitability after higher yield assets are paid down.

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

The overall deposit balances of the FHLBank member institutions may affect their demand for FHLBank advances. For the quarter ended December 31, 2002, the latest period for which data is available, the FDIC reported that total assets and deposits of all FDIC-insured institutions increased compared to the quarter ended December 31, 2001. Total assets for all FDIC-insured institutions increased 7.2 percent. Deposits were \$5.6 trillion for all FDIC-insured institutions, a 7.3 percent gain over the 2001 fourth quarter, while total loans increased only 6.1 percent compared to the fourth quarter of December 2001. The growth in deposits over the previous two years reversed a long period of minimal deposit growth, and this growth may lower the future demand for advances from the FHLBanks.

*Combined Statements of Condition.* SFAS 133 requires that, beginning in 2001, the assets and liabilities hedged with derivative instruments designated under fair value hedging relationships be adjusted for changes in fair value even as other assets and liabilities continue to be carried on a historical cost basis. In discussing changes in the Combined Statements of Condition for 2002 compared to 2001, 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 and consolidated obligations are as follows.

**SFAS 133 Basis Adjustments  
(Dollar amounts in millions)**

	At December 31,	
	2002	2001
Advances at book value .....	\$470,482	\$463,297
Basis adjustments .....	<u>19,116</u>	<u>9,435</u>
Advances at carrying value.....	<u>\$489,598</u>	<u>\$472,732</u>
Investments at book value(1) .....	\$205,090	\$189,949
Basis adjustments .....	<u>1,265</u>	<u>301</u>
Investments at carrying value .....	<u>\$206,355</u>	<u>\$190,250</u>
Mortgage loans held for portfolio at book value .....	\$ 60,372	\$ 27,640
Basis adjustment .....	<u>195</u>	<u>10</u>
Mortgage loans held for portfolio at carrying value ...	<u>\$ 60,567</u>	<u>\$ 27,650</u>
Consolidated obligations at book value .....	\$667,462	\$618,411
Basis adjustments .....	<u>6,247</u>	<u>2,892</u>
Consolidated obligations at carrying value .....	<u>\$673,709</u>	<u>\$621,303</u>

(1) Investments also include 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 rose to \$489.6 billion at year-end 2002. Advances have been increasing in recent years reflecting the use of advances by new commercial bank members and the development of advance products tailored to specific member funding needs. Advances increased by 8.0 percent in 2001 and by 3.6 percent in 2002. Approximately \$9.7 billion of the increase in advances in 2002 relates to basis adjustments related to hedging relationships accounted for under SFAS 133. The FHLBanks make significant use of interest-rate exchange agreements to alter cash flows on certain of their advances. (See Note 8 to the accompanying combined financial statements.)

Approximately 69.0 percent of the advances outstanding at December 31, 2002 had a remaining maturity greater than one year compared with 67.8 percent at December 31, 2001. Approximately 28.9 percent of the par amount of advances outstanding at December 31, 2002 were floating-rate advances compared with 28.7 percent one year earlier. Approximately 32.2 percent of the par amount of advances outstanding at December 31, 2002 were convertible advances compared with 31.5 percent at December 31, 2001. With a convertible advance, the FHLBank 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. Advance originations totaled \$4.0 trillion in 2002, up 7.4 percent from 2001 originations of \$3.8 trillion, reflecting increased demand by members for advances as a result of the lower interest rate environment. (See Note 8 to the accompanying combined financial statements.)

The principal investments of the FHLBanks are mortgage-backed securities, overnight and term Federal funds sold, commercial paper, agency securities, and U.S. Government securities. In 2002, investments grew by \$16.1 billion, or 8.5 percent. The majority of the change relates to increases of \$9.7 billion in mortgage-backed securities and \$8.4 billion in agency securities offset by decreases of \$2.3 billion in commercial paper and \$1.7 billion in Federal funds sold in 2002. In addition, approximately \$1.0 billion of the increase in investments in 2002 relates to basis adjustments related to hedging relationships accounted for under SFAS 133. Investments grew by \$3.9 billion, or 2.0 percent during 2001. 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 \$96.4 billion at December 31, 2002, were 265 percent of total FHLBank capital. These investments represented 253 percent of total FHLBank capital at December 31, 2001. 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.)

Historically, the FHLBanks have been one of the major providers of Federal funds which allows them to warehouse and provide balance sheet liquidity to meet unexpected member borrowing demands. Federal funds sold were \$46.7 billion (22.6 percent of total investments) at year-end 2002, compared with \$48.4 billion (25.4 percent of total investments) at year-end 2001.

The FHLBanks held commercial paper investments of \$4.4 billion (2.1 percent of total investments) at year-end 2002, compared with \$6.7 billion (3.5 percent of total investments) at year-end 2001. 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 investments in debt. U.S. agency obligations rose to \$23.5 billion or 11.4 percent of total investments at year-end 2002, up from \$15.1 billion or 7.9 percent of total investments at year-end 2001. (See Notes 5, 6, and 7 to the accompanying combined financial statements.)

Mortgage loans held for portfolio increased significantly to \$60.6 billion at December 31, 2002, from \$27.7 billion at December 31, 2001. At December 31, 2002 mortgage loans held for portfolio represents 7.9 percent of total assets, up from 4.0 percent of total assets as of December 31, 2001. The increase in mortgage loans relates to the expansion of the member mortgage asset programs that enable the FHLBanks to purchase/originate mortgages from member financial institutions. Despite lower interest rates leading to homeowners refinancing their mortgage loans, new loan production far outpaced the accelerated prepayments. During 2002, repayments and prepayments were approximately \$12.9 billion while originations were approximately \$45.7 billion. The FHLBank of Chicago and the FHLBank of Seattle hold the largest mortgage loan balances with 43.2 percent and 15.0 percent of the combined mortgage loans, respectively. The FHLBank of Chicago pioneered the MPF<sup>®</sup> program in which nine of the 12 FHLBanks participate. MPF<sup>®</sup> had net outstanding mortgage loans held for portfolio of \$42.3 billion at December 31, 2002, an increase of 69.2 percent from the net outstanding mortgage loans held for portfolio of \$25.0 billion at December 31, 2001. The FHLBanks of Cincinnati, Indianapolis and Seattle developed the Mortgage Purchase Program (MPP), which had net outstanding mortgage loans held for portfolio of \$18.3 billion at December 31, 2002, an increase of 587.0 percent from the net outstanding mortgage loans held for portfolio of \$2.7 billion at December 31, 2001. The significant increase in MPP relates to the expansion of the program established in 2000. In October 2002, the FHLBank of Atlanta announced that it would also be participating in MPP starting in 2003.

At December 31, 2002 the allowance for credit losses on mortgage loans was \$13 million, an increase of \$6 million from \$7 million at December 31, 2001. The increase is consistent with the growth in mortgage loans under the member mortgage asset programs and the asset quality of mortgage loans as discussed below. At December 31, 2002, \$194 million or 0.3 percent of government-guaranteed mortgage loans that the FHLBanks have invested in were past due 90 days or more, and \$32 million or 0.05 percent of conventional mortgage loans were classified as non-accrual. At December 31, 2001, \$193 million or 0.7 percent of government guaranteed mortgage loans that the FHLBanks have invested in were past due 90 days or more, and \$18 million or 0.06 percent of conventional mortgage loans were classified as non-accrual. The FHLBanks place all conventional mortgage loans on non-accrual status when they are 90 days or more past due. Loans in foreclosure were \$10 million and \$24 million at December 31, 2002 and 2001. Real estate owned was \$9 million and \$3 million at December 31, 2002 and 2001. Realized losses on MPF<sup>®</sup> loans were \$74 thousand in 2002 and \$91 thousand in 2001. There were no realized losses or gains prior to 2001. There were no realized losses or gains relating to MPP loans during 2002 or 2001.

The FHLBanks' MPF® mortgage loans held for portfolio are disbursed across all fifty states, Washington, D.C. and Puerto Rico with the top five states in terms of concentration (Wisconsin, California, Illinois, Texas and Ohio) representing approximately 39 percent of the FHLBanks' MPF® loans outstanding at December 31, 2002. No single zip code represented more than 1 percent of MPF® loans outstanding at December 31, 2002. The median size of an MPF® loan is approximately \$118 thousand at December 31, 2002.

The FHLBanks' MPP mortgage loans held for portfolio are disbursed across all fifty states and Washington, D.C. with the top five states in terms of concentration (California, Ohio, Washington, Illinois and Texas) representing approximately 43 percent of the FHLBanks' MPP loans outstanding at December 31, 2002. No single zip code represented more than 1 percent of MPP loans outstanding at December 31, 2002. The median size of an MPF loan is approximately \$138 thousand at December 31, 2002. The MPP mortgage loan statistics have been compiled on a combined basis by aggregating each participating FHLBank's information, and therefore do not reflect the concentration levels and mortgage loan portfolio information at individual participating FHLBanks.

The 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 maturities up to 360 days, and consolidated bonds have maturities of one year or longer. Discount notes are a significant funding source for advances with short-term maturities or short repricing intervals, for convertible advances, and for money-market investments. The FHLBanks make significant use of interest-rate exchange agreements to restructure interest rates on consolidated obligations to better match their funding needs and to reduce funding costs. Consolidated obligations outstanding increased 8.4 percent between year-end 2001 and year-end 2002, rising to \$673.7 billion at year-end 2002. Approximately \$3.3 billion of the increase in consolidated obligations in 2002 relates to basis adjustments related to hedging relationships accounted for under SFAS 133. Consolidated discount notes outstanding increased 5.2 percent over the same period, reaching \$146.8 billion and consolidated bonds outstanding increased by 9.4 percent to \$526.9 billion at year-end 2002. (See Notes 11, 12, and 13 to the accompanying combined financial statements.)

Other liabilities increased by \$1.3 billion or 285.4 percent from \$0.4 billion at December 31, 2001 to \$1.7 billion at December 31, 2002. The increase relates primarily to investments purchased but not settled as of December 31, 2002.

The FHLBanks' total capital grew by \$2.1 billion or 6.2 percent between 2001 and 2002 due 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 4.8 percent at year-end 2002 from 4.9 percent at year-end 2001. The FHLBank of Seattle converted to its new capital structure during the third quarter of 2002, and the FHLBank of Pittsburgh and the FHLBank of Cincinnati implemented their respective new capital structure during the fourth quarter of 2002. 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—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 year-end 2002, combined FHLBank asset-based leverage was 21.0 to 1. Combined FHLBank asset-based leverage was 20.4 to 1 at year-end 2001. At December 31, 2002, 7 FHLBanks had leverage in excess of 21.0 to 1, but less than 25.0 to 1 in all

cases. (See “Business—Debt Financing—Consolidated Obligations,” and Note 14 to the accompanying combined financial statements.)

*Debt Financing Activity.* Most of the increase in FHLBank assets in 2002 was funded by the increases in consolidated obligations of \$52.4 billion or 8.4 percent and deposits and borrowings of \$2.9 billion or 10.9 percent in 2002. Most of the increase in FHLBank assets in 2001 was also funded by increases in consolidated obligations of \$29.7 billion or 5.0 percent in 2001 and deposits and borrowings of \$9.8 billion or 57.4 percent. Bonds composed 78.2 percent and 77.5 percent of consolidated obligations outstanding at year-end 2002 and 2001, respectively, and the remainder of 21.8 percent and 22.5 percent of consolidated obligations outstanding at year-end 2002 and 2001, respectively, were represented by discount notes. Through December 31, 2000, the Finance Board through the Office of Finance 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 “Financial Discussion and Analysis of Financial Condition and Results of Operations—Risk Management,” and Notes 13 and 16 to the accompanying financial statements.)

The data in the following table is not adjusted for the \$1.1 billion and \$2.7 billion of interbank holdings at par value of consolidated obligations at December 31, 2002 and 2001, respectively.

**Composition of Bonds Outstanding**  
(Par amounts in billions at December 31)

	At December 31,	
	2002	2001
Fixed-rate, Non-callable . . . . .	\$240.7	\$224.0
Fixed-rate, Callable . . . . .	192.8	180.8
Step Ups/Step Downs . . . . .	22.7	7.5
Single-index Floating Rate . . . . .	53.0	58.1
Zero-coupon, Callable . . . . .	14.3	20.8
Comparative Index . . . . .	3.9	2.0
Other . . . . .	5.6	4.3
Total . . . . .	\$533.0	\$497.5

In 2002, 84.0 percent of bond sales by par amount were negotiated transactions and 15.9 percent by par amount were competitively bid and 0.1 percent by par amount were direct placements. In 2002, 20.6 percent of bonds sold were fixed-rate, fixed-term, non-callable (bullet) bonds; 63.0 percent were callable bonds; 8.6 percent were Step Ups/Step Downs; and 5.2 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 \$435.4 billion of bonds at par in 2002. This compares with \$383.0 billion at par in 2001 and \$190.8 billion at par in 2000. The increase in bond issuance occurred because of greater call activity attributable to the decline in the level of long-term interest rates throughout 2002. The FHLBanks are extensive users of callable debt, with \$229.9 billion at par outstanding without interbank holding adjustment of \$0.5 billion as of year-end 2002 or 43.1 percent of total bonds at par. At December 31, 2002, an estimated \$153.1 billion of bonds had in-the-money calls that could be exercised in 2003 based on interest rates prevailing on December 31, 2002. The amount of bonds that will be called in 2003 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 21.8 percent of outstanding consolidated obligations at year-end 2002 but accounted for 90.5 percent of the proceeds from the sale of consolidated obligations in 2002. Much of the discount note activity reflects the refinancing of overnight discount notes, which averaged \$12.9 billion in 2002, down from an average of \$14.7 billion in 2001.

**Average Consolidated Obligations Outstanding  
(Dollar amounts in billions)**

	<u>2002</u>	<u>2001</u>
Overnight discount notes .....	\$ 12.9	\$ 14.7
Term discount notes .....	<u>122.9</u>	<u>151.8</u>
Total discount notes .....	135.8	166.5
Bonds .....	<u>520.9</u>	<u>449.6</u>
Total consolidated obligations .....	<u><u>\$656.7</u></u>	<u><u>\$616.1</u></u>

The composition of average consolidated obligations shifted in 2002 compared to 2001 as average total discount notes decreased 18.4 percent and average bonds increased by 15.9 percent. This shift in funding mix represents the relatively more attractive cost of funds available through bond issuance compared with discount notes throughout most of 2002.

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 \$54.6 billion and \$91.5 billion at par in term funds in 2002 and 2001, 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 2002, TAP issuance was \$40.9 billion, down \$7.4 billion from 2001. The FHLBanks continue to issue debt that is both competitive and attractive in the market place. In addition, the FHLBanks continuously monitor their debt issuance practices to ensure that consolidated obligations are efficiently and competitively priced.

**Results of Operations**

*Net Income.* The FHLBanks' net income for 2002 was \$1,799 million, \$355 million or 16.5 percent below 2001 net income. The FHLBanks' net income for 2001 was 2.6 percent below 2000 net income. Reported net income in 2002, 2001 and 2000 are not comparable to net income in years before 2000. Beginning with the first quarter of 2000, the FHLBanks' required REFCORP

payments became 20 percent of its respective net earnings, and these combined payments are reflected on the Combined Statements of Income. Before the first quarter of 2000, the FHLBanks' required REFCORP payment was a fixed \$75 million per quarter, and this was treated as a charge to retained earnings and was not expensed. The FHLBanks' combined REFCORP payments for 2002, 2001 and 2000 were \$450 million, \$538 million and \$553 million, respectively.

The decrease in net income for 2002 compared to 2001 is primarily attributable to the effect of lower interest rates and the change in the level of net losses related to the net gains on securities held at fair value and the realized and unrealized losses on derivatives and hedging activities. In 2002, the FHLBanks had net realized and unrealized losses of \$199 million related to these investment securities and derivatives and hedging activities whereas for 2001, the FHLBanks had net realized and unrealized gains of \$152 million on these investment securities and derivatives and hedging activities.

The decrease in net income for 2001 compared to 2000 is primarily attributable to the effect of lower interest rates, a \$46 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 at January 1, 2001. The overall decrease in net income was partially offset by a \$200 million increase in other income which primarily related to \$73 million in net gains on securities held at fair value and \$79 million in net realized and unrealized gains in derivatives and hedging activities.

*Net Interest Income.* For 2002, the decrease in net interest income before mortgage loan loss provision was \$152 million, a 4.9 percent decrease from 2001. The decrease is attributable to lower interest rates.

Net interest income before mortgage loan loss provision for 2001 was 6.1 percent below 2000. The decrease is attributable to lower interest rates as well as the effects of the compressed spreads earned on assets net of the cost of liabilities, which reflects relatively less attractive execution in the agency debt market because of the unprecedented U.S. GSE and corporate demand for funding and the increased cost of hedging market risk through interest-rate exchange agreements.

Due to the lower interest rate environment, interest income from advances decreased by \$9,453 million from 2001 to 2002 and \$6,308 million from 2000 to 2001. The growths in 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 \$1,012 million from 2001 to 2002 and \$665 million from 2000 to 2001.

The FHLBanks adopted SFAS 133 on January 1, 2001. 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 \$906 million in 2002. In 2001, the FHLBank recorded net gains on securities held at fair value of \$73 million, net realized and unrealized gains on derivatives and hedging activities of \$79 million, and a \$30 million decrease to net income as the cumulative effect of change in accounting principle for 2001. Under SFAS 133, all derivatives are recorded at fair value and an FHLBank is required to recognize unrealized losses or gains on derivative positions regardless of whether offsetting gains or losses on the underlying assets or liabilities being hedged are permitted to be recognized in a symmetrical manner. Therefore, SFAS 133 introduces the potential for a considerable timing difference between income recognition from assets or liabilities and the income effects of hedge instruments 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 the 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)**

	<u>2002 vs. 2001</u>	<u>2001 vs. 2000</u>	<u>2000 vs. 1999</u>
Total interest income .....	\$(11,008)	\$(7,271)	\$12,464
Total interest expense .....	<u>(10,856)</u>	<u>(7,070)</u>	<u>11,681</u>
Net interest income before mortgage loan loss provision .....	(152)	(201)	783
Provision for credit losses on mortgage loans .....	<u>2</u>	<u>2</u>	<u>1</u>
Net interest income after mortgage loan loss provision .....	<u>(154)</u>	<u>(203)</u>	<u>782</u>
Prepayment fees .....	49	89	(9)
Net gains on securities held at fair value .....	634	73	
Net realized and unrealized (losses) gains on derivatives and hedging activities .....	(985)	79	
Other non-interest income, net .....	<u>(5)</u>	<u>(41)</u>	<u>(31)</u>
Total non-interest income .....	<u>(307)</u>	<u>200</u>	<u>(40)</u>
Operating expenses .....	28	35	51
Finance Board assessments .....	3	1	
Office of Finance expenses .....	4	3	
Other .....	<u>17</u>	<u>7</u>	<u>8</u>
Total other expenses .....	<u>52</u>	<u>46</u>	<u>59</u>
Affordable Housing Program .....	(40)	(7)	47
REFCORP .....	<u>(88)</u>	<u>(15)</u>	<u>553</u>
Total assessments .....	<u>(128)</u>	<u>(22)</u>	<u>600</u>
Cumulative effect of change in accounting principle .....	<u>30</u>	<u>(30)</u>	
Net income .....	<u><u>\$ (355)</u></u>	<u><u>\$ (57)</u></u>	<u><u>\$ 83</u></u>

Excluding the primary effects of SFAS 133 and the related hedging strategies on 2002 and 2001 earnings, net income would have increased by an additional \$146 million and decreased by \$90 million, respectively, net of the REFCORP and AHP assessments.

The \$355 million change in net income for 2002 versus 2001 is primarily due to the change in net gains on securities held at fair value of \$634 million offset by the change in net realized and unrealized losses on derivatives and hedging activities of \$985 million.

The \$57 million change in net income from 2000 to 2001 was affected by the adoption of SFAS 133, including net gains on securities held at fair value of \$73 million, net realized and unrealized gains on derivatives and hedging activities of \$79 million and a decrease to net income as the cumulative effect of change in accounting principle of \$30 million. The net \$122 million increase in net income as a result of the primary effects of SFAS 133 and the related hedging strategies for 2001 is offset by \$32 million increase in REFCORP and AHP assessments.

The following table presents average balances and yields of major earning asset categories and the sources funding those earning assets. It also presents spreads between yields on total earning assets and the cost of interest-bearing liabilities and spreads between yields on total earning assets and the cost of total funding sources (*i.e.*, interest-bearing liabilities plus capital plus other interest-free liabilities funding earning assets). The primary source of FHLBank earnings is net interest income, which is the interest earned on advances, mortgages, investments and 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 2002 was 25 basis points, 4 basis points higher than in 2001. The increase in spread on total interest-bearing liabilities reflects the somewhat more rate sensitive nature of the FHLBanks' funding relative to assets and a move to a more profitable mix of assets including an increase in mortgage loans held for portfolio and mortgage-backed securities. The decrease in net interest margin from 2001 to 2002 is largely attributable to the decline in interest rates and the effect of lower interest rates on invested capital.

The decrease in spread on total interest bearing liabilities and net interest margin from 2000 to 2001 was largely attributable to the decline in interest yields and the effects of compressed spreads because of the less attractive execution in the agency debt markets because of the unprecedented U.S. GSE and corporate demand for funding.

**Spread and Yield Analysis**  
**(Dollar amounts in millions)**

	2002		2001		2000	
	Average Balance	Yield	Average Balance	Yield	Average Balance	Yield
Earning assets:						
Advances . . . . .	\$476,957	2.35%	\$457,698	4.52%	\$418,123	6.45%
Mortgage loans held for portfolio, net . . . . .	39,642	6.03%	19,810	6.96%	8,509	8.39%
Investments . . . . .	<u>202,806</u>	3.49%	<u>186,376</u>	5.18%	<u>171,961</u>	6.56%
Total earning assets . . . . .	<u>\$719,405</u>	2.88%	<u>\$663,884</u>	4.78%	<u>\$598,593</u>	6.51%
Funded by:						
Consolidated obligations . . . . .	\$645,141	2.68%	\$599,754	4.61%	\$553,262	6.29%
Interest-bearing deposits and other borrowings(1) . . . . .	<u>29,351</u>	1.62%	<u>26,234</u>	3.68%	<u>14,058</u>	6.13%
Total interest-bearing liabilities	674,492	2.63%	625,988	4.57%	567,320	6.29%
Capital and other non-interest- bearing funds . . . . .	<u>44,913</u>		<u>37,896</u>		<u>31,273</u>	
Total funding . . . . .	<u>\$719,405</u>	2.47%	<u>\$663,884</u>	4.31%	<u>\$598,593</u>	5.96%
Spread on:						
Total interest-bearing liabilities		0.25%		0.21%		0.22%
Total funding (net interest margin) . . . . .		0.41%		0.47%		0.55%

(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 2002 was \$35.3 billion, which was \$2.7 billion or 8.3 percent greater than average total capital of \$32.6 billion for 2001. Average total capital also increased from 2000 to 2001, growing 7.9 percent to \$30.2 billion in 2001. 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. The increase in the spread on total interest-bearing liabilities from 2001 to 2002 reflects the increase in higher earning assets such as mortgage loans and mortgage-backed securities.

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 2002 and 2001 and between 2001 and 2000. 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)**

	2002 vs. 2001 Increase (Decrease)			2001 vs. 2000 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest Income:</b>						
Advances . . . . .	\$ 839	\$(10,292)	\$ (9,453)	\$2,363	\$ (8,671)	\$(6,308)
Mortgage loans held for portfolio, net . . . . .	1,218	(206)	1,012	805	(140)	665
Investments . . . . .	794	(3,361)	(2,567)	888	(2,516)	(1,628)
Total interest income . . . . .	<u>2,851</u>	<u>(13,859)</u>	<u>(11,008)</u>	<u>4,056</u>	<u>(11,327)</u>	<u>(7,271)</u>
<b>Interest Expense:</b>						
Consolidated obligations . . . . .	1,957	(12,323)	(10,366)	2,732	(9,905)	(7,173)
Interest-bearing deposits and other borrowings (1) . . . . .	103	(593)	(490)	542	(439)	103
Total interest expense . . . . .	<u>2,060</u>	<u>(12,916)</u>	<u>(10,856)</u>	<u>3,274</u>	<u>(10,344)</u>	<u>(7,070)</u>
Changes in net interest income . . .	<u>\$ 791</u>	<u>\$ (943)</u>	<u>\$ (152)</u>	<u>\$ 782</u>	<u>\$ (983)</u>	<u>\$ (201)</u>

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

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

	For the Years Ended December 31,		
	2002	2001	2000
	(Dollar amounts in millions)		
Prepayment fees . . . . .	\$ 142	\$ 93	\$ 4
Service fees . . . . .	36	40	45
Net realized gains on sale of available-for-sale securities . . . . .			2
Net gains on securities held at fair value . . . . .	707	73	
Net realized and unrealized (losses) gains on derivatives and hedging activities . . . . .	(906)	79	
Other, net . . . . .	<u>(18)</u>	<u>(17)</u>	<u>17</u>
Total other income . . . . .	<u>\$ (39)</u>	<u>\$268</u>	<u>\$68</u>

During 2002, total other income was negative \$39 million, \$307 million less than total other income in 2001. The decrease in 2002 is mainly attributable to the increase in net realized and unrealized losses on derivatives and hedging activities of \$985 million offset by increases in net gains on securities held at fair value of \$634 million and prepayment fees of \$49 million. The increase in total other income from 2000 to 2001 is mainly attributable to the \$79 million in net realized and

unrealized gains on derivatives and hedging activities, the \$73 million in net gains on securities held at fair value and the \$89 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 2001 to 2002 and \$89 million from 2000 to 2001. These increases are attributable to the lower interest rates, which resulted in increases in re-financing 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 (Decrease)	
	2002	2001	2000	2002/2001	2001/2000
Salaries and employee benefits .....	\$238	\$218	\$185	9.2%	17.8%
Occupancy cost .....	26	23	25	13.0%	(8.0)%
Other operating expenses .....	132	127	123	3.9%	3.3%
Total operating expenses .....	<u>\$396</u>	<u>\$368</u>	<u>\$333</u>	7.6%	10.5%

Total FHLBank operating expenses for 2002 were \$396 million, \$28 million or 7.6 percent above total operating expenses in 2001. Total FHLBank operating expenses for 2001 were \$368 million, \$35 million or 10.5 percent above total operating expenses in 2000. Operating expenses as a percent of average assets were 5.4 basis points in 2002, and 5.5 basis points in 2001. The increases in salaries and benefits in 2002 and 2001 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 2002, an increase of 15.0 percent over the 2001 expense of \$20 million. The Finance Board expense for 2001 is an increase of \$1 million from 2000 expense of \$19 million.

*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 \$17 million in 2002, an increase of 30.8 percent over the 2001 \$13 million expense. The majority of the increase relates to higher debt issuance volumes, new technologies being implemented to expedite the issuance and servicing of consolidated obligations and the lease expansion and construction of additional office space, including furniture and fixtures. The Office of Finance expense for 2001 is an increase of \$3 million from the 2000 expense of \$10 million.

*Other.* The other expense excluded from operating expenses was \$35 million in 2002 compared to \$18 million in 2001. The other expense was \$11 million in 2000. The increases relate to the rise in MPF® and/or MPP related operating expenses due to the growth in the member mortgage programs.

*Affordable Housing Program.* The AHP expense for 2002 was \$199 million, 16.7 percent less than the 2001 AHP expense of \$239 million. The AHP expense for 2001 was 2.8 percent less than the 2000 AHP expense of \$246 million. For years 2002, 2001 and 2000, the AHP assessment was

10 percent of net income after the required payment to REFCORP. The AHP assessment changes in 2002, 2001, and 2000 reflect trends of FHLBank 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 expenses 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 \$272 million in 2002 for projects designed to provide approximately 45 thousand housing units. Since the inception of the AHP in 1990 through 2002, the FHLBanks have set aside approximately \$1.7 billion for the AHP program and awarded \$1.6 billion in AHP subsidies to facilitate development of projects designed to create approximately 360 thousand units for low-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. 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, 2002, the FHLBanks had \$8.3 billion of CIP housing advances and \$996 million of CIP commercial and economic development advances outstanding. Since the establishment of the CIP in 1990, \$32.2 billion in FHLBank-supported community lending has financed over 500,000 housing units and over \$3.5 billion in FHLBank-supported community lending has financed thousands of local community development projects.

*Other Housing and Economic Development Community Programs.* All of the FHLBanks have established a number of other housing and economic development community programs specifically developed for their 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, will select the appropriate discounting factors used in this calculation.

The REFCORP assessment of the FHLBanks was \$110 million (cash payment of \$110.7 million) for the fourth quarter of 2002 and \$450 million (cash payment of \$452.4 million) for the year 2002. The cash payments are made based on preliminary net income amounts due to the timing requirement of the payment. As specified in the Finance Board regulation that implements section

607 of the GLB Act, the amount of a quarter's payment in excess of the \$75 million benchmark payment is used to simulate the purchase of zero-coupon Treasury bonds to "defease" all or a portion of the most-distant remaining quarterly benchmark payment. The \$35.7 million fourth-quarter REFCORP payment in excess of the \$75 million quarterly benchmark will fully defease the remaining \$28.8 million portion of the benchmark payment due on January 15, 2022, and defease \$71.0 million of the \$75 million benchmark payment due on October 15, 2021. These benchmark payments or portions of them could be restored if the future actual REFCORP payments of the FHLBanks fall short of \$75 million in a quarter.

The FHLBanks' cash payments to REFCORP in 2002 of \$452.4 million had the effect of shortening the period during which the FHLBanks must make quarterly payments to October 15, 2021, from April 15, 2023 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 2002 Payment  
(Dollar amounts in millions)**

<u>Payment Due Date</u>	<u>Amount of Benchmark Payment Defeased*</u>	<u>Interest Rate Used to Discount the Future Benchmark Payment</u>	<u>Present Value of Benchmark Payment Defeased**</u>
January 15, 2022 (most distant remaining payment) .....	\$28.8	5.54%	\$10.1
October 15, 2021 .....	<u>71.0</u>	5.48%	<u>25.6</u>
Total .....	<u>\$99.8</u>		<u>\$35.7</u>

\* Subject to possible subsequent reinstatement.

\*\* Cash payment of \$110.7 million made on estimated net income.

**Capital Adequacy**

The FHLBank Act prescribes minimum member capital stock requirements. At December 31, 2002, 96.9 percent of the FHLBanks' capital was capital stock, and 3.1 percent was retained earnings and accumulated other comprehensive income. At December 31, 2002, the FHLBanks had an aggregate capital-to-asset ratio of 4.8 percent. This compares with a capital-to-asset ratio of 4.9 percent at December 31, 2001. (See "Business—Debt Financing—Consolidated Obligations," "Business—Capitalization," and Note 14 to the accompanying financial statements.)

The FHLBank of Cincinnati, the FHLBank of Pittsburgh and the FHLBank of Seattle, each of which implemented their respective new capital plans in 2002, are subject to risk-based capital rules at December 31, 2002, under the new capital structure plan. 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. The FHLBank of Cincinnati, the FHLBank of Pittsburgh and the FHLBank of Seattle are in compliance with their risk-based capital rules at December 31, 2002. (See Note 14 to the accompanying combined financial statements.)

## 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. The gains and losses on derivative instruments that are designated as cash flow hedges and reported in other comprehensive income will be reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current period earnings. For a derivative designated as a fair-value hedge, the transition adjustment for the derivative was reported as a cumulative effect adjustment of net income. Concurrently, any fair-value gain or loss on the hedged instrument was recognized as an adjustment of the hedged item's carrying amount, but only to the extent of the offsetting transition adjustment of the derivative, and was also reported as a cumulative effect adjustment of net income. Changes in the fair value of a non-SFAS 133 hedge of an asset or liability (economic hedge) for asset-liability management will be recorded in current-period earnings. 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. As discussed in more detail below, SFAS 133 has led to more volatility in the statement of income because of changes in market prices and interest rates. 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.

As noted under "Risk Management—Derivatives," by regulation, derivative instruments are only permitted to be used by an FHLBank in order to mitigate identifiable risks. All of an FHLBank's derivatives are positioned to offset some or all of the risk exposure inherent in its member lending, investment, and funding activities. Under SFAS 133, an FHLBank is required to recognize unrealized losses or gains on derivative positions regardless of whether offsetting gains or losses on the underlying assets or liabilities being hedged are permitted to be recognized in a symmetrical manner. Therefore, the accounting framework imposed by SFAS 133 introduces the potential for a considerable mismatch between the timing of income and expense recognition from assets or liabilities and the income effects of hedge instruments positioned to mitigate market risk and cash-flow variability. Hence, during periods of significant changes in interest rates, an FHLBank's reported GAAP earnings may exhibit considerably greater variability than had been reported in previous years. The FHLBanks have generally continued its 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, albeit at the expense of 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.

*Fair Values.* At December 31, 2002, 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 do not use the same dealer prices, models and assumptions in determining the fair value 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. Consolidated obligations are the joint and several obligations of the FHLBanks and consist of consolidated bonds and discount notes. Accordingly, should one or more of the FHLBanks be unable to repay their participation in the consolidated obligations, each of the other FHLBanks could be called upon to repay all or part of such obligations, as determined or approved by the Finance Board. No liability is recorded for the joint and several obligation related to the other FHLBanks' share of the consolidated obligations. Each FHLBank has a credit rating of AAA/A-1+ from Standard & Poor's, and a bank deposits rating of Aaa/P-1 from Moody's, and therefore the possibility that an FHLBank would be unable to repay their participation is considered remote due to the high credit quality of each FHLBank. Although these ratings are subject to change, under current Finance Board regulation, all FHLBanks are required to maintain not less than a double A rating.

*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 United States government or government-agency securities, residential mortgage loans, deposits in the FHLBank, and other real estate-related assets. At December 31, 2002 and 2001, 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. 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 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 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. Each FHLBank's management believes that policies and procedures are in place to manage the MPP credit risk effectively.

*REFCORP Payments.* The financial statements do not include a liability for the statutorily mandated payments from the FHLBanks to REFCORP. No liability is recorded because the FHLBanks must pay 20 percent of net earnings (after 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 purpose similar to a tax.

### Contractual Obligations

The following table represents the payments due or expiration terms under the specified contractual obligation type. Long-term debt does not include discount notes and is based on contractual maturities and that actual distribution could be affected by factors affecting redemptions.

Contractual Obligations	Payments due or expiration terms by period				Total
	<1 year	1<3 years	3<5 years	>5 years	
	(Dollar amounts in millions)				
Long-Term Debt . . . . .	\$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) . . . . .	26,866	9,390	3,958	5,209	45,423
Other Long-Term Obligations . . . . .			300		300
Total Contractual Obligations . . . . .	<u>\$188,355</u>	<u>\$181,319</u>	<u>\$97,324</u>	<u>\$110,869</u>	<u>\$577,867</u>

(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.

### 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, the FHLBanks have established policies and practices to evaluate and manage their 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 type 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.

*Liquidity.* The FHLBanks are required to maintain liquidity in accordance with certain Finance Board regulations and with policies established by their 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. 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. The GSE status and rating have historically provided excellent capital market access. 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.

## 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, for each FHLBank that has not yet converted to its new capital plan, its duration of equity must stay within a range of +5 to -5 years assuming current interest rates. It must stay within a range of +7 to -7 years assuming an instantaneous parallel increase or decrease in interest rates of 200 basis points. The FHLBanks report the results of their duration of equity calculations to the Finance Board each quarter. The Finance Board's new capital adequacy rules will require the FHLBanks to hold permanent capital in an amount determined by a market risk model developed by each FHLBank. (See Duration of Equity table in the Quantitative Disclosure about Market Risk section on page 43.)

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

The FHLBanks hold mortgage-related investments, including mortgage loans, mortgage-backed securities, and agency obligations. The prepayment options embedded in mortgages can result in extensions or contractions in the expected maturities of these investments, depending on changes in interest rates. The 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.* The FHLBanks enter into interest-rate swaps, swaptions, interest-rate cap and floor agreements, calls, puts, and futures and forward contracts (collectively, interest-rate exchange agreements) to manage their exposure to changes in interest rates. They may adjust the effective maturity, repricing frequency, or option characteristics of financial instruments to achieve risk-management objectives. The FHLBanks use interest-rate exchange agreements in three ways: either by designating them as a fair-value or cash-flow hedge of an underlying financial instrument or a forecasted transaction, by acting as an intermediary, or in asset-liability management. For example, the FHLBanks use interest-rate exchange agreements in their overall interest-rate risk management to adjust the interest-rate sensitivity of consolidated obligations to approximate more closely the interest-rate sensitivity of assets (advances, investments and mortgage loans), and/or to adjust the interest-rate sensitivity of advances, investments, or mortgage loans to approximate more closely the interest-rate sensitivity of liabilities. In addition to using interest-rate exchange agreements to manage mismatches of interest rates between assets and liabilities, the FHLBanks also use interest-rate exchange agreements to manage embedded options in assets and liabilities, to hedge the market value of existing assets, liabilities, and anticipated transactions, to adjust the duration risk of prepayable instruments and to reduce funding costs. The Financial Management Policy prohibits the speculative use of interest-rate exchange agreements. The FHLBanks do not trade derivatives for short-term profit.

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

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

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

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

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

At December 31, 2002, the FHLBanks had \$645.8 billion total notional amount of interest-rate exchange agreements outstanding compared with \$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 Statements of Condition at their fair values. At December 31, 2002, the FHLBanks had derivative assets of \$2.8 billion and derivative liabilities of \$16.3 billion. The \$9.1 billion or 125.3 percent increase in derivative liabilities from December 31, 2001 to December 31, 2002 is the result of interest rate changes and the small growth in derivative volumes.

The following table categorizes the estimated fair value of derivative financial instruments excluding accrued interest by product and type of accounting treatment. The categories "Fair Value, Firm Commitments and Cash Flow" represent hedges where hedge accounting is achieved. The category "Economic" represents hedge strategies where hedge accounting is not achieved.

Amounts at December 31, 2002 and 2001 are as follows (dollar amounts in millions):

**Total Derivative Financial Instrument by Product**

	December 31,			
	2002	Total Estimated Fair Value	2001	Total Estimated Fair Value
	Total Notional	(excludes accrued interest)	Total Notional	Total Estimated Fair Value
<b>Advances</b>				
Fair Value—Existing Cash Item . . . . .	\$242,129	\$(19,115)	\$227,411	\$(9,448)
Fair Value—Firm Commitments . . . . .	21		13	
Cash Flow—Existing Cash Item . . . . .	3,425	257	27	
Cash Flow—Anticipated Transaction . . . . .	650	45	1,700	76
Economic . . . . .	<u>3,051</u>	<u>6</u>	<u>3,627</u>	<u>4</u>
Total . . . . .	<u>249,276</u>	<u>(18,807)</u>	<u>232,778</u>	<u>(9,368)</u>
<b>Investments</b>				
Fair Value—Existing Cash Item . . . . .	9,131	(1,054)	5,966	(251)
Cash Flow—Anticipated Transaction . . . . .	400	32		
Economic (includes held at fair value hedges) . . . . .	<u>16,602</u>	<u>(1,023)</u>	<u>17,205</u>	<u>(271)</u>
Total . . . . .	<u>26,133</u>	<u>(2,045)</u>	<u>23,171</u>	<u>(522)</u>
<b>MPF®/MPP Loans Held for Portfolio</b>				
Fair Value—Existing Cash Item . . . . .	6,132	(101)	2,213	22
Fair Value—Firm Commitments . . . . .	3,540	(17)		
Economic . . . . .	<u>6,390</u>	<u>10</u>	<u>10,597</u>	<u>80</u>
Total . . . . .	<u>16,062</u>	<u>(108)</u>	<u>12,810</u>	<u>102</u>
<b>Consolidated Obligations</b>				
Fair Value—Existing Cash Item . . . . .	296,170	6,145	271,765	2,954
Fair Value—Firm Commitments . . . . .			41	(1)
Cash Flow—Existing Cash Item . . . . .	1,550	2	825	1
Cash Flow—Anticipated Transaction . . . . .	833	(7)	675	(3)
Economic . . . . .	<u>27,417</u>	<u>3</u>	<u>34,892</u>	<u>12</u>
Total . . . . .	<u>325,970</u>	<u>6,143</u>	<u>308,198</u>	<u>2,963</u>
<b>Discount Notes</b>				
Fair Value—Existing Cash Item . . . . .	2,697	2	4,996	7
Cash Flow—Anticipated Transaction . . . . .	3,530	176	1,710	124
Economic . . . . .	<u>100</u>	<u>(1)</u>	<u>949</u>	<u>19</u>
Total . . . . .	<u>6,327</u>	<u>177</u>	<u>7,655</u>	<u>150</u>
<b>Deposits</b>				
Fair Value . . . . .	20	7	20	4
Cash Flow . . . . .	3,750	109		
Economic . . . . .	<u>350</u>		<u>350</u>	
Total . . . . .	<u>4,120</u>	<u>116</u>	<u>370</u>	<u>4</u>

	December 31,			
	2002		2001	
	Total Notional	Total Estimated Fair Value (excludes accrued interest)	Total Notional	Total Estimated Fair Value
<b>Balance Sheet</b>				
Economic .....	12,593	108	10,180	48
Total .....	12,593	108	10,180	48
<b>Intermediary Positions</b>				
Intermediaries .....	5,351	(1)	5,742	20
Total .....	5,351	(1)	5,742	20
<b>Total Notional and Estimated Fair Value</b>				
Value .....	<u>\$645,832</u>	<u>\$(14,417)</u>	<u>\$600,904</u>	<u>\$(6,603)</u>
Total Derivatives Excluding Accrued Interest .....		\$(14,417)		\$(6,603)
Accrued Interest .....		928		1,516
Net Derivative Balance .....		<u>\$(13,489)</u>		<u>\$(5,087)</u>
Net Derivative Asset Balance .....		\$ 2,812		\$ 2,148
Net Derivative Liability Balance .....		<u>(16,301)</u>		<u>(7,235)</u>
Net Derivative Balance .....		<u>\$(13,489)</u>		<u>\$(5,087)</u>

The following tables categorize the 2002 and 2001 earnings impact by product for the hedging activities:

Earnings Impact 2002 (Dollar amounts in millions)	Advances	Investments	MPF®/MPP Loans		Discount Notes	Balance Sheet	Total
			Held for Portfolio	COs			
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 .....	23	(757)	(70)	(62)	(1)	(39)	(906)
Net gains on securities held at fair value .....		707					707
Total .....	<u>\$(10)</u>	<u>\$(49)</u>	<u>\$(75)</u>	<u>\$ 85</u>	<u>\$(30)</u>	<u>\$(39)</u>	<u>\$(118)</u>
Earnings Impact 2001 (Dollar amounts in millions)	Advances	Investments	MPF®/MPP Loans Held for Portfolio	COs	Discount Notes	Balance Sheet	Total
Amortization/accretion of hedging activities in net margin .....	\$	\$	\$	\$ 58	\$ 1	\$	\$ 59
Net realized and unrealized gains (losses) on derivatives and hedging activities .....	21	(26)	11	99	10	(36)	79
Net gains on securities held at fair value .....		73					73
Total .....	<u>\$21</u>	<u>\$ 47</u>	<u>\$11</u>	<u>\$157</u>	<u>\$11</u>	<u>\$(36)</u>	<u>\$211</u>

*Derivative Credit Risk Exposure and Counterparty Ratings.* In addition to market risk, each FHLBank is subject to credit risk because of the risk of potential nonperformance by counterparties to the agreements as well as operational risks. The degree of counterparty risk on derivatives depends on the extent to which netting procedures are used to mitigate the risk. At December 31,

2002, 5 counterparties represented approximately 46.7 percent of the total notional amount of outstanding derivative transactions and each had a credit rating of A or better. None of the counterparties represented more than 10 percent of the FHLBanks' net exposure after collateral, which was \$708 million at December 31, 2002. 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, 2002, the FHLBanks' maximum credit risk balance, before considering collateral, was approximately \$2,676 million. This compares with December 31, 2001 maximum credit risk balance, before considering collateral, of \$2,017 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 \$708 million at December 31, 2002 compared to \$865 million at December 31, 2001.

**Derivative Counterparty Credit Exposure**  
**At December 31, 2002**  
**(Dollar amounts in millions)**

<u>Credit Rating</u>	<u>Notional Balance</u>	<u>Total Net Exposure at Fair Value</u>	<u>Total Net Exposure Collateralized</u>	<u>Net Exposure After Collateral</u>
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 .....	<u>1,777</u>	<u>          </u>	<u>          </u>	<u>          </u>
	642,329	2,646	1,938	708
Intermediaries(1) .....	<u>3,503</u>	<u>30</u>	<u>30</u>	<u>          </u>
Total Derivatives .....	<u>\$645,832</u>	<u>\$2,676</u>	<u>\$1,968</u>	<u>\$708</u>

## Derivative Counterparty Credit Exposure

**At December 31, 2001**  
**(Dollar amounts in millions)**

<u>Credit Rating</u>	<u>Notional Balance</u>	<u>Total Net Exposure at Fair Value</u>	<u>Total Net Exposure Collateralized</u>	<u>Net Exposure After Collateral</u>
Triple-A .....	\$ 33,587	\$ 167	\$ 27	\$140
Double-A .....	458,420	1,553	891	662
Single-A .....	104,873	277	214	63
Triple-B .....	144	—	—	—
	597,024	1,997	1,132	865
Intermediaries(1) .....	3,880	20	20	—
Total Derivatives .....	<u>\$600,904</u>	<u>\$2,017</u>	<u>\$1,152</u>	<u>\$865</u>

(1) 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.

Excluding interest-rate exchange agreements in which the FHLBanks are intermediaries for member institutions which are fully collateralized, over 99.7 percent of the notional amount of the FHLBanks' outstanding interest-rate exchange agreements are with counterparties rated "single-A" or higher. At December 31, 2002, 33 counterparties represented approximately 99.9 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 these 33 counterparties, approximately 65.6 percent is with 22 counterparties rated "double-A" or higher, approximately 34.2 percent is with 10 counterparties rated "single-A" and approximately 0.2 percent is with 1 counterparty rated "triple B."

*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, 2002, 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. The table summarizes the interest-rate risk associated with all instruments entered into by the FHLBanks.

**Duration of Equity  
(In years)**

<u>FHLBank</u>	<u>December 31, 2002</u>			<u>December 31, 2001</u>		
	<u>Up</u>	<u>Base</u>	<u>Down</u>	<u>Up</u>	<u>Base</u>	<u>Down</u>
Boston . . . . .	2.2	1.4	1.4	3.0	1.8	(0.3)
New York . . . . .	3.0	0.8	0.5	4.1	3.3	2.0
Pittsburgh . . . . .	4.2	1.9	1.6	1.6	0.3	(3.6)
Atlanta . . . . .	2.3	(1.6)	(3.1)	2.7	2.6	(4.0)
Cincinnati . . . . .	6.2	0.3	(6.7)	5.9	2.2	(2.4)
Indianapolis . . . . .	0.0	(1.6)	1.1	0.0	0.1	1.3
Chicago . . . . .	5.4	3.3	(2.9)	1.3	2.5	(3.3)
Des Moines . . . . .	2.0	(2.6)	(4.2)	(1.6)	(0.1)	2.5
Dallas . . . . .	3.8	1.8	(0.5)	3.8	3.0	1.8
Topeka . . . . .	3.2	(1.4)	(1.4)	2.1	(0.8)	(4.9)
San Francisco . . . . .	2.7	1.9	1.1	2.6	2.0	0.9
Seattle . . . . .	2.7	(1.9)	(6.7)	3.2	0.8	(4.0)

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

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

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, 2002 ranged from 0.9 months to -2.2 months. The FHLBanks' duration gaps at December 31, 2001 ranged from 1.5 months to -1.2 months. The low risk profile reflects each FHLBank's conservative asset-liability mix.

**Duration Gap  
(In months)**

<u>FHLBank</u>	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
Boston . . . . .	0.9	1.2
New York . . . . .	0.1	1.5
Pittsburgh . . . . .	0.6	(0.1)
Atlanta . . . . .	(1.3)	1.3
Cincinnati . . . . .	(0.1)	0.1
Indianapolis . . . . .	(1.4)	(0.4)
Chicago . . . . .	0.0	0.0
Des Moines . . . . .	(1.4)	0.6
Dallas . . . . .	0.7	0.6
Topeka . . . . .	(1.0)	(1.2)
San Francisco . . . . .	0.8	1.1
Seattle . . . . .	(2.2)	(0.4)

*Risk-based Capital Requirements.* After an FHLBank has implemented 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. At December 31, 2002, the Finance Board has approved the models used by the FHLBanks of Cincinnati, Pittsburgh and Seattle in calculating the market risk components of their respective FHLBank’s risk-based capital requirement. While 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.

As of December 31, 2002, the FHLBanks of Cincinnati, Pittsburgh and Seattle each met its new risk-based capital requirement. The FHLBank of Cincinnati is in compliance with the risk-based capital rules with a 7.6% leverage ratio and weighted leverage capital of \$5.4 billion, and a 5.1% capital ratio and permanent capital of \$3.6 billion. At December 31, 2002, the FHLBank of Cincinnati’s required risk-based capital was \$1.0 billion, the minimum weighted leverage capital requirement was \$3.6 billion, and the minimum capital requirement was \$2.8 billion. The FHLBank of Pittsburgh is in compliance with the risk-based capital rules with a 6.3% leverage ratio and

weighted leverage capital of \$2.9 billion, and a 4.2% capital ratio and permanent capital of \$1.9 billion. At December 31, 2002, the FHLBank of Pittsburgh's required risk-based capital was \$293.3 million, minimum weighted leverage capital requirement was \$2.3 billion, and the minimum capital requirement was \$1.8 billion. The FHLBank of Seattle is in compliance with the risk-based capital rules with a 5.1% leverage ratio and weighted leverage capital of \$3.6 billion, and a 7.7% capital ratio and permanent capital of \$2.4 billion. At December 31, 2002, the FHLBank of Seattle's required risk-based capital was \$490.3 million, the minimum weighted leverage capital requirement was \$2.3 billion, and the minimum capital requirement was \$1.9 billion. (See Note 14 to the accompanying combined financial statements.)

*Managing Credit Risk.* Credit risk is the risk of loss due to default. The FHLBanks face credit risk on advances, some investments, mortgage loans and 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 GLB 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 GLB Act as FDIC-insured depository institutions that had average assets totaling no more than \$500 million, updated to \$538 million in January 2003—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 \$8.4 billion of the total \$489.6 billion advances outstanding at December 31, 2002, and housing associates represent \$576 million of the total \$489.6 billion advances outstanding at December 31, 2002. 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 some investments and on interest-rate exchange agreements. Each FHLBank follows guidelines established by the Finance Board and its board of directors on unsecured extensions of credit, whether on- or off-balance sheet. The Finance Board 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, 2002, the FHLBanks had Federal funds sold of \$46.7 billion. At the same date, the FHLBanks held \$4.4 billion of commercial paper.

At December 31, 2002, the FHLBanks' unsecured credit exposure to counterparties other than the U.S. Government or U.S. Government agencies and instrumentalities was \$68.9 billion, most of which was Federal funds sold and commercial paper. This is a \$2.3 billion decrease from the \$71.2 billion unsecured credit exposure to such counterparties at December 31, 2001. About 38.6 percent of this exposure at December 31, 2002 had an overnight maturity, 31.0 percent had a maturity from 2 to 30 days, 26.4 percent had a maturity from 31 to 90 days, and the remainder had a maturity less than 271 days. At December 31, 2002, the FHLBanks had aggregate unsecured credit exposure of more than \$1 billion to each of 19 counterparties. The aggregate unsecured credit exposure to these 19 counterparties represented 44.2 percent of the FHLBanks' unsecured credit exposure to non-government counterparties.

Included in the aggregate unsecured credit exposure total is unsecured credit of \$693 million to Washington Mutual Bank, FA. As of the same date, Washington Mutual Bank had advances of \$2.8 billion from the FHLBank of Seattle, its affiliated Washington Mutual Bank, FA, had advances of \$48.3 billion from the FHLBank of San Francisco, and its affiliated Washington Mutual Bank,

FSB, had advances of \$131 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. This amount is included in the Washington Mutual, FA, advance amount noted above. An officer of Bank United served on the board of directors of the FHLBank of Dallas until the merger in February 2001.

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

*Mortgage Loans 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 acquires/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, 2002, the acquired member asset programs had an outstanding balance of \$60.6 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 \$27.6 billion at December 31, 2001. 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 of these FHLBanks 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 announced in October 2002 that it would also be participating in MPP beginning in 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 policies and procedures and appropriate insurance coverage to mitigate the likelihood of, and potential losses from, such occurrences. The FHLBanks' policies and procedures include controls to ensure that system-generated data are reconciled to source documentation on a regular basis. Each FHLBank's internal audit department, which reports directly to the individual

FHLBank's audit committee, regularly monitors each FHLBank's compliance with established policies and procedures. In addition, each FHLBank has a disaster recovery plan that is designed to restore critical business processes and systems in the event of disasters. However, some of the operational risks of the FHLBanks are beyond the control of the FHLBanks, and the failure of other parties to address adequately their operational risk could adversely affect the FHLBanks.

*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)

	2002 Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
Total interest income . . . . .	\$5,085	\$5,217	\$5,281	\$5,122
Total interest expense . . . . .	4,398	4,477	4,514	4,352
Net interest income before mortgage loan loss provision . . . . .	687	740	767	770
Provision for credit losses on mortgage loans . . . . .	1	2	1	2
Net interest income after mortgage loan loss provision . . . . .	686	738	766	768
Prepayment fees . . . . .	44	15	31	52
Net (losses) gains on securities held at fair value . . . . .	(152)	335	540	(16)
Net realized and unrealized gains (losses) on derivatives and hedging activities . . . . .	130	(421)	(547)	(68)
Other non-interest income, net . . . . .	3	12	3	—
Total non-interest income . . . . .	25	(59)	27	(32)
Operating expense . . . . .	88	97	97	114
Finance Board and Office of Finance expenses . . . . .	13	10	9	8
Other expense . . . . .	—	6	17	12
Total other expense . . . . .	101	113	123	134
Affordable Housing Program . . . . .	49	48	54	48
REFCORP . . . . .	112	105	122	111
Total assessments . . . . .	161	153	176	159
Net income . . . . .	<u>\$ 449</u>	<u>\$ 413</u>	<u>\$ 494</u>	<u>\$ 443</u>

	2001 Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
Total interest income . . . . .	\$9,924	\$8,411	\$7,373	\$6,005
Total interest expense . . . . .	9,131	7,637	6,585	5,244
Net interest income before mortgage loan loss provision . . . . .	793	774	788	761
Provision for credit losses on mortgage loans . . . . .	1	1		2
Net interest income after mortgage loan loss provision . . . . .	792	773	788	759
Prepayment fees . . . . .	16	13		64
Net gains (losses) on securities held at fair value . . . . .	76	(48)	167	(122)
Net realized and unrealized (losses) gains on derivatives and hedging activities . . . . .	(43)	86	(282)	318
Other non-interest income, net . . . . .	16	11	28	(32)
Total non-interest income . . . . .	65	62	(87)	228
Operating expense . . . . .	85	90	90	103
Finance Board and Office of Finance expenses . . . . .	10	7	11	5
Other expense . . . . .	5	2	4	7
Total other expense . . . . .	100	99	105	115
Affordable Housing Program . . . . .	58	61	48	72
REFCORP . . . . .	134	135	108	161
Total assessments . . . . .	192	196	156	233
Cumulative effect of change in accounting principle . . . . .	(30)			
Net income . . . . .	\$ 535	\$ 540	\$ 440	\$ 639

	2000 Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
Total interest income .....	\$8,663	\$9,367	\$10,299	\$10,655
Total interest expense .....	<u>7,898</u>	<u>8,548</u>	<u>9,441</u>	<u>9,780</u>
Net interest income before mortgage loan loss provision .....	765	819	858	875
Provision for credit losses on mortgage loans .....	<u>1</u>	<u>      </u>	<u>1</u>	<u>      </u>
Net interest income after mortgage loan loss provision .....	<u>764</u>	<u>819</u>	<u>857</u>	<u>875</u>
Prepayment fees .....				4
Other non-interest income, net .....	<u>22</u>	<u>14</u>	<u>14</u>	<u>14</u>
Total non-interest income .....	<u>22</u>	<u>14</u>	<u>14</u>	<u>18</u>
Operating expense .....	74	84	78	97
Finance Board and Office of Finance expenses .....	9	7	8	5
Other expense .....	<u>1</u>	<u>3</u>	<u>3</u>	<u>4</u>
Total other expense .....	<u>84</u>	<u>94</u>	<u>89</u>	<u>106</u>
Affordable Housing Program .....	57	61	63	65
REFCORP .....	<u>129</u>	<u>135</u>	<u>144</u>	<u>145</u>
Total assessments .....	<u>186</u>	<u>196</u>	<u>207</u>	<u>210</u>
Net income .....	<u>\$ 516</u>	<u>\$ 543</u>	<u>\$ 575</u>	<u>\$ 577</u>

The financial statements, together with the notes thereto and the report of Price-waterhouseCoopers dated March 26, 2003 thereon, appear on pages 55 through 125.

#### **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.* Beginning with 2000, the GLB Act limits the annual compensation to \$25,000 for a chair, \$20,000 for a vice chair, and \$15,000 for all other directors. Beginning with 2001, the Finance Board adjusted these amounts based on the percentage annual increase in the Consumer Price Index. The compensation limits for 2002 were \$26,341 for a chair, \$21,073 for a vice chair, and \$15,805 for all other directors.

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

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

## EXECUTIVE COMPENSATION

(See “Supplemental Information—FHLBank Management and Compensation” for FHLBank presidents’ 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, 2002, there were 8,011 members of the FHLBanks, a net increase of 134 since December 31, 2001. As of December 31, 2002, the membership in the FHLBanks was comprised of 5,886 commercial banks, 1,390 thrift institutions (savings and loan associations, and savings banks), 660 credit unions, and 75 insurance companies.

### Membership

	<u>Commercial Banks</u>	<u>Thrifts</u>	<u>Credit Unions</u>	<u>Insurance Companies</u>	<u>Total</u>
December 31, 1998 .....	4,925	1,651	275	33	6,884
December 31, 1999 .....	5,329	1,610	405	39	7,383
December 31, 2000 .....	5,681	1,547	497	52	7,777
December 31, 2001(1) .....	5,765	1,481	574	57	7,877
December 31, 2002 .....	5,886	1,390	660	75	8,011

(1) Revised based on member mergers.

*Members.* Membership is voluntary. A member must give notice of its intent to withdraw. Members that withdraw from membership may not be readmitted to membership for five years. Between January 1, 1993, and December 31, 2002, only 61 FHLBank members withdrew from membership for reasons other than merger or acquisition, and 7 members have given notice to withdraw before July 1, 2003, for reasons other than merger or acquisition.

At December 31, 2002, total capital stock was \$35.2 billion, an increase of \$1.9 billion since December 31, 2001. Commercial bank members hold 52.3 percent of the capital stock and thrift institution members hold 39.2 percent.

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

	<u>Commercial Banks</u>	<u>Thrifts</u>	<u>Credit Unions</u>	<u>Insurance Companies</u>	<u>Other(1)</u>	<u>Total</u>
December 31, 1998 .....	\$10.0	\$11.1	\$0.3	\$0.2	\$0.7	\$22.3
December 31, 1999 .....	13.2	14.0	0.5	0.3	0.4	28.4
December 31, 2000 .....	13.8	15.3	0.6	0.4	0.4	30.5
December 31, 2001(2) .....	15.2	16.4	0.9	0.3	0.5	33.3
December 31, 2002 .....	18.4	13.8	1.2	0.5	1.3	35.2

(1) For December 31, 2002, 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 5,399 at year end 2002 from 5,210 at year end 2001. The percent of total members borrowing rose to 67.4 percent in 2002 from 66.1 percent in 2001.

**Member Borrowers**

	<u>Commercial Banks</u>	<u>Credit Thrifts</u>	<u>Insurance Unions</u>	<u>Companies</u>	<u>Total</u>
December 31, 1998.....	3,056	1,083	87	13	4,239
December 31, 1999.....	3,683	1,211	179	19	5,092
December 31, 2000.....	3,843	1,165	177	25	5,210
December 31, 2001.....	3,927	1,084	168	31	5,210
December 31, 2002.....	4,144	1,001	217	37	5,399

While 67.4 percent of the FHLBanks' members held advances at December 31, 2002, the 77 borrowers with advance holdings of \$1 billion or more at December 31, 2002, held 61.3 percent of the FHLBanks' total advances. At year-end 2001, 70 borrowers held advances greater than \$1 billion, representing 63.0 percent of total FHLBanks' advances.

**Advances  
(Dollar amounts in billions)**

	<u>Commercial Banks</u>	<u>Thrifts</u>	<u>Credit Unions</u>	<u>Insurance Companies</u>	<u>Other(1)</u>	<u>Total(2)</u>
December 31, 1998 .....	\$104.4	\$172.9	\$1.1	\$2.5	\$7.3	\$288.2
December 31, 1999 .....	147.7	238.0	3.4	3.2	3.4	395.7
December 31, 2000 .....	172.1	254.9	3.4	2.5	5.0	437.9
December 31, 2001 .....	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

(1) For December 31, 2002, the other category includes advances to housing associates and members involved in mergers with a non-member. 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.

(2) Total advance amounts for December 31, 2001, and December 31, 2002 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, 2002.

**Top 10 Advance Holding Members  
at December 31, 2002**

<u>Name</u>	<u>City</u>	<u>State</u>	<u>Advances (\$ Millions) (1)</u>	<u>Percent of Total Advances</u>
Washington Mutual Bank, FA (2) (3)	Stockton	CA	\$ 48,346	10.3%
Citibank (West), FSB	Los Angeles	CA	13,490	2.9%
World Savings Bank, FSB*	Oakland	CA	11,635	2.5%
BB&T of NC	Winston-Salem	NC	8,715	1.9%
US Bank, NA	Cincinnati	OH	8,498	1.8%
Charter One Bank, NA*	Cleveland	OH	8,422	1.8%
World Savings Bank, FSB (Texas)	Houston	TX	7,000	1.5%
Wells Fargo Bank Minnesota, NA	Minneapolis	MN	6,757	1.4%
Standard Federal Bank, NA*	Troy	MI	6,629	1.4%
SunTrust Bank	Atlanta	GA	6,063	1.3%
			\$125,555	26.8%

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

- (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 \$7,864 million in the 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 by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco.
- (3) Includes \$7,537 million in the FHLBank of Dallas advances from the acquisition of Bank United, a former member of the FHLBank of Dallas, by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco.

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, 2002, please refer to page 152.

*Housing Associates.* At year-end 2002, the FHLBanks had \$576 million in advances outstanding to 24 housing associates, up from \$264 million at year-end 2001. Housing associates eligible to borrow include 36 State housing finance agencies, 10 county housing finance agencies, 1 city housing authority, 1 tribal housing corporation and 1 housing development corporation.

**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 less favorable to them than comparable transactions with other members. At December 31, 2002, the FHLBanks had \$69.3 billion of

advances outstanding to members whose officers were serving as directors of the FHLBanks. This amounted to 14.7 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. Financial Reports prepared and published for fiscal periods ended prior to January 1, 2001, were prepared by the Finance Board. The Office of Finance does not have the same access to information regarding the FHLBanks as the Finance Board has in its capacity as regulator of the FHLBanks. In connection with the Office of Finance's preparation responsibilities, the Office of Finance is responsible for combining the financial information it receives from the FHLBanks, each of which is responsible for the financial information it provides to the Office of Finance.

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

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

The Financial Reports are prepared on behalf of the FHLBanks because it is believed that the presentation of the financial information relating to the FHLBanks on a "combined" basis is more 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. (See Note 1 to the accompanying combined financial statements.)

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**FEDERAL HOME LOAN BANKS**  
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## AUDIT COMMITTEE REPORT

By Finance Board regulation, the Office of Finance (OF) Board performs the duties of an audit committee in connection with the oversight of the preparation of the FHLBanks' annual combined financial report. The OF Board is appointed by the Finance Board and is comprised of two FHLBank presidents and an appointee with demonstrated expertise in financial markets. The outside director's appointment expired in March 2001 and he resigned at the end of October of 2002 after serving over seven years. His successor has not been appointed. In connection with its duties as an audit committee, the OF Board has adopted a written charter, which is presented on page 154. The OF Board members are not required to satisfy any express qualification or independence standards governing their service as an "audit committee"; however, each FHLBank's board of directors has established an audit committee, the members of which are required to meet express qualification and independence standards established by the Finance Board. See "Explanatory Statement about FHLBanks Combined Financial Report".

The OF Board has reviewed and discussed the audited financial statements with senior management of the Office of Finance, and discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended.

The OF Board has also received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1, and has discussed with the independent accountants the independent accountants' independence.

Based on the review and discussions referred to above, the OF Board recommended that the combined audited financial statements be included in the FHLBanks' 2002 Financial Report.

James D. Roy, Chair  
Patrick J. Conway

## REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying combined statements of condition and the related combined statements of income, of capital, and of cash flows shown on pages 58 to 93 present fairly, in all material respects, the combined financial position of the Federal Home Loan Banks (the FHLBanks) at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These combined financial statements are the responsibility of the management of the Office of Finance and the FHLBanks; our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Also, in accordance with those standards and as part of our audit of the financial statements of the FHLBanks, we issued separate reports on internal controls 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 94 to 125 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.

The image shows a handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP". The signature is written in dark ink and is positioned above the typed name and date.

Washington, D.C.  
March 26, 2003

**FEDERAL HOME LOAN BANKS**  
**COMBINED STATEMENTS OF CONDITION**

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

	December 31,	
	2002	2001
<b>ASSETS</b>		
Cash and due from banks (Note 3) .....	\$ 658	\$ 319
Interest-bearing deposits .....	17,810	13,627
Securities purchased under agreements to resell (Note 4) .....	5,243	7,950
Federal funds sold .....	46,681	48,394
Held-to-maturity securities includes \$1,809 and \$2,809 pledged in 2002 and 2001 (Note 5) ....	116,105	102,968
Available-for-sale securities includes \$1,787 and \$35 pledged in 2002 and 2001 (Note 6) .....	11,531	7,403
Securities held at fair value includes \$3,591 and \$1,183 pledged in 2002 and 2001 (Note 7) ...	8,985	9,908
Advances (Note 8) .....	489,598	472,732
Mortgage loans held for portfolio .....	60,567	27,650
Less: allowance for credit losses on mortgage loans .....	13	7
Mortgage loans held for portfolio, net (Note 10) .....	<u>60,554</u>	<u>27,643</u>
Accrued interest receivable .....	3,036	3,078
Premises and equipment, net .....	160	132
Derivative assets .....	2,812	2,148
Other assets .....	458	403
Total assets .....	<u>\$763,631</u>	<u>\$696,705</u>
<b>LIABILITIES</b>		
Deposits (Note 11):		
Demand and overnight .....	\$ 24,931	\$ 23,720
Term .....	1,214	1,115
Other .....	1,465	925
Total deposits .....	<u>27,610</u>	<u>25,760</u>
Borrowings (Note 12):		
Securities sold under agreements to repurchase .....	1,699	800
Other .....	525	350
Total borrowings .....	<u>2,224</u>	<u>1,150</u>
Consolidated obligations, net (Note 13):		
Discount notes .....	146,814	139,503
Bonds .....	526,895	481,800
Total consolidated obligations .....	<u>673,709</u>	<u>621,303</u>
Accrued interest payable .....	4,997	5,751
Affordable Housing Program (Note 9) .....	695	696
Payable to REFCORP (Note 14) .....	110	161
Derivative liabilities .....	16,301	7,235
Other liabilities .....	1,661	431
Total liabilities .....	<u>727,307</u>	<u>662,487</u>
Commitments and contingencies (Notes 8, 9, 13, 14, 15, 16 and 18)		
<b>CAPITAL (Note 14)</b>		
Capital Stock:		
Capital stock—Class B (\$100 par value)—issued and outstanding shares: 77,330 shares in 2002 .....	7,733	
Capital stock (\$100 par value)—issued and outstanding shares: 274,543 shares in 2002 and 332,873 shares in 2001 .....	27,454	33,289
Total capital stock .....	<u>35,187</u>	<u>33,289</u>
Retained earnings .....	1,190	932
Accumulated other comprehensive income:		
Net unrealized gains on available-for-sale securities (Note 6) .....	491	175
Net unrealized losses relating to hedging activities .....	(544)	(178)
Total capital .....	<u>36,324</u>	<u>34,218</u>
Total liabilities and capital .....	<u>\$763,631</u>	<u>\$696,705</u>

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

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

	For the Years Ended December 31,		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>INTEREST INCOME</b>			
Advances .....	\$11,226	\$20,679	\$26,987
Interest-bearing deposits .....	306	451	430
Securities purchased under agreements to resell .....	107	190	165
Federal funds sold .....	886	2,291	3,225
Held-to-maturity securities .....	5,159	6,016	7,135
Available-for-sale securities .....	164	290	326
Securities held at fair value .....	461	416	
Mortgage loans held for portfolio .....	2,391	1,379	714
Other .....	5	1	2
Total interest income .....	<u>20,705</u>	<u>31,713</u>	<u>38,984</u>
<b>INTEREST EXPENSE</b>			
Consolidated obligations .....	17,266	27,632	34,805
Deposits .....	423	953	816
Securities sold under agreements to repurchase .....	46	6	17
Other borrowings .....	6	6	29
Total interest expense .....	<u>17,741</u>	<u>28,597</u>	<u>35,667</u>
<b>NET INTEREST INCOME BEFORE MORTGAGE LOAN</b>			
<b>LOSS PROVISION</b> .....	2,964	3,116	3,317
Provision for credit losses on mortgage loans .....	6	4	2
<b>NET INTEREST INCOME AFTER MORTGAGE LOAN</b>			
<b>LOSS PROVISION</b> .....	2,958	3,112	3,315
<b>OTHER INCOME</b>			
Prepayment fees .....	142	93	4
Service fees .....	36	40	45
Net realized gains on sale of available-for-sale securities .....			2
Net gains on securities held at fair value .....	707	73	
Net realized and unrealized (losses) gains on derivatives and hedging activities .....	(906)	79	
Other, net .....	(18)	(17)	17
Total other income .....	<u>(39)</u>	<u>268</u>	<u>68</u>
<b>OTHER EXPENSE</b>			
Operating .....	396	368	333
Finance Board .....	23	20	19
Office of Finance .....	17	13	10
Other .....	35	18	11
Total other expense .....	<u>471</u>	<u>419</u>	<u>373</u>
<b>INCOME BEFORE ASSESSMENTS</b>			
Affordable Housing Program .....	2,448	2,961	3,010
REFCORP .....	199	239	246
REFCORP .....	450	538	553
Total assessments .....	<u>649</u>	<u>777</u>	<u>799</u>
<b>INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN</b>			
<b>ACCOUNTING PRINCIPLE</b> .....	1,799	2,184	2,211
Cumulative effect of change in accounting principle .....		(30)	
<b>NET INCOME</b> .....	<u>\$ 1,799</u>	<u>\$ 2,154</u>	<u>\$ 2,211</u>

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

FEDERAL HOME LOAN BANKS

COMBINED STATEMENTS OF CAPITAL  
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000  
(Dollar amounts in millions)

	Capital Stock Class B		Capital Stock		Total Capital Stock		Retained Earnings		Total	Accumulated Other Comprehensive Income	Total Capital
	Shares (In millions)	Par Value	Shares (In millions)	Par Value	Shares (In millions)	Par Value	Restricted	Unrestricted			
<b>BALANCE, DECEMBER 31, 1999</b> .....		\$	284	\$28,361	284	\$28,361	\$69	\$ 591	\$ 660	\$ (6)	\$29,015
Proceeds from sale of capital stock .....			66	6,636	66	6,636					6,636
Redemption of capital stock .....			(55)	(5,470)	(55)	(5,470)					(5,470)
Comprehensive income:											
Net income .....								2,211	2,211		2,211
Other comprehensive income:											
Net unrealized gains on available- for-sale securities .....										5	5
Total other comprehensive income ..											5
Total comprehensive income .....											5
Transfers to (from) unrestricted retained earnings .....							(69)	69	(1,132) (1,010)		(1,132)
Dividend on Capital Stock:											
Cash .....											
Stock .....			10	1,010	10	1,010					
<b>BALANCE, DECEMBER 31, 2000</b> .....		\$	305	\$30,537	305	\$30,537		\$ 729	\$ 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		2,154
Other comprehensive income:											
Unrealized gains on available-for-sale securities .....										176	176
Unrealized losses relating to hedging activities .....										(204)	(204)
Reclassification adjustment for losses included in net income .....										28	28
Cumulative effect of changes in accounting principle .....										(2)	(2)
Total other comprehensive income .....											2,152
Dividend on capital stock:											
Cash .....											
Stock .....			9	947	9	947		(1,004) (947)	(1,004) (947)		(1,004)
<b>BALANCE, DECEMBER 31, 2001</b> .....		\$	332	\$33,289	332	\$33,289		\$ 932	\$ 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)

	Capital Stock Class B		Capital Stock		Total Capital Stock		Retained Earnings		Accumulated Other Comprehensive Income	Total Capital
	Shares (In millions)	Par Value	Shares (In millions)	Par Value	Shares (In millions)	Par Value	Restricted	Unrestricted		
Comprehensive income:										
Net income								1,799		1,799
Other								(1)		(1)
Other comprehensive income:									314	314
Unrealized gains on available-for-sale securities										
Unrealized losses relating to hedging activities									(304)	(304)
Reclassification adjustment for gains included in net income									(60)	(60)
Total other comprehensive income										1,748
Total comprehensive income	81	8,119	(81)	(8,119)						
Conversion to Class B shares										
Dividend on capital stock:										
Cash	1	112	6	658	7	770		(770)		(770)
Stock	76	\$7,733	276	\$27,454	352	\$35,187	\$	\$ 1,190	\$ (53)	\$36,324
<b>BALANCE, DECEMBER 31, 2002</b>										

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

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

	For the Years Ended December 31,		
	2002	2001	2000
<b>OPERATING ACTIVITIES</b>			
Net income .....	\$ 1,799	\$ 2,154	\$ 2,211
Cumulative effect of change in accounting principle .....		30	
Income before cumulative effect of change in accounting principle .....	<u>1,799</u>	<u>2,184</u>	<u>2,211</u>
Adjustments to reconcile income before cumulative effect of change in accounting principle to net cash provided by operating activities:			
Depreciation and amortization:			
Net premiums and discounts on consolidated obligations, investments, mortgage loans, and deferred costs and fees received on interest-rate exchange agreements .....	(87)	(1,556)	184
Concessions on consolidated obligation bonds .....	280	223	80
Net deferred losses on interest-rate exchange agreements .....	6	11	24
Premises and equipment .....	27	23	16
Other .....	(3)	(3)	(1)
Provision for credit losses on mortgage loans .....	6	4	2
Net realized gains on available-for-sale securities .....			(2)
Net realized gains on held-to-maturity securities .....	(1)	(3)	
Loss due to change in net mark to market adjustment for interest-rate exchange agreements in which the FHLBanks are intermediaries .....			5
Increase in securities held at fair value, net of transfers and transition adjustments .....	(1,466)	(1,970)	
Losses (gains) due to change in net fair value adjustment on derivative and hedging activities .....	123	(357)	
Net realized losses on disposal of premises and equipment .....	1		
Decrease (increase) in accrued interest receivable .....	18	8,298	(2,504)
Decrease (increase) in derivative assets-net accrued interest .....	456	(893)	
Increase (decrease) in derivative liabilities-net accrued interest .....	319	(297)	
(Increase) decrease in other assets .....	(204)	(145)	251
Net increase in Affordable Housing Program (AHP) liability and discount on AHP advances .....	3	83	100
(Decrease) increase in accrued interest payable .....	(754)	(6,278)	2,335
(Decrease) increase in payable to REFCORP .....	(51)	15	71
Increase (decrease) in other liabilities .....	<u>991</u>	<u>67</u>	<u>(223)</u>
Total adjustments .....	<u>(336)</u>	<u>(2,778)</u>	<u>338</u>
Net cash provided by (used in) operating activities .....	<u>1,463</u>	<u>(594)</u>	<u>2,549</u>

	For the Years Ended December 31,		
	2002	2001	2000
<b>INVESTING ACTIVITIES</b>			
Net increase in interest-bearing deposits .....	\$ (4,183)	\$ (3,378)	\$ (4,505)
Net decrease (increase) in securities purchased under agreements to resell .....	2,707	(6,534)	1,339
Net decrease in Federal funds sold .....	1,713	6,869	1,721
Net decrease in short-term held-to-maturity securities .....	1,232	3,097	1,208
Proceeds from sales of long-term held-to-maturity securities .....	77	6,822	20
Proceeds from maturities of long-term held-to-maturity securities .....	74,442	69,506	35,997
Purchases of long-term held-to-maturity securities .....	(85,147)	(79,518)	(50,262)
Proceeds from sales of available-for-sale securities .....	219	124	750
Proceeds from maturities of available-for-sale securities .....	58,033	60,266	21,656
Purchases of available-for-sale securities .....	(62,492)	(58,748)	(22,134)
Principal collected on advances .....	4,030,885	3,732,858	4,637,522
Advances made .....	(4,038,063)	(3,758,305)	(4,679,644)
Principal collected on mortgage loans held for portfolio .....	12,913	7,881	469
Mortgage loans held for portfolio originated or purchased .....	(45,729)	(19,418)	(14,600)
Principal collected on other loans .....	1	1	1
Net increase in premises and equipment .....	(57)	(28)	(44)
Net cash used in investing activities .....	<u>(53,449)</u>	<u>(38,505)</u>	<u>(70,506)</u>
<b>FINANCING ACTIVITIES</b>			
Net increase in deposits .....	1,850	8,594	5
Net increase (decrease) in securities sold under agreements to repurchase .....	300		(543)
Net increase (decrease) in other borrowings .....	774	1,150	(1)
Net proceeds from issuance of consolidated obligations:			
Discount notes .....	4,135,261	4,664,175	4,089,102
Bonds .....	432,204	415,423	217,301
Payments for maturing and retiring consolidated obligations:			
Discount notes .....	(4,127,792)	(4,683,255)	(4,070,987)
Bonds .....	(390,618)	(368,207)	(170,230)
Proceeds from issuance of capital stock .....	9,698	9,236	6,636
Payments for redemption of capital stock .....	(8,570)	(7,431)	(5,470)
Cash dividends paid .....	(782)	(1,019)	(1,151)
Net cash provided by financing activities .....	<u>52,325</u>	<u>38,666</u>	<u>64,662</u>
Net increase (decrease) in cash and cash equivalents .....	339	(433)	(3,295)
Cash and cash equivalents at beginning of the year .....	<u>319</u>	<u>752</u>	<u>4,047</u>
Cash and cash equivalents at end of the year .....	<u>\$ 658</u>	<u>\$ 319</u>	<u>\$ 752</u>
<b>Supplemental Disclosures:</b>			
Interest paid .....	\$ 17,383	\$ 30,564	\$ 30,851
Stock dividends issued .....	\$ 770	\$ 947	\$ 1,010

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 United States 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. 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.* 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 combined financial statements include the financial records of the 12 FHLBanks. Material transactions among the FHLBanks have been eliminated. The principal transactions among segments are purchases of interbank bonds—consolidated obligations issued on behalf of one FHLBank and purchased by one or more other FHLBanks. All these transactions occur at market prices, and the purchasing FHLBanks treat these bonds as investments. No other transactions among the FHLBanks have a material effect on operating results.

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

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

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

No. 133, and as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* (herein referred to as SFAS 133).

The FHLBanks classify investments that they may sell before maturity as available-for-sale and carry them at fair value, 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.

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

*Advances.* The FHLBanks present advances net of unearned commitment fees and discounts on advances for the Affordable Housing Program (AHP), as discussed below. The FHLBanks credit interest on advances to income as earned. Following the requirements of the Federal Home Loan Bank Act of 1932 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 \$527 million or less during 2002) 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. In addition, prior to implementing SFAS 133 in 2001, the FHLBanks adjusted the carrying value of advances for the unamortized cost of, and deferred gains and losses from, associated interest-rate exchange agreements.

*Mortgage Loans Held for Portfolio.* All 12 FHLBanks have established member mortgage asset programs as services to their members. The programs all involve the investment by the FHLBank in loans created by members. The Finance Board authorized all of the FHLBanks to hold acquired member assets, such as assets acquired under the Mortgage Partnership Finance® (MPF®) program developed by the FHLBank of Chicago and the Mortgage Purchase Program (MPP) developed by the FHLBanks of Cincinnati, Indianapolis, and Seattle. Under these programs, an FHLBank invests in mortgage loans, which are either funded by the FHLBanks or purchased from its participating members. The FHLBanks manage the liquidity and interest-rate risk, and optionality of the loans, while the members retain the marketing and servicing activities. The FHLBanks and the members share the credit risk of the loans. The member assumes credit losses up to 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.

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

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

The FHLBanks place a conventional 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 their respective limits. The analysis includes consideration of the various factors such as past performance, current performance, loan portfolio characteristics, collateral valuations, and prevailing economic conditions.

The first loss liability is the responsibility of the FHLBanks and is 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.

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

*Prepayment Fees.* The FHLBanks charge their members a prepayment fee when members prepay certain advances before the original maturity. The FHLBanks credit prepayment fees to other income. Prior to January 1, 2001, gains and losses on interest-rate exchange agreements associated with prepaid advances are included with prepayment fees on the Statements of Income.

*Commitment Fees.* The FHLBanks defer commitment fees for advances and accrete them 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.* 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 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 enter into interest-rate swaps, swaptions, interest-rate cap and floor agreements, calls, puts, and futures and forward contracts (collectively, interest-rate exchange agreements) to manage their exposure to changes in interest rates. The FHLBanks may adjust the effective maturity, repricing frequency, or option characteristics of financial instruments to achieve risk-management objectives. The FHLBanks use interest-rate exchange agreements in three ways: either by designating them as a fair-value or cash-flow hedge of an underlying financial instrument or a forecasted transaction, by acting as an intermediary, or in asset-liability management (*i.e.*, a non-SFAS 133 economic hedge.) For example, the FHLBanks use interest-rate exchange agreements in their overall interest-rate risk management to adjust the interest-rate sensitivity of consolidated obligations to approximate more closely the interest-rate sensitivity of assets (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 ("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 are acceptable hedging strategies 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 are 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 call date, which would normally occur in a rising-rate environment, and the FHLBank can convert the advance to a floating rate.

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

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

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

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 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 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.* The FHLBanks hedge the market value of purchase commitments on fixed rate mortgage loans by using derivatives that would 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.

The FHLBanks may also hedge a firm commitment for a forward starting advance through the use of an interest-rate swap. In this case, the swap will function as the hedging instrument for both the firm commitment and the subsequent advance. The basis movement associated with the firm commitment will be rolled into the basis of the advance at the time the commitment is terminated and the advance is issued. The basis adjustment will then be amortized into interest income over the life of the advance.

*Investments.* The FHLBanks invest in U.S. agency 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.

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, 2002, 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.

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

*Premises and Equipment.* The FHLBanks’ premises and equipment, net of approximately \$160 million and \$132 million at December 31, 2002 and 2001 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. They amortize leasehold improvements on the straight-line basis over the shorter of the estimated useful life of the improvement or the remaining term of the lease. The FHLBanks capitalize improvements and major renewals but expense ordinary maintenance and repairs when incurred. The FHLBanks include gains and losses on disposal of premises and equipment in other income.

*Concessions on Consolidated Obligations.* The FHLBanks defer and amortize, using the 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. 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.

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

*Finance Board and Office of Finance Expenses.* The FHLBanks are assessed the costs of operating the Finance Board's operating office 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 2001 and 2000 combined financial statements have been reclassified to conform with the 2002 presentation.

## **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 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.

*Adoption of SFAS 133.* The FHLBanks adopted SFAS 133 on January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The gains and losses on derivative instruments that are reported in other comprehensive income will be reclassified 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 (losses) on investments transferred from "held-to-maturity" to "securities held at fair value" .....	<u>136</u>
Total cumulative effect of accounting change on earnings .....	<u>\$ (30)</u>

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

Previously deferred hedging gains and losses .....	\$ (1)
Net unrealized gains (losses) on investments transferred from "held-to-maturity" to "available-for-sale" .....	<u>(1)</u>
Total cumulative effect of accounting change on other comprehensive income at January 1, 2001 .....	<u>(2)</u>
Net amounts reclassified as earnings for the year ended December 31, 2001 ..	28
Net change associated with hedging activities for the year ended December 31, 2001 .....	<u>(204)</u>
Net change during period relating to hedging activities .....	<u>(176)</u>
Total cumulative effect of accounting change on other comprehensive income at January 1, 2001, less net change during the year ended December 31, 2001, related to hedging activities ..	(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 .....	<u>(304)</u>
Accumulated comprehensive income relating to hedging activities at December 31, 2002 .....	<u>\$ (544)</u>

On January 1, 2001, the FHLBanks transferred held-to-maturity securities with an amortized cost of \$4.60 billion and an estimated fair value of \$4.64 billion into the available-for-sale category. The unrealized net gain related to the transfer of certain securities into the available-for-sale category, net of adjustments to related derivatives, was \$1 million, which has been recognized in the accumulated other comprehensive income component of capital, as part of the cumulative effect of adopting the accounting principle in 2001. In addition, the FHLBanks transferred held-to-maturity securities with an amortized cost of \$7.53 billion and an estimated fair value of \$7.66 billion into the

investments held at fair value category. The unrealized 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 \$2,812 million and \$2,148 million, and derivative liabilities of \$16,301 million and \$7,235 million at December 31, 2002 and 2001, respectively. For the years ended December 31, 2002 and 2001, the FHLBanks recorded net realized and unrealized (losses) gains on derivatives and hedging activities of \$(906) million and \$79 million, respectively, in other income. Net realized and unrealized (losses) gains on derivatives and hedging activities for the years ended December 31, 2002 and 2001 are as follows (Dollar amounts in millions):

	For the Year Ended December 31,	
	<u>2002</u>	<u>2001</u>
Realized and unrealized (losses) gains related to fair-value hedge ineffectiveness .....	\$ (55)	\$112
Realized and unrealized losses on firm commitments no longer qualifying as fair-value hedges .....	(3)	
Realized and unrealized losses on economic hedges .....	(849)	(66)
Realized and unrealized gains related to cash-flow hedge ineffectiveness .....	<u>1</u>	<u>33</u>
Net realized and unrealized (losses) gains on derivatives and hedging activities .....	<u>\$ (906)</u>	<u>\$ 79</u>

There were no material amounts for the year ended December 31, 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, 2002, the deferred net losses on derivative instruments accumulated in other comprehensive income expected to be reclassified to earnings during the next twelve months is approximately \$110 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 five 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, 2002 and 2001, were approximately \$106 million and \$68 million.

In addition, the FHLBanks maintained average required clearing balances with various Federal Reserve Banks and branches of approximately \$168 million and \$114 million for the years ended December 31, 2002 and 2001. 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 \$872 million and \$156 million as of December 31, 2002 and 2001. The FHLBanks include member reserve balances in other liabilities on the Statements of Condition.

#### Note 4—Securities Purchased Under Agreements to Resell

Certain FHLBanks have entered into purchases of securities under agreements to resell. These amounts represent short-term loans and are assets in the Statements of Condition. The securities purchased under agreements to resell are held in safekeeping in the name of 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

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
U.S. Treasury obligations . . . . .	\$ 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 . . . . .	<u>6,624</u>	<u>16</u>	<u>(11)</u>	<u>6,629</u>
	24,020	500	(37)	24,483
Mortgage-backed securities . . . . .	<u>92,085</u>	<u>2,010</u>	<u>(141)</u>	<u>93,954</u>
Total . . . . .	<u>\$116,105</u>	<u>\$2,510</u>	<u>\$(178)</u>	<u>\$118,437</u>

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
U.S. Treasury obligations . . . . .	\$ 206	\$ 9	\$	\$ 215
Commercial paper . . . . .	5,107			5,107
U.S. agency obligations . . . . .	5,550	110	(12)	5,648
State or local housing agency obligations . .	4,551	65	(49)	4,567
Other . . . . .	<u>6,586</u>	<u>12</u>	<u>(8)</u>	<u>6,590</u>
	22,000	196	(69)	22,127
Mortgage-backed securities . . . . .	<u>80,968</u>	<u>1,382</u>	<u>(141)</u>	<u>82,209</u>
Total . . . . .	<u>\$102,968</u>	<u>\$1,578</u>	<u>\$(210)</u>	<u>\$104,336</u>

*Redemption Terms.* The amortized cost and estimated fair value of held-to-maturity securities as of December 31, 2002 and 2001, by contractual maturity, are shown below (dollar amounts in millions). Expected maturities of some securities and mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

Year of Maturity	2002		2001	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less . . . . .	\$ 13,254	\$ 13,281	\$ 11,265	\$ 11,266
Due after one year through five years . . . . .	4,324	4,501	4,919	5,035
Due after five years through ten years . . . . .	1,496	1,625	1,452	1,462
Due after ten years . . . . .	4,946	5,076	4,364	4,364
	24,020	24,483	22,000	22,127
Mortgage-backed securities . . . . .	92,085	93,954	80,968	82,209
Total . . . . .	<u>\$116,105</u>	<u>\$118,437</u>	<u>\$102,968</u>	<u>\$104,336</u>

The amortized cost of the FHLBanks' mortgage-backed securities classified as held-to-maturity includes net (premiums) discounts of \$(129) million and \$137 million at December 31, 2002 and 2001.

*Interest-Rate Payment Terms.* The following table details additional interest-rate payment terms for investment securities classified as held-to-maturity at December 31, 2002 and 2001 (dollar amounts in millions):

	2002	2001
Amortized cost of held-to-maturity securities other than mortgage-backed securities:		
Fixed-rate . . . . .	\$ 20,009	\$ 19,426
Variable-rate . . . . .	4,011	2,574
	<u>24,020</u>	<u>22,000</u>
Amortized cost of held-to-maturity mortgage-backed securities:		
Pass-through securities:		
Fixed-rate . . . . .	11,660	8,696
Variable-rate . . . . .	1,434	1,843
Collateralized mortgage obligations:		
Fixed-rate . . . . .	57,296	54,595
Variable-rate . . . . .	21,695	15,834
	<u>92,085</u>	<u>80,968</u>
Total . . . . .	<u>\$116,105</u>	<u>\$102,968</u>

#### Note 6—Available-for-Sale Securities

*Major Security Types.* 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 . . . . .	<u>\$10,689</u>	<u>\$843</u>	<u>\$(1)</u>	<u>\$11,531</u>

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

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

The FHLBanks have recorded \$272 million and \$155 million of unrealized gains associated with hedging activities related to available-for-sale securities for the years ended December 31, 2002 and 2001, respectively.

*Redemption Terms.* The amortized cost and estimated fair value of available-for-sale securities, excluding associated interest-rate exchange agreements, as of December 31, 2002 and 2001, by contractual maturity, are shown below (dollar amounts in millions). Expected maturities of some securities and mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

<u>Year of Maturity</u>	<u>2002</u>		<u>2001</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less .....	\$ 790	\$ 790	\$1,676	\$1,678
Due after one year through five years ....	1,405	1,498	450	481
Due after five years through ten years ....	3,847	4,064	936	937
Due after ten years .....	<u>2,524</u>	<u>2,860</u>	<u>2,680</u>	<u>2,717</u>
	8,566	9,212	5,742	5,813
Mortgage-backed securities .....	<u>2,123</u>	<u>2,319</u>	<u>1,494</u>	<u>1,590</u>
Total .....	<u>\$10,689</u>	<u>\$11,531</u>	<u>\$7,236</u>	<u>\$7,403</u>

The amortized cost of the FHLBanks' mortgage-backed securities classified as available-for-sale includes net premiums of \$13 million and \$3 million at December 31, 2002 and 2001.

*Interest-Rate Payment Terms.* The following table details additional interest-rate payment terms for investment securities classified as available-for-sale at December 31, 2002 and 2001 (dollar amounts in millions):

	<u>2002</u>	<u>2001</u>
Amortized cost of available-for-sale securities other than mortgage-backed securities:		
Fixed-rate .....	\$ 8,462	\$5,544
Variable-rate .....	<u>104</u>	<u>198</u>
	<u>8,566</u>	<u>5,742</u>
Amortized cost of available-for-sale mortgage-backed securities:		
Pass-through securities:		
Fixed-rate .....	1,253	1,243
Variable-rate .....	73	118
Collateralized mortgage obligations:		
Fixed-rate .....	<u>797</u>	<u>133</u>
	<u>2,123</u>	<u>1,494</u>
Total .....	<u>\$10,689</u>	<u>\$7,236</u>

*Gains and losses.* The FHLBanks realized \$16 million and \$797 million in gross gains on the sale of available-for-sale securities for 2002 and 2001. The FHLBanks realized \$16 million and \$794 million in gross losses on the sale of available-for-sale securities in 2002 and 2001. These gains and losses on the sale of available-for-sale securities were netted with gains (losses) incurred on interest-rate exchange agreements designated against available-for-sale securities during the year ended December 31, 2000. In 2001, after adopting SFAS 133, realized gains and losses on interest-rate exchange agreements were included in the separate line on the income statement entitled net realized and unrealized gains (losses) on derivatives and hedging activities.

#### **Note 7—Securities Held at Fair Value**

*Major Security Types.* Securities held at fair value as of December 31, 2002 and 2001, were as follows (dollar amounts in millions):

	<u>2002 Estimated Fair Value</u>	<u>2001 Estimated Fair Value</u>
U.S. agency obligations .....	\$6,713	\$5,672
State or local housing agency obligations .....	<u>288</u>	<u>59</u>
	7,001	5,731
Mortgage-backed securities .....	<u>1,984</u>	<u>4,177</u>
Total investments .....	<u>\$8,985</u>	<u>\$9,908</u>

Net gains on securities held at fair value during the years ended December 31, 2002 and 2001, included a change in net unrealized holding gains of \$668 million and \$87 million for securities held on December 31, 2002 and 2001.

#### **Note 8—Advances**

*Redemption Terms.* At December 31, 2002 and 2001, the FHLBanks had advances outstanding, including AHP advances (see Note 9), at interest rates ranging from 0 percent to 10.51 percent, as summarized below (dollar amounts in millions). Advances with interest rates of 0 percent are AHP-subsidized advances.

	2002		2001	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Overdrawn demand deposit accounts	\$ 41		\$ 98	
2002 .....			149,202	3.13%
2003 .....	145,906	2.52%	71,300	4.07%
2004 .....	71,919	3.23%	49,504	3.77%
2005 .....	60,232	3.93%	39,036	4.97%
2006 .....	30,304	3.25%	27,583	3.50%
2007 .....	29,202	3.39%	9,258	5.11%
Thereafter .....	125,908	5.09%	113,508	5.25%
Index amortizing advances .....	7,011	4.51%	3,852	5.32%
Total par value .....	470,523	3.63%	463,341	4.10%
Unamortized commitment fees .....	(1)		(1)	
Discount on AHP advances .....	(47)		(46)	
Premium on advances .....			1	
SFAS 133 hedging adjustments .....	19,116		9,435	
Deferred net losses on terminated interest-rate exchange agreements .....	7		2	
Total .....	\$489,598		\$472,732	

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, 2002 and 2001, the FHLBanks had callable advances outstanding totaling \$15,495 million and \$38,623 million.

The following table summarizes advances at December 31, 2002 and 2001, by year of maturity or next call date for callable advances (dollar amounts in millions):

Year of Maturity or Next Call Date	2002	2001
Overdrawn demand deposit accounts .....	\$ 41	\$ 98
2002 .....		159,086
2003 .....	158,221	68,975
2004 .....	68,672	46,268
2005 .....	56,383	38,392
2006 .....	29,423	26,706
2007 .....	26,805	8,059
Thereafter .....	123,967	111,905
Index amortizing advances .....	7,011	3,852
Total par value .....	\$470,523	\$463,341

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, 2002 and 2001, the FHLBanks had convertible advances outstanding totaling \$151,449 million and \$145,754 million.

The following table summarizes advances at December 31, 2002 and 2001, by year of maturity or next put date (dollar amounts in millions):

<u>Advances by Year of Maturity or Next Put Date</u>	<u>2002</u>	<u>2001</u>
Overdrawn demand deposit accounts .....	\$ 41	\$ 98
2002 .....		244,025
2003 .....	260,289	92,231
2004 .....	77,035	52,981
2005 .....	50,600	25,464
2006 .....	32,390	27,408
2007 .....	24,201	4,556
Thereafter .....	18,956	12,726
Index amortizing advances .....	<u>7,011</u>	<u>3,852</u>
Total par value .....	<u>\$470,523</u>	<u>\$463,341</u>

*Security Terms.* The individual FHLBanks lend to financial institutions involved in housing finance within their districts according to Federal statutes, including the FHLBank Act. The FHLBank Act requires the FHLBanks to obtain sufficient collateral on advances to protect against losses and to accept only certain U.S. government or government agency securities, residential mortgage loans, deposits in the applicable FHLBank, and other 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, 2002 and 2001, 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 two exceptions are claims that would be entitled to priority under otherwise applicable law or perfected security interests.

*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 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 2002, 77 borrowers held advances that exceeded \$1 billion per member. As of December 31, 2002, the FHLBanks had advances of \$288.3 billion outstanding to these 77 borrowers, and this represented 61.3 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, 2002 and 2001 (dollar amounts in millions):

	<u>2002</u>	<u>2001</u>
Par amount of Advances:		
Fixed-rate .....	\$334,682	\$330,295
Variable-rate .....	<u>135,841</u>	<u>133,046</u>
Total .....	<u>\$470,523</u>	<u>\$463,341</u>

#### **Note 9—Affordable Housing Program**

Section 10(j) of the FHLBank Act requires each FHLBank to establish an AHP. Each FHLBank provides subsidies to members who use the funds to assist the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. The AHP liability represents funds accrued in 2002 to be awarded in 2003 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 2002, 2001, and 2000. The FHLBanks had outstanding principal in AHP-related advances of \$262 million and \$244 million at December 31, 2002 and 2001.

#### **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, 2002 and 2001 on mortgage loans held by all FHLBanks under all programs (dollar amounts in millions):

	<u>2002</u>	<u>2001</u>
Real Estate:		
Fixed medium-term* single-family mortgages .....	\$12,330	\$ 2,721
Fixed long-term single-family mortgages .....	47,373	24,681
Multifamily mortgages .....	77	157
Nonresidential mortgages .....	3	3
Unamortized premiums .....	550	65
Deferred loan costs, net .....	39	13
SFAS 133 hedging adjustments .....	<u>195</u>	<u>10</u>
Total mortgage loans held for portfolio .....	<u>\$60,567</u>	<u>\$27,650</u>

\* 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, 2002, and December 31, 2001, was comprised of government-guaranteed loans totaling \$16,594 million and

\$13,336 million, and conventional and other loans totaling \$43,189 million and \$14,226 million, respectively.

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

	<u>2002</u>	<u>2001</u>
Balance, beginning of year .....	\$ 7	\$3
Provision for credit losses .....	<u>6</u>	<u>4</u>
Balance, end of year .....	<u>\$13</u>	<u>\$7</u>

Realized losses on mortgage loans were \$74 thousand in 2002 and \$91 thousand in 2001.

The estimated fair value of the mortgage loans held as of December 31, 2002 and 2001 are reported in Note 17.

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, 2002 and 2001, 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 \$5,243 million of securities sold under agreements to repurchase outstanding at December 31, 2002.

**Note 13—Consolidated Obligations**

Consolidated obligations are the joint and several obligations of the FHLBanks and consist of consolidated bonds and discount notes. Through December 31, 2000, the Finance Board issued consolidated bonds through the Office of Finance primarily to raise intermediate- and long-term funds for the FHLBanks. Effective January 2, 2001, and in accordance with final rules adopted by the Finance Board on June 2, 2000, the Finance Board discontinued issuing the debt; instead, the FHLBanks began issuing joint debt through the Office of Finance as their agent. Usually, the maturity of consolidated bonds ranges from 1 year to 10 years, but they are not subject to any statutory or regulatory limits on maturity. The FHLBanks, through the Office of Finance, issue consolidated discount notes to raise short-term funds sold at less than the notes' face amount and 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 approximately \$674,843 million and \$623,958 million at December 31, 2002 and 2001. Regulations require the 12 FHLBanks to maintain unpledged Qualifying Assets equal to the consolidated obligations outstanding. Qualifying Assets are defined as cash; secured advances; assets with an

assessment or rating at least equivalent to the current assessment or rating of the consolidated obligations; obligations, participations, mortgages, or other securities of or issued by the United States or an agency of the United States; and such securities as fiduciary and trust funds may invest in under the laws of the State in which the FHLBank is located.

On June 2, 2000, the Finance Board adopted a final rule amending the FHLBanks' leverage limit requirements. Effective July 1, 2000, each FHLBank's leverage limit 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, 2002 and 2001, the FHLBanks' capital stock was 6.6 percent and 6.7 percent of the par value of consolidated bonds outstanding, and the required minimum SAA balance was approximately \$24 million and \$28 million, respectively. 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, 2002 and 2001, 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, 2002 and 2001, by year of maturity (dollar amounts in millions):

<u>Year of Maturity</u>	<u>2002</u>		<u>2001</u>	
	<u>Amount</u>	<u>Weighted Average Interest Rate</u>	<u>Amount</u>	<u>Weighted Average Interest Rate</u>
2002.....	\$		\$122,512	4.56%
2003.....	161,460	3.09%	107,620	4.12%
2004.....	98,006	3.95%	75,320	4.98%
2005.....	73,831	4.17%	38,765	5.59%
2006.....	47,593	4.65%	45,819	5.27%
2007.....	45,369	4.74%	18,941	6.13%
Thereafter.....	105,472	5.11%	84,947	5.93%
Index amortizing notes.....	<u>174</u>	5.16%	<u>819</u>	5.72%
Total par value.....	<u>531,905</u>	4.08%	<u>494,743</u>	4.97%
Bond premium.....	617		497	
Bond discount.....	(11,795)		(16,239)	
SFAS 133 hedging adjustments.....	6,211		2,866	
Deferred net losses on terminated interest-rate exchange agreements.....	(7)		(11)	
Unearned fees associated with interest-rate exchange agreements.....	<u>24</u>		<u>4</u>	
Subtotal.....	526,955		481,860	
Bonds held in treasury.....	<u>(60)</u>		<u>(60)</u>	
Total.....	<u>\$526,895</u>		<u>\$481,800</u>	

Consolidated bonds outstanding at December 31, 2002 and 2001, include callable bonds totaling \$229,357 million and \$220,790 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 advances, while converting its own payment to a variable rate.

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

	<u>2002</u>	<u>2001</u>
Par amount of consolidated bonds:		
Non-callable/non-putable . . . . .	\$301,999	\$273,406
Callable . . . . .	229,357	220,790
Putable . . . . .	<u>549</u>	<u>547</u>
Total par value . . . . .	<u>\$531,905</u>	<u>\$494,743</u>

The following table summarizes consolidated bonds outstanding at December 31, 2002 and 2001, by year of maturity or next call date (dollar amounts in millions):

<u>Year of Maturity or Next Call Date</u>	<u>2002</u>	<u>2001</u>
2002 . . . . .	\$	\$250,858
2003 . . . . .	319,385	126,316
2004 . . . . .	95,218	57,278
2005 . . . . .	46,961	15,414
2006 . . . . .	21,829	17,765
2007 . . . . .	16,126	4,055
Thereafter . . . . .	32,212	22,238
Index amortizing notes . . . . .	<u>174</u>	<u>819</u>
Total par value . . . . .	<u>\$531,905</u>	<u>\$494,743</u>

*Interest-Rate Payment Terms.* The following table details interest-rate payment terms for consolidated bonds at December 31, 2002 and 2001 (dollar amounts in millions). Range bonds are classified as comparative-index bonds.

	<u>2002</u>	<u>2001</u>
Par value of consolidated bonds:		
Fixed-rate . . . . .	\$436,239	\$403,978
Step-up . . . . .	22,531	10,813
Simple variable-rate . . . . .	53,028	54,420
Inverse floating rate . . . . .	60	174
Fixed that converts to variable . . . . .	1,671	608
Variable that converts to fixed . . . . .	1,488	179
Comparative index . . . . .	4,475	2,466
Zero-coupon . . . . .	12,314	21,409
Other . . . . .	<u>99</u>	<u>696</u>
Total par value . . . . .	<u>\$531,905</u>	<u>\$494,743</u>

*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, 2002 and 2001, 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, 2002 and 2001, are as follows (dollar amounts in millions):

	Amount Denominated in Foreign Currency		Year of Maturity	Par in Dollars	Interest Rate
	2002	2001			
British Pounds .....		300	2002	\$488.7	6.88%
British Pounds .....	400	400	2003	677.2	5.63%
British Pounds .....	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, 2002 .....	<u>\$146,814</u>	<u>\$147,050</u>	<u>1.33%</u>
December 31, 2001 .....	<u>\$139,503</u>	<u>\$139,844</u>	<u>2.08%</u>

The FHLBank Act authorizes the Secretary of the Treasury, at his or her discretion, to purchase consolidated obligations of the FHLBanks aggregating not more than \$4 billion. The terms, conditions, and interest rates are determined by the Secretary of the Treasury. There were no such purchases by the U.S. Treasury during the two years ended December 31, 2002.

#### **Note 14—Capital**

The Gramm-Leach-Bliley (GLB) Act will lead to 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 adequacy requirements for the FHLBanks, addresses different classes of stock that an FHLBank may issue and the rights and preferences that may be associated with each class of stock, and required each FHLBank to submit a capital plan to the Finance Board for approval by October 29, 2001. As of July 18, 2002, the Finance Board approved the capital structure plan 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 implement its new capital structure. The effective date of the capital plan is when the FHLBank first issues Class A or Class B stock under the plan.

As of December 31, 2002, the FHLBank of Cincinnati, the FHLBank of Pittsburgh and the FHLBank of Seattle have implemented their respective capital plans. The conversions were considered a capital transaction and were 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 shall 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 would not be in compliance with the capital requirements as of the effective date, it must come into compliance

within a transition period of up to three years. During that period, the existing leverage limit established by Finance Board regulations will continue to apply.

The FHLBank of Cincinnati, the FHLBank of Pittsburgh, and the FHLBank of Seattle were in compliance with the aforementioned rules and requirements. At December 31, 2002, the FHLBank of Cincinnati is in compliance with the risk-based capital rules with a 7.6% leverage ratio and weighted leverage capital of \$5.4 billion, and a 5.1% capital ratio and permanent capital of \$3.6 billion. The FHLBank of Pittsburgh is in compliance with the risk-based capital rules with a 6.3% leverage ratio and weighted leverage capital of \$2.9 billion, and a 4.2% capital ratio and permanent capital of \$1.9 billion. The FHLBank of Seattle is in compliance with the risk-based capital rules with a 5.1% leverage ratio and weighted leverage capital of \$3.6 billion, and a 7.7% capital ratio and permanent capital of \$2.4 billion.

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 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 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 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 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 FHLBank of Indianapolis implemented their capital plan during the first quarter of 2003. The remaining eight FHLBanks plan to implement within the three-year required time frame. Until such time as the remaining FHLBanks fully implements the new capital regulations, the current capital structure and capital adequacy rules remain in effect. 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. Members that withdraw from membership may not be readmitted to membership for five years.

On June 22, 2000, the Finance Board rescinded its dividend policy applicable to the FHLBanks. This action has the effect of no longer requiring an FHLBank to hold as restricted retained earnings that portion of prepayment fee income that, if prorated over the maturity of the advances prepaid, would be allocated to future dividends. An FHLBank's board of directors may declare and pay, in either cash or capital stock, dividends only from retained earnings or current net earnings.

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

The GLB Act changed these required payments to 20 percent of annual net earnings for each FHLBank without the \$300 million aggregate limit, with the final payment date to be adjusted by the Finance Board so that the aggregate payments made by all 12 FHLBanks would be equivalent to a \$300 million annual annuity whose final maturity date is April 15, 2030. The Finance Board will shorten or lengthen the period during which the FHLBanks must make payments to REFCORP depending on actual payments relative to the referenced annuity. The cumulative amount to be paid to REFCORP by any FHLBank is not determinable at this time because the value is dependent on the future earnings of each FHLBank, as well as on future interest rates. As a result of these statutory charges, the REFCORP payment is presented as an expense on the Combined Statements of Income for years after 2000.

At December 31, 2002, the 10 largest holders of capital stock held 22.6 percent 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 10.5 percent of FHLBanks' capital stock. Washington Mutual, FA capital stock includes the capital stock of the former Dime Savings Bank of New York and the former Bank United, which were acquired by Washington Mutual, FA in 2002 and 2001, respectively. On January 7, 2002, Washington Mutual, Inc., finalized its acquisition of the parent company of Dime Savings Bank of New York.

#### **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 2002, contributions to the plan resumed for seven FHLBanks. Funding and administrative costs of FIRF charged to other operating expenses were approximately \$9 million, \$5 million and \$1 million in 2002, 2001 and 2000. 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 \$6 million, \$5 million and \$5 million in the years ended December 31, 2002, 2001 and 2000.

In addition, several FHLBanks maintain deferred compensation plans, which are, in substance, unfunded supplemental retirement plans. The plans' liabilities consist of the accumulated compen-

sation deferrals and accrued earnings on the deferrals. The FHLBanks' minimum obligations from these plans at December 31, 2002 and 2001 were \$29 million and \$24 million, respectively.

#### **Note 16—Interest-Rate Exchange Agreements**

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

At December 31, 2002 and 2001, the FHLBanks' maximum credit risk, as defined above, was \$2,743 million and \$2,017 million. These totals include \$745 million and \$955 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 \$2,036 million and \$1,179 million as collateral as of December 31, 2002 and 2001.

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 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 \$5,351 million and \$5,743 million as of December 31, 2002 and 2001.

#### **Note 17—Estimated Fair Values**

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

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

*Federal funds sold.* The estimated fair value is determined by calculating the present value of the 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 reducing this amount for accrued interest receivable. The discount rates used in these calculations are the replacement advance rates for advances with similar terms. Following the Finance Board's advances regulations, advances with a maturity or repricing period greater than six months require a prepayment fee sufficient to make an FHLBank financially indifferent to the borrower's decision to prepay the advances. Therefore, the estimated fair value of advances does not assume prepayment

risk. The estimated fair value approximates the recorded book balance of advances with floating rates and fixed rates with three months or less to maturity or repricing.

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

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

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

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

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

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

*Commitments.* The estimated fair value of the FHLBanks' commitments to extend credit, including letters of credit, was immaterial at December 31, 2002 and 2001.

The carrying values and estimated fair values of the FHLBanks' financial instruments at December 31, 2002 and 2001 are as follows (dollar amounts in millions):

**2002 FAIR VALUE SUMMARY TABLE**

<u>Financial Instruments</u>	<u>Carrying Value</u>	<u>Net Unrealized Gains (Losses)</u>	<u>Estimated Fair Value</u>
<b>Assets:</b>			
Cash and due from banks .....	\$ 658	\$	\$ 658
Interest-bearing deposits .....	17,810	1	17,811
Securities purchased under agreements to resell .....	5,243		5,243
Federal funds sold .....	46,681	2	46,683
Held-to-maturity securities .....	116,105	2,332	118,437
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	1,523	62,077
Accrued interest receivable .....	3,036		3,036
Derivative assets .....	2,812		2,812
<b>Liabilities:</b>			
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)	(110)	(146,924)
Bonds .....	(526,895)	(10,127)	(537,022)
Accrued interest payable .....	(4,997)		(4,997)
Derivative liabilities .....	(16,301)		(16,301)
<b>Other:</b>			
Standby letters of credit .....		3	3
Commitments to extend credit .....	1	27	28
Other .....		2	2

## 2001 FAIR VALUE SUMMARY TABLE

<u>Financial Instruments</u>	<u>Carrying Value</u>	<u>Net Unrealized Gains (Losses)</u>	<u>Estimated Fair Value</u>
<b>Assets:</b>			
Cash and due from banks .....	\$ 319	\$	\$ 319
Interest-bearing deposits .....	13,627	2	13,629
Securities purchased under agreements to resell .....	7,950		7,950
Federal funds sold .....	48,394	4	48,398
Held-to-maturity securities .....	102,968	1,368	104,336
Available-for-sale securities .....	7,403		7,403
Securities held at fair value .....	9,908		9,908
Advances .....	472,732	1,990	474,722
Mortgage loans held for portfolio, net .....	27,643	380	28,023
Accrued interest receivable .....	3,078		3,078
Derivative assets .....	2,148		2,148
<b>Liabilities:</b>			
Deposits .....	(25,760)	(2)	(25,762)
Securities sold under agreements to repurchase .....	(800)	6	(794)
Other borrowings .....	(350)		(350)
Consolidated obligations			
Discount notes .....	(139,503)	(108)	(139,611)
Bonds .....	(481,800)	(3,590)	(485,390)
Accrued interest payable .....	(5,751)		(5,751)
Derivative liabilities .....	(7,235)		(7,235)
<b>Other:</b>			
Standby letters of credit .....		3	3
Commitments to extend credit .....	4	1	5
Standby bond purchase agreements .....		1	1

### 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 \$12,956 million and \$13,640 million at December 31, 2002 and 2001. 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 \$9,765 million and \$7,044 million at December 31, 2002 and 2001 and had original terms of up to 21 years and final expiration up to 2022. Unearned fees on standby letters of credit are recorded in other liabilities and amount to \$1 million at December 31, 2002 and 2001. 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 and letters of credit as of December 31, 2002 and 2001 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 2007, though some are renewable at the option of an FHLBank. Total commitments for bond purchases were \$1,783 million at December 31, 2002, with 6 state housing authorities. Total commitments for bond purchases were \$449 million at December 31, 2001, with 4 state housing authorities. During 2002, no FHLBank was required to purchase any bonds under these agreements.

Commitments which unconditionally obligate the FHLBanks to fund/purchase mortgage loans totaled \$5,449 million and \$1,862 million at December 31, 2002 and 2001. Commitments are generally for periods not to exceed 365 days. Unused line of credit and other commitments totaled \$2,345 million and \$2,844 million at December 31, 2002 and 2001.

The FHLBanks generally execute interest-rate exchange agreements with major banks and broker-dealers and generally enter bilateral collateral agreements. As of December 31, 2002, the FHLBanks had pledged, as collateral, cash and securities with a fair value of \$10,736 million to broker-dealers who have market risk exposure from the FHLBanks related to interest-rate exchange agreements.

The FHLBanks entered into \$13,125 million par value of consolidated bonds that had traded but not settled as of December 31, 2002.

The FHLBanks charged to operating expenses net rental costs of approximately \$19 million, \$18 million, and \$16 million for the years ended December 31, 2002, 2001 and 2000. Future minimum rentals at December 31, 2002, are as follows (dollar amounts in millions):

<u>Year</u>	<u>Premises</u>	<u>Equipment</u>	<u>Total</u>
2003 .....	\$ 16	\$4	\$ 20
2004 .....	17	2	19
2005 .....	17	1	18
2006 .....	18	1	19
2007 .....	19		19
Thereafter .....	<u>78</u>	<u>—</u>	<u>78</u>
Total .....	<u>\$165</u>	<u>\$8</u>	<u>\$173</u>

Lease agreements for FHLBank premises generally provide for increases in the basic rentals resulting from increases in property taxes and maintenance expenses. Such increases are not expected to have a material effect on the FHLBanks.

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, 2002**

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
<b>ASSETS</b>						
Cash and due from banks	\$ 658	\$	\$ 14	\$ 65	\$ 131	\$ 85
Interest-bearing deposits	17,810		665	1,594	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	116,105	(179)	6,564	19,022	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	<u>\$763,631</u>	<u>\$(1,460)</u>	<u>\$41,477</u>	<u>\$93,606</u>	<u>\$45,555</u>	<u>\$107,294</u>
<b>LIABILITIES</b>						
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	<u>27,610</u>	<u>(70)</u>	<u>1,790</u>	<u>2,743</u>	<u>2,414</u>	<u>5,918</u>
Borrowings:						
Loans from other FHLBanks		(240)	190			
Securities sold under agreements to repurchase	1,699					
Other	525					
Total borrowings	<u>2,224</u>	<u>(240)</u>	<u>190</u>			
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	<u>673,709</u>	<u>(1,134)</u>	<u>35,910</u>	<u>83,512</u>	<u>39,362</u>	<u>90,364</u>
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	<u>727,307</u>	<u>(1,460)</u>	<u>39,182</u>	<u>89,310</u>	<u>43,655</u>	<u>102,568</u>
<b>CAPITAL</b>						
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	<u>35,187</u>		<u>2,278</u>	<u>4,051</u>	<u>1,840</u>	<u>4,497</u>
Retained earnings	1,190		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)	
Total capital	<u>36,324</u>		<u>2,295</u>	<u>4,296</u>	<u>1,900</u>	<u>4,726</u>
Total liabilities and capital	<u>\$763,631</u>	<u>\$(1,460)</u>	<u>\$41,477</u>	<u>\$93,606</u>	<u>\$45,555</u>	<u>\$107,294</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 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			
<u>3,767</u>	<u>5,411</u>	<u>26,186</u>	<u>5,661</u>	<u>1,395</u>	<u>200</u>	<u>263</u>	<u>9,112</u>
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
<u>\$71,071</u>	<u>\$42,873</u>	<u>\$65,046</u>	<u>\$42,254</u>	<u>\$55,136</u>	<u>\$37,966</u>	<u>\$116,129</u>	<u>\$46,684</u>
\$ 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
<u>2,332</u>	<u>1,453</u>	<u>3,048</u>	<u>1,634</u>	<u>2,642</u>	<u>1,544</u>	<u>407</u>	<u>1,755</u>
			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
<u>63,034</u>	<u>37,568</u>	<u>55,770</u>	<u>37,331</u>	<u>48,794</u>	<u>33,360</u>	<u>108,269</u>	<u>41,569</u>
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
<u>67,460</u>	<u>40,874</u>	<u>61,687</u>	<u>40,349</u>	<u>52,639</u>	<u>36,297</u>	<u>110,444</u>	<u>44,302</u>
3,548							2,345
	1,956	3,126	1,858	2,471	1,631	5,586	
<u>3,548</u>	<u>1,956</u>	<u>3,126</u>	<u>1,858</u>	<u>2,471</u>	<u>1,631</u>	<u>5,586</u>	<u>2,345</u>
63	48	191	50	77	38	101	37
	(5)	8	(3)	527			
		34		(578)		(2)	
<u>3,611</u>	<u>1,999</u>	<u>3,359</u>	<u>1,905</u>	<u>2,497</u>	<u>1,669</u>	<u>5,685</u>	<u>2,382</u>
<u>\$71,071</u>	<u>\$42,873</u>	<u>\$65,046</u>	<u>\$42,254</u>	<u>\$55,136</u>	<u>\$37,966</u>	<u>\$116,129</u>	<u>\$46,684</u>

**FEDERAL HOME LOAN BANKS**  
**COMBINING SCHEDULES—STATEMENTS OF CONDITION**  
**DECEMBER 31, 2001**

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>ASSETS</b>						
Cash and due from banks	\$ 319	\$	\$ 10	\$ 13	\$ 44	\$ 77
Interest-bearing deposits	13,627		75	235	1,181	1,177
Deposits with other FHLBanks for mortgage loan programs		(21)		1	7	5
Securities purchased under agreements to resell	7,950		1,550			
Federal funds sold	48,394		3,780	1,434	1,127	7,492
Held-to-maturity securities	102,968	(1,627)	6,022	17,480	5,078	12,609
Available-for-sale securities	7,403	(499)	1,036		120	
Securities held at fair value	9,908	(529)	769		3,551	2,617
Advances	472,732		24,361	60,962	29,315	71,986
Mortgage loans held for portfolio	27,650		330	425	1,839	510
Less: allowance for credit losses on mortgages loans	7					1
Mortgage loans held for portfolio, net	27,643		330	425	1,839	509
Loans to other FHLBanks		(175)		50		
Accrued interest receivable	3,078	(46)	165	378	532	486
Premises and equipment, net	132		7	8	10	29
Derivative assets	2,148		64	214	94	340
Other assets	403		16	40	39	87
Total assets	<u>\$696,705</u>	<u>\$(2,897)</u>	<u>\$38,185</u>	<u>\$81,240</u>	<u>\$42,937</u>	<u>\$97,414</u>
<b>LIABILITIES</b>						
Deposits:						
Demand and overnight	\$ 23,720	\$	\$ 2,502	\$ 2,725	\$ 1,692	\$ 4,715
Term	1,115		34	132	13	25
Deposits from other FHLBanks for mortgage loan programs		(21)				
Other	925		8	5	13	267
Total deposits	<u>25,760</u>	<u>(21)</u>	<u>2,544</u>	<u>2,862</u>	<u>1,718</u>	<u>5,007</u>
Borrowings:						
Loans from other FHLBanks		(175)				
Securities sold under agreements to repurchase	800					
Other	350					
Total borrowings	<u>1,150</u>	<u>(175)</u>				
Consolidated obligations, net:						
Discount notes	139,503		8,059	22,790	11,070	791
Bonds	481,800	(2,655)	24,816	49,837	27,224	83,958
Total consolidated obligations	<u>621,303</u>	<u>(2,655)</u>	<u>32,875</u>	<u>72,627</u>	<u>38,294</u>	<u>84,749</u>
Accrued interest payable	5,751	(46)	325	632	340	960
Affordable Housing Program	696		37	105	40	97
Payable to REFCORP	161		4	21	6	20
Derivative liabilities	7,235		329	1,035	538	2,133
Other liabilities	431		38	48	23	147
Total liabilities	<u>662,487</u>	<u>(2,897)</u>	<u>36,152</u>	<u>77,330</u>	<u>40,959</u>	<u>93,113</u>
<b>CAPITAL</b>						
Capital stock (\$100 par value) issued and outstanding	33,289		1,985	3,733	1,889	4,127
Retained earnings	932		47	177	87	174
Accumulated other comprehensive income:						
Net unrealized gains (losses) on available-for sale securities	175		(11)		1	
Net unrealized (losses) gains relating to hedging activities	(178)		12		1	
Total capital	<u>34,218</u>		<u>2,033</u>	<u>3,910</u>	<u>1,978</u>	<u>4,301</u>
Total liabilities and capital	<u>\$696,705</u>	<u>\$(2,897)</u>	<u>\$38,185</u>	<u>\$81,240</u>	<u>\$42,937</u>	<u>\$97,414</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 10	\$ 37	\$ 2	\$ 64	\$ 47	\$ 2	\$ 2	\$ 11
3,146	296		135	166	2,010	4,487	719
				8			
		50	4,000			2,150	200
11,310	3,096	3,165	1,470	2,181	1,721	8,445	3,173
8,998	4,826	5,254	4,013	5,119	5,946	16,544	12,706
1,600	1,131		214	3,801			
30	96	1,854	148	434	170	528	240
35,223	26,399	21,902	20,756	32,491	22,830	102,255	24,252
566	395	16,574	3,745	1,438	100		1,728
		3	3				
566	395	16,571	3,742	1,438	100		1,728
100						25	
222	125	214	56	157	110	419	260
3	11	19	7	29	1	5	3
72	52	150	198	246	176	479	63
21	53	13	18	31	23	45	17
<u>\$61,301</u>	<u>\$36,517</u>	<u>\$49,194</u>	<u>\$34,821</u>	<u>\$46,148</u>	<u>\$33,089</u>	<u>\$135,384</u>	<u>\$43,372</u>
\$ 1,450	\$ 1,516	\$ 1,506	\$ 1,817	\$ 2,495	\$ 1,293	\$ 444	\$ 1,565
117		110	161	12	31	36	444
		21					
68	28	123		99	42	272	
<u>1,635</u>	<u>1,544</u>	<u>1,760</u>	<u>1,978</u>	<u>2,606</u>	<u>1,366</u>	<u>752</u>	<u>2,009</u>
			50		125		
		800				200	150
		800	50		125	200	150
24,778	9,419	8,995	7,317	6,587	6,637	21,283	11,777
30,390	22,675	34,281	23,444	33,949	22,693	104,685	26,503
55,168	32,094	43,276	30,761	40,536	29,330	125,968	38,280
379	261	447	294	471	295	1,080	313
75	33	37	27	40	27	127	51
12	8	18	7	8	6	37	14
776	790	331	117	215	479	373	119
16	14	22	5	56	14	38	10
<u>58,061</u>	<u>34,744</u>	<u>46,691</u>	<u>33,239</u>	<u>43,932</u>	<u>31,642</u>	<u>128,575</u>	<u>40,946</u>
3,198	1,741	2,395	1,539	2,143	1,396	6,752	2,391
42	33	110	43	71	51	62	35
	(1)			186			
		(2)		(184)		(5)	
3,240	1,773	2,503	1,582	2,216	1,447	6,809	2,426
<u>\$61,301</u>	<u>\$36,517</u>	<u>\$49,194</u>	<u>\$34,821</u>	<u>\$46,148</u>	<u>\$33,089</u>	<u>\$135,384</u>	<u>\$43,372</u>

**FEDERAL HOME LOAN BANKS**  
**COMBINING SCHEDULES—STATEMENTS OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>INTEREST INCOME</b>						
Advances .....	\$11,226	\$	\$ 806	\$1,638	\$ 609	\$1,571
Interest-bearing deposits .....	306		13	11	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 .....	5,159	(28)	298	828	332	630
Available-for-sale securities .....	164	(24)	18		17	
Securities held at fair value .....	461	(38)	34		72	189
Mortgage loans held for portfolio .....	2,391		72	26	130	40
Loans to other FHLBanks .....		(5)		3		1
Other .....	5					
Total interest income .....	<u>20,705</u>	<u>(96)</u>	<u>1,343</u>	<u>2,553</u>	<u>1,198</u>	<u>2,578</u>
<b>INTEREST EXPENSE</b>						
Consolidated obligations .....	17,266	(90)	1,182	2,167	1,029	2,100
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 .....	<u>17,741</u>	<u>(96)</u>	<u>1,212</u>	<u>2,210</u>	<u>1,071</u>	<u>2,189</u>
<b>NET INTEREST INCOME BEFORE MORTGAGE LOAN LOSS PROVISION</b>						
Loss provision .....	2,964		131	343	127	389
Provision for credit losses on mortgage loans .....	6		1	1	1	
<b>NET INTEREST INCOME AFTER MORTGAGE LOAN LOSS PROVISION</b>						
Loss provision .....	<u>2,958</u>		<u>130</u>	<u>342</u>	<u>126</u>	<u>389</u>
<b>OTHER INCOME</b>						
Prepayment fees .....	142		32	39	1	15
Service fees .....	36		2	4	7	3
Net gains (losses) on securities held at fair value .....	707		7		7	287
Net realized and unrealized losses on derivatives and hedging activities .....	(906)		(22)	(2)	(36)	(256)
Other, net .....	(18)		(15)	(27)	(2)	1
Total other income .....	<u>(39)</u>		<u>4</u>	<u>14</u>	<u>(23)</u>	<u>50</u>
<b>OTHER EXPENSE</b>						
Operating .....	396		28	39	36	49
Finance Board .....	23		2	2	1	2
Office of Finance .....	17		1	2	1	2
Other .....	35			(6)		5
Total other expense .....	<u>471</u>		<u>31</u>	<u>37</u>	<u>38</u>	<u>58</u>
<b>INCOME BEFORE ASSESSMENTS</b>						
Affordable Housing Program .....	199		8	26	5	31
REFCORP .....	450		19	59	12	70
Total assessments .....	<u>649</u>		<u>27</u>	<u>85</u>	<u>17</u>	<u>101</u>
<b>NET INCOME</b> .....	<u>\$ 1,799</u>	<u>\$</u>	<u>\$ 76</u>	<u>\$ 234</u>	<u>\$ 48</u>	<u>\$ 280</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 870	\$ 658	\$ 619	\$ 594	\$ 840	\$555	\$1,815	\$ 651
81	8		5	5	39	78	20
		4	22			48	4
216	44	51	60	48	35	119	55
520	301	125	179	154	290	820	710
27	29	6	10	81			
1	6	156	2	7	6	11	15
107	178	1,257	263	92	8	2	216
		1					
				1	4		
<u>1,822</u>	<u>1,224</u>	<u>2,219</u>	<u>1,135</u>	<u>1,228</u>	<u>937</u>	<u>2,893</u>	<u>1,671</u>
1,554	1,006	1,708	987	1,041	801	2,390	1,391
28	26	46	26	40	27	7	28
		1					
			3				
		36	2				2
2		1			2		
<u>1,584</u>	<u>1,032</u>	<u>1,792</u>	<u>1,018</u>	<u>1,081</u>	<u>830</u>	<u>2,397</u>	<u>1,421</u>
238	192	427	117	147	107	496	250
		2		1			
<u>238</u>	<u>192</u>	<u>425</u>	<u>117</u>	<u>146</u>	<u>107</u>	<u>496</u>	<u>250</u>
26	3	1	6	4	3	9	3
2	6	1	3	3	2	1	2
(1)	7	295	(2)	10	45	23	29
	(4)	(345)	(25)	(28)	(65)	(64)	(59)
4	1	9	3	1	3	3	1
<u>31</u>	<u>13</u>	<u>(39)</u>	<u>(15)</u>	<u>(10)</u>	<u>(12)</u>	<u>(28)</u>	<u>(24)</u>
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	24				9	1
<u>26</u>	<u>30</u>	<u>76</u>	<u>25</u>	<u>34</u>	<u>20</u>	<u>70</u>	<u>26</u>
<u>243</u>	<u>175</u>	<u>310</u>	<u>77</u>	<u>102</u>	<u>75</u>	<u>398</u>	<u>200</u>
20	14	25	6	8	6	33	17
45	32	57	14	19	14	73	36
<u>65</u>	<u>46</u>	<u>82</u>	<u>20</u>	<u>27</u>	<u>20</u>	<u>106</u>	<u>53</u>
<u>\$ 178</u>	<u>\$ 129</u>	<u>\$ 228</u>	<u>\$ 57</u>	<u>\$ 75</u>	<u>\$ 55</u>	<u>\$ 292</u>	<u>\$ 147</u>

**FEDERAL HOME LOAN BANKS**  
**COMBINING SCHEDULES—STATEMENTS OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>INTEREST INCOME</b>						
Advances . . . . .	\$20,679	\$	\$1,206	\$2,574	\$1,182	\$2,974
Interest-bearing deposits . . . . .	451		4	3	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 . . . . .	6,016	(89)	358	1,057	381	764
Available-for-sale securities . . . . .	290	(26)	36		11	
Securities held at fair value . . . . .	416	(30)	61		125	123
Mortgage loans held for portfolio . . . . .	1,379		9	34	133	34
Loans to other FHLBanks . . . . .		(7)		3		1
Other . . . . .	1					
Total interest income . . . . .	<u>31,713</u>	<u>(154)</u>	<u>1,902</u>	<u>3,869</u>	<u>1,965</u>	<u>4,263</u>
<b>INTEREST EXPENSE</b>						
Consolidated obligations . . . . .	27,632	(145)	1,640	3,353	1,688	3,616
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 . . . . .	<u>28,597</u>	<u>(154)</u>	<u>1,734</u>	<u>3,461</u>	<u>1,753</u>	<u>3,819</u>
<b>NET INTEREST INCOME BEFORE</b>						
<b>MORTGAGE LOAN LOSS PROVISION</b> . . . . .	3,116		168	408	212	444
Provision for credit losses on mortgage loans . . . . .	4					1
<b>NET INTEREST INCOME AFTER MORTGAGE</b>						
<b>LOAN LOSS PROVISION</b> . . . . .	<u>3,112</u>		<u>168</u>	<u>408</u>	<u>212</u>	<u>443</u>
<b>OTHER INCOME</b>						
Prepayment fees . . . . .	93		35	10	1	7
Service fees . . . . .	40		2	4	12	3
Net gains (losses) on securities held at fair value . . . . .	73		12		22	(4)
Net realized and unrealized gains (losses) on derivatives and hedging activities . . . . .	79		(7)	3	(64)	28
Other, net . . . . .	(17)		(26)	(1)	1	2
Total other income . . . . .	<u>268</u>		<u>16</u>	<u>16</u>	<u>(28)</u>	<u>36</u>
<b>OTHER EXPENSE</b>						
Operating expenses . . . . .	368		25	35	44	46
Finance Board . . . . .	20		1	3	1	3
Office of Finance . . . . .	13		1	1	1	1
Other . . . . .	18					7
Total other expense . . . . .	<u>419</u>		<u>27</u>	<u>39</u>	<u>46</u>	<u>57</u>
<b>INCOME BEFORE ASSESSMENTS</b> . . . . .						
Affordable Housing Program . . . . .	239		13	32	10	33
REFCORP . . . . .	538		28	71	24	75
Total assessments . . . . .	<u>777</u>		<u>41</u>	<u>103</u>	<u>34</u>	<u>108</u>
<b>INCOME BEFORE CUMULATIVE EFFECT OF</b>						
<b>CHANGE IN ACCOUNTING PRINCIPLE</b> . . . . .	2,184		116	282	104	314
Cumulative effect of change in accounting principle . . . . .	(30)		(3)	3	(9)	(16)
<b>NET INCOME</b> . . . . .	<u>\$ 2,154</u>	<u>\$</u>	<u>\$ 113</u>	<u>\$ 285</u>	<u>\$ 95</u>	<u>\$ 298</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$1,498	\$1,179	\$882	\$1,012	\$1,350	\$870	\$4,736	\$1,216
114	6		6	4	67	142	29
	1	2	86			64	7
481	89	97	117	98	104	349	138
544	312	279	226	241	334	829	780
67	57		2	141	2		
2	6	51	8	30	7	28	5
14	7	724	261	103	3		57
1					1	1	
				1			
<u>2,721</u>	<u>1,657</u>	<u>2,035</u>	<u>1,718</u>	<u>1,968</u>	<u>1,388</u>	<u>6,149</u>	<u>2,232</u>
2,393	1,410	1,741	1,522	1,713	1,197	5,579	1,925
55	56	80	72	88	64	16	60
		2					
			3				
		1					4
2				1			
<u>2,450</u>	<u>1,466</u>	<u>1,824</u>	<u>1,597</u>	<u>1,802</u>	<u>1,261</u>	<u>5,595</u>	<u>1,989</u>
271	191	211	121	166	127	554	243
		2	1				
<u>271</u>	<u>191</u>	<u>209</u>	<u>120</u>	<u>166</u>	<u>127</u>	<u>554</u>	<u>243</u>
2	2	1	17		1	6	11
1	6	1	4	3	1	1	2
1	2	(5)	1	30	6	8	
1	(3)	63		(13)	(5)	64	12
5	2	2	(7)	1	2	2	
<u>10</u>	<u>9</u>	<u>62</u>	<u>15</u>	<u>21</u>	<u>5</u>	<u>81</u>	<u>25</u>
20	24	38	23	28	16	49	20
2	1	1	1	1	1	4	1
2	1	1	1	1		2	1
		11					
<u>24</u>	<u>26</u>	<u>51</u>	<u>25</u>	<u>30</u>	<u>17</u>	<u>55</u>	<u>22</u>
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)
<u>\$188</u>	<u>\$125</u>	<u>\$162</u>	<u>\$82</u>	<u>\$115</u>	<u>\$88</u>	<u>\$425</u>	<u>\$178</u>

**FEDERAL HOME LOAN BANKS**  
**COMBINING SCHEDULES—STATEMENTS OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2000**

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>INTEREST INCOME</b>						
Advances . . . . .	\$26,987	\$	\$1,519	\$3,040	\$2,118	\$3,405
Interest-bearing deposits . . . . .	430		5		66	22
Securities purchased under agreements to resell . . . . .	165		30			
Federal funds sold . . . . .	3,225		252	202	236	354
Held-to-maturity securities . . . . .	7,135	(170)	497	1,156	515	879
Available-for-sale securities . . . . .	326	(23)	3		81	
Mortgage loans held for portfolio . . . . .	714			26	65	17
Loans to other FHLBanks . . . . .		(7)		3		1
Other . . . . .	2					
Total interest income . . . . .	<u>38,984</u>	<u>(200)</u>	<u>2,306</u>	<u>4,427</u>	<u>3,081</u>	<u>4,678</u>
<b>INTEREST EXPENSE</b>						
Consolidated obligations . . . . .	34,805	(193)	2,018	3,906	2,762	4,067
Deposits . . . . .	816		66	105	56	170
Borrowings from other FHLBanks . . . . .		(7)		1	1	
Securities sold under agreements to repurchase . . . . .	17					
Other borrowings . . . . .	29			5		1
Total interest expense . . . . .	<u>35,667</u>	<u>(200)</u>	<u>2,084</u>	<u>4,017</u>	<u>2,819</u>	<u>4,238</u>
<b>NET INTEREST INCOME BEFORE</b>						
<b>MORTGAGE LOAN LOSS PROVISION</b> . . . . .	3,317		222	410	262	440
Provision for credit losses on mortgage loans . . . . .	2					
<b>NET INTEREST INCOME AFTER</b>						
<b>MORTGAGE LOAN LOSS PROVISION</b> . . . . .	<u>3,315</u>		<u>222</u>	<u>410</u>	<u>262</u>	<u>440</u>
<b>OTHER INCOME</b>						
Prepayment fees . . . . .	4		1			2
Service fees . . . . .	45		1	6	16	3
Net realized gains on sale of available-for-sale securities . . . . .	2				2	
Other, net . . . . .	17				1	3
Total other income . . . . .	<u>68</u>		<u>2</u>	<u>6</u>	<u>19</u>	<u>8</u>
<b>OTHER EXPENSE</b>						
Operating . . . . .	333		23	34	43	34
Finance Board . . . . .	19		1	2	1	3
Office of Finance . . . . .	10		1	1	1	1
Other . . . . .	11			2		5
Total other expense . . . . .	<u>373</u>		<u>25</u>	<u>39</u>	<u>45</u>	<u>43</u>
<b>INCOME BEFORE ASSESSMENTS</b> . . . . .						
Affordable Housing Program . . . . .	246		16	31	19	33
REFCORP . . . . .	553		37	69	44	74
Total assessments . . . . .	<u>799</u>		<u>53</u>	<u>100</u>	<u>63</u>	<u>107</u>
<b>NET INCOME</b> . . . . .	<u>\$ 2,211</u>	<u>\$</u>	<u>\$ 146</u>	<u>\$ 277</u>	<u>\$ 173</u>	<u>\$ 298</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$1,958	\$1,363	\$1,186	\$1,427	\$1,766	\$1,085	\$6,431	\$1,689
124	9		9	12	29	131	23
	3	4	25		2	94	7
628	164	155	203	151	124	549	207
494	320	409	384	577	351	898	825
169	96						
	1	360	180	56			9
		1			1	1	
				2			
<u>3,373</u>	<u>1,956</u>	<u>2,115</u>	<u>2,228</u>	<u>2,564</u>	<u>1,592</u>	<u>8,104</u>	<u>2,760</u>
3,042	1,727	1,797	1,984	2,278	1,401	7,524	2,492
48	42	104	48	76	43	13	45
		2	3				
				5		12	
<u>2</u>							<u>21</u>
<u>3,092</u>	<u>1,769</u>	<u>1,903</u>	<u>2,035</u>	<u>2,359</u>	<u>1,444</u>	<u>7,549</u>	<u>2,558</u>
281	187	212	193	205	148	555	202
			2				
<u>281</u>	<u>187</u>	<u>212</u>	<u>191</u>	<u>205</u>	<u>148</u>	<u>555</u>	<u>202</u>
1							
1	7	1	4	3	1	1	1
<u>2</u>	<u>2</u>	<u>(2)</u>	<u>(3)</u>	<u>4</u>	<u>1</u>	<u>5</u>	<u>4</u>
<u>4</u>	<u>9</u>	<u>(1)</u>	<u>1</u>	<u>7</u>	<u>2</u>	<u>6</u>	<u>5</u>
19	22	30	21	34	14	43	16
2	1	1	1	1	1	4	1
1		1	1	1		1	1
		4					
<u>22</u>	<u>23</u>	<u>36</u>	<u>23</u>	<u>36</u>	<u>15</u>	<u>48</u>	<u>18</u>
263	173	175	169	176	135	513	189
22	14	14	14	15	11	42	15
48	32	32	31	32	25	94	35
<u>70</u>	<u>46</u>	<u>46</u>	<u>45</u>	<u>47</u>	<u>36</u>	<u>136</u>	<u>50</u>
<u>\$ 193</u>	<u>\$ 127</u>	<u>\$ 129</u>	<u>\$ 124</u>	<u>\$ 129</u>	<u>\$ 99</u>	<u>\$ 377</u>	<u>\$ 139</u>

**FEDERAL HOME LOAN BANKS**  
**COMBINING SCHEDULES—STATEMENTS OF CAPITAL**  
**FOR THE YEARS ENDED DECEMBER 31, 2002, 2001, AND 2000**

(Shares in millions)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>CAPITAL STOCK CLASS B SHARES</b>						
<b>BALANCE, DECEMBER 31, 2001</b>						
Proceeds from sale of capital stock . . . . .	4				4	
Redemption of capital stock . . . . .	(10)				(7)	
Conversion to Class B shares . . . . .	81				21	
Capital stock dividends . . . . .	<u>1</u>	—	—	—	—	—
<b>BALANCE, DECEMBER 31, 2002 . . . . .</b>	<b><u>76</u></b>	<b>==</b>	<b>==</b>	<b>==</b>	<b><u>18</u></b>	<b>==</b>
<b>CAPITAL STOCK SHARES</b>						
<b>BALANCE, DECEMBER 31, 1999 . . . . .</b>						
Proceeds from sale of capital stock . . . . .	66		4	8	9	13
Redemption of capital stock . . . . .	(55)		(3)	(2)	(11)	(11)
Capital stock dividends . . . . .	<u>10</u>	—	—	—	—	—
<b>BALANCE, DECEMBER 31, 2000 . . . . .</b>	<b>305</b>		<b>19</b>	<b>36</b>	<b>21</b>	<b>35</b>
Proceeds from sale of capital stock . . . . .	92		2	8	33	13
Redemption of capital stock . . . . .	(74)		(1)	(7)	(35)	(7)
Capital stock dividends . . . . .	<u>9</u>	—	—	—	—	—
<b>BALANCE, DECEMBER 31, 2001 . . . . .</b>	<b>332</b>		<b>20</b>	<b>37</b>	<b>19</b>	<b>41</b>
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 . . . . .	<u>6</u>	—	—	—	—	—
<b>BALANCE, DECEMBER 31, 2002 . . . . .</b>	<b><u>276</u></b>	<b>==</b>	<b><u>23</u></b>	<b><u>41</u></b>	<b>==</b>	<b><u>45</u></b>
<b>TOTAL CAPITAL SHARES</b>						
<b>BALANCE, DECEMBER 31, 1999 . . . . .</b>						
Proceeds from sale of capital stock . . . . .	66		4	8	9	13
Redemption of capital stock . . . . .	(55)		(3)	(2)	(11)	(11)
Capital stock dividends . . . . .	<u>10</u>	—	—	—	—	—
<b>BALANCE, DECEMBER 31, 2000 . . . . .</b>	<b>305</b>		<b>19</b>	<b>36</b>	<b>21</b>	<b>35</b>
Proceeds from sale of capital stock . . . . .	92		2	8	33	13
Redemption of capital stock . . . . .	(74)		(1)	(7)	(35)	(7)
Capital stock dividends . . . . .	<u>9</u>	—	—	—	—	—
<b>BALANCE, DECEMBER 31, 2001 . . . . .</b>	<b>332</b>		<b>20</b>	<b>37</b>	<b>19</b>	<b>41</b>
Proceeds from sale of capital stock . . . . .	99		3	10	39	12
Redemption of capital stock . . . . .	(86)			(6)	(40)	(8)
Capital stock dividends . . . . .	<u>7</u>	—	—	—	—	—
<b>BALANCE, DECEMBER 31, 2002 . . . . .</b>	<b><u>352</u></b>	<b>==</b>	<b><u>23</u></b>	<b><u>41</u></b>	<b><u>18</u></b>	<b><u>45</u></b>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
							(3)
35							25
<u>   </u>	<u>   </u>	<u>   </u>	<u>   </u>	<u>   </u>	<u>   </u>	<u>   </u>	<u>   </u> 1
<u>35</u>	<u>   </u>	<u>   </u>	<u>   </u>	<u>   </u>	<u>   </u>	<u>   </u>	<u>23</u>
24	14	15	22	18	12	54	21
5	1	4	3	4	3	10	2
(3)		(4)	(8)	(3)	(3)	(5)	(2)
<u>   </u> 2	<u>   </u>	<u>   </u> 1	<u>   </u>	<u>   </u> 2	<u>   </u>	<u>   </u> 4	<u>   </u> 1
28	15	16	17	21	12	63	22
2	2	11	5	4	3	7	2
		(4)	(7)	(5)	(1)	(6)	(1)
<u>   </u> 2	<u>   </u>	<u>   </u> 1	<u>   </u>	<u>   </u> 1	<u>   </u>	<u>   </u> 4	<u>   </u> 1
32	17	24	15	21	14	68	24
3	3	11	4	4	4	5	1
(1)		(5)		(1)	(2)	(20)	
<u>   </u> 1	<u>   </u>	<u>   </u> 1	<u>   </u>	<u>   </u> 1	<u>   </u>	<u>   </u> 3	<u>   </u>
<u>   </u>	<u>20</u>	<u>31</u>	<u>19</u>	<u>25</u>	<u>16</u>	<u>56</u>	<u>   </u>
24	14	15	22	18	12	54	21
5	1	4	3	4	3	10	2
(3)		(4)	(8)	(3)	(3)	(5)	(2)
<u>   </u> 2	<u>   </u>	<u>   </u> 1	<u>   </u>	<u>   </u> 2	<u>   </u>	<u>   </u> 4	<u>   </u> 1
28	15	16	17	21	12	63	22
2	2	11	5	4	3	7	2
		(4)	(7)	(5)	(1)	(6)	(1)
<u>   </u> 2	<u>   </u>	<u>   </u> 1	<u>   </u>	<u>   </u> 1	<u>   </u>	<u>   </u> 4	<u>   </u> 1
32	17	24	15	21	14	68	24
3	3	11	4	4	4	5	1
(1)		(5)		(1)	(2)	(20)	(3)
<u>   </u> 1	<u>   </u>	<u>   </u> 1	<u>   </u>	<u>   </u> 1	<u>   </u>	<u>   </u> 3	<u>   </u> 1
<u>35</u>	<u>20</u>	<u>31</u>	<u>19</u>	<u>25</u>	<u>16</u>	<u>56</u>	<u>23</u>

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

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>CAPITAL STOCK CLASS B PAR VALUE</b>						
<b>BALANCE, DECEMBER 31, 2001</b> . . . . .	\$	\$	\$	\$	\$	\$
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					
<b>BALANCE, DECEMBER 31, 2002</b> . . . . .	<u>\$ 7,733</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$1,840</u>	<u>\$</u>
<b>CAPITAL STOCK PAR VALUE</b>						
<b>BALANCE, DECEMBER 31, 1999</b> . . . . .	\$28,361	\$	\$1,829	\$3,023	\$2,318	\$3,328
Proceeds from sale of capital stock . . . . .	6,636		434	755	809	1,322
Redemption of capital stock . . . . .	(5,470)		(405)	(152)	(1,062)	(1,144)
Capital stock dividends . . . . .	1,010					
<b>BALANCE, DECEMBER 31, 2000</b> . . . . .	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					
<b>BALANCE, DECEMBER 31, 2001</b> . . . . .	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					
<b>BALANCE, DECEMBER 31, 2002</b> . . . . .	<u>\$27,454</u>	<u>\$</u>	<u>\$2,278</u>	<u>\$4,051</u>	<u>\$</u>	<u>\$4,497</u>
<b>TOTAL CAPITAL STOCK PAR VALUE</b>						
<b>BALANCE, DECEMBER 31, 1999</b> . . . . .	\$28,361	\$	\$1,829	\$3,023	\$2,318	\$3,328
Proceeds from sale of capital stock . . . . .	6,636		434	755	809	1,322
Redemption of capital stock . . . . .	(5,470)		(405)	(152)	(1,062)	(1,144)
Capital stock dividends . . . . .	1,010					
<b>BALANCE, DECEMBER 31, 2000</b> . . . . .	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					
<b>BALANCE, DECEMBER 31, 2001</b> . . . . .	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					
<b>BALANCE, DECEMBER 31, 2002</b> . . . . .	<u>\$35,187</u>	<u>\$</u>	<u>\$2,278</u>	<u>\$4,051</u>	<u>\$1,840</u>	<u>\$4,497</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$	\$	\$	\$	\$	\$	\$	\$
							18
							(289)
3,508							2,544
40							72
<u>\$3,548</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$2,345</u>
\$2,361	\$1,419	\$1,450	\$2,229	\$1,799	\$1,147	\$5,374	\$2,084
536	171	474	329	443	293	976	94
(294)	(40)	(407)	(814)	(268)	(222)	(499)	(163)
186		114		153		417	140
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
<u>\$</u>	<u>\$1,956</u>	<u>\$3,126</u>	<u>\$1,858</u>	<u>\$2,471</u>	<u>\$1,631</u>	<u>\$5,586</u>	<u>\$</u>
\$2,361	\$1,419	\$1,450	\$2,229	\$1,799	\$1,147	\$5,374	\$2,084
536	171	474	329	443	293	976	94
(294)	(40)	(407)	(814)	(268)	(222)	(499)	(163)
186		114		153		417	140
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
<u>\$3,548</u>	<u>\$1,956</u>	<u>\$3,126</u>	<u>\$1,858</u>	<u>\$2,471</u>	<u>\$1,631</u>	<u>\$5,586</u>	<u>\$2,345</u>

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

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustment</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>RESTRICTED RETAINED EARNINGS</b>						
<b>BALANCE, DECEMBER 31, 1999</b> . . . . .	\$ 69	\$	\$ 2	\$ 3	\$ 2	\$ 1
Transfers to unrestricted retained earnings . .	(69)	—	(2)	(3)	(2)	(1)
<b>BALANCE, DECEMBER 31, 2000</b> . . . . .	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>UNRESTRICTED RETAINED EARNINGS</b>						
<b>BALANCE, DECEMBER 31, 1999</b> . . . . .	\$ 591	—	\$ 37	\$ 67	\$ 96	\$ 105
Net income . . . . .	2,211	—	146	277	173	298
Transfers from restricted retained earnings	69	—	2	3	2	1
Dividends on capital stock:						
Cash . . . . .	(1,132)	—	(138)	(226)	(161)	(261)
Stock . . . . .	(1,010)	—	—	—	—	—
<b>BALANCE, DECEMBER 31, 2000</b> . . . . .	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)	—	—	—	—	—
<b>BALANCE, DECEMBER 31, 2001</b> . . . . .	932	—	47	177	87	174
Net income . . . . .	1,799	—	76	234	48	280
Other . . . . .	(1)	—	—	—	—	—
Dividends on capital stock:						
Cash . . . . .	(770)	—	(78)	(166)	(69)	(225)
Stock . . . . .	(770)	—	—	—	—	—
<b>BALANCE, DECEMBER 31, 2002</b> . . . . .	<u>\$ 1,190</u>	<u>\$</u>	<u>\$ 45</u>	<u>\$ 245</u>	<u>\$ 66</u>	<u>\$ 229</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 7	\$ 1	\$	\$ 4	\$ 3	\$ 1	\$ 39	\$ 6
(7)	(1)		(4)	(3)	(1)	(39)	(6)
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
\$ 39	\$ 26	\$ 55	\$ 31	\$ 60	\$ 42	\$ 25	\$ 8
193	127	129	124	129	99	377	139
7	1		4	3	1	39	6
	(123)		(130)		(93)		
(186)		(114)		(153)		(417)	(140)
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
(1)							
	(114)		(50)		(68)		
(156)		(147)		(69)		(253)	(145)
<u>\$ 63</u>	<u>\$ 48</u>	<u>\$ 191</u>	<u>\$ 50</u>	<u>\$ 77</u>	<u>\$ 38</u>	<u>\$ 101</u>	<u>\$ 37</u>

**FEDERAL HOME LOAN BANKS**  
**COMBINING SCHEDULES—STATEMENTS OF CAPITAL—(Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2002, 2001 AND 2000**

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustment</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>TOTAL RETAINED EARNINGS</b>						
<b>BALANCE, DECEMBER 31, 1999</b> . . . . .	\$ 660	\$	\$ 39	\$ 70	\$ 98	\$106
Net income . . . . .	2,211		146	277	173	298
Dividends on capital stock:						
Cash . . . . .	(1,132)		(138)	(226)	(161)	(261)
Stock . . . . .	<u>(1,010)</u>					
<b>BALANCE, DECEMBER 31, 2000</b> . . . . .	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 . . . . .	<u>(947)</u>					
<b>BALANCE, DECEMBER 31, 2001</b> . . . . .	932		47	177	87	174
Net income . . . . .	1,799		76	234	48	280
Other . . . . .	(1)					
Dividends on capital stock:						
Cash . . . . .	(770)		(78)	(166)	(69)	(225)
Stock . . . . .	<u>(770)</u>					
<b>BALANCE, DECEMBER 31, 2002</b> . . . . .	<u>\$ 1,190</u>	<u>\$</u>	<u>\$ 45</u>	<u>\$ 245</u>	<u>\$ 66</u>	<u>\$229</u>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>						
<b>BALANCE, DECEMBER 31, 1999</b> . . . . .	\$ (6)	\$	\$ 1	\$	\$ (3)	\$
Net unrealized gains on available-for-sale securities . . . . .	<u>5</u>				<u>2</u>	
<b>BALANCE, DECEMBER 31, 2000</b> . . . . .	(1)		1		(1)	
Unrealized gains (losses) on available-for- sale securities . . . . .	176		(12)		2	
Unrealized losses relating to hedging activities . . . . .	(204)					
Reclassification adjustment for losses (gains) included in net income . . . . .	28		(2)			
Cumulative effect of change in accounting principle . . . . .	<u>(2)</u>		<u>14</u>		<u>1</u>	
<b>BALANCE, DECEMBER 31, 2001</b> . . . . .	(3)		1		2	
Unrealized gains (losses) on available-for- sale securities . . . . .	314		(21)		(7)	
Unrealized (losses) gains relating to hedging activities . . . . .	(304)		(8)		(3)	
Reclassification adjustment for (gains) losses included in net income . . . . .	<u>(60)</u>				<u>2</u>	
<b>BALANCE, DECEMBER 31, 2002</b> . . . . .	<u>\$ (53)</u>	<u>\$</u>	<u>\$ (28)</u>	<u>\$</u>	<u>\$ (6)</u>	<u>\$</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 46	\$ 27	\$ 55	\$ 35	\$ 63	\$ 43	\$ 64	\$ 14
193	127	129	124	129	99	377	139
	(123)		(130)		(93)		
<u>(186)</u>	<u>      </u>	<u>(114)</u>	<u>      </u>	<u>(153)</u>	<u>      </u>	<u>(417)</u>	<u>(140)</u>
53	31	70	29	39	49	24	13
188	125	162	82	115	88	425	178
	(123)		(68)		(86)		
<u>(199)</u>	<u>      </u>	<u>(122)</u>	<u>      </u>	<u>(83)</u>	<u>      </u>	<u>(387)</u>	<u>(156)</u>
42	33	110	43	71	51	62	35
178	129	228	57	75	55	292	147
(1)							
	(114)		(50)		(68)		
<u>(156)</u>	<u>      </u>	<u>(147)</u>	<u>      </u>	<u>(69)</u>	<u>      </u>	<u>(253)</u>	<u>(145)</u>
<u>\$ 63</u>	<u>\$ 48</u>	<u>\$ 191</u>	<u>\$ 50</u>	<u>\$ 77</u>	<u>\$ 38</u>	<u>\$ 101</u>	<u>\$ 37</u>
\$ (4)	\$	\$	\$	\$	\$	\$	\$
<u>3</u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>
(1)							
1	(1)			186			
		(20)		(184)			
		18				12	
						<u>(17)</u>	
	(1)	(2)		2		(5)	
	(4)	8	(3)	341			
		102		(394)		(1)	
		<u>(66)</u>		<u>      </u>		<u>4</u>	
<u>\$</u>	<u>\$ (5)</u>	<u>\$ 42</u>	<u>\$ (3)</u>	<u>\$ (51)</u>	<u>\$</u>	<u>\$ (2)</u>	<u>\$</u>

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

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustment</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>TOTAL CAPITAL</b>						
<b>BALANCE, DECEMBER 31, 1999</b> . . . . .	\$29,015	\$	\$1,869	\$3,093	\$2,413	\$3,434
Proceeds from sale of capital stock . . . . .	6,636		434	755	809	1,322
Redemption of capital stock . . . . .	(5,470)		(405)	(152)	(1,062)	(1,144)
Comprehensive income:						
Net income . . . . .	2,211		146	277	173	298
Other comprehensive income:						
Net unrealized gains on available-for-sale securities . . . . .	5				2	
Total comprehensive income . . . . .	<u>2,216</u>		<u>146</u>	<u>277</u>	<u>175</u>	<u>298</u>
Dividend on capital stock:						
Cash . . . . .	(1,132)		(138)	(226)	(161)	(261)
<b>BALANCE, DECEMBER 31, 2000</b> . . . . .	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:						
Unrealized gains (losses) on available-for-sale securities . . . . .	176		(12)		2	
Unrealized losses relating to hedging activities . . . . .	(204)					
Reclassification adjustment for losses (gains) included in net income . . . . .	28		(2)			
Cumulative effect of change in accounting principle . . . . .	(2)		14		1	
Total comprehensive income . . . . .	<u>2,152</u>		<u>113</u>	<u>285</u>	<u>98</u>	<u>298</u>
Dividend on capital stock:						
Cash . . . . .	(1,004)		(113)	(229)	(118)	(267)
<b>BALANCE, DECEMBER 31, 2001</b> . . . . .	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 . . . . .	(1)					
Other comprehensive income:						
Unrealized gains (losses) on available-for-sale securities . . . . .	314		(21)		(7)	
Unrealized (losses) gains relating to hedging activities . . . . .	(304)		(8)		(3)	
Reclassification adjustment for (gains) losses included in net income . . . . .	(60)				2	
Total comprehensive income . . . . .	<u>1,748</u>		<u>47</u>	<u>234</u>	<u>40</u>	<u>280</u>
Dividend on capital stock:						
Cash . . . . .	(770)		(78)	(166)	(69)	(225)
<b>BALANCE, DECEMBER 31, 2002</b> . . . . .	<u>\$36,324</u>	<u>\$</u>	<u>\$2,295</u>	<u>\$4,296</u>	<u>\$1,900</u>	<u>\$4,726</u>

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$2,403	\$1,446	\$1,505	\$2,264	\$1,862	\$1,190	\$5,438	\$2,098
536	171	474	329	443	293	976	94
(294)	(40)	(407)	(814)	(268)	(222)	(499)	(163)
193	127	129	124	129	99	377	139
3							
<u>196</u>	<u>127</u>	<u>129</u>	<u>124</u>	<u>129</u>	<u>99</u>	<u>377</u>	<u>139</u>
	(123)		(130)		(93)		
2,841	1,581	1,701	1,773	2,166	1,267	6,292	2,168
226	193	1,064	491	424	299	665	160
(16)	(2)	(422)	(696)	(491)	(121)	(568)	(80)
188	125	162	82	115	88	425	178
1	(1)			186			
		(20)		(184)			
		18				12	
						(17)	
<u>189</u>	<u>124</u>	<u>160</u>	<u>82</u>	<u>117</u>	<u>88</u>	<u>420</u>	<u>178</u>
	(123)		(68)		(86)		
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
(1)							
	(4)	8	(3)	341			
		102		(394)		(1)	
		(66)				4	
<u>177</u>	<u>125</u>	<u>272</u>	<u>54</u>	<u>22</u>	<u>55</u>	<u>295</u>	<u>147</u>
	(114)		(50)		(68)		
<u>\$3,611</u>	<u>\$1,999</u>	<u>\$3,359</u>	<u>\$1,905</u>	<u>\$2,497</u>	<u>\$1,669</u>	<u>\$5,685</u>	<u>\$2,382</u>

**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
<b>OPERATING ACTIVITIES</b>						
Net income	\$ 1,799	\$	\$ 76	\$ 234	\$ 48	\$ 280
Adjustments to reconcile 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 interest-rate exchange agreements	(87)		(42)	162	63	42
Concessions on consolidated obligation bonds	280		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 on held-to-maturity securities	(1)					
(Increase) decrease in securities held at fair value, net of transfers and transition adjustments	(1,466)	(118)	198		(56)	(1,012)
Losses (gains) due to change in net fair value adjustment on derivative and hedging activities	123		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	456			71	(3)	(43)
Increase (decrease) in derivative liabilities-net accrued interest	319		7	18	41	147
(Increase) decrease in other assets	(204)			(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	(336)	(118)	169	143	104	(336)
Net cash provided by (used in) operating activities	1,463	(118)	245	377	152	(56)
<b>INVESTING ACTIVITIES</b>						
Net (increase) decrease in interest-bearing deposits	(4,183)		(590)	(1,359)	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	74,442	(2,450)	1,607	27,981	4,757	9,959
Purchases of long-term held-to-maturity securities	(85,147)	1,000	(2,132)	(29,520)	(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	(45,729)		(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	(53,449)	(1,336)	(2,802)	(10,769)	(1,236)	(5,977)

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 178	\$ 129	\$ 228	\$ 57	\$ 75	\$ 55	\$ 292	\$ 147
(65)	(41)	142	(178)	(1)	(14)	(117)	(38)
13	32	12	22	3	17	45	21
1	1	2	1			2	
(2)	(1)	7	1	5		2	1
		2		1			
							(1)
11	(7)	(297)	82	112	(344)	(23)	(12)
	(10)	(372)	84	(8)	121	59	(126)
		1					
12		(68)	(10)	(25)	(11)	134	7
(10)	3	9	203	82	39	120	(15)
74	34	6	(91)	(3)	(6)	(112)	204
(2)	21	(31)	(23)		(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	130	(272)	(271)	53
201	163	151	139	205	(217)	21	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	8,182	7,267
(6,908)	(3,502)	(3,033)	(1,735)	(3,386)	(3,973)	(10,383)	(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)	(547)	(134)	(266)	(8,174)
				7	(1)	(58)	
100						25	
(3)	(2)	(21)		(2)	(10)	(4)	(1)
(8,755)	(5,499)	(14,563)	(6,909)	(8,267)	(3,769)	19,304	(2,871)

**FEDERAL HOME LOAN BANKS**  
**COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS—(Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

(Dollar amounts in millions)

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>FINANCING ACTIVITIES</b>						
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 .....	432,204	(1,000)	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 .....	(390,618)	2,568	(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 ....	<u>52,325</u>	<u>1,454</u>	<u>2,561</u>	<u>10,444</u>	<u>1,171</u>	<u>6,041</u>
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 .....	<u>\$ 658</u>	<u>\$</u>	<u>\$ 14</u>	<u>\$ 65</u>	<u>\$ 131</u>	<u>\$ 85</u>
Supplemental Disclosures:						
Interest paid .....	\$ 17,383		\$ 1,279	\$ 1,936	\$ 928	\$ 2,167
Stock dividends issued .....	\$ 770					

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 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)		
<u>8,557</u>	<u>5,349</u>	<u>14,414</u>	<u>6,809</u>	<u>8,181</u>	<u>3,984</u>	<u>(19,318)</u>	<u>2,678</u>
3	13	2	39	119	(2)	7	7
10	37	2	64	47	2	2	11
<u>\$ 13</u>	<u>\$ 50</u>	<u>\$ 4</u>	<u>\$ 103</u>	<u>\$ 166</u>	<u>\$</u>	<u>\$ 9</u>	<u>\$ 18</u>
\$ 1,589	\$ 859	\$ 1,637	\$ 1,136	\$ 1,448	\$ 852	\$ 2,164	\$ 1,388
\$ 156		\$ 147		\$ 69		\$ 253	\$ 145

**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
<b>OPERATING ACTIVITIES</b>						
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 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	(1,556)		(114)	58	(27)	11
Concessions on consolidated obligation bonds	223		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 on held-to-maturity securities	(3)			(3)		
(Increase) decrease in securities held at fair value, net of transfers and transition adjustments	(1,970)	(344)	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	8,298	15	321	229	830	1,263
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	(145)		(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	(6,278)	(15)	(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	(2,778)	(344)	309	433	(1,924)	(169)
Net cash provided by (used in) operating activities	(594)	(344)	425	715	(1,820)	145
<b>INVESTING ACTIVITIES</b>						
Net (increase) decrease in interest-bearing deposits	(3,378)		25	(235)	(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	6,822			80		5,343
Proceeds from maturities of long-term held-to-maturity securities	69,506	(2,400)	1,298	41,693	3,093	
Purchases of long-term held-to-maturity securities	(79,518)	2,300	(1,989)	(39,922)	(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	(19,418)		(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	(38,505)	(167)	(133)	(3,961)	3,930	(14,959)

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 188	\$ 125	\$ 162	\$ 82	\$ 115	\$ 88	\$ 425	\$ 178
1	4	(1)	(1)	1	(4)	2	3
189	129	161	81	116	84	427	181
(428)	(24)	44	(180)	(252)	(37)	(423)	(184)
7	21	6	14	17	19	50	12
		(2)	1			10	
1	1	5	1	4		2	
(1)	(2)						
		2	1				
17	(3)	6	56	185	113	(8)	(212)
(1)	3	(291)	(48)	(20)	18	(46)	1
256	442	336	629	627	289	2,718	343
(21)	(25)	(27)	(258)	(163)	(108)	(231)	(24)
(44)	2	(29)	(29)	(57)	(31)	144	(19)
(4)	(16)	2	(1)	(76)		(3)	1
14	6	5	(1)	3	2	17	10
(6)	(400)	(217)	(135)	(365)	(132)	(2,808)	(202)
(1)	(1)	9	(1)		(1)	12	6
5		(49)	(8)	103	5	3	(34)
(206)	4	(200)	41	6	137	(563)	(302)
(17)	133	(39)	122	122	221	(136)	(121)
155	(296)		135		(869)	(1,789)	80
(3,065)	45	(4)	(3,200)			(1,750)	(175)
	(686)	(768)	2,485	424	(102)	(69)	813
		(49)	(61)	(579)	(27)	1,593	384
				1,359	40		
4,067	1,601	1,983	2,176		1,800	4,922	9,273
(4,581)	(1,755)	(3,239)	(1,054)	(1,525)	(2,142)	(7,907)	(9,046)
59,286	628			279	25		
(57,837)	(274)		(223)	(104)			
357,375	68,662	23,060	50,903	471,382	237,538	343,438	37,598
(359,721)	(70,246)	(26,017)	(50,163)	(473,534)	(242,188)	(334,746)	(35,460)
25	13	3,903	1,619	675	6		184
(561)	(371)	(12,406)	(2,074)	(735)	(100)		(1,495)
				(8)			
(100)						(25)	
	(1)	(12)	(1)	(3)	(1)	(3)	(2)
(4,957)	(2,680)	(13,549)	542	(2,369)	(6,020)	3,664	2,154

**FEDERAL HOME LOAN BANKS**  
**COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS—(Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

**(Dollar amounts in millions)**

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>FINANCING ACTIVITIES</b>						
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 . . . . .	4,664,175		183,082	737,921	717,361	50,785
Bonds . . . . .	415,423	(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 . . . . .	(368,207)	2,948	(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	<u>38,666</u>	<u>511</u>	<u>(292)</u>	<u>3,234</u>	<u>(2,507)</u>	<u>14,845</u>
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 . . . . .	<u>\$ 319</u>	<u>\$</u>	<u>\$ 10</u>	<u>\$ 13</u>	<u>\$ 44</u>	<u>\$ 77</u>
Supplemental Disclosures:						
Interest paid . . . . .	\$ 30,564		\$ 1,861	\$ 3,590	\$ 2,088	\$ 4,132
Stock dividends issued . . . . .	\$ 947					

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 499	\$ 787	\$ (233)	\$ 843	\$ 1,049	\$ 296	\$ 375	\$ 1,062
		(17)					
		800			125	200	150
1,035,803	422,821	377,412	152,059	229,666	287,557	196,443	273,265
18,476	18,792	47,661	21,535	33,713	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)	2,199	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	\$ 1,973	\$ 1,966	\$ 1,299	\$ 7,135	\$ 2,143
\$ 199		\$ 122		\$ 83		\$ 387	\$ 156

**FEDERAL HOME LOAN BANKS**  
**COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2000**

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
<b>OPERATING ACTIVITIES</b>						
Net income	\$ 2,211	\$	\$ 146	\$ 277	\$ 173	\$ 298
Adjustments to reconcile 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 interest-rate exchange agreements	184		69	325	10	27
Concessions on consolidated obligation bonds	80		1	3	10	19
Net deferred losses (gains) on interest-rate exchange agreements	24		15		(8)	
Premises and equipment	16		1	1	3	1
Other	(1)					
Provision for credit losses on mortgage loans held for portfolio	2					
Net realized gains on available-for-sale securities	(2)				(2)	
Loss due to change in net mark to market adjustment for interest-rate exchange agreements in which the FHLBanks are intermediaries	5					
(Increase) decrease in accrued interest receivable	(2,504)	(13)	(19)	(422)	(243)	(272)
Decrease (increase) in other assets	251		(1)	(1)	(5)	(9)
Net increase in Affordable Housing Program (AHP) liability and discount on AHP advances	100		7	22	5	13
Increase (decrease) in accrued interest payable	2,335	13	24	271	(13)	271
Increase in payable to REFCORP	71		5	11	5	8
(Decrease) increase in other liabilities	(223)		19	12	2	(66)
Total adjustments	338		121	222	(236)	(8)
Net cash provided by operating activities	2,549		267	499	(63)	290
<b>INVESTING ACTIVITIES</b>						
Net (increase) decrease in interest-bearing deposits	(4,505)		(100)		213	114
Net decrease (increase) in securities purchased under agreements to resell	1,339		(100)			
Net decrease (increase) in Federal funds sold	1,721		(1,362)	(2,133)	(3,405)	1,431
Net decrease (increase) in short-term held-to-maturity securities	1,208		(990)		467	2,067
Proceeds from sales of long-term held-to-maturity securities	20					
Proceeds from maturities of long-term held-to-maturity securities	35,997	(858)	1,058	23,958	1,052	1,731
Purchases of long-term held-to-maturity securities	(50,262)	471	(1,090)	(29,665)	(2,206)	(2,446)
Proceeds from sales of available-for-sale securities	750				750	
Proceeds from maturities of available-for-sale securities	21,656	(110)	1		363	
Purchases of available-for-sale securities	(22,134)					
Principal collected on advances	4,637,522		532,276	1,044,957	368,169	76,788
Advances made	(4,679,644)		(531,382)	(1,052,944)	(357,589)	(89,822)
Principal collected on mortgage loans held for portfolio	469			40	36	12
Mortgage loans held for portfolio originated or purchased	(14,600)		(17)	(340)	(1,943)	(351)
Principal collected on other loans	1		1			
Net decrease (increase) in loans to other FHLBanks		1	(1)			
Net increase in premises and equipment	(44)		(1)	(5)	(6)	(1)
Net cash (used in) provided by investing activities	(70,506)	(496)	(1,707)	(16,132)	5,901	(10,477)

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 193	\$ 127	\$ 129	\$ 124	\$ 129	\$ 99	\$ 377	\$ 139
(184)	(83)	(46)	171	96	(82)	(113)	(6)
1	1	7	3	10	2	14	9
1	1	1	1			14	1
(1)		2	1	4		1	
			2				
			5				
(121)	(200)	(17)	(56)	(56)	(59)	(1,037)	11
(2)	(4)	(3)	(20)	305	(9)		
16	3	5	3	6	2	18	
37	249	90	(32)	34	92	1,282	17
8	4	4	4	4	4	14	
(3)	(40)	60	(109)	32	(182)	1	51
(248)	(69)	103	(27)	435	(232)	194	83
(55)	58	232	97	564	(133)	571	222
(2,606)	255		(20)	200	(1,086)	(996)	(479)
1,537	1,419	5	(800)	(157)	1,716	2,159	75
	7	773	2,720			260	(1,078)
		473	832	500	(359)	(1,130)	(659)
							20
1,091	689	1,017	833	996	877	1,844	1,709
(2,536)	(1,193)	(658)	(1)	(1,050)	(1,442)	(5,556)	(2,890)
21,263	139						
(22,134)							
1,176,639	40,426	31,172	86,248	747,311	164,914	316,901	51,721
(1,180,444)	(45,066)	(32,467)	(84,456)	(750,472)	(166,904)	(336,420)	(51,678)
	1	253	96	27			4
(31)	(31)	(6,742)	(3,314)	(1,404)	(5)		(422)
	(1)	(7)	(1)	(20)		(1)	(1)
(7,221)	(3,355)	(6,181)	2,137	(4,069)	(2,289)	(22,939)	(3,678)

**FEDERAL HOME LOAN BANKS**  
**COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS—(Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2000**

**(Dollar amounts in millions)**

	<u>Combined</u>	<u>Combining Adjustments</u>	<u>Boston</u>	<u>New York</u>	<u>Pittsburgh</u>	<u>Atlanta</u>
<b>FINANCING ACTIVITIES</b>						
Net increase (decrease) in deposits . . . . .	\$ 5	\$	\$ 238	\$ (492)	\$ 191	\$ (112)
Net decrease in securities sold under agreements to repurchase . . . . .	(543)					
Net increase (decrease) in loans from other FHLBanks						
Net decrease in other borrowings . . . . .	(1)	(1)				
Net proceeds from issuance of consolidated obligations:						
Discount notes . . . . .	4,089,102		363,117	747,860	222,959	145,243
Bonds . . . . .	217,301	(471)	8,010	23,430	5,320	24,247
Payments for maturing and retiring consolidated obligations:						
Discount notes . . . . .	(4,070,987)		(364,518)	(739,557)	(224,655)	(143,324)
Bonds . . . . .	(170,230)	968	(5,525)	(18,871)	(9,120)	(15,753)
Proceeds from issuance of capital stock . . . . .	6,636		434	755	809	1,322
Payments for redemption of capital stock . . . . .	(5,470)		(405)	(152)	(1,062)	(1,144)
Cash dividends paid . . . . .	(1,151)		(131)	(226)	(161)	(260)
Net cash provided by (used in) financing activities	64,662	496	1,220	12,747	(5,719)	10,219
Net (decrease) increase in cash and cash equivalents . .	(3,295)		(220)	(2,886)	119	32
Cash and cash equivalents at beginning of the year . . . .	4,047		230	2,911	322	14
Cash and cash equivalents at end of the year . . . . .	<u>\$ 752</u>	<u>\$</u>	<u>\$ 10</u>	<u>\$ 25</u>	<u>\$ 441</u>	<u>\$ 46</u>
Supplemental Disclosures:						
Interest paid . . . . .	\$ 30,851	\$	\$ 2,047	\$ 3,707	\$ 2,649	\$ 3,693
Stock dividends issued . . . . .	\$ 1,010	\$	\$	\$	\$	\$

<u>Cincinnati</u>	<u>Indianapolis</u>	<u>Chicago</u>	<u>Des Moines</u>	<u>Dallas</u>	<u>Topeka</u>	<u>San Francisco</u>	<u>Seattle</u>
\$ 117	\$ (54)	\$ (867)	\$ 221	\$ 130	\$ 423	\$ 49	\$ 161
	(19)			(124)			(400)
762,621	520,474	350,489	73,508	80,533	286,847	252,743	282,708
11,736	11,116	36,697	9,875	8,544	10,873	54,750	13,174
(755,400)	(523,333)	(352,050)	(74,958)	(76,610)	(287,483)	(251,480)	(277,619)
(12,065)	(4,871)	(28,397)	(10,374)	(9,340)	(8,216)	(34,167)	(14,499)
536	171	474	329	443	293	976	94
(294)	(40)	(407)	(814)	(268)	(222)	(499)	(163)
	(123)	(27)	(130)		(93)		
7,251	3,321	5,912	(2,343)	3,308	2,422	22,372	3,456
(25)	24	(37)	(109)	(197)		4	
37	12	41	181	292	1	1	5
<u>\$ 12</u>	<u>\$ 36</u>	<u>\$ 4</u>	<u>\$ 72</u>	<u>\$ 95</u>	<u>\$ 1</u>	<u>\$ 5</u>	<u>\$ 5</u>
\$ 1,594	\$ 1,157	\$ 1,490	\$ 1,909	\$ 2,515	\$ 1,352	\$ 6,197	\$ 2,541
\$ 186	\$	\$ 114	\$	\$ 153	\$	\$ 417	\$ 140

**FEDERAL HOME LOAN BANKS**  
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## ADDITIONAL INFORMATION ON BUSINESS

The additional business overview is included to provide an overview of certain regulatory policies and rules that the FHLBanks operate within relating to the major balance sheet categories of advances, investments, mortgage loans held for portfolio, debt financing and deposits.

### Advances

Advances are the largest category of the FHLBanks' assets. Each FHLBank develops its advances program, as authorized in the FHLBank Act and regulations established by the Finance Board, to meet the particular needs of its members.

Flexible advances policies have helped to satisfy the short-term and long-term business objectives of the FHLBanks' members. Beyond providing funding for housing finance, advances also give members a supplementary source of funds for expansion and liquidity during seasonal imbalances in savings deposits and mortgage loan disbursements. Additionally, specialized advances programs provide funds for community investment and affordable housing programs.

*Prepayment Fees.* The FHLBanks price advances based on 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 Graham-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 \$527 million or less for 2002, secured loans for small business, agriculture, or securities representing a whole interest in such secured loans.

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

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

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

*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-United States entities, other than those issued by United States branches and agency offices of foreign commercial banks;

- non-investment-grade debt instruments, other than certain investments targeted to low-income persons or communities and instruments that were downgraded after purchase by the FHLBank;
- whole mortgages or other whole loans, other than: those acquired under the FHLBanks' Acquired Member Asset programs; certain investments targeted to low-income persons or communities; certain marketable direct obligations of State, local, or tribal government units or agencies, having at least the second highest credit rating from a nationally-recognized statistical rating organization; 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 United States;
- marketable direct obligations of U.S. government-sponsored agencies and instrumentalities (including consolidated obligations of other FHLBanks) for which such institutions have pledged their credit for repayment of both principal and interest;
- securities representing an interest in pools of mortgages issued, guaranteed, or fully insured by Ginnie Mae, Freddie Mac, or Fannie Mae, and collateralized mortgage obligations (CMOs), including real estate mortgage investment conduits (REMICs), backed by mortgage securities issued, guaranteed, or fully insured by Ginnie Mae, Freddie Mac, or Fannie Mae;
- nonfederal agency mortgage-backed securities rated Aaa by Moody's or AAA by Standard & Poor's;

- asset-backed securities collateralized by manufactured housing loans or home equity loans rated Aaa by Moody's or AAA by Standard & Poor's;
- marketable direct obligations of State or local governments or agencies, rated at least Aa by Moody's or AA by Standard & Poor's, where the purchase of such obligations by an FHLBank provides the issuer the customized terms, necessary liquidity, or favorable pricing required to generate needed funding for housing or community development; and
- other investments that support housing and community development, if, before entering such investments, the FHLBank:
  - ensures the appropriate levels of expertise, establishes policies, procedures, and controls, and provides for any reserves required to limit and manage risk exposure and 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.

### **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). Under these programs, the FHLBanks acquire/originate 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. All of the FHLBanks participating in these programs have either 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. All of the FHLBanks except Seattle, Cincinnati and Indianapolis offer the MPF® program to their members, and these

three FHLBanks purchase mortgages through the MPP. The FHLBank of Atlanta announced in October 2002 that it would also be participating in MPP beginning in 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 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. Moody's has rated consolidated obligations Aaa/P-1, and Standard & Poor's has rated them AAA/A-1+.

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

The Office of Finance, a joint office of the FHLBanks, has responsibility for facilitating and executing the issuance of the consolidated obligations. It also services all outstanding debt, provides the FHLBanks with credit information 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.

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 puttable or convertible advance programs. These securities have maturities up to 360 days, and are offered daily through a 16-member consolidated discount-note selling group. Discount notes are sold at a discount and mature at par. Daily discount note issuances have increased significantly since 1993 with the advent of discount notes with original maturities less than 30 days.

*Interest-Rate Exchange Agreements.* Certain securities dealers and banks and their affiliates engage in transactions with and perform services for the FHLBanks, including the purchase and sale of investment securities. In connection with the sale of any particular issue of consolidated obligations, the FHLBank(s) receiving the proceeds may enter into interest-rate exchange agreements or other transactions with or arranged by the applicable securities dealer, bank, or affiliate, or an unaffiliated third party.

## **Deposits**

The FHLBank Act allows the FHLBanks to accept deposits from its members, from any institution for which it is providing correspondent services, from other FHLBanks, or from other government instrumentalities. Deposit programs provide some of the FHLBanks' funding resources, while also giving members a low-risk earning asset that satisfies their regulatory liquidity requirements. The FHLBanks offer several types of deposit programs to 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 United States, deposits in eligible banks or trust companies, or advances with a maturity not exceeding five years. In addition, the liquidity guidelines in the Finance Board's Financial Management Policy require each FHLBank to maintain an average daily liquidity level each month in an amount not less than the sum of:

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

Assets eligible for meeting these liquidity requirements include:

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

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

### **FHLBANKS' REGULATOR**

The FHLBanks are regulated by the Finance Board, an independent agency in the executive branch of the U.S. Government. The Finance Board's purpose is to ensure that the FHLBanks operate in a safe and sound manner. In addition, the Finance Board ensures that the FHLBanks carry out their housing finance and community investment mission and remain adequately capitalized and able to raise funds in the capital markets. The FHLBank Act requires the Finance Board to conduct annual examinations and obtain reports of condition of the FHLBanks. The Finance Board assesses the FHLBanks for the costs of operating the Finance Board.

A five-member board of directors manages the Finance Board. The secretary of the Department of Housing and Urban Development (HUD) serves *ex officio* as a director of the Finance Board. The President appoints the other four directors, with the advice and consent of the Senate. Members of the board of directors hold office for terms of seven years. The President designates one of the four appointed directors to serve as chairman of the Finance Board. Each of the four appointed directors must have experience or training in housing finance or a commitment to providing specialized housing credit. Not more than three directors may be members of the same political party. At least one director must come from an organization with more than a two-year history of representing consumer or community interests in banking services, credit needs, housing, or financial consumer protections. The directors serve on a full-time basis.

At December 31, 2002, the directors of the Finance Board were chairman John T. Korsmo, Mel Martinez, Secretary of HUD, (HUD secretary designee; John C. Weicher), Franz S. Leichter, Allan I. Mendelowitz, and J. Timothy O'Neill.

### **FHLBANK MANAGEMENT AND COMPENSATION**

*FHLBank Directors.* The following persons served as chair and vice chair of the FHLBanks during 2002 or are serving in 2003:

*William P. Morrissey, 76,* was elected chair of the FHLBank of Boston effective January 1, 2002. He is also senior vice president of Central Bank, headquartered in Somerville, Massachusetts. He is a member of the Federal Liaison Committee of the Massachusetts Bankers Association and vice president and director of McLaughlin House 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.

*Louis C. D'Allesandro*, 64, was elected vice chair of the FHLBank of Boston effective January 1, 2003. He is a three-term New Hampshire State Senator 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.

*Kathleen N. Sullivan*, 48, served as vice chair of the FHLBank of Boston in 2002. She is an attorney with the firm of Wadleigh, Starr & Peters in Manchester, New Hampshire. Ms. Sullivan serves as chair of the New Hampshire Democratic Party, and she is a former member of Manchester Charter Commission, the New Hampshire Juvenile Parole Board and director of the Manchester YWCA.

*Atwood ("Woody") Collins III*, 56, is chair of the FHLBank of New York and has served in that position in 2002. 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. Mr. Collins has recently relocated from Darien, Connecticut to Baltimore, Maryland in conjunction with M&T's acquisition of Allfirst Financial. Mr. Collins has been an executive vice president of M&T Bank since 1988 and has served as president of a number of its divisions, most recently in the Hudson Valley. 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.*, 64, was elected vice chair of the FHLBank of New York effective January 1, 2003. Mr. Engelke is chairman, president and chief executive officer of Astoria Financial Corporation and its subsidiary Astoria Federal Savings and Loan Association. Mr. Engelke, a certified public accountant, joined Astoria in 1971 after specializing in audit and tax work for savings and loan associations for Peat, Marwick, Mitchell & Co., predecessor to KPMG Peat Marwick LLP. At Astoria, Mr. Engelke served as vice president and treasurer in charge, among other things, of Astoria's investment securities portfolio. Mr. Engelke was named executive vice president in 1974, a member of the board of directors in 1983, chief operating officer in 1986 and president and chief executive officer in 1989. He was elected to the additional position of chairman of the Board in 1997. Mr. Engelke is a member of the Board of Trustees of Long Island University. He is also chairman of the board of directors of the Community Preservation Corporation and a member of the Advisory Board of Directors of Neighborhood Housing Services of New York City, Inc., both nonprofit affordable housing consortiums. He also serves on the Federal Reserve Bank of New York's Thrift Institutions Advisory Panel. Mr. Engelke is a past chairman 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.

*Dennis A. James*, 52, served as vice chair of the FHLBank of New York in 2002 and was a director from 1996 through 2002. He is president and chief executive officer of Sturdy Savings Bank in Cape May County, New Jersey. Mr. James is chairman of the New Jersey League Community and Savings Bankers' Legislative and Regulatory Affairs Committee. His prior experience includes the firm of Deloitte & Touche. Mr. James was a U.S. Navy Seabee and a trustee of the Wetlands Institute.

*John T. Connelly*, 67, is chair of the FHLBank of Pittsburgh effective January 2002, having served as vice chair from 1998 to 2001. He has been in banking for 40 years, most recently with the First National Bank of Leesport, Leesport, Pennsylvania (now the Leesport Bank), where he was president and chief executive officer from 1976 until 1998, when he became chairman of the board. Retired as an active officer on August 31, 1999, he now serves on the Leesport Bank's board of directors and chairs its executive committee. A graduate of Williams College, he is a past president

of the Pennsylvania Bankers Association and is active in many civic organizations in Berks County, Pennsylvania. He has served as an elected director of the FHLBank of Pittsburgh since 1996.

*Marvin N. Schoenhals*, 56, was elected vice chair of the FHLBank of Pittsburgh effective January 1, 2003. Mr. Schoenhals joined the board of directors in 1997. Mr. Schoenhals 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 a director and Executive Committee member of the Delaware State Chamber of Commerce and Wilmington Renaissance Corporation, a director and chairman of the Delaware Public Policy Institute, and chairman of the Sunday Breakfast Mission. 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.

*David W. Curtis*, 47, served as vice chair of the FHLBank of Pittsburgh for 2002. Mr. Curtis left the board of directors effective December 31, 2002. Mr. Curtis was appointed as a public interest director of the FHLBank in 1996 and served as the FHLBank's chair from 1999 to 2001. Mr. Curtis is the executive vice president of Leon N. Weiner & Associates, Inc., a multi-faceted real estate development firm providing housing to individuals and families of moderate means. He is also the president of Arbor Management, LLC, a multifamily residential management company with a portfolio of more than 5,000 units.

*Rita I. Fair*, 66, assumed the chair of the FHLBank of Atlanta on July 1, 1997. Ms. Fair served as managing director of the Finance Board from April 1994 to March 1997. Before that, she was managing director of the Secura Group, a financial institutions consulting firm in Washington, DC. Ms. Fair was formerly senior vice president for regulatory operations at the U. S. League of Savings Institutions and chief of staff of the Federal Home Loan Bank Board and served in a number of positions at HUD. Ms. Fair retired as chair effective December 31, 2002.

*J. Edward Norris, III*, 52, served as vice chair of the FHLBank of Atlanta during 2002. He was elected chair effective January 1, 2003. Mr. Norris joined the board of directors in 1996. He serves as chairman, president and chief executive officer of Plantation Federal Savings Bank in Pawleys Island, SC. Mr. Norris served as chairman of the Community Financial Institutions of South Carolina and is a board member of the South Carolina Bankers Association. He also serves on the board of directors of America's Community Bankers and chairs the ACB's FHLB System Committee along with the ACB's Government Affairs Council and the Audit/Finance Committee.

*Michael L. Middleton*, 55, was elected vice chair of FHLBank of Atlanta effective January 1, 2003. Mr. Middleton is president and chairman of Tri-County Financial Corporation and it's banking subsidiary, Community Bank of Tri-County in Waldorf, MD. Mr. Middleton joined the FHLBank of Atlanta board of directors in 1996. Mr. Middleton is past chairman of the Maryland League of Financial Institutions and is active in the Maryland Bankers Association. Mr. Middleton is also a board representative to the Council of Federal Home Loan Banks and is a CPA.

*Buckner Woodford*, 58, assumed the position of chair of the FHLBank of Cincinnati in February 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.

*Paul Tipps*, 66, was chairman of the FHLBank of Cincinnati from 2000 through 2002. He served as a director from 1997 through 2002. He brought over 30 years of public policy expertise to the FHLBank of Cincinnati board. Mr. Tipps is a principal and co-founder of State Street Consultants. Headquartered in Columbus, State Street Consultants has affiliates throughout Ohio. Mr. Tipps is past chair of the Ohio Democratic Party. Mr. Tipps is a past member of the Wright

State University Board of Trustees. He currently sits on the board of directors of Janus Hotels & Resorts and is a member of the board of directors of the John Glenn Institute for Public Service and Public Policy at The Ohio State University. Prior to his career as a government affairs consultant, Mr. Tipps was involved in the development and management of 10,000 multi-family units in seven states. A Cincinnati native, Mr. Tipps graduated with a bachelor's degree from the University of Dayton and served as a First Lieutenant in the U.S. Army.

*Robert T. Bennett*, 64, was elected vice chair of the FHLBank of Cincinnati board of directors, February 2003. 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. 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 & Young. 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.

*William R. White*, 49, is chair of the FHLBank of Indianapolis. He served as vice chair from 1999 through 2001. He is the chairman and president of Dearborn Federal Savings Bank, Dearborn, Michigan. Before his current appointment, Mr. White served the bank in the positions of president, executive vice president, and treasurer. Mr. White is a certified public accountant, having worked 13 years with Deloitte & Touche, LLP, primarily serving financial institution clients. He is involved in many professional and community organizations, including: Michigan League of Community Banks, Dearborn Chamber of Commerce, West Dearborn Downtown Development Authority, Henry Ford Community College Foundation Board, Financial Managers Society, and the President's Advisory Council for Henry Ford Museum and Greenfield Village.

*Michael J. Hannigan, Jr.*, 58, is vice chair of the FHLBank of Indianapolis. He is executive vice president of The Precedent Companies, a holding company with divisions in residential, commercial, and industrial development. From 1986 to 1996, he served as president of Precedent Financial Corporation, a corporation he co-founded that grew into a regional mortgage banking company with seven branches and wholesale operations in 15 states. Prior to that, he was senior vice president of Waterfield Financial Corp/Union Federal Savings Bank from 1971 to 1986. Mr. Hannigan is president of the Builders Association of Greater Indianapolis, and a director of the Indiana Builders Association and the National Association of Homebuilders. He is a trustee of the St. Mary's Child Center Endowment and a director of Junior Achievement of Central Indiana and The Indy Partnership.

*Douglas J. Timmerman*, 62, has served as chair of the FHLBank of Chicago since 2000, and was re-elected to a two-year term as chairman in January of 2001. Mr. Timmerman is the chairman, president and chief executive officer of AnchorBank, FSB, Madison, Wisconsin. Mr. Timmerman serves as Trustee of the University of Wisconsin Research Park, and as a director of the Wisconsin Savings & Loan Review Board, the UW-Whitewater School of Business Advisory Council, the Financial Analysts Federation, the Greater Madison Chamber of Commerce and chair of the Dane County Capital Funds Committee. Mr. Timmerman served as vice chair of the FHLBank of Chicago in 1998-1999 and has been on its Board since 1996.

*Richard W. Graber*, 46, 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, 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.

*Dale Torpey*, 57, chair of the board of the FHLBank of Des Moines, was first elected to the board of directors in 1996. He is president of Washington Federal Savings Bank in Washington,

Iowa and has been a leader in the banking world for 30 years. As a seven-year FHLBank director, he served as Audit Committee chair for three years before serving his first term as chair of the board in 2000. Mr. Torpey is currently the chairman of the Lending Committee for the Independent Community Bankers of America and has also served on the Operations Committee and chaired the Lending Subcommittee. He teaches “*Analyzing Bank Financial Statements*” classes at the Iowa School of Banking.

*Joe Du Bray*, 59, vice-chair of the board of the FHLBank of Des Moines, was first appointed to the board of directors in 1998 and is serving his second three-year term. He also serves as chair of the Compensation, Diversity and Governance Committee and the Director Election Oversight Subcommittee of the Compensation Committee of the FHLBank’s board. Mr. Du Bray is the senior vice president, general counsel, board secretary and Business Ethics and Compliance Officer for Wellmark, Inc.

*Henry Flores*, 47, has been chair of the FHLBank of Dallas since January 1995 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.

*Fred Miller, Jr.*, 53, began his term as vice chair of the FHLBank of Dallas in January 2002. He has been a director since 1997. Mr. Miller is president and CEO of Bank of Anguilla, a \$75 million 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.

*Ron Wente*, 52, was chair of the FHLBank Topeka and 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.

*James Orbison*, 59, was elected vice chair for FHLBank Topeka effective February 2003. Mr. Orbison is a senior member of the Tulsa, Okla., law firm of Riggs, Abney, Neal, Turpen, Orbison & Lewis, and earned undergraduate degrees in history and political science and a law degree from The University of Tulsa, Tulsa, Okla. 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.

*David W. Herlinger*, 66, was vice chair of FHLBank Topeka in 2002. He is a past chair of the FHLBank’s Affordable Housing Advisory Council. He was appointed to the board in 1996. He is president of Puma Housing Investments in Denver, Colo. Before that, he was with the Colorado Housing and Finance Authority from 1974 to 2001, heading that agency’s efforts to increase housing finance opportunities in Colorado. Before joining CHFA, he served as a director of Colorado Housing Inc. and the community development division of Metro Housing Center in Denver. He

earned a bachelor's degree from Colgate University, Hamilton, N.Y., in 1958 and a master's degree in urban and regional planning from the University of Colorado, Boulder, in 1972. He is a past president of the National Council of State Housing Agencies and serves on the Downtown Denver Housing Committee and the Federal National Mortgage Association's housing impact advisory council.

*Mary Lee Widener*, 64, is chair of the FHLBank of San Francisco, and has served in that position in 2002 and will continue to serve in that position in 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.

*D. Tad Lowrey*, 51, is vice chair of the FHLBank of San Francisco and has served 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 \$1.5 billion in assets. He is a member of the Thrift Institutions Advisory Council to the Board of Governors of the Federal Reserve Bank; his two-year term began January 2003. He 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*, 48, has served as chairman 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 is also a strategic planning and legislative strategy consultant to Sallie Mae, the nation's premier financier of student loans. He was legislative director from 1985 to 1999 for U.S. Representative Paul Kanjorski (D-PA) and served from 1995 through 1999 as the Democratic staff of the Subcommittee on Capital Markets, Securities and Government-Sponsored Enterprises for the House Banking Committee. On that subcommittee, Mr. Radway worked on legislation to modernize the FHLBank System. Mr. Radway is also former deputy staff director of the Subcommittee on Economic Growth and Credit Formation for the House Banking Committee.

*Richard Swanson*, 52, is vice chair of the FHLBank of Seattle, and began serving in that position in 2002. Mr. Swanson is chairman of HomeStreet Bank, formerly Continental Savings Bank, Seattle, Washington. Prior to that he served as president, executive vice president and general counsel. Mr. Swanson serves on the board of governors of the Mortgage Bankers Association of America, is a director of the Washington Financial League, a trustee of the Greater Seattle Chamber of Commerce, and a director of the Washington Roundtable. He is a member of the Fannie Mae National Advisory Council, a former member of the Advisory Panel for the Washington State Department of Financial Institutions, a trustee of Lakeside School, and a member of the Advisory Board of the University of Washington's Business and Economic Development Program. He belongs to Seattle Rotary, and is a past-president of the Washington Mortgage Lenders Association and the Woodland Park Zoological Society. He is a former partner of real estate finance practice group of the Seattle law firm of Hillis, Clark, Martin & Peterson. Mr. Swanson holds a bachelor's degree from Harvard and graduate degrees from Cambridge University in England and Stanford Law School.

*FHLBank Presidents.* The following persons served as presidents of the FHLBanks during 2002 and 2003:

*Michael A. Jessee*, 56, has been president and chief executive officer of the FHLBank of Boston since May 1989. Before that, he served 12 years with the FHLBank of San Francisco as executive vice president and chief operating officer; executive vice president, economics and corporate policy; senior vice president and chief economist; and assistant vice president and director of research. Mr. Jessee also worked as an economist with the Federal Reserve Bank of New York and in corporate planning and correspondent banking with the Bank of Virginia.

*Alfred A. DelliBovi*, 56, 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*, 62, 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*, 53, 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 masters 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.

*Charles L. Thiemann*, 65, 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.

*David H. Hehman*, 54, is the president of the FHLBank of Cincinnati effective March 1, 2003. Mr. Hehman was the executive vice president since 1990 and was given expanded responsibility for all financial and operational functions in 1997. He has been with the FHLBank of Cincinnati since 1977 where he has held various positions including chief financial officer, vice president/treasurer, and financial economist. Mr. Hehman also served as an assistant professor of economics and finance at Xavier University. He currently serves on the Cincinnati Enquirer's Board of Economists and the Economic Advisory Committee for the Greater Cincinnati Chamber of Commerce. He is also a member of the board of directors of Brighton Properties, Inc., a non-profit affordable housing and services provider in northern Kentucky.

*Martin L. Heger*, 57, 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*, 59, has been president of the FHLBank of Chicago since September 1991. Before that, he was a visiting scholar at the Federal Reserve Bank of St. Louis and served as president and chief executive officer of the Community Federal Savings and Loan Association in St. Louis; president of Marine Bank, Milwaukee; and senior vice president of Continental Illinois National Bank, where he served in various capacities in Europe and the United States. He is a past president of the International Union for Housing Finance and the Bankers Club of Chicago; a Life Member of the Banking Research Center of Northwestern University; a director of the Great Lakes Higher Education Corporation and the Great Books Foundation; and a trustee of the Illinois Council on Economic Education. Mr. Pollock is an honors graduate of Williams College and holds masters degrees from the University of Chicago in philosophy and Princeton University in international relations.

*Patrick J. Conway*, 52, became president of the FHLBank of Des Moines in October 1999. Before that, he served as executive vice president of Finance and Banking at the FHLBank of San Francisco. He joined the San Francisco Bank in 1975 and held a variety of finance and management positions before being named executive vice president. Earlier, Mr. Conway spent six years with Merrill Lynch. Mr. Conway currently serves as chairman of the Bank President's Conference and on the boards of directors of the Financial Institutions Thrift Plan, the FHLBanks' Office of Finance and the Greater Des Moines Partnership. Mr. Conway's term on the FHLBanks' Office of Finance board expires March 31, 2003.

*Terry Smith*, 46, 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.

*Frank A. Lowman*, 63, was president of the FHLBank Topeka from April 1989 until his retirement in July 2002. Before that, he spent six years as president and chief operating officer of Fourth Financial Corporation/BANK IV Wichita, and 14 years as president and chief executive officer of Heritage Savings Association in Hays, Kansas.

*Andrew J. Jetter*, 47, became president and CEO of FHLBank Topeka on September 19, 2002, following the July retirement of Frank A. Lowman, 63, who had been president of FHLBank Topeka since April 1989. 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*, 55, has been president of the FHLBank of San Francisco since April 1991. His experience includes serving seven years as executive vice president of the FHLBank of New York; four years as senior vice president, general counsel, and director of corporate services and human resources for First Federal Savings and Loan Association in Rochester, New York; and seven years with the law firm of Robinson, Williams and Angeloff in Rochester.

*Norman B. Rice*, 59, has served as president of the FHLBank of Seattle since February 1, 1999. Before that he served as the FHLBank's executive vice president. Mr. Rice was mayor of Seattle from 1990 through 1997. During his tenure, Mr. Rice also served as president of the U.S. Conference of Mayors. Prior to entering public life, he was manager of corporate contributions and social policy at Rainier National Bank (now part of Bank of America). Mr. Rice holds a Bachelor of Arts degree in communications and a master's degree in public administration from the University

of Washington. He serves on the board of directors for the YMCA, Regence Blue Shield, and SAFECO Corporation.

*Managing Director, FHLBanks' Office of Finance.* John K. Darr, 58, 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, 2002, the directors of the FHLBanks' Office of Finance were Patrick J. Conway, the FHLBank of Des Moines, and James D. Roy, the FHLBank of Pittsburgh.

### **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 2002, 2001 and 2000.

**Federal Home Loan Bank Presidents  
Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation*		Other Annual Compensation (\$)(1)	Long Term Compensation		All Other Compensation \$(2)
		Salary(\$)	Incentive Payment(\$)		Restricted Stock Awards(\$)	Securities Underlying Options/ SARs(#)	
Michael A. Jessee . . . . .	2002	475,000	198,360				36,367(3) (4)
President, FHLBank	2001	450,000	86,985				39,681(3) (4)
of Boston	2000	400,000	202,600	85,110			33,559(3) (4)
Alfred A. DelliBovi . . . . .	2002	483,786	334,640				34,196(5) (6)
President, FHLBank	2001	459,000	298,889				30,015(5) (6)
of New York	2000	425,000	239,160				27,675(5) (6)
James D. Roy . . . . .	2002	490,000	173,774			315,805(12)	38,758(7)
President, FHLBank	2001	440,000	155,971				32,491(7)
of Pittsburgh	2000	400,000	101,520				29,293(7)
Raymond R. Christman . . . . .	2002	468,000	280,800				51,037(13)
President, FHLBank	2001	450,000	214,650				11,779(7)
of Atlanta	2000	360,000	176,400				6,650(7)
Charles L. Thiemann . . . . .	2002	535,500	374,850	60,294			52,178(7)
President, FHLBank	2001	510,000	275,293	51,374			46,464(7)
of Cincinnati	2000	435,000	276,209				37,543(7)
Martin L. Heger . . . . .	2002	450,008	352,933				(8) 27,000(7)
President, FHLBank	2001	420,030	320,813				25,202(7)
of Indianapolis	2000	379,600	197,917				22,776(7)
Alex J. Pollock . . . . .	2002	555,000	277,500				33,300(7)
President, FHLBank	2001	525,000	224,490				31,500(7)
of Chicago	2000	500,000	250,000				30,000(7)
Patrick J. Conway . . . . .	2002	439,167	149,573				35,324(7)
President, FHLBank	2001	414,167	178,187				35,541(7)
of Des Moines	2000	331,667	98,610				25,817(7)
Terry Smith . . . . .	2002	425,000	105,318				25,500(7)
President, FHLBank	2001	353,000	44,834				21,180(7)
of Dallas(9)	2000	269,584	71,186				16,600(7)
Frank A. Lowman . . . . .	2002	223,771					537,841(7) (11)
Former President,	2001	425,000	201,151				33,135(7)
FHLBank Topeka(10)	2000	360,000	127,292				28,486(7)
Andrew J. Jetter . . . . .	2002	290,000	106,533				22,591(7)
President, FHLBank							
Topeka(10)							
Dean M. Schultz . . . . .	2002	480,700	271,800				26,346(7)
President, FHLBank	2001	460,000	215,600				27,600(7)
of San Francisco	2000	420,000	210,000				34,811(7)
Norman B. Rice . . . . .	2002	425,000	211,457				8,320(7)
President, FHLBank	2001	360,000	101,800				12,825(7)
of Seattle	2000	325,000	75,600				6,500(7)
John K. Darr . . . . .	2002	457,000	191,451				39,405(7)
Managing Director,	2001	425,000	199,750				34,493(7)
Office of Finance	2000	375,000	149,888				28,575(7)

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\* 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 \$33,719, \$37,356 and \$31,539 in contributions or other allocations made by the FHLBank to qualified and/or non-qualified vested and unvested defined contribution plans in 2002, 2001 and 2000, and \$2,648, \$2,325 and \$2,020 in insurance premiums paid by, or on behalf of, the FHLBank with respect to term life insurance for the benefit of the president in 2002, 2001 and 2000.
- (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 \$29,028, \$27,540 and \$25,500 in contributions or other allocations made by the FHLBank to qualified and/or non-qualified vested and unvested contribution plans in 2002, 2001 and 2000, and \$5,168, \$2,475 and \$2,175 in insurance premiums paid by, or on behalf of, the FHLBank with respect to term life insurance for the benefit of the president in 2002, 2001 and 2000.
- (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 of Indianapolis implemented a key employee severance agreement for Mr. Heger (executive). Under the terms of the agreement, if a termination occurs under certain specified circumstances, the executive is entitled to 2.99 times the average of the three preceding years’ base salary, bonus and other cash compensation, salary deferrals and matching contributions to the qualified and non-qualified plans, compensation for loss of use of company vehicle, continued medical and dental plan coverage and a gross up amount to cover the increased tax liability.
- (9) Mr. Smith became president of the FHLBank of Dallas in August 2000.
- (10) Mr. Jetter became president and CEO of FHLBank Topeka on September 19, 2002, following the July retirement of Frank A. Lowman, 63, who had been president of FHLBank Topeka since April 1989. Before that, Mr. Jetter served as executive vice president and chief operating officer since 1998.
- (11) Also includes severance and vacation payout of \$512,448 related to Mr. Lowman’s retirement in 2002.
- (12) 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).
- (13) Includes \$28,037 in contributions or other allocations made by the FHLBank to qualified and/or non-qualified vested and unvested contribution plans in 2002 and \$23,000 in insurance premiums paid by, or on behalf of, the FHLBank with respect to split dollar life insurance for the benefit of the president in 2002. The president has rights to a cash surrender value of the split dollar life insurance policy.

## FHLBank Presidents and Managing Director of the Office of Finance Pension Plans and Benefit Equalization Plans

All of the FHLBank presidents and the managing director of the Office of Finance, except the president of the FHLBank of San Francisco, participate in the Financial Institutions Retirement Fund (FIRF), a tax-qualified defined-benefit plan. All of the FHLBank presidents and the managing director of the Office of Finance, except the president of the FHLBank of Dallas, have retirement Benefit Equalization Plans (BEP), a non-qualified retirement plan. A BEP ensures, among other things, that participants receive the full amount of benefits to which they would have been entitled under their pension plans in the absence of limits on benefit levels imposed by the Internal Revenue Service (IRS).

The following tables show estimated annual benefits payable from FIRF and BEP combined upon retirement at age 65 and calculated in accordance with the formula currently in effect for specified years-of-service and remuneration classes for the FHLBank presidents participating in both plans and the managing director of the Office of Finance. The table for the president of the FHLBank of Dallas shows estimated annual benefits payable from FIRF only. Retirement benefits are not subject to any offset provision for Social Security benefits that are received in the defined-benefit plans. Following each table, the formula for calculating annual benefits, the credited years of service for each president and the managing director as of December 31, 2002, and any other information relevant to understanding the table are set forth.

### President, FHLBank of Boston

<u>Remuneration</u>	<u>Years of Service</u>				
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>
\$300,000	\$106,875	\$142,500	\$178,125	\$213,750	\$240,000
\$400,000	\$142,500	\$190,000	\$237,500	\$285,000	\$320,000
\$500,000	\$178,125	\$237,500	\$296,875	\$356,250	\$400,000
\$600,000	\$213,750	\$285,000	\$356,250	\$427,500	\$480,000
\$700,000	\$249,375	\$332,500	\$415,625	\$498,750	\$560,000
\$800,000	\$285,000	\$380,000	\$475,000	\$570,000	\$640,000

- 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, 2002, is 25 years.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

### President, FHLBank of New York

<u>Remuneration</u>	<u>Years of Service</u>				
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>
\$300,000	\$112,500	\$150,000	\$187,500	\$225,000	\$225,000
\$400,000	\$150,000	\$200,000	\$250,000	\$300,000	\$300,000
\$500,000	\$187,500	\$250,000	\$312,500	\$375,000	\$375,000
\$600,000	\$225,000	\$300,000	\$375,000	\$450,000	\$450,000
\$700,000	\$262,500	\$350,000	\$437,500	\$525,000	\$525,000
\$800,000	\$300,000	\$400,000	\$500,000	\$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, 2002, is 9 years and 9 months.
- The regular form of retirement benefits is a straight-life annuity with a death benefit equal to 12 times the annual retirement allowance less the sum of such allowance payments made before death.

President, FHLBank of Pittsburgh

<u>Remuneration</u>	<u>Years of Service</u>				
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>
\$300,000	\$ 90,000	\$120,000	\$150,000	\$180,000	\$210,000
\$400,000	\$120,000	\$160,000	\$200,000	\$240,000	\$280,000
\$500,000	\$150,000	\$200,000	\$250,000	\$300,000	\$350,000
\$600,000	\$180,000	\$240,000	\$300,000	\$360,000	\$420,000
\$700,000	\$210,000	\$280,000	\$350,000	\$420,000	\$490,000
\$800,000	\$240,000	\$320,000	\$400,000	\$480,000	\$560,000

- 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, 2002, is 15 years.
- The regular form of retirement benefits provides a life annuity; a lump-sum option is also available.

President, FHLBank of Atlanta

<u>Remuneration</u>	<u>Years of Service</u>				
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>
\$300,000	\$112,500	\$150,000	\$187,500	\$225,000	\$225,000
\$400,000	\$150,000	\$200,000	\$250,000	\$300,000	\$300,000
\$500,000	\$187,500	\$250,000	\$312,500	\$375,000	\$375,000
\$600,000	\$225,000	\$300,000	\$375,000	\$450,000	\$450,000
\$700,000	\$262,500	\$350,000	\$437,500	\$525,000	\$525,000
\$800,000	\$300,000	\$400,000	\$500,000	\$600,000	\$600,000

- 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, 2002, is 4 years.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

President, FHLBank of Cincinnati

<u>Remuneration</u>	<u>Years of Service</u>					
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>	<u>40</u>
\$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 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, 2002, is 38 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
\$300,000	\$112,500	\$150,000	\$187,500	\$225,000	\$262,500
\$400,000	\$150,000	\$200,000	\$250,000	\$300,000	\$350,000
\$500,000	\$187,500	\$250,000	\$312,500	\$375,000	\$437,500
\$600,000	\$225,000	\$300,000	\$375,000	\$450,000	\$525,000
\$700,000	\$262,500	\$350,000	\$437,500	\$525,000	\$612,500
\$800,000	\$300,000	\$400,000	\$500,000	\$600,000	\$700,000

- Formula: 2.5 percent x years of benefit service x high three-year average compensation.
- The remuneration covered by the plan includes salary, bonus, and any other compensation, that is reflected on the Internal Revenue Service Form W-2 (exclusive of any compensation deferred from a prior year).
- Credited years of service as of December 31, 2002, is 22 years.
- The retirement benefits are computed on a straight-life annuity basis.

President, FHLBank of Chicago

Remuneration	Years of Service				
	15	20	25	30	35
\$300,000	\$101,250	\$135,000	\$168,750	\$202,500	\$236,250
\$400,000	\$135,000	\$180,000	\$225,000	\$270,000	\$315,000
\$500,000	\$168,750	\$225,000	\$281,250	\$337,500	\$393,750
\$600,000	\$202,500	\$270,000	\$337,500	\$405,000	\$472,500
\$700,000	\$236,250	\$315,000	\$393,750	\$472,500	\$551,250
\$800,000	\$270,000	\$360,000	\$450,000	\$540,000	\$630,000

- 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 incentives.
- Credited years of service as of December 31, 2002, is 10 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
\$300,000	\$101,250	\$135,000	\$180,000	\$225,000	\$270,000
\$400,000	\$135,000	\$180,000	\$240,000	\$300,000	\$360,000
\$500,000	\$168,750	\$225,000	\$300,000	\$375,000	\$450,000
\$600,000	\$202,500	\$270,000	\$360,000	\$450,000	\$540,000
\$700,000	\$236,250	\$315,000	\$420,000	\$525,000	\$630,000
\$800,000	\$270,000	\$360,000	\$480,000	\$600,000	\$720,000

- Formula: Regular Retirement Plan:  
2.25 percent x years of benefit service x high three-year average compensation.  
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, 2002 was 23 years and 6 months for the Regular Retirement Plan and 3 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

<u>Remuneration</u>	<u>Years of Service</u>				
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>
\$300,000	\$ 90,000	\$120,000	\$150,000	\$180,000	\$180,000
\$400,000	\$ 90,000	\$120,000	\$150,000	\$180,000	\$180,000
\$500,000	\$ 90,000	\$120,000	\$150,000	\$180,000	\$180,000
\$600,000	\$ 90,000	\$120,000	\$150,000	\$180,000	\$180,000
\$700,000	\$ 90,000	\$120,000	\$150,000	\$180,000	\$180,000
\$800,000	\$ 90,000	\$120,000	\$150,000	\$180,000	\$180,000

- Formula: 3 percent x years of service x high three-year average salary.
- Salary equals W-2 earnings up to the maximum IRS compensation limit, which is currently \$200,000. The plan limits the maximum years of benefit service to 30 years.
- Credited years of service as of December 31, 2002, is 16 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

<u>Remuneration</u>	<u>Years of Service</u>				
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>
\$300,000	\$101,300	\$135,000	\$168,800	\$202,500	\$202,500
\$400,000	\$135,000	\$180,000	\$225,000	\$270,000	\$270,000
\$500,000	\$168,800	\$225,000	\$281,300	\$337,500	\$337,500
\$600,000	\$202,500	\$270,000	\$337,500	\$405,000	\$405,000
\$700,000	\$236,300	\$315,000	\$393,800	\$472,500	\$472,500
\$800,000	\$270,000	\$360,000	\$450,000	\$540,000	\$540,000

- Formula: 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, 2002, is 14 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 three plans (which are also available to other Bank employees): (i) the Cash Balance Plan, a qualified plan consisting of a transition benefit account component and a cash balance account component; (ii) the Benefit Equalization Plan, a non-qualified plan which restores benefits lost under the transition benefit account and the cash balance account of the qualified plan due to limitations under the Internal Revenue Code; and (iii) the Deferred Compensation Plan, a non-qualified plan which provides benefits under the transition benefit account and the cash balance account of the qualified plan based on deferred compensation.

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 account is designed to supplement the frozen FIRF benefit by maintaining the employee’s percentage ratio of his or her frozen FIRF annuity payments to the employee’s highest three consecutive years average pay, calculated as of December 31, 1995 (the “annuity ratio”). At December 31, 1995, the FHLBSF 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 paid from the frozen FIRF benefit account plus the transition benefit account.

If the Bank President terminated his service at the Bank as of December 31, 2002 with approximately 18 years of service, the Bank President’s pension annuity payments would be \$139,723 per year beginning in 2012 (at age 65), which is equal to his highest three consecutive years average pay of \$635,104 multiplied by 22%. The qualified annuity payments paid from the frozen FIRF benefit account would be \$48,004 annually, with the remainder paid from the transition benefit account under the Benefit Equalization Plan 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 \$480,700 for 2002 and incentive pay of \$215,600 in 2002 (earned in 2001); and (ii) his annual base salary increases by 4% each year and he receives an annual incentive pay of 45% of his prior year’s base salary for 10 years until the year 2012, his annuity payment would be \$207,462 per year.

The cash balance account 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 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 balance of \$269,356 in his cash balance account as of December 31, 2002. If the Bank President terminated his service at the Bank as of December 31, 2002 and annuitized his cash balance account, his annuity payments would be \$42,953 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 \$480,700 for 2002 and incentive pay of \$215,600 in 2002 (earned in 2001); and (ii) his annual base salary increases by 4% each year and he receives an annual incentive pay of 45% of his prior year’s base salary for 10 years until the year 2012, his annuity payments would be \$99,004 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 5 years of service.

President, FHLBank of Seattle

<u>Remuneration</u>	<u>Years of Service</u>				
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>
\$300,000	\$112,500	\$150,000	\$187,500	\$225,000	\$262,500
\$400,000	\$150,000	\$200,000	\$250,000	\$300,000	\$350,000
\$500,000	\$187,500	\$250,000	\$312,500	\$375,000	\$437,500
\$600,000	\$225,000	\$300,000	\$375,000	\$450,000	\$525,000
\$700,000	\$262,500	\$350,000	\$437,500	\$525,000	\$612,500
\$800,000	\$300,000	\$400,000	\$500,000	\$600,000	\$700,000

- 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, 2002, is 4 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

<u>Remuneration</u>	<u>Years of Service</u>				
	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>	<u>35</u>
\$300,000	\$112,500	\$150,000	\$187,500	\$225,000	\$262,500
\$400,000	\$150,000	\$200,000	\$250,000	\$300,000	\$350,000
\$500,000	\$187,500	\$250,000	\$312,500	\$375,000	\$437,500
\$600,000	\$225,000	\$300,000	\$375,000	\$450,000	\$525,000
\$700,000	\$262,500	\$350,000	\$437,500	\$525,000	\$612,500
\$800,000	\$300,000	\$400,000	\$500,000	\$600,000	\$700,000

- Formula: 2.50 percent x years of benefit service x high three-year average compensation.
- Compensation includes base salary and incentive compensation.
- Credited years of service as of December 31, 2002, is 15 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, 2002.

**Top 5 Capital Stock Holding Members by FHLBank  
at December 31, 2002**

<u>District</u>	<u>Name</u>	<u>City</u>	<u>State</u>	<u>Capital Stock (\$Millions)</u>	<u>Percent of FHLBank Capital Stock</u>
Boston	Fleet National Bank	Providence	RI	\$ 332	14.6%
	Banknorth, NA	Portland	ME	269	11.8%
	Webster Bank	Waterbury	CT	150	6.6%
	State Street Bank and Trust Company	Boston	MA	100	4.4%
	People's Bank	Bridgeport	CT	94	4.1%
			<u>\$ 945</u>	<u>41.5%</u>	
New York	Washington Mutual Bank, FA(1)	Stockton	CA	\$ 393	9.7%
	GreenPoint Bank	New York	NY	300	7.4%
	HSBC Bank, USA	Buffalo	NY	276	6.8%
	Astoria FS&LA*	Astoria	NY	248	6.1%
	Manufacturers & Traders Trust Company*	Buffalo	NY	210	5.2%
			<u>\$1,427</u>	<u>35.2%</u>	
Pittsburgh	Sovereign Bank*	Wyomissing	PA	\$ 314	17.1%
	Waypoint Bank	Harrisburg	PA	110	6.0%
	PNC Bank, NA	Pittsburgh	PA	105	5.7%
	Lehman Brothers Bank*	Wilmington	DE	95	5.2%
	ING Bank	Wilmington	DE	86	4.7%
			<u>\$ 710</u>	<u>38.7%</u>	
Atlanta	BB&T of NC	Winston-Salem	NC	\$ 436	9.7%
	SunTrust Bank	Atlanta	GA	303	6.7%
	AmSouth Bank	Birmingham	AL	271	6.0%
	Regions Bank	Birmingham	AL	235	5.2%
	SouthTrust Bank	Birmingham	AL	224	5.0%
			<u>\$1,469</u>	<u>32.6%</u>	
Cincinnati	Charter One Bank, NA*	Cleveland	OH	\$ 594	16.7%
	US Bank, NA	Cincinnati	OH	465	13.1%
	Fifth Third Bank	Cincinnati	OH	270	7.6%
	Union Planters National Bank	Memphis	TN	205	5.8%
	Ohio Savings Bank	Cleveland	OH	177	5.0%
			<u>\$1,711</u>	<u>48.2%</u>	
Indianapolis	Standard Federal Bank, NA*	Troy	MI	\$ 358	18.3%
	National City Bank of Indianapolis	Indianapolis	IN	229	11.7%
	Flagstar Bank, FSB	Troy	MI	150	7.7%
	Fifth Third Bank of Indianapolis	Indianapolis	IN	100	5.1%
	Fifth Third Bank	Grand Rapids	MI	89	4.6%
			<u>\$ 926</u>	<u>47.4%</u>	
Chicago	LaSalle National Bank*	Chicago	IL	\$ 258	8.3%
	Bank One, NA	Chicago	IL	189	6.0%
	Mid America Bank, FSB*	Clarendon Hills	IL	170	5.4%
	The Private Bank & Trust Co	Chicago	IL	155	5.0%
	The Northern Trust Company	Chicago	IL	107	3.4%
			<u>\$ 879</u>	<u>28.1%</u>	

<u>District</u>	<u>Name</u>	<u>City</u>	<u>State</u>	<u>Capital Stock (\$Millions)</u>	<u>Percent of FHLBank Capital Stock</u>
Des Moines	Wells Fargo Bank Minnesota, NA	Minneapolis	MN	\$ 401	21.6%
	Superior Guaranty Insurance Company	Minneapolis	MN	189	10.2%
	TCF National Bank	Minneapolis	MN	74	4.0%
	AmerUs Life Insurance Company	Des Moines	IA	45	2.4%
	Transamerica Life Insurance Company	Cedar Rapids	IA	45	2.4%
				<u>\$ 754</u>	<u>40.6%</u>
Dallas	Washington Mutual Bank, FA(2)	Stockton	CA	\$ 408	16.5%
	World Savings Bank, FSB (Texas)	Houston	TX	363	14.7%
	Guaranty Bank*	Dallas	TX	202	8.2%
	Beal Bank	Plano	TX	114	4.6%
	Hibernia National Bank	New Orleans	LA	61	2.5%
				<u>\$1,148</u>	<u>46.5%</u>
Topeka	Commercial Federal Bank, FSB	Omaha	NE	\$ 282	17.3%
	MidFirst Bank	Oklahoma City	OK	261	16.0%
	Capitol Federal Savings Bank	Topeka	KS	178	10.9%
	Security Life of Denver Ins. Co	Denver	CO	70	4.3%
	U.S. Central Credit Union	Lenexa	KS	55	3.4%
				<u>\$ 846</u>	<u>51.9%</u>
San Francisco	Washington Mutual Bank, FA	Stockton	CA	\$2,139	38.3%
	Citibank (West), FSB	Los Angeles	CA	1,005	18.0%
	World Savings Bank, FSB*	Oakland	CA	710	12.7%
	IndyMac Bank, FSB	West Covina	CA	155	2.8%
	Downey S&LA	Newport Beach	CA	118	2.1%
				<u>\$4,127</u>	<u>73.9%</u>
Seattle	Washington Mutual Bank*	Seattle	WA	\$ 707	30.1%
	Bank of America	Portland	OR	325	13.9%
	Washington Federal Savings	Seattle	WA	135	5.8%
	American Savings Bank	Honolulu	HI	90	3.8%
	Wells Fargo Bank Northwest	Salt Lake City	UT	83	3.5%
				<u>\$1,340</u>	<u>57.1%</u>

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

- (1) 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.
- (2) 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, 2002.

**Top 5 Advance Holding Members by FHLBank  
at December 31, 2002**

<u>District</u>	<u>Name</u>	<u>City</u>	<u>State</u>	<u>Advances (1) (\$Millions)</u>	<u>Percent of FHLBank Advances</u>
Boston	Banknorth, NA	Portland	ME	\$ 2,411	9.3%
	Webster Bank	Waterbury	CT	2,163	8.3%
	State Street Bank and Trust Company	Boston	MA	2,000	7.7%
	People's Bank	Bridgeport	CT	1,596	6.1%
	First Federal Savings Bank of America	Swansea	MA	786	3.0%
			<u>\$ 8,956</u>	<u>34.4%</u>	
New York	Washington Mutual Bank, FA(2)	Stockton	CA	\$ 7,864	11.9%
	GreenPoint Bank	New York	NY	5,200	7.9%
	Astoria FS&LA*	Astoria	NY	4,609	7.0%
	Manufacturers and Traders Trust Company*	Buffalo	NY	4,175	6.3%
	New York Community Bank	Westbury	NY	3,737	5.7%
			<u>\$25,585</u>	<u>38.8%</u>	
Pittsburgh	Sovereign Bank*	Wyomissing	PA	\$ 5,393	19.7%
	Waypoint Bank	Harrisburg	PA	2,042	7.4%
	PNC Bank, NA	Pittsburgh	PA	1,254	4.6%
	GMAC Bank	Greenville	DE	1,038	3.8%
	ING Bank	Wilmington	DE	1,012	3.7%
			<u>\$10,739</u>	<u>39.2%</u>	
Atlanta	BB&T of NC	Winston-Salem	NC	\$ 8,715	11.3%
	SunTrust Bank	Atlanta	GA	6,063	7.9%
	AmSouth Bank	Birmingham	AL	5,418	7.0%
	Regions Bank	Birmingham	AL	4,696	6.1%
	SouthTrust Bank	Birmingham	AL	4,471	5.8%
			<u>\$29,363</u>	<u>38.1%</u>	
Cincinnati	US Bank, NA	Cincinnati	OH	\$ 8,498	22.2%
	Charter One Bank, NA*	Cleveland	OH	8,422	22.0%
	Ohio Savings Bank	Cleveland	OH	2,655	6.9%
	Fifth Third Bank	Cincinnati	OH	2,326	6.1%
	National Bank of Commerce	Memphis	TN	1,507	3.9%
			<u>\$23,408</u>	<u>61.1%</u>	
Indianapolis	Standard Federal Bank, NA*	Troy	MI	\$ 6,629	24.1%
	Flagstar Bank, FSB	Troy	MI	2,222	8.1%
	Fifth Third Bank of Indianapolis	Indianapolis	IN	1,750	6.4%
	Fifth Third Bank	Grand Rapids	MI	1,522	5.5%
	National City Bank of Indianapolis	Indianapolis	IN	1,386	5.0%
			<u>\$13,509</u>	<u>49.1%</u>	
Chicago	Bank One, NA	Chicago	IL	\$ 3,715	15.5%
	LaSalle National Bank*	Chicago	IL	3,652	15.2%
	Mid America Bank, FSB*	Clarendon Hills	IL	1,506	6.3%
	The Northern Trust Company	Chicago	IL	886	3.7%
	Marshall & Ilsley Bank	Milwaukee	WI	869	3.6%
			<u>\$10,628</u>	<u>44.3%</u>	

<u>District</u>	<u>Name</u>	<u>City</u>	<u>State</u>	<u>Advances (1) (\$Millions)</u>	<u>Percent of FHLBank Advances</u>
Des Moines	Wells Fargo Bank Minnesota, NA	Minneapolis	MN	\$ 6,757	29.3%
	TCF National Bank	Minneapolis	MN	1,154	5.0%
	Transamerica Life Insurance Company	Cedar Rapids	IA	900	3.9%
	AmerUs Life Insurance Company	Des Moines	IA	889	3.9%
	Bank Midwest, NA	Kansas City	MO	645	2.8%
				<u>\$10,345</u>	<u>44.9%</u>
Dallas	Washington Mutual Bank, FA (3)	Stockton	CA	\$ 7,537	20.7%
	World Savings Bank, FSB (Texas)	Houston	TX	7,000	19.2%
	Guaranty Bank*	Dallas	TX	3,374	9.2%
	Beal Bank	Plano	TX	1,984	5.4%
	Hibernia National Bank	New Orleans	LA	1,102	3.0%
				<u>\$20,997</u>	<u>57.5%</u>
Topeka	Commercial Federal Bank, FSB	Omaha	NE	\$ 4,883	19.8%
	MidFirst Bank	Oklahoma City	OK	3,731	15.1%
	Capitol Federal Savings Bank	Topeka	KS	3,200	13.0%
	Security Life of Denver Ins. Co	Denver	CO	1,409	5.7%
	Local Oklahoma Bank, NA	Oklahoma City	OK	684	2.8%
				<u>\$13,907</u>	<u>56.4%</u>
San Francisco	Washington Mutual Bank, FA	Stockton	CA	\$32,945	41.1%
	Citibank (West), FSB	Los Angeles	CA	13,490	16.8%
	World Savings Bank, FSB*	Oakland	CA	11,635	14.5%
	IndyMac Bank, FSB	West Covina	CA	2,722	3.4%
	Downey S&LA	Newport Beach	CA	1,624	2.0%
				<u>\$62,416</u>	<u>77.8%</u>
Seattle	Bank of America Oregon	Portland	OR	\$ 5,992	30.4%
	Washington Mutual Bank*	Seattle	WA	2,761	14.0%
	Washington Federal Savings	Seattle	WA	1,650	8.4%
	American Savings Bank	Honolulu	HI	1,176	6.0%
	Sterling Savings Bank	Spokane	WA	875	4.4%
				<u>\$12,454</u>	<u>63.2%</u>

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

- (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) 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.
- (3) The amount relates to the outstanding advances of Bank United, a former member of the FHLBank of Dallas, which was acquired by Washington Mutual Bank, FA, a member of the FHLBank of San Francisco during 2001. The outstanding advances of 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, 2002 and 2001 by their external accounting firm PricewaterhouseCoopers LLP (Dollar amounts in millions):

	<u>2002</u>	<u>2001</u>
Audit fees .....	\$2.0	\$2.4
Audit related fees .....	0.6	0.5
All other fees .....	<u>0.4</u>	<u>0.2</u>
Total fees .....	<u>\$3.0</u>	<u>\$3.1</u>

The audit fees as of the years ended December 31, 2002 and 2001, 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, 2002 and 2001, 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, 2002 and 2001, 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 practica-

ble, 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.