FEDERAL HOME LOAN BANKS

Combined Financial Report
for the Year Ended December 31, 2011

This Combined Financial Report provides financial information on the Federal Home Loan Banks. Investors should use this Combined Financial Report with other information provided by the Federal Home Loan Banks when considering whether or not to purchase Federal Home Loan Bank consolidated obligation bonds and consolidated obligation discount notes (collectively referred to as consolidated obligations).

Consolidated obligations are the joint and several obligations of all 12 Federal Home Loan Banks, even though each Federal Home Loan Bank is a separately chartered entity with its own board of directors and management. This means that each individual Federal Home Loan Bank is responsible for the payment of principal and interest on all consolidated obligations issued by the Federal Home Loan Banks. There is no centralized, system-wide management or oversight by a single board of directors of the Federal Home Loan Banks.

Federal Home Loan Bank consolidated obligations are not obligations of the United States and are not guaranteed by either the United States or any government agency.

The Securities Act of 1933 does not require the registration of consolidated obligations; therefore, no registration statement has been filed with the U.S. Securities and Exchange Commission. Neither the U.S. Securities and Exchange Commission, the Federal Housing Finance Agency nor any state securities commission has approved or disapproved of these securities or determined if this report is truthful or complete.

Carefully consider the risk factors provided in this Combined Financial Report. Neither the Combined Financial Report nor any offering material provided on behalf of the Federal Home Loan Banks describes all the risks of investing in Federal Home Loan Bank consolidated obligations. Investors should consult with their financial and legal advisors about the risks of investing in these consolidated obligations.

This Combined Financial Report is available on the Federal Home Loan Banks Office of Finance web site at www.fhlb-of.com. This web site address is provided as a matter of convenience only, and its contents are not made part of this report and are not intended to be incorporated by reference into this report.

Investors should direct questions about Federal Home Loan Bank consolidated obligations or the Combined Financial Report to the Federal Home Loan Banks Office of Finance at (703) 467-3600.

This Combined Financial Report was issued on March 29, 2012.

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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
FEDERAL HOME LOAN BANKS COMBINED FINANCIAL REPORT

The Federal Home Loan Banks Office of Finance (Office of Finance) is responsible for preparing the Combined Financial Report of the 12 Federal Home Loan Banks (FHLBanks). Each FHLBank is responsible for the financial information and underlying data it provides to the Office of Finance for inclusion in the Combined Financial Report. The Office of Finance is responsible for combining the financial information it receives from each of the FHLBanks.

The FHLBanks Combined Financial Report is intended to be used by investors in consolidated obligation bonds (consolidated bonds) and consolidated obligation discount notes (consolidated discount notes) of the FHLBanks as these consolidated bonds and consolidated discount notes are the joint and several obligations of all 12 FHLBanks. This Combined Financial Report is provided using combination accounting principles generally accepted in the United States of America. This combined presentation in no way indicates that these assets and liabilities are under joint management and control as each individual FHLBank manages its operations independently.

Because of the FHLBank System's structure, the Office of Finance does not prepare consolidated financial statements. Consolidated financial statements are generally considered to be appropriate when a controlling financial interest rests directly or indirectly in one of the enterprises included in the consolidation. This is the case in the typical holding company structure, where there is a parent corporation that owns, directly or indirectly, one or more subsidiaries. However, the FHLBanks do not have a parent company that controls each of the FHLBanks. Instead, each of the FHLBanks is owned by its respective members and former members and is managed independently.

Each FHLBank is a separately chartered cooperative with individual boards of directors and management and is responsible for establishing its own accounting and financial reporting policies in accordance with accounting principles generally accepted in the United States of America (GAAP). The FHLBanks' accounting and financial reporting policies and practices are not necessarily identical because alternative policies and presentations are permitted under GAAP in certain circumstances. Statements in this report may be qualified by a term such as “generally,” “primarily,” “typically” or words of similar meaning to indicate that the statement is generally applicable, but may not be applicable to all FHLBanks or transactions as a result of their different business practices and accounting and financial reporting policies under GAAP.

An investor may not be able to obtain easily a system-wide view of the FHLBanks' business, risk profile and financial information because there is no centralized, system-wide management or centralized board of director oversight of the individual FHLBanks. This decentralized structure is not conducive to preparing disclosures from a system-wide view in the same manner that is generally expected of U.S. Securities and Exchange Commission (SEC) registrants. For example, a conventional Management's Discussion and Analysis is not provided in this Combined Financial Report; instead, this report includes a “Financial Discussion and Analysis” prepared by the Office of Finance using information provided by each FHLBank.

Each FHLBank is subject to the reporting requirements of the Securities Exchange Act of 1934 as amended, and must file periodic reports and other information with the SEC. Each FHLBank prepares an annual financial report, filed on SEC Form 10-K, and quarterly financial reports, filed on SEC Form 10-Q. Those reports contain additional information that is not contained in this Combined Financial Report. FHLBank financial reports are made available on the web site of each FHLBank and on the SEC's web site at www.sec.gov. This web site address is provided as a matter of convenience only, and its contents are not made part of this report and are not intended to be incorporated by reference into this report.

An investor should review available information on individual FHLBanks to obtain additional detail on each FHLBank's business, risk profile, and accounting and financial reporting policies.

BUSINESS

General Information

The 12 FHLBanks are government-sponsored enterprises (GSEs) 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 to facilitate the issuance and servicing of the FHLBanks' consolidated obligations and to prepare the FHLBanks' quarterly and annual combined financial reports. The FHLBanks and the Office of Finance are regulated by the Federal Housing Finance Agency (FHFA or Regulator). (See *Audits and Examinations* - *FHLBanks' Regulator* for more information regarding the FHFA.)

The FHLBanks serve the general public by providing liquidity to members through secured loans (advances), thereby increasing the availability of credit for residential mortgages, community investments, and other services for housing and community development. The FHLBanks provide a readily available, low-cost source of funds to their members. In addition, some of the FHLBanks provide members with a means of enhancing liquidity by purchasing or funding home mortgages through mortgage programs developed for their members. Under these programs, the FHLBanks purchase mortgage loans from, and fund mortgage loans through, participating member institutions and housing associates. Members can also borrow from an FHLBank to fund low-income housing, helping the members satisfy their regulatory requirements under the Community Reinvestment Act (CRA). Finally, some of the FHLBanks offer their members a variety of services, including:

- correspondent banking, which includes security safekeeping, wire transfers and settlements;
- cash management;
- letters of credit; and
- derivative intermediation.

Table 1 - FHLBanks' Asset Composition

Percentage of Combined Total Assets	December 31, 2011	December 31, 2010
Advances	54.6%	54.5%
Investments(1)	35.4%	37.6%
Mortgage loans held for portfolio, net	7.0%	7.0%
Other assets	3.0%	0.9%
Combined total assets	100.0%	100.0%

(1) Investments consist of interest-bearing deposits, securities purchased under agreements to resell, Federal funds sold, trading securities, available-for-sale securities and held-to-maturity securities.

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

Table 2 - FHLBanks' Liability and Capital Composition

Percentage of Combined Total Liabilities and Capital	December 31, 2011	December 31, 2010
Consolidated obligations		
Discount notes	24.8%	22.1%
Bonds	66.2%	69.1%
Total consolidated obligations	91.0%	91.2%
Mandatorily redeemable capital stock	1.1%	0.8%
Other liabilities	2.7%	3.0%
Total liabilities	94.8%	95.0%
Total GAAP capital(1)	5.2%	5.0%
Combined total liabilities and capital	100.0%	100.0%

(1) The FHLBanks' combined regulatory capital-to-assets ratio was 6.91% at December 31, 2011 and 6.53% at December 31, 2010. (See *Note 19—Capital* to the accompanying combined financial statements for details on regulatory capital requirements.)

The FHLBanks are cooperatives that are privately and wholly owned by their members and former members. Each FHLBank operates as a separate entity within a defined geographic region of the country, known as its district, with its own board of directors, management and employees. As a condition of membership, each member must purchase and maintain capital stock. To the extent declared by an FHLBank's board of directors, a member may receive dividends on its investment in capital stock from the earnings of its FHLBank.

Membership in an FHLBank is voluntary and limited to regulated depositories, insurance companies, and community development financial institutions (CDFIs). A CDFI is eligible to become a member if it has been certified by the CDFI Fund of the U.S. Department of the Treasury (U.S. Treasury). CDFIs include community development loan funds, community development venture capital funds, and state-chartered credit unions without federal insurance. (See *Market for Capital Stock and Related Stockholder Matters* - *Table 6 - Membership by Type of Member,* which identifies members of the FHLBanks by type of financial institution.) Eligible financial institutions may only be a member of one FHLBank, and generally may purchase capital stock only in the FHLBank whose district includes the state where the member's principal place of business is located. Some financial institution holding companies may have one or more subsidiaries, each of which may be a member of the same or a different FHLBank.

As a member-owned cooperative, each FHLBank conducts its credit and mortgage program businesses almost exclusively with members. An FHLBank may also purchase short-term investments, Federal funds and mortgage-backed securities from members, or their affiliates. All investments are purchased at then-current market prices and all mortgage-backed securities are purchased through securities brokers or dealers. The FHLBanks manage their primary objective of fulfilling their public purpose by enhancing the value of membership for member institutions. The value of membership may be derived from access to readily available credit and other services from the FHLBanks and the value of the cost differential between an FHLBank's advances and other potential sources of funds, as well as the potential for dividends received on a member's investment in an FHLBank's capital stock.

In keeping with their cooperative philosophy, the FHLBanks price their advances at relatively small spreads over their cost of funds and historically returned the majority of their net income to their members in the form of dividends (excluding the requirement for 20% of each FHLBank's net income to be allocated to a separate restricted retained earnings account effective in the third quarter of 2011). Accordingly, the FHLBanks' net income and balance of retained earnings are relatively small as they relate to total assets and total liabilities. (See *Financial Discussion and Analysis - Capital Adequacy* - *Dividend and Excess Stock Limitations* for a discussion of dividend payment limitations for certain FHLBanks.)

The primary source of revenue for the FHLBanks is interest income earned on investments, advances and mortgage loans held for portfolio. The primary items of expense for the FHLBanks are interest paid on consolidated obligations; net other-than-temporary impairment losses; operating expenses, including employee compensation and benefits; and Resolution Funding Corporation (REFCORP) and Affordable Housing Program (AHP) assessments. On August 5, 2011, the FHFA certified that the FHLBanks had fully satisfied their REFCORP obligation. A key driver of net interest income and net income is the return the FHLBanks receive on invested member capital because there is no related interest expense.

Historical Perspective

The fundamental business of the FHLBanks is to provide a readily available, low-cost source of funds in a wide range of maturities to meet the demands of members and eligible non-member housing associates. Congress created the FHLBanks in 1932 to improve the availability of funds to support home ownership.

Congress originally granted access to advances only to those institutions with the potential to make and hold long-term, amortizing home mortgage loans. Those institutions were primarily Federally- and state-chartered savings and loan associations, cooperative banks, and state-chartered savings banks (thrift institutions). As a result, FHLBanks and their member thrift institutions became an integral part of the home mortgage financing system in the United States. However, a variety of factors, including a severe recession, record-high interest rates, and unsafe and unsound practices following thrift deregulation, resulted in significant losses for thrift institutions in the 1980s. In reaction to the significant cost to the American taxpayers of resolving failed thrift institutions, Congress restructured the home mortgage financing system in 1989 by passing the Financial Institutions Reform, Recovery and Enforcement Act. 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.

On July 30, 2008, the Housing and Economic Recovery Act of 2008 (Housing Act) was enacted and was designed to, among other things, address the then-current housing finance crisis, expand the financing authority of the Federal Housing Administration (FHA) and address GSE reform issues. With respect to the FHLBanks, the Housing Act created the FHFA, which became the regulator of the FHLBanks and the Office of Finance, with broad authority over FHLBank issues such as: board of director composition and executive compensation, risk-based capital standards and prompt corrective action enforcement provisions, membership eligibility for community development financial institutions and low-income housing goals.

Advances

The FHLBanks serve as a source of liquidity by making loans, known as advances, to their members and eligible non-member housing associates on the security of mortgages and other collateral pledged by the borrowing institutions. Access to FHLBank advances can reduce the amount of low-yielding liquid assets a member would otherwise hold to ensure the same amount of liquidity. Advances are the FHLBanks' largest asset category on a combined basis, representing 54.6% and 54.5% of combined total assets at December 31, 2011 and 2010. Advances are collateralized generally by mortgages held in FHLBank member portfolios (See *Financial Discussion and Analysis - Risk Management - Credit Risk - Advances* for additional information on advances collateral). 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 mortgages. FHLBank advances support important housing markets, including those focused on very low-, low- and moderate-income households. For those members that choose to sell or securitize their mortgages, FHLBank advances can provide interim funding.

Each FHLBank develops its advance programs to meet the particular needs of its members. Each FHLBank offers a wide array of fixed- and variable-rate advances, with maturities typically ranging from one day to 30 years, consistent with the safe and sound operation of each FHLBank.

Advance Products

- Fixed-Rate Advances. These advances are available over a variety of terms and are used to fund both the short- and long-term liquidity needs of borrowers. Typically, interest is paid monthly or quarterly and the principal is paid at maturity.

- Variable-Rate Advances. These advances have interest rates that reset periodically to a specified interest rate index such as the London Interbank Offered Rate (LIBOR), or other standard indices, and are used to fund both the short- and long-term liquidity needs of borrowers. Typically, interest is paid monthly or quarterly and the principal is paid at maturity.

- Hybrid Advances. Advances with a one-time option to embed either a floor or cap at any time during the life of the advance. This advance may be either fixed- or variable-rate at the time of issuance.

- Convertible Advances. These advances allow an FHLBank to convert an advance from one interest-payment term structure to another. When issuing convertible advances, an FHLBank may purchase put options from a member that allow that FHLBank to convert the fixed-rate advance to a variable-rate advance at the current market rate or another structure after an agreed-upon lockout period. A convertible advance carries a lower interest rate than a comparable-maturity fixed-rate advance without the conversion feature. Variable- to fixed-rate convertible advances have a defined lockout period during which the interest rates adjust based on a spread to LIBOR. At the end of the lockout period, these advances may convert to fixed-rate advances.

- Fixed-Rate Amortizing Advances. These advances are medium- or long-term fixed-rate loans with amortizing schedules structured to match the payment characteristics of a mortgage loan or portfolio of mortgage loans. The principal and interest are repaid monthly, quarterly, semi-annually or annually over the term of the advances. Fixed-rate amortizing advances may be fully amortizing to the maturity date, or may have a balloon payment due at maturity.

- Overnight Advances. These advances are used primarily to fund the short-term liquidity needs of borrowers. An overnight advance may automatically renew until the member pays down the advance, or it may mature on the next business day. Interest rates are set daily.

In addition to these advance products, the FHLBanks' advance programs may include products with embedded option features such as interest-rate caps and floors and call and put options, advances with non-standard interest-rate indices and advances with a combination of these features.

Advances to Members and Non-Members

In addition to advances to members, the FHLBanks are permitted to make advances to non-members that are approved mortgagees under Title II of the National Housing Act (housing associates, which are generally state and local housing agencies). In addition, to be eligible for advances from an FHLBank, housing associates must also:

- be chartered under law and have succession;
- be subject to inspection and supervision by a governmental agency; and
- lend their own funds as their principal activity in the mortgage field.

Housing associates are not subject to certain provisions applicable to members under the FHLBank Act. For example, they are not required to purchase capital stock in an FHLBank. However, the same regulatory lending requirements that apply to members also generally apply to housing associates.

FHLBank advances can provide funding to smaller lenders that lack diverse funding sources because they often do not have access to all of the funding alternatives available to larger financial entities. The FHLBanks give these lenders access to wholesale funding at competitive prices.

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

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

Approximately $44.1 billion in FHLBank-supported lending for housing development has financed approximately 726 thousand housing units from the establishment of the CIP in 1990 and the establishment of CICA in 1998, through December 31, 2010, the latest information available on the Regulator's web site. In addition to housing developments, over $17.7 billion in FHLBank-supported community lending has helped finance thousands of local community development projects.

Since its inception in 1990, the AHP has provided significant resources for housing development across the 50 states, the District of Columbia, and U.S. territories. From 1990 through June 30, 2011, the latest information available on the Regulator's web site, the FHLBanks have awarded approximately $4.3 billion in AHP subsidies and grants to facilitate development of affordable housing projects designed to create over 749 thousand housing units.

The FHLBanks are one of the largest sources of private funding for affordable housing in the nation. (See *Note 16—Affordable Housing Program (AHP)* to the accompanying combined financial statements.)

Investments

The FHLBanks maintain portfolios of investments for liquidity purposes, to use balance sheet capacity and to provide additional earnings. This investment income also bolsters the FHLBanks' capacity to meet their commitments to affordable housing and community investment, and to cover operating expenses.

The FHLBanks maintain short-term investment portfolios, which provide funds to meet the credit needs of their members. Within the portfolio of short-term investments, the FHLBanks' primary credit risk is related to unsecured credit exposure on certain investments. These short-term investment portfolios may include:

- interest-bearing deposits;
- securities purchased under agreements to resell;
- Federal funds sold;
- U.S. Treasury obligations;
- commercial paper;
- certificates of deposit; and
- GSE obligations.

The FHLBanks also enhance interest income and cover operating expenses by holding long-term investments. These investments generally provide the FHLBanks with higher returns than those available on short-term investments. Within the portfolio of long-term investments, the FHLBanks are primarily subject to credit risk related to private-label mortgage-backed securities that are either directly or indirectly supported by underlying mortgage loans.

Total investments represented 35.4% of the FHLBanks' combined total assets at December 31, 2011 and 37.6% of the FHLBanks' combined total assets at December 31, 2010.

FHFA regulations prohibit the FHLBanks from investing in certain types of securities and limit the FHLBanks' investment in MBS and asset-backed securities (ABS). (See *Financial Discussion and Analysis - Risk Management - Credit Risk - Investments* for information on these restrictions and limitations.)

Mortgage Loans

The FHLBanks have programs to purchase mortgage loans from, or fund mortgage loans through, members or housing associates called participating financial institutions (PFIs). The primary programs are the Mortgage Partnership Finance® (MPF) Program ("Mortgage Partnership Finance," "MPF," "MPF Shared Funding," "eMPF" and "MPF Xtra" are registered trademarks of the FHLBank of Chicago) and the Mortgage Purchase Program (MPP). Through the MPP and MPF Program, FHLBanks invest principally in qualifying 5-year to 30-year conventional and government-guaranteed or -insured fixed-rate mortgage loans and participations in pools of these mortgage loans, secured by one-to-four family residential properties. Government mortgage loans are insured or guaranteed by the Federal Housing Administration, the Department of Veterans Affairs, the Rural Housing Service of the Department of Agriculture, or the U.S. Department of Housing and Urban Development (HUD).

The MPP and MPF Program were developed to support the FHLBanks' housing mission, diversify their assets and provide an additional source of liquidity to their members. As such, these programs serve as a secondary mortgage structure for those FHLBank members originating mortgage loans that they choose to sell into the secondary mortgage market rather than hold in their own loan portfolios.

Currently, the FHLBanks of Atlanta, Chicago, Dallas, San Francisco and Seattle are not accepting additional Master Commitments to acquire loans for their own portfolio or purchasing additional mortgage loans under either the MPP or MPF Program, except certain FHLBanks' purchases of MPF Loans to support affordable housing. The remaining FHLBanks participating in the MPP or MPF Program continue to have the ability to purchase and fund both conventional and government-guaranteed or -insured fixed-rate mortgage loans. At December 31, 2011 and 2010, the FHLBanks had invested in MPF Loans and MPP Loans in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. Mortgage loans held for portfolio represented 7.0% of the FHLBanks' combined total assets at December 31, 2011 and 2010.

Under the MPP and MPF Program, each FHLBank manages the interest-rate risk, prepayment option risk and liquidity risk of the fixed-rate mortgage loans in which it holds an interest, while the PFI manages the origination and servicing activities. For conventional mortgage loans, each FHLBank holding an interest, and the PFI selling or originating the mortgage loan, share in the credit risk pursuant to a Master Agreement or a Master Commitment. In addition, the PFI provides a measure of credit-loss protection to the FHLBank(s) holding interests in loans generated by the PFI. For government mortgage loans, the servicer provides and maintains insurance or a guarantee from the applicable government agency. The servicer is responsible for compliance with all government agency requirements and for obtaining the benefit of the applicable insurance or guarantee with respect to defaulted government mortgage loans. Any losses incurred on these loans that are not recovered from the issuer or the guarantor are absorbed by the servicer. (See *Financial Discussion and Analysis - Risk Management - Credit Risk - Mortgage Loans Held for Portfolio* and *Note 11—Allowance for Credit Losses* - *Mortgage Loans Held for Portfolio - Conventional MPF, Conventional MPP and Other Loans* to the accompanying combined financial statements for a detailed discussion of the credit enhancement and risk sharing arrangements and loan product information for these programs.)

MPF Program

One or more MPF FHLBanks may acquire or participate in all or a portion of the acquired mortgage loans from a PFI of another MPF FHLBank. The FHLBank of Chicago acts as “MPF Provider” and provides programmatic and operational support to the MPF FHLBanks and each of their PFIs. There are currently five MPF Program portfolio products, and the MPF Xtra product under which mortgage loans are sold concurrently to Fannie Mae. Five of these six products (Original MPF, MPF 125, MPF Plus, MPF Government and MPF Xtra) are closed loan products in which the MPF FHLBank purchases loans that have been acquired or have already been closed by the PFI with its own funds. For the sixth product, MPF 100, the loans were previously acquired as table-funded loans whereby the MPF FHLBank funded and originated the loans because the PFI acted as the agent for MPF FHLBank. Unlike other conventional MPF Program products, under the MPF Xtra product, the FHLBank of Chicago purchases eligible MPF Loans from PFIs and concurrently sells these MPF Loans to Fannie Mae as a third-party investor. PFIs are not required to provide credit enhancement and do not receive credit enhancement fees with the MPF Xtra product.

MPP

Each participating FHLBank may acquire mortgage loans from its approved PFIs that can also be third-party servicers for the FHLBank's MPP. Also, each MPP FHLBank is responsible for operating its own program, including the marketing and funding of MPP loans, and establishing the loan origination, underwriting and servicing criteria of the loans acquired through its MPP. The MPP FHLBanks neither service the acquired loans, nor do they own any servicing rights. However, an MPP FHLBank must approve any servicer, including a member-servicer, and any transfers of servicing to third parties. The MPP FHLBanks have engaged JPMorgan Chase Bank as the MPP master servicer.

Consolidated Obligations

Consolidated obligations consist of consolidated obligation bonds (consolidated bonds) and consolidated obligation discount notes (consolidated discount notes), which are debt instruments issued through the Office of Finance. Consolidated obligations are the principal funding source used by the FHLBanks to make advances, and to purchase mortgage loans and investments. Consolidated obligations outstanding represented 91.0% of the FHLBanks' combined total liabilities and capital at December 31, 2011 and 91.2% of the FHLBanks' combined total liabilities and capital at December 31, 2010.

The use of consolidated bonds or consolidated discount notes to provide funding is generally determined based on the desired maturity of the obligation. All consolidated obligations are issued through the Office of Finance on behalf of the 12 FHLBanks. The Office of Finance can issue consolidated obligations only when an FHLBank provides a request for and agrees to accept the funds. An FHLBank is generally prohibited by regulation from purchasing, directly or indirectly, securities from the initial issuance of a consolidated obligation. The FHFA and the U.S. Secretary of the Treasury have oversight over the issuance of FHLBank debt.

The capital markets have traditionally considered the FHLBanks' consolidated obligations as being equivalent to federal agency debt. As a result, although the U.S. government does not guarantee the FHLBanks' debt, the FHLBanks have traditionally had ready access to funding at relatively favorable rates. The FHLBanks' ability to access the capital markets through the issuance of consolidated obligations, using a variety of debt structures and maturities, allows the FHLBanks to manage their balance sheets effectively and efficiently.

Credit Ratings. Consolidated obligations are currently rated Aaa/P-1 by Moody's and AA+/A-1+ by S&P. These ratings reflect the FHLBanks' status as GSEs and indicate that the FHLBanks have a strong capacity to meet their commitments to pay principal and interest on consolidated obligations. The FHLBanks' consolidated obligations have historically received the same credit rating as the government bond credit rating of the United States even though the consolidated obligations are not obligations of the United States. These ratings have not been affected by rating actions taken with respect to individual FHLBanks. Investors should note that a rating issued by a nationally recognized statistical rating organization is not a recommendation to buy, sell or hold securities and that the ratings may be revised or withdrawn by the nationally recognized statistical rating organization at any time. Investors should evaluate the rating of each nationally recognized statistical rating organization independently.

Interest Rate. Consolidated obligations are issued with either fixed-rate or variable-rate coupon payment terms that use a variety of indices for interest-rate resets including LIBOR, Treasury Bills, Prime rate and others.

Interest-Rate Exchange Agreements. To meet the expected specific needs of certain investors in consolidated obligations, both fixed-rate and variable-rate consolidated bonds may contain features that result in complex coupon payment terms and call or put options. When such consolidated obligations are issued, the FHLBanks typically enter into derivatives containing offsetting features that effectively convert the terms of the consolidated bond to those of a simple variable-rate or fixed-rate consolidated bond.

Other Transactions and Services. Certain securities dealers and banks or their affiliates enter into other transactions with and perform other services for the FHLBanks. These services include the purchase and sale of investment securities. In some cases, some or all of the net proceeds from an issue of consolidated obligations may be loaned to a member that is affiliated with the securities dealer involved in underwriting that issue.

Joint and Several Liability. Although each FHLBank is primarily liable for its portion of consolidated obligations (i.e., those issued on its behalf), each FHLBank is also jointly and severally liable with the other 11 FHLBanks for the payment of principal and interest on all consolidated obligations of each of the FHLBanks. The FHFA, at its discretion, may require any FHLBank to make principal or interest payments due on any consolidated obligation whether or not the consolidated obligation represents a primary liability of that FHLBank. Although it has never occurred, to the extent that an FHLBank makes any payment on a consolidated obligation on behalf of another FHLBank that is primarily liable for such consolidated obligation, FHFA regulations provide that the paying FHLBank is entitled to reimbursement from the non-complying FHLBank for any payments made on its behalf and other associated costs (including interest to be determined by the FHFA). If, however, the FHFA determines that the non-complying FHLBank is unable to satisfy its repayment obligations, then the FHFA may allocate the outstanding liabilities of the non-complying FHLBank among the remaining FHLBanks on a pro-rata basis in proportion to each FHLBank's participation in all consolidated obligations outstanding. The FHFA reserves the right to allocate the outstanding liabilities for the consolidated obligations between the FHLBanks in any other manner it may determine to ensure that the FHLBanks operate in a safe and sound manner.

Regulatory Requirements. FHFA regulations require that each FHLBank maintain the following types of assets, free from any lien or pledge, in an amount at least equal to the amount of that FHLBank's participation in 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 (e.g., securities that a fiduciary or trust fund may purchase under the laws of the state in which the FHLBank is located); and
- other securities that are assigned a rating or assessment by a nationally recognized statistical rating organization that is equivalent or higher than the rating or assessment assigned by that nationally recognized statistical rating organization to consolidated obligations.

Any assets subject to a lien or pledge for the benefit of the holders of any issue of consolidated obligations are treated as if they were free from lien or pledge for purposes of compliance with these regulations. In addition, each FHLBank must adhere to the leverage limits set by the FHLBank Act and regulatory limits set by the Regulator. At December 31, 2011, each FHLBank was in compliance with these requirements.

Consolidated Discount Notes

On a daily basis, FHLBanks may request that specific amounts of consolidated discount notes with specific maturity dates be offered by the Office of Finance for sale through certain securities dealers. The Office of Finance commits to issue consolidated discount notes on behalf of the requesting FHLBanks when dealers submit orders for the specific consolidated discount notes offered for sale. The FHLBanks receive funding based on the time of their request, the rate requested for issuance, the trade date, the settlement date and the maturity date. However, an FHLBank may receive less than requested (or may not receive any funding) because of investor demand and competing FHLBank requests for the particular funding that the FHLBank is requesting. These consolidated discount notes presently are available in maturities of one year or less. They are sold at a discount and mature at par.

Twice weekly, one or more of the FHLBanks may also request that specific amounts of consolidated discount notes with fixed maturities of four, nine, 13 and 26 weeks be offered by the Office of Finance through competitive auctions conducted with securities dealers in the consolidated discount note selling group. The consolidated discount notes offered for sale through competitive auction are not subject to a limit on the maximum costs the FHLBanks are willing to pay. The FHLBanks receive funding based on their requests at a weighted-average rate of the winning bids from the dealers. If the bids submitted are less than the total of the FHLBanks' requests, an FHLBank receives funding based on that FHLBank's regulatory capital relative to the regulatory capital of other FHLBanks offering consolidated discount notes.

Consolidated Bonds

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

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

Global Bullet Consolidated Bonds. The FHLBanks also issue global bullet consolidated bonds. The FHLBanks and the Office of Finance maintain a debt issuance process for scheduled issuance of global bullet consolidated bonds. As part of this process, management from each FHLBank will determine and communicate a firm commitment to the Office of Finance for an amount of scheduled global bullet debt to be issued on its behalf. If the FHLBanks' orders do not meet the minimum debt issue size, each FHLBank receives an allocation of proceeds equal to the larger of the FHLBank's commitment or the ratio of the individual FHLBank's regulatory capital to total regulatory capital of all of the FHLBanks. If the FHLBanks' commitments exceed the minimum debt issue size, then the proceeds are allocated based on relative regulatory capital of the FHLBanks with the allocation limited to the lesser of the allocation amount or actual commitment amount. The FHLBanks can, however, pass on any scheduled calendar slot and decline to issue any global bullet consolidated bonds upon agreement of at least eight of the 12 FHLBanks.

Deposits

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

- its members;
- any institution for which it is providing correspondent services;
- other FHLBanks; and
- other U.S. government instrumentalities.

Deposit programs, although not as significant as other funding sources, provide some of the funding resources for the FHLBanks. To a much lesser extent than consolidated obligations, deposits also provide funding for advances and investments. At the same time, they offer members a low-risk earning asset that satisfies their regulatory liquidity requirements. Deposits represented an amount equal to 1.6% of the FHLBanks' combined total liabilities and capital at December 31, 2011 and 2010.

Capital, Capital Rules and Dividends

Capital Structure under the Gramm-Leach-Bliley Act (GLB Act)

The GLB Act permits each FHLBank to issue one or two classes of capital stock, each with sub-classes. Class A capital stock (Class A stock) is redeemable on six months written notice from a member and Class B capital stock (Class B stock) is redeemable on five years written notice from a member. An FHLBank can repurchase a member's excess capital stock at its discretion at any time prior to the end of the redemption period, provided that FHLBank will continue to meet its regulatory capital requirements after the repurchase. If a member withdraws its membership from an FHLBank, it may not acquire shares of any FHLBank for five years after the date on which its divestiture of capital stock is completed. This restriction does not apply if the member is transferring its membership from one FHLBank to another FHLBank on an uninterrupted basis. (See *Note 19—Capital* to the accompanying combined financial statements.)

The final rule that implemented a capital structure for the FHLBanks, as required by the GLB Act, had the following effects:

1. it established risk-based and leverage capital requirements for the FHLBanks;
2. it permitted each FHLBank to issue different classes of stock with different rights and preferences; and
3. it required each FHLBank to submit a capital plan for approval by the FHFA.

As of December 31, 2011, each FHLBank, except for the FHLBank of Chicago, had implemented its respective capital plan. The FHLBank of Chicago implemented a new capital structure as mandated by the GLB Act, effective January 1, 2012. (See *Capital Structure Prior to the GLB Act.*)

Capital Adequacy under the GLB Act

Under the GLB Act and the FHFA's regulation, each FHLBank is subject to certain risk-based capital rules. Each FHLBank is required to ensure that it operates in a safe and sound manner, with sufficient permanent capital and reserves to manage risks that arise in the operations and management of that FHLBank. The FHLBanks are subject by regulation to the following three regulatory capital requirements:

1. risk-based capital;
2. total regulatory capital; and
3. leverage capital.

Risk-Based Capital. The GLB Act defines permanent capital for each FHLBank as the amount paid-in for Class B stock, plus the amount of an FHLBank's retained earnings, as determined in accordance with GAAP. Mandatorily redeemable capital stock is considered capital for regulatory purposes. Each FHLBank must maintain at all times permanent capital in an amount at least equal to the sum of its credit risk, market risk, and operations risk capital requirements, all of which are calculated in accordance with the rules and regulations of the FHFA. For reasons of safety and soundness, the Regulator may also require an individual FHLBank to maintain greater permanent capital than is required by the risk-based capital requirements previously described.

Credit Risk. Each FHLBank's capital risk credit requirement shall equal the sum of its credit risk capital charges for all assets, off-balance sheet items and derivative contracts. These computations are based on, among other things, the credit risk percentages assigned to each item as required by the Regulator.

Market Risk. Each FHLBank's market risk capital requirement shall equal the sum of the market value of its portfolio at risk from market movements, primarily interest rates, that could occur during times of market stress plus the amount, if any, by which the current market value of its total capital is less than 85% of its 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 Regulator. The FHFA approved the models used by the 11 FHLBanks that have implemented capital plans under the GLB Act. Although each FHLBank models its own market risk, the FHFA has reviewed and approved the modeling approach and underlying assumptions used by each FHLBank and reviews these modeling approaches on an ongoing basis.

Operations Risk. Each FHLBank's operations risk capital requirement shall at all times equal 30% of the sum of its credit risk and market risk capital requirements. The Regulator can approve a reduction in this percentage if an FHLBank meets alternative requirements.

Total Regulatory Capital. The GLB Act specifies a four percent minimum total regulatory capital-to-assets ratio. Capital for regulatory capital adequacy purposes under the GLB Act is defined as the sum of each FHLBank's:

1. permanent capital;
2. the amounts paid-in for Class A stock;
3. any general loss allowance, if consistent with GAAP and not established for specific assets; and
4. other amounts from sources determined by the Regulator as available to absorb losses.

Leverage Capital. Each FHLBank is required to maintain at all times a leverage capital-to-assets ratio of at least five percent. Leverage capital is defined as the sum of permanent capital weighted 1.5 times and all other capital without a weighting factor.

Each FHLBank that was subject to these capital requirements at December 31, 2011 was in compliance at that date. (See *Note 19—Capital* - *FHLBank of Seattle Capital Classification and Consent Arrangement* to the accompanying combined financial statements for a description of the FHLBank of Seattle's Consent Arrangement with the FHFA.)

An FHLBank may not redeem or repurchase any of its capital stock without the Regulator's approval if that FHLBank's board of directors determines that the FHLBank has incurred or is likely to incur losses that result in or are expected to result in charges against the capital of that FHLBank. This applies even if that FHLBank is in compliance with its minimum capital requirements. As a result, repurchases (at an FHLBank's discretion at any time before the end of the redemption period) or redemptions (at a member's request, completed at the end of a redemption period) of a member's capital stock in an FHLBank will depend on whether the FHLBank is in compliance with its three regulatory capital requirements (risk-based capital, total regulatory capital, and leverage capital). In addition, some FHLBanks have agreed with the Regulator either to maintain higher total capital-to-assets ratios and/or limit dividend payments as part of their retained earnings policies. (See *Financial Discussion and Analysis - Capital Adequacy* - *Dividend and Excess Stock Limitations* for a discussion of dividend payment limitations and/or excess stock purchase restrictions for certain FHLBanks.)

Summary of Individual FHLBank's Capital Plan Structure under the GLB Act

Single Class of Class B Stock. Each of the FHLBanks of Pittsburgh, Cincinnati, Des Moines, Dallas and San Francisco offers a single class of Class B stock. Each FHLBank requires its members to maintain a membership and/or activity-based stock balance based upon the terms of its capital plan.

Sub-Classes of Class B Stock. Each of the FHLBanks of New York, Atlanta and Indianapolis offers two sub-classes of Class B stock, Class B1 and Class B2, which represent either membership or activity-based stock requirements based upon the terms of each FHLBank's capital plan. Class B1 and Class B2 stockholders may or may not have the same voting rights and dividend rates, depending on the terms of each FHLBank's capital plan.

Class A and Class B Stock. Each of the FHLBanks of Boston and Topeka may offer a single series of Class A stock and a single series of Class B stock, although the FHLBank of Boston has not issued, and does not intend to issue, any Class A stock at this time. Usage of Class A stock and Class B stock to meet membership and activity-based requirements, as well as dividend rates and voting rights for each class of stock, would be determined based upon the terms of each FHLBank's capital plan.

The FHLBank of Seattle currently offers a single series of Class B stock, but has an outstanding balance of Class A stock and Class B stock. On May 12, 2009, as part of the FHLBank of Seattle's efforts to correct its then risk-based capital deficiency, the board of directors of the FHLBank of Seattle suspended the issuance of Class A stock to support new advances, effective June 1, 2009. New advances must be supported by Class B stock, which, unlike Class A stock, can be used to increase the FHLBank of Seattle's permanent capital. Class A and Class B stockholders have the same voting rights. (See *Note 19—Capital* - *FHLBank of Seattle Capital Classification and Consent Arrangement* to the accompanying combined financial statements for a description of the FHLBank of Seattle's Consent Arrangement with the FHFA that restricts excess stock repurchases and redemptions and dividend payments.)

See each individual FHLBank's SEC Form 10-K for a complete description of each FHLBank's capital plan structure. See also *Financial Discussion and Analysis - Capital Adequacy* - *Dividend and Excess Stock Limitations* for changes to certain FHLBanks' capital plans.

Capital Structure Prior to the GLB Act

At December 31, 2011, only the FHLBank of Chicago had not implemented a new capital plan under the GLB Act; therefore, the pre-GLB Act capital rules were in effect. The FHLBank of Chicago implemented a new capital structure as mandated by the GLB Act, effective January 1, 2012.

Prior to implementing its new capital plan on January 1, 2012, the FHLBank of Chicago's members were required, pursuant to the FHLBank Act, to purchase capital stock equal to the greater of one percent of their mortgage-related assets at the most recent calendar year-end or five percent of their outstanding advances from the FHLBank of Chicago, with a minimum

purchase of $500. Members could hold capital stock in excess of the foregoing statutory requirement (excess capital stock). A member's required capital stock becomes excess capital stock when its capital stock requirement decreases either in connection with a reduction of its outstanding advances or its mortgage-related assets. FHLBank of Chicago capital stock outstanding under the pre-GLB Act rules was redeemable at the option of a member upon six months written notice of withdrawal from membership from the FHLBank of Chicago, subject to the limitations on stock redemptions under the FHLBank of Chicago's Consent Cease & Desist Order (C&D Order).

The FHLBank of Chicago remained subject to the following minimum regulatory leverage and other regulatory capital requirements pursuant to FHFA regulations and the C&D Order until it completed its capital stock conversion as of January 1, 2012. Under FHFA regulations, the FHLBank of Chicago was subject to a leverage limit that provides that its total assets may not exceed 25 times the sum of its total regulatory capital stock, retained earnings and reserves, provided that non-mortgage assets (after deducting the amounts of deposits and capital) do not exceed 11.0% of total assets. This requirement may also be viewed as a percentage regulatory capital ratio where the FHLBank of Chicago's total regulatory capital stock, retained earnings and reserves must be at least 4.0% of its total assets. Prior to conversion to the new capital plan on January 1, 2012, this 4.0% leverage limit was superseded by the 4.5% minimum regulatory capital ratio required by the C&D Order. If the FHLBank of Chicago was unable to meet the 4.0% leverage limit based on its asset composition, it would still be able to remain in compliance with the leverage requirement so long as the FHLBank of Chicago's total assets did not exceed 21 times the sum of its total regulatory capital stock, retained earnings and reserves (that is, total regulatory capital stock, retained earnings and reserves must be at least 4.76% of its total assets). The FHLBank of Chicago was in compliance with these capital requirements at December 31, 2011. (See *Note 19—Capital* - *FHLBank of Chicago Regulatory Actions* to the accompanying combined financial statements for more information on the FHLBank of Chicago's conversion to its new capital structure and the FHFA's regulatory requirements and actions related to the FHLBank of Chicago.)

Capital Classification Determination

The prompt corrective action provisions of the Housing Act established four capital classifications for the FHLBanks: adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, and the FHFA issued a regulation implementing the prompt corrective action provisions that apply to FHLBanks that are not deemed to be adequately capitalized. The FHFA determines each FHLBank's capital classification on at least a quarterly basis. If an FHLBank is determined to be other than adequately capitalized, that FHLBank becomes subject to additional supervisory authority by the FHFA. (See *Note 19—Capital* - *FHLBank of Seattle Capital Classification and Consent Arrangement* to the accompanying combined financial statements for more information on the FHLBank of Seattle's capital classification.) Before implementing a reclassification, the Director of the FHFA is required to provide that FHLBank with written notice of the proposed action and an opportunity to submit a response. For a discussion of an individual FHLBank's capital classification, see that FHLBank's periodic report filed with the SEC.

Mandatorily Redeemable Capital Stock

An FHLBank generally reclassifies capital stock subject to redemption from capital to the mandatorily redeemable capital stock liability upon expiration of a grace period, if applicable, after a member exercises a written redemption right, or gives notice of intent to withdraw from membership, or attains non-member status by merger or acquisition, charter termination, or involuntary termination from membership. Shares of capital stock meeting these definitions are reclassified to mandatorily redeemable capital stock at fair value. The fair value of capital stock subject to mandatory redemption is generally equal to its par value as indicated by contemporaneous member purchases and sales at par value. Fair value also includes an estimated dividend earned at the time of reclassification from capital to a liability, until such amount is paid, and any subsequently declared dividend. Dividends related to capital stock classified as mandatorily redeemable capital stock are accrued at the expected dividend rate and reported as interest expense in the Combined Statement of Income. Mandatorily redeemable capital stock represented 1.1% and 0.8% of the FHLBanks' combined total liabilities and capital at December 31, 2011 and 2010. (See *Note 19—Capital* to the accompanying combined financial statements for more information on mandatorily redeemable capital stock and redemption requests on shares of capital stock that are not reclassified as mandatorily redeemable capital stock.)

Dividends and Retained Earnings

According to FHFA regulations and the terms of the Joint Capital Enhancement Agreement, as amended (Capital Agreement), an FHLBank's board of directors may declare and pay dividends, in either cash or capital stock, only from previously retained earnings or current net earnings that are classified as unrestricted retained earnings. These rules prohibit

an FHLBank from declaring or paying a dividend if that FHLBank's total permanent capital is below the par value of its capital stock or is projected to be in this situation after payment of the dividend. FHFA regulations also limit the ability of an FHLBank to create excess capital stock under certain circumstances. Excess capital stock is defined as the amount of stock held by a member (or former member) in excess of that institution's minimum investment requirement. An FHLBank may not pay dividends in the form of capital stock or issue new excess capital stock to members if that FHLBank's excess capital stock exceeds one percent of its total assets, or if the issuance of excess capital stock would cause that FHLBank's excess capital stock to exceed one percent of its total assets.

The Capital Agreement is intended to enhance the capital position of each FHLBank by allocating that portion of each FHLBank's earnings historically paid to satisfy its REFCORP obligation to a separate retained earnings account at that FHLBank. On August 5, 2011, the FHFA certified that the FHLBanks fully satisfied their REFCORP obligation. In accordance with the Capital Agreement, starting in the third quarter of 2011, each FHLBank allocates 20% of its net income to a separate restricted retained earnings account. (*See Note 19—Capital - Restricted Retained Earnings* to the accompanying combined financial statements for more information.)

The boards of directors of most FHLBanks have adopted a retained earnings policy that may include a target amount of retained earnings and a plan that will enable that FHLBank to reach or maintain the targeted amount of retained earnings. In addition, several FHLBanks have implemented actions to suspend dividend payments and/or repurchases/redemptions of excess capital stock. (See *Financial Discussion and Analysis - Capital Adequacy - Dividend and Excess Stock Limitations* for a discussion of these actions.)

Audits and Examinations

FHLBanks' Regulator

The Federal Housing Finance Agency (FHFA), an independent agency in the executive branch of the U.S. government, supervises and regulates the FHLBanks and the Office of Finance. The FHFA's mission, with respect to the FHLBanks, is to provide effective supervision, regulation and housing mission oversight of the FHLBanks to promote their safety and soundness, support housing finance and affordable housing, and support a stable and liquid mortgage market. (See *Note 19—Capital* to the accompanying combined financial statements for more information on the FHFA's regulatory requirements and actions related to the FHLBanks of Chicago and Seattle.)

The FHFA is headed by a single Director appointed by the President of the United States, by and with the advice and consent of the U.S. Senate, to serve a five-year term. The Director of the FHFA must have a demonstrated understanding of financial management or oversight, and have a demonstrated understanding of capital markets, including the mortgage securities markets and housing finance.

The Federal Housing Finance Oversight Board advises the Director of the FHFA with respect to overall strategies and policies in carrying out the duties of the Director of the FHFA. The Federal Housing Finance Oversight Board is comprised of four board members: the Secretary of the U.S. Treasury; the Secretary of HUD; the Chairman of the SEC; and the Director of the FHFA, who serves as the chairman of the board.

The FHFA is financed by assessments from the regulated entities, including the FHLBanks. No tax dollars or other appropriations are directed to support the operations of the FHFA or the FHLBanks. To assess the safety and soundness of the FHLBanks, the FHFA conducts annual on-site examinations of each FHLBank and the Office of Finance, as well as periodic off-site reviews. In addition, each FHLBank is required to submit monthly financial information on its financial condition and results of operations to the FHFA.

The principal duties of the Director of the FHFA, with respect to the FHLBanks, are to:

- oversee the prudential operations of the FHLBanks;
- ensure that each FHLBank operates in a safe and sound manner, including maintenance of adequate capital and internal controls;
- ensure that the operations and activities of each FHLBank foster liquid, efficient, competitive, and resilient national housing finance markets (including activities relating to mortgages on housing for low- and moderate-income families

involving a reasonable economic return that may be less than the return earned on other activities);

- ensure that each FHLBank complies with the Housing Act and the rules, regulations, guidelines and orders issued under the Housing Act and the authorizing statutes;

- ensure that each FHLBank carries out its statutory mission only through activities that are authorized under and consistent with the Housing Act and the authorizing statutes; and

- ensure that the activities of each FHLBank and the manner in which each FHLBank is operated are consistent with the public interest.

The FHFA is located at 400 7th Street, SW, Washington, D.C. 20024, and its web site is www.fhfa.gov. This web site is provided as a matter of convenience only, and its contents are not made part of this report and are not intended to be incorporated by reference into this report.

Government Corporation Control Act

The Government Corporation Control Act provides that, before a government corporation issues and offers obligations to the public, the Secretary of the U.S. Treasury shall prescribe the form, denomination, maturity, interest rate, and conditions of the obligations; the method and time issued; and the selling price. The FHLBanks meet the definition of government corporations under the Government Corporation Control Act. The FHLBank Act also authorizes the Secretary of the U.S. Treasury, at his or her discretion, to purchase consolidated obligations up to an aggregate principal amount of $4 billion. There have been no borrowings outstanding under this authority since 1977.

Each FHLBank and the Office of Finance has an internal audit department and an audit committee of its board of directors. An independent registered public accounting firm audits the annual financial statements of each FHLBank and the annual combined financial statements of the FHLBanks prepared by the Office of Finance. The independent registered public accounting firm conducts these audits following standards of the Public Company Accounting Oversight Board and *Government Auditing Standards* issued by the Comptroller General of the United States. The FHLBanks and certain members of the U.S. Congress all receive the audited financial statements. In addition, the FHLBanks are required to submit annual management reports to the President of the United States, the U.S. Congress, the Director of the Office of Management and Budget, and the Comptroller General of the United States. These reports include financial statements, a statement on internal accounting and administrative control systems, and the report of the independent registered public accounting firm on the financial statements.

The Comptroller General of the United States has the authority under the FHLBank Act to audit or examine the Regulator and the FHLBanks to determine 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 of the United States may review any audit of the financial statements conducted by an independent registered public accounting firm and shall report to the U.S. Congress, the Director of the Office of Management and Budget, and the FHLBank under review regarding the results of the review and make any recommendation the Comptroller General of the United States considers appropriate. The Comptroller General of the United States may also audit the financial statements of an FHLBank at the discretion of the Comptroller General or at the request of a committee of the U.S. Congress.

Other Mission-Related Activities

In addition to supporting residential mortgage lending, one of the core missions of the FHLBanks is to support community development through affordable housing and community investment. The following are descriptions of a number of programs administered by the FHLBanks targeted to fulfill that mission. These programs have provided affordable home ownership and rental opportunities for hundreds of thousands of very low- to moderate-income families and have strengthened communities across the United States and its territories.

Housing Programs

There are two key FHLBank housing programs that provide members with grants and other low-cost funds to finance housing. Funds from both of these programs can be used to purchase, construct or rehabilitate owner-occupied or rental housing.

- The Affordable Housing Program (AHP) is a subsidy program that provides grants and interest-rate subsidies on loans to members.

- The Community Investment Program (CIP) for housing is a lending program that allows members to borrow advances, for households with incomes at or below 115% of the area median income, at an FHLBank's cost of funds, plus reasonable administrative costs, or to obtain triple-A-rated letters of credit from the FHLBanks.

The AHP subsidizes the cost of owner-occupied housing for individuals and families with incomes at or below 80% of the area median income, and rental housing in which at least 20% of the units are reserved for households with incomes at or below 50% of the area median income. The subsidy may be in the form of a grant or a below-cost or subsidized interest rate on an advance. AHP funds are primarily available through a competitive application program at each of the FHLBanks.

In the competitive AHP application program, members submit applications on behalf of one or more sponsors of eligible housing projects. Projects must meet certain eligibility requirements and score successfully in order to obtain funding under the AHP competitive application program. AHP funds are also awarded through a homeownership set-aside program. Under this program, an FHLBank may set aside up to the greater of $4.5 million or 35% of its AHP funds each year to assist low- and moderate-income households to purchase homes, provided that at least one-third of the FHLBank's set-aside allocation is made available to assist first-time home buyers. Members obtain the AHP homeownership set-aside funds from the FHLBank and then use those funds as grants to eligible households. Set-aside funds may be used for down payment, closing costs, counseling or rehabilitation assistance in connection with the household's purchase or rehabilitation of an owner-occupied unit. Each FHLBank sets its own maximum grant amount, which may not exceed $15,000 per household. All 12 of the FHLBanks have AHP homeownership set-aside programs.

If an FHLBank fails to use or commit the full amount it is required to contribute to the AHP program in any year, then 90% of the unused or uncommitted amount must be deposited by the FHLBank in an Affordable Housing Reserve Fund established and administered by FHFA. The unused and uncommitted amount retained by the FHLBank should be fully used or committed by the FHLBank during the following year, and any remaining portion must be deposited in the Affordable Housing Reserve Fund.

Economic Community Development Programs

In addition to housing, the CIP can be used for economic development in low- to-moderate income neighborhoods. At December 31, 2011 and 2010, the FHLBanks had $6.2 billion and $5.9 billion of CIP housing advances and $0.3 billion and $0.4 billion of CIP commercial and economic development advances outstanding.

The FHLBanks also offer long-term advances, often at below-market interest rates, through other Community Investment Cash Advance (CICA) programs. CICA programs provide financing for projects that are targeted to certain economic development activities. Economic development projects include commercial, industrial, manufacturing, social service, infrastructure, and public facility projects and activities. CICA lending is targeted to specific beneficiaries, including small businesses and certain geographic areas. Two types of CICA programs benefit households at specified income levels:

- *Rural Development Funding.* Projects in rural areas for beneficiaries with incomes at or below 115% of the area median income; and

- *Urban Development Funding Program.* Projects in urban areas for targeted beneficiaries with incomes at or below 100% of the area median income.

Currently, all of the FHLBanks offer the CIP and one or more other types of CICA programs for economic development. Members may use the proceeds of CICA funding to finance targeted economic development projects directly (loan originations and purchases) or indirectly (lending to other lenders for eligible purposes). Each FHLBank has a Community Lending Plan that describes its program objectives for economic development. Approved housing associates may use certain CICA programs. Some FHLBanks have additional community lending programs designed to retain or create jobs or otherwise improve the economic status of communities.

Community Support Program

To retain access to long-term credit from an FHLBank, members are required to meet standards of community support

activities and to submit a Community Support Statement to FHFA approximately every two years that documents their satisfaction of those standards. These standards take into account each member's performance under the Community Reinvestment Act, and the member's record of lending to first-time home buyers.

Use of Interest-Rate Exchange Agreements

Interest-rate exchange agreements (also referred to as derivatives) are an integral part of each FHLBank's financial management strategies to reduce identified risks inherent in its lending, investing and funding activities. FHFA regulations and each FHLBank's risk management policy are intended to limit credit risk arising from these instruments and prohibit trading in, or the speculative use of, derivative instruments. The types of derivatives an FHLBank may use include: interest-rate swaps, swaptions, interest-rate cap and floor agreements, options, and futures and forward contracts. Each FHLBank may enter into derivatives to:

- reduce funding costs for consolidated obligations;
- manage interest-rate risk exposure inherent in otherwise unhedged asset or liability positions;
- manage prepayment risk;
- achieve the FHLBank's risk management objectives; and
- act as an intermediary between FHLBank members and counterparties.

An FHLBank may use interest-rate exchange agreements in its overall interest-rate risk management activities to adjust the interest-rate sensitivity of its assets to correspond to the interest-rate sensitivity of its liabilities. In addition to using interest-rate exchange agreements to manage mismatches between the coupon features of its assets and liabilities, an FHLBank also uses interest-rate exchange agreements to manage embedded options in its assets and liabilities and to preserve the market value of its existing assets and liabilities.

An FHLBank may enter into interest-rate exchange agreements concurrently with the issuance of consolidated obligations. This strategy of issuing consolidated obligations while simultaneously entering into interest-rate exchange agreements enables an FHLBank to offer a wider range of attractively priced advances to its members. The continued attractiveness of FHLBank debt depends on yield relationships between the consolidated obligation and interest-rate exchange markets. As conditions in these markets change, the FHLBank may alter the types or terms of the consolidated obligations issued. An FHLBank uses interest-rate exchange agreements extensively to align the timing, structure and amount of its members' credit needs with the investment requirements of its creditors. (See *Financial Discussion and Analysis - Risk Management - Credit Risk - Derivatives and Counterparty Ratings* for information on credit exposure on derivatives and *Note 12—Derivatives and Hedging Activities* to the accompanying combined financial statements.)

Competition

Advances

Demand for FHLBank advances is affected by, among other things, the cost of other sources of liquidity available to FHLBank members, including deposits. Each FHLBank individually competes with its members' depositors as well as suppliers of secured and unsecured wholesale funding. These competitors may include investment banks, commercial banks, Federal Reserve Banks and, in certain circumstances, one or more other FHLBanks, when affiliates of their members are members of other FHLBanks. Both small and large FHLBank members typically have access to brokered deposits and repurchase agreements, each of which presents a competitive alternative to advances. Larger members also have greater access to other competitive sources of funding and asset/liability management facilitated by the domestic and global credit markets. These sources include subordinated debt, interbank loans, covered bonds, interest-rate swaps, options, bank notes, and commercial paper.

The availability of alternative funding sources to members can significantly influence the demand for FHLBank advances and this availability can vary as a result of:

- market conditions;
- products and structures available in the marketplace;
- members' creditworthiness;
- availability of collateral; and
- new government programs or changes to existing ones.

The FHLBanks' competitive environment continues to be affected by the low interest-rate environment and the extent to which FHLBank members use advances as part of their core financing, rather than just as a back-up source of liquidity. Also, various fiscal and monetary stimulus programs and financial guarantees provided by the federal government are sources of competition for advances.

Mortgage Loans

The activities of the FHLBanks' mortgage loan programs are subject to significant competition in purchasing conventional fixed-rate mortgage and government-guaranteed/insured loans. The FHLBanks face competition in customer service, the prices paid for these assets, and ancillary services such as automated underwriting. The most direct competition for mortgages comes from other housing GSEs that also purchase conventional fixed-rate mortgage loans, specifically Fannie Mae and Freddie Mac, which are the dominant purchasers of residential fixed-rate conventional mortgages. The FHLBanks primarily compete on the basis of transaction structure, price, products and services offered. The FHLBanks regularly reassess their potential for success in attracting and retaining customers for their mortgage products and services.

Debt Issuance

Each FHLBank also competes primarily with the U.S. government, Fannie Mae, Freddie Mac and other GSEs, as well as corporate, sovereign, sub-sovereign and supranational entities, for funds raised through the issuance of unsecured debt in the domestic and global debt markets. If the supply of competing debt products increases without a corresponding increase in demand, or if certain investors change their view of investing in FHLBank debt, debt costs may rise, or less debt may be issued at the same cost. In addition, regulatory initiatives, which tend to reduce investments by certain depository institutions in unsecured debt with greater price volatility or interest-rate sensitivity than fixed-rate, fixed-maturity instruments of the same maturity, may adversely affect the availability and cost of funds raised through the issuance of certain types of unsecured debt. An increase in U.S. Treasury issuance also affects the FHLBanks' ability to raise funds because it provides alternative investment options. Further, a perceived or actual higher level of government support for other GSEs and other issuers may increase demand for their debt securities relative to similar FHLBank debt securities. Although the available supply of funds has kept pace with the funding needs of the FHLBanks' members (as expressed through FHLBank debt issuance), investors should not rely on the belief that this will necessarily continue to be the case in the future.

The issuance of callable debt and the simultaneous execution of callable interest-rate exchange agreements that mirror the debt issued has been an important source of competitive funding for the FHLBanks. As such, the availability of markets for callable debt and interest-rate exchange agreements may be an important factor in determining the FHLBanks' relative cost of funds. There is considerable competition in the markets for callable debt and for interest-rate exchange agreements among issuers with high credit quality. Investors should not rely on the belief that these markets will necessarily be sustained in the future. (See *Financial Discussion and Analysis - Legislative and Regulatory Developments* for more information about recent regulatory developments, including those pertaining to the Dodd-Frank Act.)

Tax Status and Assessments

The FHLBanks are exempt from all corporate federal, state, and local taxation, except for local real estate tax. However, by regulation, the FHLBanks must annually set aside for the AHP the greater of the aggregate of $100 million or 10% of net earnings (income before assessments, plus interest expense related to mandatorily redeemable capital stock, less the assessment for REFCORP until the FHLBanks' obligation was satisfied). Prior to the satisfaction of the FHLBanks' REFCORP obligation, each FHLBank was also required to make payments to REFCORP (20% of annual GAAP net income before REFCORP assessments and after payment of AHP assessments). On August 5, 2011, the FHFA certified that the FHLBanks had fully satisfied their REFCORP obligation with their payments made on July 15, 2011, which were accrued as applicable in each FHLBank's June 30, 2011 financial statements. The combined REFCORP and AHP assessments were $348 million for the year ended December 31, 2011, $727 million for the year ended December 31, 2010 and $830 million for the year ended December 31, 2009. (See *Note 17—Resolution Funding Corporation (REFCORP)* to the accompanying combined financial statements.)

Cash dividends received by FHLBank members from the FHLBanks are taxable and do not benefit from the exclusion for corporate dividends received.

Office of Finance

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

- services all consolidated obligations;
- prepares the FHLBanks' quarterly and annual combined financial reports;
- serves as a source of information for the FHLBanks on capital markets developments;
- administers REFCORP and the Financing Corporation (FICO); and
- manages relationships of the FHLBanks with the rating agencies and U.S. Treasury as they relate to the consolidated obligations.

Pursuant to FHFA regulations, the Office of Finance, often in conjunction with the FHLBanks, has adopted policies and procedures for consolidated obligations. These policies and procedures relate to the frequency and timing of consolidated obligations issuance, issue size, minimum denomination, selling concessions, underwriter qualifications and selection, issuance currency, coupon features, call or put features, principal amortization features, and selection and retention of outside counsel. The Office of Finance has responsibility for facilitating and approving the issuance of the consolidated obligations in accordance with these policies and procedures. In addition, the Office of Finance has the authority to redirect, limit or prohibit the FHLBanks' requests to issue consolidated obligations if it determines that the action is inconsistent with FHFA regulations. The Regulator requires consolidated obligations to be issued efficiently and at the lowest all-in funding cost over time, consistent with:

- prudent risk-management practices, prudential debt parameters, short- and long-term market conditions, and the FHLBanks' role as GSEs;
- maintaining reliable access to the short-term and long-term capital markets; and
- positioning the issuance of debt to take advantage of current and future capital market opportunities.

Employees

Table 3 - Employees

	December 31, 2011			December 31, 2010			Full-time Employees
FHLBank	Full-time	Part-time	Total	Full-time	Part-time	Total	Change
Boston	184	1	185	183	1	184	1
New York	273	3	276	268	3	271	5
Pittsburgh	208	3	211	211	4	215	(3)
Atlanta	357	9	366	404	13	417	(47)
Cincinnati	193	3	196	193	4	197	—
Indianapolis	174	5	179	170	5	175	4
Chicago	290	6	296	294	6	300	(4)
Des Moines	211	7	218	212	8	220	(1)
Dallas	206	2	208	198	2	200	8
Topeka	200	4	204	198	4	202	2
San Francisco	268	6	274	297	7	304	(29)
Seattle	135	1	136	129	—	129	6
Office of Finance	98	1	99	94	3	97	4
Total	2,797	51	2,848	2,851	60	2,911	(54)

In general, the decrease in employees at certain FHLBanks is related primarily to expense reduction initiatives in response to changing business and economic conditions.

RISK FACTORS

The following discussion summarizes certain risks and uncertainties facing the FHLBanks as they potentially affect investors in the FHLBanks' consolidated obligations. There may be other risks and uncertainties that are not described in these risk factors. If any of these risks or uncertainties is realized, it could negatively affect an FHLBank's, and possibly the entire FHLBank System's, financial condition or results of operations. As a result, there could be a reduction in the value of FHLBank membership or an adverse effect on an FHLBank's, or the entire FHLBank System's, ability to pay its obligations when due. Additional discussion and analysis of other risks and uncertainties are set forth throughout this Combined Financial Report. (See each FHLBank's 2011 SEC Form 10-K *Item 1A-Risk Factors* for a discussion regarding its risk factors.)

Business Risk-General

A prolonged downturn in the U.S. housing market and other economic conditions, and related U.S. government policies, could adversely affect the FHLBanks' business activities and earnings.

The FHLBanks' business and results of operations are sensitive to the condition of the housing and mortgage markets, as well as general business and economic conditions. Unfavorable conditions and trends in the U.S. economy, including the declines in real estate values, illiquid mortgage markets, and volatility in both debt and equity capital markets, have adversely affected the business of many FHLBank members as well as the FHLBanks' business and results of operations. In addition, economic uncertainty regarding the European sovereign debt crisis may adversely affect the global financial markets, including the level of business the FHLBanks transact with European counterparties. If these conditions remain unchanged or deteriorate, FHLBanks' business and results of operations could be adversely affected.

Any further deterioration of the U.S. housing market and national decline in home prices remains a significant risk to the FHLBanks' members. Additional weakening of real estate prices and adverse performance trends in the mortgage lending sector could further reduce the value of collateral securing member credit to each FHLBank and the fair value of its mortgage-backed security investments. This could increase the possibility of under-collateralization, increasing the risk of loss in case of a member's failure or increase the risk of loss on the FHLBanks' MBS investments because of additional credit impairment charges. The continuing deterioration in the residential mortgage markets could also negatively affect the value of the FHLBanks' mortgage loan portfolios, resulting in an increase in the allowance for credit losses on mortgage loans and possible additional realized losses should the FHLBanks be forced to liquidate their mortgage portfolios.

In addition, the FHLBanks' businesses and results of operations are affected significantly by the fiscal and monetary policies of the U.S. government and its agencies, including the Federal Reserve Board through its regulation of the supply of money and credit in the United States. The Federal Reserve Board's policies either directly or indirectly influence the yield on interest-earning assets and the cost of interest-bearing liabilities and the demand for FHLBank debt. In response to the recent financial crisis, the Federal Reserve Board has taken several measures intended to depress short-term and long-term interest rates to stabilize the U.S. housing market. For example, the Federal Reserve Board, acting through its Federal Open Market Committee, indicated that it will maintain its target range for the federal funds rate at 0.00% to 0.25% as it continues to anticipate that economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014. Furthermore, on September 21, 2011, the Federal Reserve Board announced "Operation Twist," which was intended to drive down longer-term interest rates by purchasing longer-dated assets and selling shorter-dated assets. These measures as well as other systemic events, such as the European sovereign debt crisis, could adversely affect the FHLBanks through lower yields on their investments. Additionally, the FHLBanks are affected by the global economy through member ownership and investment patterns. Changes in investors' perceptions in either the value of the U.S. economy or availability of investment in overseas capital markets could lead to changes in foreign investors' interest in FHLBank consolidated obligations.

Business Risk-Legislative

Changes in laws or changes in the application of current law could restrict the FHLBanks' business operations and negatively affect their earnings and the value of FHLBank membership.

As GSEs, the FHLBanks are organized under the authority of the FHLBank Act and are governed by U.S. federal laws and regulations of the FHFA, an independent agency within the executive branch of the U.S. government. The U.S. government amended the FHLBank Act with the enactment of the Housing Act in response to the financial instability of Fannie Mae and Freddie Mac as well as to improve regulatory oversight of the GSEs, including the FHLBanks. Subsequently, the FHFA has issued

several regulations that changed how the FHLBanks conduct business activities as part of carrying out their housing finance mission.

In July 2010, the U.S. government enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Dodd-Frank Act made significant changes to the overall regulatory framework of the U.S. financial system. There are several provisions in the Dodd-Frank Act that could affect the FHLBanks or their members, depending on how the various regulators decide to implement this federal law through the issuance of regulations and their enforcement activities. For example, the Financial Stability Oversight Council established by the Dodd-Frank Act has proposed rules that are broad enough to treat an FHLBank as a nonbank financial company, unless the applicable final rules exempt that FHLBank. If this exemption is not provided, then that FHLBank would be subject to the supervision of the Federal Reserve Board. Other provisions may not directly affect the FHLBanks but could affect their members. For example, this federal law establishes a solvency framework to address the failure of a financial institution, which could be a member of the FHLBank System. Because the Dodd-Frank Act requires several regulatory bodies to carry out its provisions, the full effect of this law on the FHLBanks and their members remains uncertain until after the required regulations and reports to Congress are issued and implemented. (See *Financial Discussion and Analysis - Legislative and Regulatory Developments* for more information about recent regulatory developments, including those that pertain to the Dodd-Frank Act.)

Changes in the regulation or status of GSEs and their debt issuance could reduce demand or increase the cost of the FHLBanks' debt issuance and adversely affect their earnings.

The FHLBanks are GSEs organized under the authority of the FHLBank Act and are authorized to issue agency debt securities to fund their operations and finance housing development in the U.S. During the recent financial crisis, the FHLBank System's debt pricing came under pressure as investors perceived GSE debt securities, including those securities issued by Fannie Mae and Freddie Mac, as bearing increased risk. This increased perception of risk resulted from the negative financial performance of Fannie Mae and Freddie Mac and the FHFA's action to place them into conservatorship in September 2008. In addition, certain FHLBanks had negative financial performance, resulting from MBS credit impairment losses and noncompliance with regulatory capital requirements.

In response to the general decline in the U.S. housing market and overall adverse effect on the GSEs, the U.S. government initiated several programs. One example is the U.S. Treasury's financing arrangements with Fannie Mae and Freddie Mac to help them pay their obligations and fund their business activities. These financing arrangements, along with other programs initiated to stabilize the housing market, are considered temporary until the U.S. government can address reform of the GSEs, potentially including the FHLBanks.

On February 11, 2011, the U.S. Treasury and HUD issued a joint report to the U.S. Congress as mandated by the Dodd-Frank Act. This report provided the U.S. Congress with options to consider, including a plan to wind down Fannie Mae and Freddie Mac as well as significantly reduce the U.S. government's role in housing finance. This plan outlined key reforms to address several areas in the current U.S. mortgage market with the aim to improve consumer protection, transparency to investors, underwriting standards and other critical measures. Although the FHLBanks are not the primary focus of these housing finance reforms, there are several recommendations that could affect the FHLBanks' current business activities with their members, particularly large financial institutions. These recommendations include limiting the level of advances outstanding to individual members and restricting membership to allow each financial institution, inclusive of its affiliates, to be an active member in only a single FHLBank.

Additional housing finance reforms may explore other means that provide funding to housing lenders, including potentially the development of a covered bond market. A developed covered bond market could compete with FHLBank advances. If housing GSE reform legislation is enacted incorporating these requirements, the FHLBanks could be significantly limited in their ability to make advances to their members and subject to additional limitations on their investment authority.

Given the current uncertainty surrounding the timing and pace of these reforms, the FHLBanks' funding costs and access to funds could be adversely affected by changes in investors' perceptions of the risks associated with the housing GSEs. Additionally, investor concerns about U.S. agency debt and the U.S. agency debt market may also adversely affect the FHLBanks' competitive position and result in higher funding costs, which could negatively affect the FHLBanks' earnings. (See *Financial Discussion and Analysis - Legislative and Regulatory Developments* for more information regarding recent and pending legislative and regulatory developments, including housing finance and GSE reforms.)

Business Risk-Regulatory

Failure to meet minimum regulatory capital requirements could affect the FHLBanks' ability to conduct business and could adversely affect their earnings.

Each FHLBank is subject to certain minimum capital requirements under the Gramm-Leach-Bliley Act of 1999 and FHFA rules and regulations that typically include a risk-based capital requirement that is equal to the sum of an FHLBank's credit-risk, market-risk and operations-risk capital requirements. Only permanent capital, which is defined as retained earnings and the amounts paid for Class B stock, can satisfy the risk-based capital requirement. The operations-risk capital requirement is affected by increases in credit-risk and market-risk capital requirements because the operations-risk capital requirement is equal to 30 percent of the sum of the credit-risk and market-risk capital requirements.

Rating downgrades on individual investments may cause the total credit-risk-based capital requirement to rise. Declines in the fair value of an FHLBank's investments below certain levels increase that FHLBank's market-risk capital requirement. A decline in the market value of private-label mortgage-backed securities may significantly increase an FHLBank's market-risk, credit-risk, and operations-risk capital requirements, which could lead to a risk-based capital deficiency.

If an FHLBank is unable to satisfy its risk-based capital requirement, that FHLBank would be subject to certain capital restoration requirements and prohibited from paying dividends and redeeming or repurchasing capital stock without the prior approval of the FHFA, which could adversely affect a member's investment in FHLBank capital stock. Furthermore, any suspension of dividends and/or capital stock repurchases and redemptions could decrease FHLBank member confidence, which in turn could reduce advance demand and net income should members elect to use alternative sources of wholesale funding. As a result of a risk-based capital shortfall, investors could perceive an increased level of risk or deterioration in the performance of an FHLBank, which could result in a downgrade in that FHLBank's outlook or its short- or long-term credit ratings. (See *Financial Discussion and Analysis - Capital Adequacy* and *Note 19—Capital* to the accompanying combined financial statements for additional information on the FHLBanks' capital requirements.)

The FHLBanks may not be able to pay dividends or repurchase or redeem members' capital stock at rates consistent with past practices, causing a decrease in members' demand for advances or an increase in member withdrawals from the FHLBanks.

Under FHFA regulation, an FHLBank may pay dividends on its capital stock only out of previously retained earnings or current net income. The payment of dividends is subject to certain statutory and regulatory restrictions (including that an FHLBank is in compliance with all minimum capital requirements) and is highly dependent on an FHLBank's ability to continue to generate future net income and maintain adequate retained earnings and capital levels. Furthermore, events such as changes in the FHLBanks' market risk profile, credit quality of assets held and increased volatility of net income may affect the adequacy of the FHLBanks' retained earnings. These changes may require the FHLBanks to increase their target level of retained earnings and correspondingly reduce their dividends from historical dividend payout ratios in order to achieve and maintain the targeted amounts of retained earnings. These actions may cause a decline in the value of the FHLBank membership, a reduction in members' demand for advances or an increase in member withdrawals from the FHLBanks. (See *Financial Discussion and Analysis - Capital Adequacy* and *Note 19—Capital* to the accompanying combined financial statements for additional information on the FHLBanks' dividend and excess stock limitations.)

Compliance with regulatory contingency liquidity guidance could restrict investment activities and adversely affect the FHLBanks' net interest income.

The FHFA requires the FHLBanks to maintain sufficient liquidity through short-term investments in an amount at least equal to an FHLBank's cash outflows under two different scenarios for the treatment of maturing advances. This regulatory guidance is designed to provide sufficient liquidity and to protect against temporary disruptions in the capital markets that affect the FHLBanks' access to funding. To satisfy these two scenarios, the FHLBanks maintain balances in shorter-term investments, which may earn lower interest rates than alternate investment options. As a result, the FHLBanks may need to fund shorter-term advances with short-term discount notes that have maturities beyond those of the related advances, thus increasing the FHLBanks' short-term advance pricing or reducing net income through lower net interest spreads. To the extent these increased prices make FHLBank advances less competitive, advance levels and net interest income may be negatively affected. (See *Financial Discussion and Analysis - Liquidity* for more discussion regarding the FHLBanks' liquidity requirements.)

The FHLBanks' Affordable Housing Programs and other related community investment programs could become a larger proportional burden if the FHLBanks' annual net income is reduced or eliminated.

Each FHLBank is required to establish an Affordable Housing Program (AHP). Each FHLBank provides subsidies in the form of direct grants or below-market interest rate loans to members who use the funds to assist in the purchase, construction or rehabilitation of housing for low- to moderate-income households. Annually, the FHLBanks must set aside an aggregate of the greater of $100 million or 10% of net earnings for the AHP. As an FHLBank's net income is reduced, the amount of funding available through the AHP is also reduced, limiting the FHLBanks' ability to satisfy its mission. As a result, the FHLBanks could be required to set aside a minimum of $100 million per year in the aggregate, even if one or more FHLBanks are unprofitable for that year. (See *Note 16—Affordable Housing Program (AHP)* to the accompanying combined financial statements for more information about this funding requirement.)

Business Risk-Strategic

Increased competition or reduced demand could adversely affect the FHLBanks' primary business activity to provide funding at attractive prices while maintaining sufficient net interest margins.

The FHLBanks' primary business is making advances to their members. Each FHLBank competes with other suppliers of wholesale funding, including investment banks, commercial banks, Federal Reserve Banks and other FHLBanks. In recent periods, the FHLBanks have experienced a sharp decrease in demand from their members for advances. This is largely due to members' ability to access alternative funding sources and an increase in deposits from members' banking customers that resulted from FDIC actions. These actions provided most FHLBank members with lower-cost funding sources by increasing the FDIC standard maximum deposit insurance amount to $250,000 and providing unlimited FDIC deposit insurance for non-interest-bearing transaction accounts through December 31, 2012. Although the provision of this unlimited insurance is scheduled to expire at the end of 2012, there can be no assurance that it will not be extended. In addition, the Federal Reserve Board has implemented policies that have suppressed short-term and long-term interest rates. These funding sources and monetary policies have offered more favorable terms than the FHLBanks, including more flexible credit or collateral standards.

The FHLBanks may be required to change policies, programs and agreements affecting members' access to advances, mortgage purchase programs, the AHP and other credit programs that could cause members to obtain financing from alternative sources. Many competitors are not subject to the same regulations, which may enable those competitors to offer products and terms that the FHLBanks are not able to offer. Additionally, some of the FHLBanks compete with Fannie Mae and Freddie Mac, as well as other FHLBanks, to purchase mortgage loans from members or affiliates of members. This increased competition may reduce the amount of available mortgage loans that FHLBanks can purchase, resulting in lower income from this part of their businesses.

Additionally, each FHLBank also competes with the U.S. Treasury, Fannie Mae, Freddie Mac, and other GSEs, as well as corporate, state and local, sovereign, sub-sovereign and supranational entities, for funds through the issuance of unsecured debt in the national and global debt markets. Increases in the supply of competing debt products could result in higher debt costs or lower amounts of debt issued at the same cost. Increased competition could adversely affect the FHLBanks' ability to access funding, reduce the amount of funding available to the FHLBanks, or increase the cost of funding available to the FHLBanks. Any of these effects could adversely affect the FHLBanks' financial condition and results of operations, and the value of FHLBank membership.

A loss or change of business activities with large members could adversely affect the FHLBanks' combined results of operations.

Some FHLBanks have a high concentration of advances and capital with large members, and certain large members have affiliates that are members of other FHLBanks. A loss of some of these members due to withdrawal from membership, acquisition by a non-member or failure could result in a reduction of the FHLBanks' total combined assets, capital, and net income. Withdrawal of members could occur as a result of the failure of members or increased consolidation in the financial services industry. Industry consolidation could also lead to the concentration of large members in some FHLBanks' districts and a related decrease in membership and significant loss of business for certain FHLBanks. If advances are concentrated in a smaller number of members, an FHLBank's risk of loss resulting from a single event would become proportionately greater. Industry consolidation could also cause an FHLBank to lose members whose business and stock investments are so substantial that their loss could threaten the viability of that FHLBank. In turn, an FHLBank might be forced to seek a merger with another

FHLBank or to make other significant changes. (See *Financial Discussion and Analysis - Risk Management - Business Risk - FHLBank Member Concentration Risk* for more discussion regarding the FHLBanks' exposure to member concentration risk.)

Credit Risk

Increased delinquency rates and loan modifications could result in additional credit losses on mortgage loans that back mortgage-backed securities investments and adversely affect the yield or value of related FHLBank investments.

FHLBanks have invested in both U.S. agency and private-label mortgage-backed securities that are backed by prime, subprime, and Alt-A hybrid and pay-option adjustable-rate mortgage loans. Although the FHLBanks only invested in senior tranches of these private-label mortgage-backed securities, having the highest long-term debt rating at the time of purchase, many of those securities have subsequently been downgraded and have realized or projected credit losses due to current economic conditions and housing market trends. The depth and duration of these trends continues to affect the market for these private-label mortgage-backed securities, resulting in low market prices even though some improvement was noted through increased fair values in 2011 over 2010.

Although the U.S. housing market showed some signs of recovery during 2011, it remains fragile and susceptible to high rates of loan delinquencies and loan modifications (including reductions in principal or interest payments) on the mortgage loans backing the private-label mortgage-backed securities. As a result, the FHLBanks recognized additional credit losses in their combined results of operations, albeit at a lower level than in prior years. If further deterioration in the housing markets and housing prices is greater than projected, there could be additional credit losses from other-than-temporary impairments. For example, a slower economic recovery, in either the United States as a whole or in specific regions of the country, or delays in foreclosures could result in higher delinquencies, increasing the risk of credit losses that adversely affect the yield or value of these securities.

Federal and state government authorities, as well as private entities that include financial institutions and residential mortgage loan servicers, have proposed, commenced or promoted programs designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures. Loan modification programs, as well as future legislative, regulatory or other actions, including amendments to the bankruptcy laws, could also result in the modification of outstanding mortgage loans. These actions may adversely affect the value of and the returns on these private-label mortgage-backed securities and U.S. agency mortgage-backed securities, including those securities issued by Fannie Mae and Freddie Mac. In addition, legal actions relating to loan modifications, such as the recently announced settlement between the state attorneys general and five loan servicers, could adversely affect the value of certain FHLBanks' mortgage-backed securities if loan modifications or foreclosure activities occur that result in lower payments than previously expected for these securities. (See *Financial Discussion and Analysis - Risk Management - Credit Risk - Investments* for more discussion and analysis about the FHLBanks' exposure to credit risk related to investments and their management of this risk.)

Increased credit risk exposure resulting from increased defaults on mortgage loans or FHLBank member failures could adversely affect the FHLBanks' earnings and financial condition.

The FHLBanks have exposure to credit risk as part of their normal business operations through:

- funding advances;
- funding or purchasing mortgage loans; and
- extending credit with open lines of credit, standby letters of credit and other commitments.

The FHLBanks require that advances, mortgage loans and other extensions of credit, as noted, are fully secured with collateral. The FHLBanks evaluate the types of collateral pledged by their borrowers and assign a borrowing capacity to the collateral, generally based on a percentage of its market value. However, the devaluation or inability to liquidate the collateral in the event of a default could cause an FHLBank to incur a credit loss and adversely affect the financial condition and results of operations of that FHLBank.

Although the financial markets have stabilized somewhat, the U.S. housing market remains exposed to significant credit risk. As a result, many financial institutions continue to be under financial stress exposing the FHLBanks to member and counterparty risk, as well as the risk of default. Even though the financial services industry experienced a lower rate of FHLBank member failures in 2011, the higher level of mergers and consolidations compared to years immediately prior to the recent financial crisis has adversely affected the FHLBanks' membership and business volume.

During 2011, the U.S. housing market showed some signs of recovery; however, it remains fragile and susceptible to high delinquency and modification rates on mortgage loans, including reductions in principal or interest payments. As a result, certain FHLBanks have experienced higher defaults on their mortgage loan programs, recognizing credit losses after considering any credit enhancements. In addition, certain FHLBanks' credit risk is concentrated geographically, resulting in greater exposure to suppressed real estate collateral values. In order for advances to remain fully collateralized, the FHLBanks require members to pledge additional collateral, when deemed necessary. This requirement may adversely affect those members that lack additional assets to pledge as collateral. If members are unable to secure their obligations with an FHLBank, that FHLBank's advance levels could decrease, negatively affecting its financial condition, results of operations, and value of FHLBank membership.

If an FHLBank's member defaults on its obligations, or the FDIC fails either to promptly repay all of that failed institution's obligations or to assume the outstanding advances, then that FHLBank may be required to liquidate the collateral pledged by the failed institution. The volatility of market prices and interest rates could affect the value of the collateral held by the FHLBank as security for the obligations of its members. The proceeds realized from the liquidation of pledged collateral may not be sufficient to fully satisfy the amount of the failed institution's obligations or the operational cost of liquidating the collateral. Default by a member with significant obligations to an FHLBank could result in significant losses, which would adversely affect the FHLBanks' results of operations and financial condition. (See *Financial Discussion and Analysis - Risk Management* - *Credit Risk* for more discussion and analysis about the FHLBanks' exposure to credit risk and their management of this risk.)

Defaults by one or more institutional counterparties on its obligations to the FHLBanks could adversely affect results of operations and financial condition.

The FHLBanks face the risk that one or more of their institutional counterparties may fail to fulfill their contractual obligations. The primary exposures to institutional counterparty risk are with:

- unsecured short-term investments with domestic and foreign counterparties;
- derivative counterparties;
- mortgage servicers that service the loans the FHLBanks hold as collateral on advances; and
- third-party providers of credit enhancements on private-label MBS investments, including mortgage insurers, bond insurers, and financial guarantors.

A counterparty default could result in losses if the FHLBanks' credit exposure to that counterparty was unsecured or under-collateralized, or if the FHLBanks' credit obligations associated with derivative positions were over-collateralized. The insolvency or other inability of a significant counterparty to perform its obligations under these transactions or other agreements could have an adverse effect on the FHLBanks' results of operations and financial condition. The European debt crisis, which has resulted in deteriorating economic conditions in Europe and rating agencies' downgrades of several institutional counterparties as well as European countries' sovereign debt ratings, has increased the FHLBanks' exposure to this foreign credit risk. If this crisis is not fully resolved, it could have direct adverse effects on the FHLBanks' institutional counterparties and on the U.S. economy. In turn, the FHLBanks could also experience adverse effects on their credit performance given their relationship with these counterparties and the possibility of negative consequences for the U.S. economy.

In addition, the FHLBanks' ability to engage in routine derivatives, funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are inter-related as a result of trading, clearing, counterparty and other relationships. As a result, actual and potential defaults of one or more financial services institutions could lead to market-wide disruptions, making it difficult for the FHLBanks to find counterparties for transactions. (See *Financial Discussion and Analysis - Risk Management* - *Credit Risk* for more discussion and analysis about the FHLBanks' exposure to credit risk and their management of this risk.)

Market Risk

A sustained period of low interest rates, rapid changes in interest rates or an inability to successfully manage interest-rate risk could have a material adverse effect on the FHLBanks' net interest income.

The FHLBanks realize income primarily from the spread between interest earned on their outstanding advances and investments less the interest paid on their consolidated obligations and other liabilities. The FHLBanks' financial performance

is affected by fiscal and monetary policies of the U.S. government and its agencies, in particular, the Federal Reserve Board's policies to depress short-term and long-term interest rates to stabilize the U.S. housing market. Therefore, an FHLBank's ability to anticipate changes regarding the direction and speed of interest rate changes, or to hedge the related exposures, significantly affects the success of its asset and liability management activities and its level of net interest income. An FHLBank may use a number of measures to monitor and manage interest rate risk, including income simulations and duration/market value sensitivity analyses.

Given the unpredictability of the financial markets, capturing all potential outcomes in these analyses is extremely difficult. Key assumptions include, but are not limited to, loan volumes and pricing, market conditions for an FHLBank's consolidated obligations, interest rate spreads and prepayment speeds, and cash flows on mortgage-related assets. These assumptions are inherently uncertain and they cannot precisely estimate net interest income and the market value of equity. Actual results will differ from simulated results due to the timing, magnitude, and frequency of interest rate changes and changes in market conditions and management strategies, among other factors. The volatility and disruption in the credit markets during recent years have resulted in a higher level of volatility in the FHLBanks' interest-rate risk profile and could negatively affect the FHLBanks' ability to manage interest-rate risk effectively.

The effect of interest rate changes can be exacerbated by prepayment and extension risk, which is the risk that mortgage-based investments will be refinanced by the borrower in low interest-rate environments or will remain outstanding longer than expected at below-market yields when interest rates increase. Decreases in interest rates typically cause mortgage prepayments to increase and may result in increased premium amortization expense and substandard performance in an FHLBank's mortgage portfolio as an FHLBank experiences a return of principal that it must re-invest in a lower rate environment. While these prepayments would reduce the asset balance, the associated debt may remain outstanding. (See *Quantitative and Qualitative Disclosures about Market Risk* for additional discussion and analysis regarding the FHLBanks' sensitivity to interest rate changes and the use of derivatives to manage their exposure to interest-rate risk.)

The Dodd-Frank Act will also provide for new statutory and regulatory requirements for derivative transactions, including those transactions used by an FHLBank to hedge its interest rate and other risks. As a result of these requirements, certain derivative transactions will be required to be cleared through a third-party central clearinghouse and traded on regulated exchanges or new swap execution facilities. While the FHLBanks expect to continue to enter into uncleared trades on a bilateral basis, those trades will be subject to new regulatory requirements, including new mandatory reporting requirements and new minimum margin and capital requirements imposed by bank and other federal regulators. Any of these margin and capital requirements could adversely affect the liquidity and pricing of certain uncleared derivative transactions entered into by the FHLBanks, making uncleared trades more costly and less attractive as risk management tools for the FHLBanks. (See *Financial Discussion and Analysis - Legislative and Regulatory Developments* - *Dodd-Frank Act* for additional information regarding new requirements for the FHLBanks' derivative transactions.)

The FHLBanks' ability to access the capital markets, as their primary source of funding, on acceptable terms could be adversely affected by any market disruptions that could occur if credit ratings on FHLBank System consolidated obligations change.

In August 2011, S&P and Moody's each took various actions regarding credit ratings on the FHLBanks and the FHLBank System's consolidated obligations based on these rating agencies' implied linkage between the FHLBanks, and the FHLBank System's consolidated obligations, to the U.S. government.

On August 5, 2011, S&P lowered its long-term credit rating on the United States from AAA to AA+ with a negative outlook. S&P has indicated that its ratings of the FHLBanks and the FHLBank System are constrained by the long-term credit rating of the United States. On August 8, 2011, S&P downgraded the long-term credit ratings on the senior unsecured debt issues of the FHLBank System and 10 of the 12 FHLBanks from AAA to AA+. The FHLBanks of Chicago and Seattle were already rated as AA+ prior to the U.S. downgrade. S&P's outlook for the FHLBank System's senior unsecured debt and all 12 FHLBanks is negative. However, S&P's actions did not affect the short-term A-1+ ratings of the FHLBanks and the FHLBank System's short-term debt issues.

On August 2, 2011, Moody's confirmed the Aaa bond rating of the U.S. government following the raising of the U.S. statutory debt limit on August 2, 2011 and changed the rating outlook of the U.S. government to negative. Moody's also confirmed the long-term Aaa rating on the senior unsecured debt issues of the FHLBank System, the 12 FHLBanks, and other ratings Moody's considers directly linked to the U.S. government. Additionally, in conjunction with the revision of the U.S. government outlook to negative, the rating outlook for the FHLBank System and the 12 FHLBanks was also revised to negative.

Both S&P's and Moody's credit ratings for the U.S. government have a negative outlook. In assigning a negative outlook to the U.S. government's long-term credit rating, S&P noted that a higher public debt trajectory than is currently assumed by S&P could lead it to lower the U.S. government's long-term rating again. As a result, a further downgrade to the U.S. government's credit rating may occur and, in turn, result in a downgrade in the credit ratings on the FHLBanks and the FHLBank System's consolidated obligations even though they are not obligations of the United States.

Although these recent credit rating actions have not yet had a material effect on the FHLBanks' funding costs, uncertainty still remains regarding possible longer-term effects resulting from these downgrades. Any future downgrades in credit ratings and outlook could result in higher funding costs or disruptions in the FHLBanks' access to capital markets, including additional collateral posting requirements under certain derivative instrument agreements. (See *Note 12—Derivatives and Hedging Activities* - *Managing Credit Risk on Derivatives* to the accompanying combined financial statements for more information about the FHLBanks' additional collateral requirements.) Furthermore, member demand for certain FHLBank products could weaken. To the extent that the FHLBanks cannot access funding when needed on acceptable terms to effectively manage their cost of funds, their financial condition and results of operations and the value of FHLBank membership could be negatively affected.

Liquidity Risk

Disruptions in the short-term capital markets could have an adverse effect on the FHLBanks' ability to refinance their consolidated obligations or to manage their liquidity positions to meet members' needs on acceptable terms.

The FHLBanks' primary source of funds is the sale of consolidated obligations in the capital markets, including the short-term discount note market. The FHLBanks' ability to obtain funds through the sale of consolidated obligations depends in part on prevailing conditions in the capital markets. The recent severe financial and economic disruptions, and the U.S. government's dramatic measures enacted to mitigate their effects, have affected the FHLBanks' funding costs and practices. Each FHLBank's ability to operate its business, meet its obligations and generate net interest income depends primarily on the ability to issue debt frequently to meet member demand and to refinance existing outstanding consolidated obligations at attractive rates, maturities and call features when needed.

The FHLBanks are exposed to liquidity risk if there is any significant disruption in the short-term debt markets. If this disruption is prolonged, the FHLBanks may not be able to obtain funding on acceptable terms. Without access to the short-term debt markets, the alternative longer-term funding, if available, would increase funding costs and likely cause the FHLBanks to increase advance rates, adversely affecting demand for advances. If the FHLBanks cannot access funding when needed on acceptable terms, their ability to support and continue their operations could be adversely affected. As a result, an FHLBank's inability to manage its liquidity position or its contingency liquidity plan to meet its obligations, as well as the credit and liquidity needs of its members, could adversely affect that FHLBank's financial condition and results of operations, and the value of FHLBank membership. (See *Financial Discussion and Analysis - Liquidity* for more discussion regarding the FHLBanks' liquidity requirements.)

Operational Risk

Each FHLBank relies on business and financial models to manage its financial risks, to make business decisions and to value assets and liabilities. An FHLBank's business could be adversely affected if those models fail to produce reliable projections or valuations.

Each FHLBank makes significant use of business and financial models for managing different risks. Each FHLBank uses models to measure and monitor exposures to various risks, including interest rate, prepayment and other market risks, as well as credit risk. Each FHLBank also uses models in determining the fair value of financial instruments when independent price quotations are not available or reliable. The information provided by these models is also used in making business decisions relating to strategies, initiatives, transactions and products and in financial statement reporting. Because models use assumptions to project future trends and performance, they are inherently imperfect predictors of actual results.

Changes in any models or in their underlying assumptions, judgments or estimates may cause the results generated by the models to be materially different. If the models are not reliable, an FHLBank could make poor business decisions, including poor asset and liability management decisions that could result in an adverse financial effect on the FHLBanks' business. Furthermore, strategies that an FHLBank employs to attempt to manage the risks associated with the use of models may not be effective. The models used by each FHLBank to determine the fair values of its assets, liabilities and derivatives may differ

from the models used by the other FHLBanks. The use of different models or assumptions by individual FHLBanks, as well as changes in market conditions, could result in materially different valuation estimates or other estimates even when similar or identical assets and liabilities are being measured, and could have materially different effects on the net income and retained earnings of each of the FHLBanks.

For example, the current uncertainty in the housing and mortgage markets increases the FHLBanks' exposure to the inherent risks associated with the reliance on internal models that use key assumptions to project future trends and performance. Although each FHLBank adjusts its internal models when necessary to reflect changes in economic conditions, housing market and other key factors, the risk remains that an FHLBank's internal models could produce unreliable results or estimates that vary considerably from actual results. (See *Financial Discussion and Analysis - Critical Accounting Estimates* for more discussion about the FHLBanks' use of financial models in determining critical accounting estimates.)

Failures or interruptions in the information systems and other technology used by each FHLBank and the Office of Finance could adversely affect the FHLBanks' ability to effectively conduct and manage their businesses.

Each FHLBank and the Office of Finance relies heavily on its information systems and other technology to conduct and manage its business. A failure or interruption in any of these systems or other technology could prevent the FHLBanks from conducting and managing their business effectively. Although each of the FHLBanks and the Office of Finance has implemented a business continuity plan, it may not be able to prevent or mitigate the negative effects of a failure or interruption. A failure or interruption could adversely affect an FHLBank's member relations, risk management, and profitability, which could negatively affect the FHLBanks' ability to conduct and manage their businesses effectively.

Failures or circumventions of the financial reporting controls and procedures that each of the FHLBanks and the Office of Finance maintain, and that the Office of Finance relies upon to prepare the FHLBanks Combined Financial Report, could adversely affect the accuracy and meaningfulness of the information contained in this Combined Financial Report.

Each FHLBank is responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting with respect to the information and financial data provided to the Office of Finance. Currently, the Office of Finance is not required to establish and maintain disclosure controls and procedures and internal control over financial reporting at the FHLBank System level in the same manner as those maintained by each FHLBank. Instead, the Office of Finance relies on each FHLBank management's certification and representation regarding the accuracy and completeness of its data submitted to the Office of Finance and has established controls and procedures concerning: (1) each FHLBank's submission of information and financial data to the Office of Finance, (2) the process of combining the financial statements of the individual FHLBanks and (3) the review of such information. However, an FHLBank's or the Office of Finance's failure to detect material weaknesses or circumventions of its respective key controls could have an adverse effect on the accuracy and meaningfulness of the information provided by that FHLBank to the Office of Finance for preparation of the FHLBanks Combined Financial Report. (See *Controls and Procedures* for more information regarding each FHLBank's management assessment of its individual internal control over financial reporting and evaluation of its disclosure controls and procedures, and the Office of Finance's controls and procedures over the combined financial reporting combining process.)

PROPERTIES AND GEOGRAPHIC DISTRIBUTION

The FHLBanks operate in all 50 states, the District of Columbia and U.S. territories. Each FHLBank serves members whose principal place of business is located in its specifically-defined geographic district. In addition to their principal business location, each of the FHLBanks and the Office of Finance also maintain leased, off-site, back-up facilities.

Table 4 - Properties and Geographic Distribution

FHLBank	Address	Owned/ Leased	States and Territories	Number of Members
Boston	800 Boylston St. 9th Fl. Boston, MA 02199	Leased	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	462
New York	101 Park Ave. New York, NY 10178-0599	Leased	New Jersey, New York, Puerto Rico, U.S. Virgin Islands	340
Pittsburgh	601 Grant St. Pittsburgh, PA 15219-4455	Leased	Delaware, Pennsylvania, West Virginia	300
Atlanta	1475 Peachtree St., N.E. Atlanta, GA 30309	Owned	Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia	1,062
Cincinnati	221 East Fourth St. 1000 Atrium Two Cincinnati, OH 45202	Leased	Kentucky, Ohio, Tennessee	741
Indianapolis	8250 Woodfield Crossing Blvd. Indianapolis, IN 46240	Owned	Indiana, Michigan	416
Chicago	200 East Randolph Dr. Chicago, IL 60601	Leased	Illinois, Wisconsin	767
Des Moines	Skywalk Level 801 Walnut Street Ste. 200 Des Moines, IA 50309-3513	Leased	Iowa, Minnesota, Missouri, North Dakota, South Dakota	1,215
Dallas	8500 Freeport Pkwy. South Ste. 600 Irving, TX 75063-2547	Owned	Arkansas, Louisiana, Mississippi, New Mexico, Texas	910
Topeka	One Security Benefit Pl. Ste. 100 Topeka, KS 66606-2444	Leased	Colorado, Kansas, Nebraska, Oklahoma	833
San Francisco	600 California St. San Francisco, CA 94108	Leased	Arizona, California, Nevada	375
Seattle	1501 Fourth Ave. Ste. 1800 Seattle, WA 98101	Leased	Alaska, American Samoa, Guam, Hawaii, Idaho, Montana, Northern Mariana Islands, Oregon, Utah, Washington, Wyoming	353
Office of Finance	1818 Library Street Ste. 200 Reston, VA 20190	Leased		

See *Market for Capital Stock and Related Stockholder Matters* for more information on FHLBanks' members.

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 proceedings, except the following identified proceedings, where the ultimate liability of the FHLBanks, if any, arising out of these proceedings is likely to have a material effect on the results of operations, financial condition or liquidity of the FHLBanks or that are otherwise material to the FHLBanks. (See each FHLBank's 2011 SEC Form 10-K under *Part I. Item 3-Legal Proceedings* for additional information, including updates, to its legal proceedings.)

Legal Proceedings Relating to the Purchase of Certain Private-label MBS

As of December 31, 2011, each of the FHLBanks of Boston, Pittsburgh, Atlanta, Indianapolis, Chicago, San Francisco and Seattle is a plaintiff in continued legal proceedings that relate to its purchases of certain private-label MBS. Defendants in these lawsuits include entities and affiliates that buy, sell or distribute the FHLBanks' consolidated obligations or are derivative counterparties. These defendants and their affiliates may be members or former members of the plaintiff FHLBanks or other FHLBanks. In addition, certain defendants in some of these legal proceedings currently issue credit ratings on the FHLBanks and the FHLBank System's consolidated obligations.

Legal Proceedings Relating to the Lehman Bankruptcy

See *Note 22—Commitments and Contingencies* - *Lehman Bankruptcy* to the accompanying combined financial statements for information on legal proceedings relating to bankruptcy proceedings involving Lehman Brothers Holdings, Inc.

MARKET FOR CAPITAL STOCK AND RELATED STOCKHOLDER MATTERS

As a cooperative, each FHLBank conducts its advances business and mortgage loan programs almost exclusively with its members. Members and former members own all of the FHLBanks' capital stock. There is no established marketplace for the FHLBanks' stock and it is not publicly traded. FHLBank stock is purchased by members at the stated par value of $100 per share and may be redeemed/repurchased at its stated par value of $100 per share, subject to applicable redemption periods and certain conditions and limitations. (See *Financial Discussion and Analysis - Capital Adequacy - Dividend and Excess Stock Limitations* for a discussion of certain FHLBank actions regarding dividends and excess capital stock.)

At December 31, 2011, the FHLBanks had 355 million shares of capital stock outstanding. The FHLBanks are not required to register their securities under the Securities Act of 1933 (as amended). Each FHLBank is an SEC registrant as required by the Housing Act and is subject to certain reporting requirements of the Securities Exchange Act of 1934.

Table 5 presents regulatory capital stock, which includes mandatorily redeemable capital stock, held by type of member and Table 6 presents FHLBank membership by type of member.

Table 5 - Capital Stock Held by Type of Member

(dollars in millions)

	December 31, 2011		December 31, 2010	
	Amount	Percentage of Regulatory Capital Stock	Amount	Percentage of Regulatory Capital Stock
Commercial banks	$ 21,782	50.0%	$ 26,771	54.9%
Thrifts	7,692	17.7%	9,087	18.6%
Insurance companies	3,492	8.0%	3,336	6.8%
Credit unions	2,572	5.9%	2,540	5.2%
Community development financial institutions	4	—	1	—
Total GAAP capital stock	35,542	81.6%	41,735	85.5%
Mandatorily redeemable capital stock	8,013	18.4%	7,066	14.5%
Total regulatory capital stock	$ 43,555	100.0%	$ 48,801	100.0%

Table 6 - Membership by Type of Member

	December 31, 2011		December 31, 2010	
	Number	Percentage of Total Members	Number	Percentage of Total Members
Commercial banks	5,345	68.8%	5,507	70.2%
Credit unions	1,123	14.4%	1,030	13.1%
Thrifts	1,048	13.5%	1,083	13.8%
Insurance companies	250	3.2%	227	2.9%
Community development financial institutions	8	0.1%	2	—
Total	7,774	100.0%	7,849	100.0%

During the year ended December 31, 2011, 23 FHLBank members withdrew from FHLBank membership for reasons other than merger or acquisition and 31 FHLBank members gave notice of intent to withdraw from FHLBank membership for reasons other than merger or acquisition.

The information on regulatory capital stock presented in Table 7 is accumulated at the holding-company level. The percentage of total regulatory capital stock identified in Table 7 for each holding company was computed by dividing all regulatory capital stock owned by subsidiaries of that holding company by total combined regulatory capital stock. These percentage concentrations do not represent ownership concentrations in an individual FHLBank.

Table 7 - Top 10 Regulatory Capital Stockholders by Holding Company at December 31, 2011

(dollars in millions)

Holding Company Name(1)	FHLBank Districts(2)	Regulatory Capital Stock(3)	Percentage of Total Regulatory Capital Stock	Mandatorily Redeemable Capital Stock
Bank of America Corporation	Boston, New York, Atlanta, Indianapolis, San Francisco, Seattle	$ 3,523	8.1%	$ 250
Citigroup Inc.	New York, Pittsburgh, Des Moines, Dallas, San Francisco	3,409	7.8%	2,884
JPMorgan Chase & Co.	Pittsburgh, Chicago, San Francisco, Seattle	3,364	7.7%	1,665
Wells Fargo & Company	Atlanta, Des Moines, Dallas, Topeka, San Francisco, Seattle	1,475	3.4%	1,318
MetLife, Inc.	Boston, New York, Des Moines	1,013	2.3%	—
U.S. Bancorp	Cincinnati, Des Moines, Dallas, Topeka, San Francisco, Seattle	837	1.9%	233
UK Financial Investments Limited	Boston, New York, Pittsburgh, Cincinnati	655	1.5%	31
The PNC Financial Services Group, Inc.	New York, Pittsburgh, Atlanta, Cincinnati, Des Moines	610	1.4%	268
Banco Santander, S.A.	New York, Pittsburgh	576	1.3%	—
Hudson City Bancorp, Inc.	New York	511	1.2%	—
		$ 15,973	36.6%	$ 6,649

(1) Holding company information was obtained from the Federal Reserve System's website, the National Information Center (NIC) and SEC filings. The NIC is a central repository of data about banks and other institutions for which the Federal Reserve System has a supervisory, regulatory, or research interest, including both domestic and foreign banking organizations operating in the United States.

(2) Each holding company had subsidiaries with regulatory capital stock holdings at December 31, 2011 in these FHLBank districts.

(3) Includes FHLBank capital stock that is considered to be mandatorily redeemable, which is classified as a liability under GAAP.

Five Largest Regulatory Capital Stockholders of Each FHLBank. Table 8 presents information on the five largest regulatory capital stockholders by FHLBank at December 31, 2011. The information presented on capital stock in Table 8 is for individual FHLBank capital stockholders. 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 capital stockholders but that are not listed in the table. Each FHLBank describes its risk management policies, including disclosures about its concentration risk, if any, in its periodic reports filed with the SEC. (See *Explanatory Statement about Federal Home Loan Banks Combined Financial Report*.)

Table 8 - Top 5 Regulatory Capital Stockholders by FHLBank at December 31, 2011

(dollars in millions)

District	Name	Holding Company Name(1)	Capital Stock	Percent of FHLBank Capital Stock(2)	Mandatorily Redeemable Capital Stock
Boston	Bank of America Rhode Island, N.A.	Bank of America Corporation	$ 1,083	28.1%	$ —
	RBS Citizens, N.A.	UK Financial Investments Limited	516	13.4%	—
	First Niagara Bank, N.A.(3)		121	3.1%	121
	Webster Bank, National Association		93	2.4%	—
	TD Bank, N.A.(3)		86	2.3%	86
			$ 1,899	49.3%	$ 207
New York	Metropolitan Life Insurance Company	MetLife, Inc.	$ 658	14.5%	$ —
	Hudson City Savings Bank, FSB(4)	Hudson City Bancorp, Inc.	511	11.2%	—
	New York Community Bank(4)		455	10.0%	—
	Citibank, N.A.	Citigroup Inc.	365	8.0%	—
	MetLife Bank, N.A.	MetLife, Inc.	234	5.2%	—
			$ 2,223	48.9%	$ —

District	Name	Holding Company Name(1)	Capital Stock	Percent of FHLBank Capital Stock(2)	Mandatorily Redeemable Capital Stock
Pittsburgh	Sovereign Bank	Banco Santander, S.A.	$ 555	16.2%	$ —
	Ally Bank		384	11.2%	—
	ING Bank, FSB(4)		370	10.8%	—
	PNC Bank, National Association(4)	The PNC Financial Services Group, Inc.	342	10.0%	—
	Chase Bank USA, N.A.	JPMorgan Chase & Co.	187	5.5%	—
			$ 1,838	53.7%	$ —
Atlanta	Bank of America, National Association	Bank of America Corporation	$ 1,062	17.7%	$ —
	Branch Banking and Trust Company (4)		499	8.3%	—
	Navy Federal Credit Union		372	6.2%	—
	SunTrust Bank		342	5.7%	—
	Capital One, National Association		313	5.2%	—
			$ 2,588	43.1%	$ —
Cincinnati	U.S. Bank N.A.	U.S. Bancorp	$ 591	17.4%	$ —
	Fifth Third Bank		401	11.8%	—
	PNC Bank, National Association(3)	The PNC Financial Services Group, Inc.	243	7.1%	243
	Keybank NA		179	5.3%	—
	The Huntington National Bank		166	4.9%	—
			$ 1,580	46.5%	$ 243
Indianapolis	Flagstar Bank, FSB		$ 302	15.0%	$ —
	LaSalle Bank Midwest NA(3)	Bank of America Corporation	225	11.2%	225
	Jackson National Life Insurance Company		107	5.3%	—
	Fifth Third Bank(3)		97	4.8%	97
	Citizens Bank		95	4.7%	—
			$ 826	41.0%	$ 322
Chicago	BMO Harris Bank National Association		$ 312	13.0%	$ —
	One Mortgage Partners Corp.	JPMorgan Chase & Co.	172	7.2%	—
	Associated Bank, National Association		121	5.0%	—
	State Farm Bank, F.S.B.		114	4.7%	—
	The Northern Trust Company(4)		67	2.8%	—
			$ 786	32.7%	$ —
Des Moines	Transamerica Life Insurance Company		$ 160	7.6%	$ —
	Aviva Life and Annuity Company		123	5.8%	—
	Superior Guaranty Insurance Company	Wells Fargo & Company	121	5.7%	—
	TCF National Bank		119	5.6%	—
	ING USA Annuity and Life Insurance Company		80	3.8%	—
			$ 603	28.5%	$ —

District	Name	Holding Company Name(1)	Capital Stock	Percent of FHLBank Capital Stock(2)	Mandatorily Redeemable Capital Stock
Dallas	Comerica Bank		$ 95	7.5%	$ —
	Texas Capital Bank, N.A.		54	4.2%	—
	Beal Bank USA		39	3.1%	—
	Southside Bank(4)		34	2.7%	—
	ViewPoint Bank		32	2.5%	—
			$ 254	20.0%	$ —
Topeka	Capitol Federal Savings Bank		$ 130	9.8%	$ —
	MidFirst Bank		112	8.4%	—
	Security Life of Denver Insurance Co.		83	6.2%	—
	Security Benefit Life Insurance Co.		67	5.0%	—
	Pacific Life Insurance Company		50	3.8%	—
			$ 442	33.2%	$ —
San Francisco	Citibank, NA(3)	Citigroup Inc.	$ 2,884	27.8%	$ 2,884
	JPMorgan Bank & Trust Company, National Association	JPMorgan Chase & Co.	1,340	12.9%	—
	Wells Fargo Bank, NA(3)	Wells Fargo & Company	1,183	11.4%	1,183
	JPMorgan Chase Bank, National Association(3)	JPMorgan Chase & Co.	893	8.6%	893
	Bank of America California, N.A.	Bank of America Corporation	526	5.1%	—
			$ 6,826	65.8%	$ 4,960
Seattle	JPMorgan Chase Bank, National Association(3)	JPMorgan Chase & Co.	$ 772	27.6%	$ 772
	Bank of America Oregon, NA	Bank of America Corporation	603	21.5%	—
	Washington Federal Savings and Loan Association		150	5.4%	47
	American Savings Bank, F.S.B.		98	3.5%	33
	Sterling Savings Bank		94	3.4%	—
			$ 1,717	61.4%	$ 852

(1) The holding company name is only shown for each Top 5 regulatory capital stockholder that has its holding company listed in Table 7-Top 10 Regulatory Capital Stockholders by Holding Company at December 31, 2011.
(2) For consistency with the individual FHLBank's presentation of its Top 5 capital stockholders at December 31, 2011, amounts used to calculate percentages of FHLBank regulatory capital stock may be based on numbers in thousands. Accordingly, recalculations using the amounts in millions as presented in Table 8 may not produce the same results.
(3) Non-member stockholder.
(4) Indicates that an officer or director of the member was an FHLBank director at December 31, 2011.

SELECTED FINANCIAL DATA

(dollars in millions)	2011	2010	2009	2008	2007
Selected Statement of Condition Data at December 31,					
Investments (1)	$ 271,265	$ 330,470	$ 284,351	$ 305,913	$ 297,058
Advances	418,157	478,589	631,159	928,638	875,061
Mortgage loans held for portfolio	53,515	61,277	71,469	87,376	91,618
Allowance for credit losses on mortgage loans	(138)	(86)	(32)	(15)	(8)
Total assets	766,086	878,109	1,015,583	1,349,053	1,271,800
Consolidated obligations					
Discount notes	190,149	194,431	198,532	439,895	376,342
Bonds	506,975	606,567	736,344	818,372	802,574
Total consolidated obligations	697,124	800,998	934,876	1,258,267	1,178,916
Mandatorily redeemable capital stock	8,013	7,066	8,138	6,136	1,107
Subordinated notes (2)	1,000	1,000	1,000	1,000	1,000
Total capital stock (3)					
Capital stock-Class B putable	32,485	38,683	42,227	46,413	46,701
Capital stock-Class A putable	655	719	427	752	891
Capital stock-Pre-conversion putable	2,402	2,333	2,328	2,386	2,661
Total capital stock	35,542	41,735	44,982	49,551	50,253
Retained earnings - Total	8,577	7,552	6,033	2,936	3,689
Accumulated other comprehensive income (loss)	(4,298)	(5,546)	(8,206)	(1,137)	(345)
Total capital (3)	39,821	43,741	42,809	51,350	53,597
Selected Statement of Income Data for the year ended December 31,					
Net interest income	$ 4,104	$ 5,220	$ 5,425	$ 5,239	$ 4,517
Provision (reversal) for credit losses	71	58	18	11	3
Net interest income after provision (reversal) for credit losses	4,033	5,162	5,407	5,228	4,514
Non-interest income (loss)	(1,035)	(1,422)	(1,779)	(2,346)	127
Non-interest expense	1,057	932	943	1,076	792
Assessments	348	727	830	600	1,022
Net income (loss)	$ 1,593	$ 2,081	$ 1,855	$ 1,206	$ 2,827
Selected Other Data for the year ended December 31,					
Cash and stock dividends	$ 568	$ 587	$ 641	$ 1,975	$ 2,282
Dividend payout ratio (4)	35.66 %	28.21 %	34.56 %	163.76 %	80.72 %
Return on average equity (5)	3.77 %	4.82 %	3.95 %	2.17 %	6.01 %
Return on average assets	0.19 %	0.22 %	0.16 %	0.09 %	0.26 %
Average equity to average assets	5.11 %	4.54 %	4.00 %	4.12 %	4.29 %
Net interest margin (6)	0.50 %	0.55 %	0.46 %	0.40 %	0.42 %
Selected Other Data at December 31,					
Total GAAP capital-to-asset ratio	5.20 %	4.98 %	4.22 %	3.81 %	4.21 %
Total regulatory capital-to-assets ratio (7)	6.91 %	6.53 %	5.92 %	4.42 %	4.41 %

(1) Investments consist of interest-bearing deposits, securities purchased under agreements to resell, Federal funds sold, trading securities, available-for-sale securities and held-to-maturity securities.

(2) On June 13, 2006, the FHLBank of Chicago issued $1.0 billion of subordinated notes that mature on June 13, 2016. The subordinated notes are not obligations of, and are not guaranteed by, the U. S. government or any of the FHLBanks other than the FHLBank of Chicago.

(3) FHLBank capital stock is redeemable at the request of a member subject to the statutory redemption periods and other conditions and limitations. Each of the FHLBanks, except for the FHLBank of Chicago, implemented its respective capital plan under the GLB Act prior to 2006. The corresponding balances for capital stock pre-conversion putable relate solely to the FHLBank of Chicago. (See *Note 19—Capital* to the accompanying combined financial statements.)

(4) Dividend payout ratio is equal to dividends declared in the period expressed as a percentage of net income (loss) in the period. This ratio may not be as relevant to the combined balances because there are no shareholders at the FHLBank System-wide level.

(5) Return on average equity is equal to net income expressed as a percentage of average total capital.

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

(7) The regulatory capital ratio is calculated based on the FHLBanks' total regulatory capital as a percentage of total assets. (See *Note 19—Capital* to the accompanying combined financial statements for a definition and discussion of regulatory capital.)

FINANCIAL DISCUSSION AND ANALYSIS OF COMBINED FINANCIAL CONDITION AND COMBINED RESULTS OF OPERATIONS

Investors should read this financial discussion and analysis of combined financial condition and combined results of operations together with the combined financial statements and the accompanying notes in this Combined Financial Report. Each FHLBank discusses its financial condition and results of operations in its periodic reports filed with the SEC. Each FHLBank's Annual Report on Form 10-K and Quarterly Report on Form 10-Q filed with the SEC contains, as required by applicable SEC rules, a Management's Discussion and Analysis of Financial Condition and Results of Operations, commonly called MD&A. The SEC has noted that one of the principal objectives of MD&A is to provide a narrative explanation of a registrant's financial statements that enables investors to see the registrant through the eyes of its management and that "management has a unique perspective on its business that only it can present." Because there is no centralized management of the FHLBanks that can provide a system-wide "eyes of management" view of the FHLBanks as a whole, this Combined Financial Report does not contain a conventional MD&A. It includes, instead, a "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations" prepared by the Office of Finance using information provided by the individual FHLBanks. This Financial Discussion and Analysis does not generally include a separate description of how each FHLBank's operations affect the combined financial condition and combined results of operations. That level of information about each of the FHLBanks is addressed in each respective FHLBank's periodic reports filed with the SEC. (See *Explanatory Statement about Federal Home Loan Banks Combined Financial Report* and *Supplemental Information - Individual FHLBank Selected Financial Data and Financial Ratios*.)

The combined financial statements include the financial records of the 12 FHLBanks. (See the *Condensed Combining Schedules* for information regarding each individual FHLBank's results.) Transactions among the FHLBanks have been eliminated in accordance with combination accounting principles related to consolidation under GAAP. (See *Interbank Transfers of Consolidated Bonds and Their Effect on Combined Net Income* and *Note 1—Summary of Significant Accounting Policies* to the accompanying combined financial statements for more information.)

Unless otherwise stated, amounts disclosed in this Combined Financial Report represent values rounded to the nearest million; as such, amounts less than one million may not be reflected in this Combined Financial Report.

Forward-Looking Information

Statements contained in this report, including statements describing the objectives, projections, estimates, or future predictions of the FHLBanks and 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. Investors should note that, by their nature, forward-looking statements involve risks or uncertainties, including those set forth in the *Risk Factors* section of this report. Therefore, the actual results could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate, or prediction is realized.

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

- changes in the general economy, employment rates, housing market activity and housing prices, the size and volatility of the residential mortgage market, and uncertainty regarding the European sovereign debt crisis;
- volatility of market prices, interest rates, and indices or other factors that could affect the value of investments or collateral held by the FHLBanks resulting from the effects of, and changes in, various monetary or fiscal policies and regulations, including those determined by the Federal Reserve Board and the FDIC, or a decline in liquidity in the financial markets;
- political events, including legislative, regulatory, judicial, or other developments that affect the FHLBanks, their members, counterparties or investors in the consolidated obligations of the FHLBanks, including changes in the FHLBank Act, housing finance and GSE reform, FHFA actions or regulations that affect FHLBank operations, and regulatory oversight;
- competitive forces, including other sources of funding available to FHLBank members, and other entities borrowing funds in the capital markets;

- demand for FHLBank advances resulting from changes in FHLBank members' deposit flows and credit demands;
- loss of large members and repayment of advances made to those members due to institutional failures, consolidations or withdrawals from FHLBank membership;
- changes in domestic and foreign investor demand for consolidated obligations or the terms of interest-rate exchange agreements and similar agreements, including changes in the relative attractiveness of consolidated obligations as compared to other investment opportunities and changes resulting from any modification of credit ratings;
- the availability of acceptable institutional counterparties for business transactions, including derivative transactions used to manage interest-rate risk;
- the ability to introduce new products and services and successfully manage the risks associated with those products and services, including new types of collateral used to secure advances; and
- the effect of new accounting guidance, including the development of supporting systems and related internal controls.

Neither the FHLBanks nor the Office of Finance undertakes any obligation to publicly update or revise any forward-looking statements contained in this Combined Financial Report, whether as a result of new information, future events, changed circumstances, or any other reason.

Executive Summary

This overview highlights selected information and may not contain all of the information that is important to readers of this Combined Financial Report. For a more complete understanding of events, trends and uncertainties, this executive summary should be read together with the Financial Discussion and Analysis section in its entirety and the FHLBanks' combined financial statements and related notes.

Overview

The FHLBanks are government-sponsored enterprises (GSEs), federally-chartered but privately capitalized and independently managed. The 12 regional FHLBanks together with the Office of Finance, the fiscal agent of the FHLBanks, comprise the FHLBank System. All FHLBanks operate under the supervisory and regulatory framework of the Federal Housing Finance Agency (FHFA). The FHFA's stated mission with respect to the FHLBanks is to provide effective supervision, regulation and housing mission oversight of the FHLBanks to promote their safety and soundness, support housing finance and affordable housing, and support a stable and liquid mortgage market.

The FHLBanks are cooperative institutions, which means that their stockholders are also the FHLBanks' primary customers. FHLBank capital stock is not publicly traded. It is purchased and redeemed by members or repurchased by an FHLBank at a par value of $100 per share. The FHLBank System is designed to expand and contract in asset size as the needs of member financial institutions and their communities change over time.

Each FHLBank's primary business is to serve as a financial intermediary between the capital markets and its members. This intermediation process involves raising funds by issuing debt, known as consolidated obligations, in the capital markets and lending those proceeds to member institutions in the form of loans, known as advances. Each FHLBank's principal funding is obtained from consolidated obligations issued through the Office of Finance on behalf of the FHLBanks. Consolidated obligations are the joint and several obligation of each FHLBank.

As member-owned cooperatives, the FHLBanks seek to maintain a balance between their public policy mission and their goal of providing adequate returns on member capital. The FHLBanks achieve this balance by providing value to their members through advances, other services and dividend payments. The interest spread between the cost of each FHLBank's liabilities and the yield on its assets, combined with the earnings on its capital invested, are the FHLBanks' primary sources of earnings. Due to the FHLBanks' cooperative structures, the FHLBanks generally earn narrow net spreads between the yield on assets and the cost of liabilities incurred to fund those assets.

Credit Ratings

The FHLBank System's ability to raise funds in the capital markets at narrow spreads to the U.S. Treasury yield curve is due largely to the FHLBanks' status as GSEs, which is reflected in its consolidated obligations receiving the same credit rating as the government bond credit rating of the United States even though the consolidated obligations are not obligations of the United States. In addition to ratings on the FHLBanks' consolidated obligations, each FHLBank is rated individually by Standard & Poor's Ratings Services (S&P) and Moody's Investors Service (Moody's). Investors should note that a rating issued by a rating agency is not a recommendation to buy, sell or hold securities and that the ratings may be revised or withdrawn by the rating agency at any time. Investors should evaluate the rating of each rating agency independently. FHLBank debt is neither guaranteed by nor is it the obligation of the United States or any government agency.

On August 5, 2011, S&P lowered its long-term credit rating on the United States from AAA to AA+ with a negative outlook. S&P has indicated that its ratings of the FHLBanks and the FHLBank System are constrained by the long-term credit rating of the United States. On August 8, 2011, S&P downgraded the long-term credit ratings on the senior unsecured debt issues of the FHLBank System and 10 of the 12 FHLBanks from AAA to AA+. The FHLBanks of Chicago and Seattle were already rated as AA+ prior to the United States downgrade. S&P's outlook for the FHLBank System's senior unsecured debt and all 12 FHLBanks is negative. However, S&P's actions did not affect the short-term A-1+ ratings of the FHLBanks and the FHLBank System's short-term debt issues.

On August 2, 2011, Moody's confirmed the Aaa bond rating of the U.S. government following the raising of the U.S. statutory debt limit on August 2, 2011 and changed the rating outlook of the U.S. government to negative. Moody's also confirmed the long-term Aaa rating on the senior unsecured debt issues of the FHLBank System, the 12 FHLBanks, and other ratings Moody's considers directly linked to the U.S. government. Additionally, in conjunction with the revision of the U.S. government outlook to negative, the rating outlook for the FHLBank System and the 12 FHLBanks was also revised to negative.

S&P, Moody's or other rating organizations could further downgrade the U.S. government and, in turn, GSEs, including the FHLBanks. (See *Recent Rating Agency Actions* for additional information.) These rating agency actions have not had a material adverse effect on the FHLBanks' operations, financial position, liquidity or funding costs. However, uncertainty remains regarding possible longer-term effects resulting from these or any future rating agency actions. Any future downgrades in credit ratings and outlook could result in higher funding costs or disruptions in the FHLBanks' access to the capital markets, including additional collateral posting requirements under certain derivative instrument agreements.(See *Note 12—Derivatives and Hedging Activities* - *Managing Credit Risk on Derivatives* to the accompanying combined financial statements.) Furthermore, member demand for certain FHLBank products could weaken. To the extent that the FHLBanks cannot access funding when needed on acceptable terms to effectively manage their cost of funds, their financial condition and results of operations and the value of FHLBank membership may be negatively affected.

Business Environment

The primary external factors that affected the FHLBanks' combined financial condition and operating performance during the year ended December 31, 2011 included: (1) the general state of the economy and financial markets; (2) the conditions in the housing market; (3) interest-rate levels and volatility; and (4) the legislative and regulatory environment. As a result of these factors, during the year ended December 31, 2011, the FHLBanks continued to face challenges with respect to decreasing advance portfolios, low yields on interest-earning assets in the current low interest-rate environment, and the ongoing effect of other-than-temporary impairment (OTTI) related to certain private-label MBS.

Economy and Financial Markets. The FHLBanks' overall results of operations are influenced by the economic and financial markets and, in particular, FHLBanks' member demand for wholesale funding. The slow economic recovery continues to dampen depository members' wholesale borrowing needs. As part of their overall business strategy, the FHLBanks' depository members typically use wholesale funding in the form of advances along with other sources of funding, such as retail deposits, as sources of liquidity to make residential mortgage loans. As demand for residential mortgage loans declined, the FHLBanks members' demand for funding through advances declined. In an effort to strengthen their capital positions, many of these member institutions have reduced the size of their balance sheets, which, along with high retail deposit levels and weak lending activity, has reduced demand for wholesale funding, including FHLBank advances.

During 2011, real gross domestic product (GDP) grew by 1.6% and the domestic economy continued its slow recovery from the recent financial crisis. Since the recovery began in mid-2009, the economy has grown by 6.2%, lifting real GDP 0.7% above its level at the end of 2007, when the financial crisis began. The economic recovery was supported by growth in exports of U.S.-manufactured goods, an increase in automobile production and sales, an increase in residential construction primarily in the fourth quarter of 2011, and growth in business investment in equipment and software. In the labor market, hiring continued to pick up in 2011, and the unemployment rate has moved lower. The private sector created an average of 160,000 jobs per month in 2011, up from 98,000 per month in 2010. At 8.5% in December 2011, the U.S. unemployment rate was the lowest since February 2009.

Despite a number of positive signs in the economy there are still a number of significant downside risks. Exports have contributed to growth since the recovery began, but a slowdown in the global economy and the possibility of a recession in Europe is expected to cut into demand for U.S. goods and services. Concerns about European sovereign and bank debt continue and fears of a longer-term global economic slowdown or recession continue to have adverse effects on consumer and business confidence. At the U.S. state and local government level, finances remain constrained, suggesting an additional fiscal drag on top of planned consolidation at the federal level.

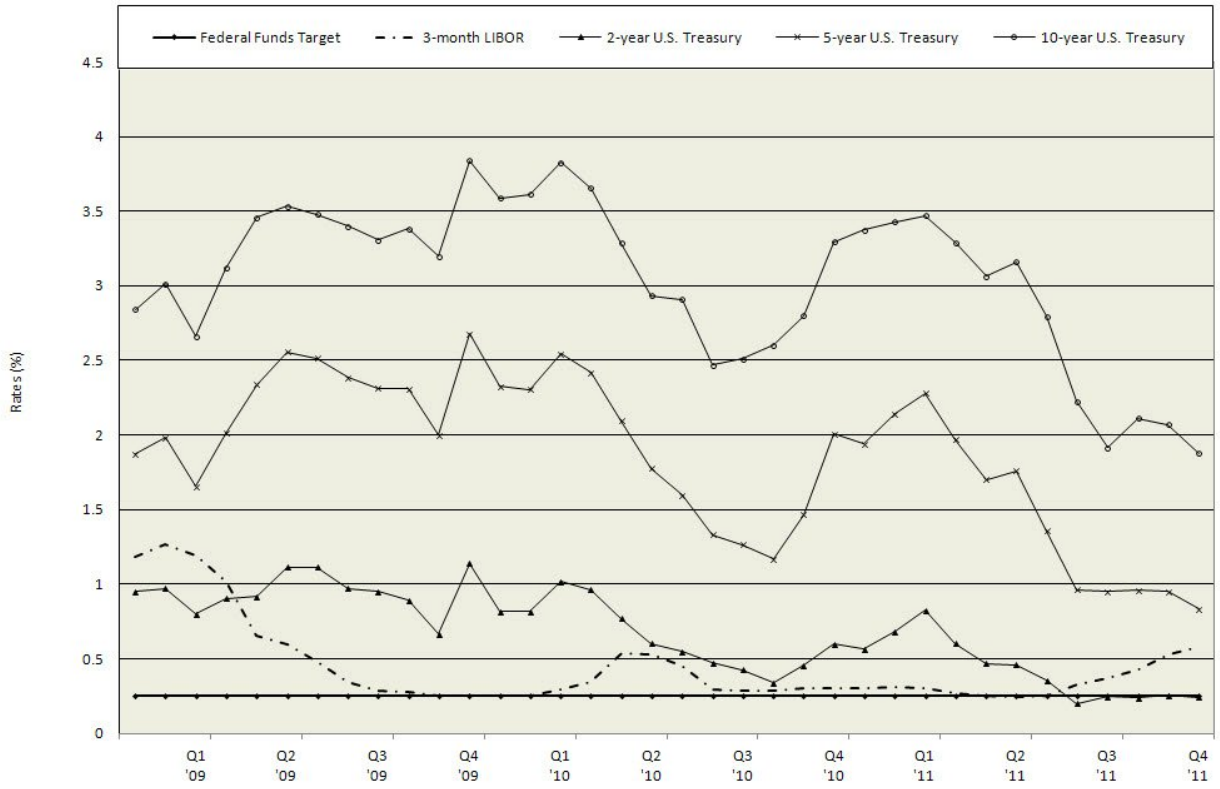
Overall, the financial markets experienced a significant increase in volatility in 2011, triggering a flight-to-quality rally in the capital markets as investors moved away from risky assets in favor of assets like short-term U.S. Treasuries and agency debt securities, such as the FHLBanks' consolidated obligations. The flight-to-quality rally, in combination with the European debt crisis and the reduced funding needs by the FHLBanks, enabled the FHLBank System to maintain ready access to capital at attractive funding costs.

Conditions in Housing Markets. The conditions in the housing markets primarily affect the FHLBanks through the creation of demand for residential mortgage loans from member institutions and the support of loan collateral of private-label mortgage-backed securities. During the year ended December 31, 2011, the housing sector continued to be another source of weakness and vulnerability in the U.S. economy. Home prices continued to be depressed as housing supply remained very high, housing demand was weak, and loan originations and sales volumes were down. Sales of distressed properties, such as foreclosures, real estate owned by financial institutions, and short sales by borrowers behind on their mortgage payments, dampened the market. Widespread negative equity in many local real estate markets also resulted in reduced consumer confidence. Foreclosure workout times have increased dramatically and the current outlook for resolving the backlog of foreclosed properties remains uncertain. Credit availability remained tight for households and residential and commercial builders as a result of tight credit policies and concerns about future returns. The FHLBanks also continued to face uncertainty with respect to certain private-label mortgage-backed securities as a result of actual and projected performance of the loan collateral underlying those securities.

Although the housing market remains weak, recent housing data has been more favorable, suggesting that conditions are starting to improve. Single-family housing starts, permits, and home sales picked up in the last three months of 2011. The inventory of homes for sale has been falling, and home builder confidence, though still very low, has improved notably over the last several months of the year. Mortgage rates are at record low levels, housing affordability is improving and home prices appear to be stabilizing. However, the potential for further declines remains a concern, given the large inventory of homes still in the foreclosure pipeline.

Interest Rate Levels and Volatility. Changes in short-term interest rates affect the FHLBanks' interest income and interest expense because a considerable portion of the FHLBanks' assets and liabilities are either directly or indirectly tied to short-term interest rates such as the federal funds or three-month LIBOR rates. Short-term interest rates also directly affect the FHLBanks through earnings on capital invested. The following chart presents key market interest rates from the first quarter of 2009 through the fourth quarter of 2011.

Key Market Interest Rates



Source: Bloomberg.

During the year ended December 31, 2011, short-term interest rates remained at historic lows while intermediate- and long-term rates showed an upward trend during the first quarter of 2011 and a downward trend for the remainder of 2011.

The Federal Reserve Board, acting through its Federal Open Market Committee, indicated that it will maintain its target range for the federal funds rate at 0.00% to 0.25%, as it continues to anticipate that economic conditions, including low rates of resource utilization and a subdued outlook for inflation over the medium term, are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014. On September 21, 2011, the Federal Reserve Board announced "Operation Twist," which was intended to drive down longer-term interest rates by purchasing longer-dated assets and selling shorter-dated assets. The Federal Reserve also announced plans to reinvest principal payments on its agency debt and MBS holdings back into agency MBS instead of U.S. Treasury securities.

Levels of other short-term interest rates remained very low during the year ended December 31, 2011 and were consistent with their historical relationship to federal funds target rates. On a weighted-average basis, when compared to three-month LIBOR, monthly consolidated bond funding costs moderately improved during 2011, as compared to the same period in 2010.

Market interest rate levels, volatility and credit spreads affect the FHLBanks' profitability. Flattening of the yield curve tends to compress an FHLBank's net interest margin, while a steep yield curve allowed the FHLBanks to continue retiring higher-cost, longer-term consolidated bonds before their final maturities and replace them with lower cost debt. However, the declines in interest rates over the last several years negatively affected the FHLBanks' profitability by resulting in a lower return on interest-earning assets. Based on the average 2-year to 10-year spread, the U.S. Treasury yield curve slightly flattened during the year ended 2011 compared to the year ended 2010. The FHLBanks' net interest margin for the year ended December 31, 2011 was 50 basis points, 5 basis points lower than the net interest margin for the year ended December 31, 2010.

On average, U.S. Treasury yields trended lower during the year ended December 31, 2011. As the FHLBanks issue debt at spreads above U.S. Treasuries, these lower interest rates decrease the cost of issuing FHLBank consolidated obligations, and decrease the related cost of long-term advances to members. The persistence of low interest rates and concerns around the U.S. debt ceiling discussions played a role in the sustained decrease in money market fund balances through early August

2011. Taxable money market funds, which purchase a significant portion of the discount notes and short maturity bonds issued by the FHLBanks, had a decline in assets through early August 2011, but recovered somewhat during the remainder of the third and fourth quarters of 2011.

Legislative and Regulatory Environment.

Dodd-Frank Act. The Dodd-Frank Act provides for new statutory and regulatory requirements for derivative transactions, including those used by each FHLBank to hedge its risk. As a result of these requirements, certain derivative transactions will be required to be cleared through a third-party central clearinghouse.

Housing Finance and GSE Reform. On February 11, 2011, the U.S. Departments of the Treasury and Housing and Urban Development issued a joint report to Congress entitled *Reforming America's Housing Finance Market*. This report's primary focus is to provide options for Congressional consideration regarding the long-term structure of housing finance, including specific reforms for Fannie Mae and Freddie Mac. Although the FHLBanks are not the primary focus of these housing finance reforms, they have been recognized as playing a vital role in helping smaller financial institutions access liquidity and capital to compete in an increasingly competitive marketplace. While none of the legislation introduced so far proposes specific changes to the FHLBanks, the FHLBanks could nonetheless be affected in numerous ways by changes to the U.S. housing finance structure, including changes to Fannie Mae and Freddie Mac.

See *Legislative and Regulatory Developments* for more information.

FHLBanks' Financial Highlights

Financial Condition. Total assets were $766.1 billion at December 31, 2011, a decrease of 12.8% from $878.1 billion at December 31, 2010, led by declines in advances and total investments. Advances declined 12.6% to $418.2 billion resulting from continued low demand by member institutions resulting from the high level of liquidity in the market as well as high levels of deposits and low loan demand experienced at member institutions. Total investments declined 17.9% to $271.3 billion primarily due to reductions in short-term investments and runoff of residential mortgage-backed securities. Mortgage loans declined 12.8% to $53.4 billion as a result of low purchase volumes, principal repayments and the sale of mortgage loans by certain FHLBanks.

FHLBank debt issuance is generally driven by members' needs for advances. During the year ended December 31, 2011, the FHLBanks maintained continual access to funding and adapted their debt issuance to meet the needs of their members. During the year ended December 31, 2011, the FHLBanks' total consolidated obligations outstanding declined 13.0% to $697.1 billion. The decline in consolidated obligations was consistent with the decline in total assets.

The total GAAP capital-to-assets ratio increased 22 basis points to 5.20% at December 31, 2011. However, total GAAP capital decreased 9.0% to $39.8 billion primarily due to the reduction in capital stock outstanding, partially offset by growth in retained earnings and an improvement in accumulated other comprehensive income (loss) (AOCI). The decrease in capital stock outstanding was driven by changes in membership composition, such as mergers, acquisitions and liquidations, as well as the repurchase and redemption of capital stock due to lower advance levels. The combined regulatory capital-to-assets ratio increased 38 basis points to 6.91% at December 31, 2011. However, combined regulatory capital decreased 7.7% to $52.9 billion driven by the reduction in capital stock outstanding, partially offset by growth in retained earnings and an increase in mandatorily redeemable capital stock. Changes in membership composition generally result in the reclassification of capital stock to mandatorily redeemable capital stock, which has no net effect on regulatory capital.

Operating Results. Net income for the year ended December 31, 2011 decreased 23.5% to $1,593 million due to lower net interest income and higher non-interest expense, partially offset by a lower loss recorded in non-interest income (loss) and lower assessments.

Net interest income after provision (reversal) for credit losses for the year ended December 31, 2011 decreased 21.9% to $4,033 million resulting from lower net interest margins and lower average balances on interest-earning assets. Net interest margin narrowed 5 basis points to 0.50% for the year ended December 31, 2011 due to lower net interest spreads, lower yields on capital invested, and lower prepayment fees on advances. Interest income for the year ended December 31, 2011 declined 21.3% driven by lower yields on interest-earning assets; reductions in the average balances of advances, investments and mortgage loans; and lower prepayment fees on advances. Interest expense for the year ended December 31, 2011 declined 21.3% driven by lower interest rates on newer issuances of consolidated obligations, repurchases of higher cost

consolidated bonds prior to maturity, and lower average balances of consolidated obligations.

Non-interest income (loss) for the year ended December 31, 2011 decreased 27.2% to a loss of $1,035 million. Changes in interest rates and market conditions contributed to the net losses recorded in non-interest income (loss) for the year ended December 31, 2011. During the year ended December 31, 2011, the FHLBanks recorded net losses on derivatives and hedging related activities and realized losses on the extinguishment of debt, partially offset by realized gains recorded by certain FHLBanks on the sale of investments and mortgage loans. Also, the FHLBanks recognized $856 million of credit-related OTTI charges for the year ended December 31, 2011, which reflected the impact of additional projected losses on loan collateral underlying certain private-label mortgage-backed securities. Factors that adversely affected projected borrower default rates and projected loan loss severity included the impact of large inventories of unsold homes on current and forecasted housing prices, continued weakness in the economy and in employment, and increased foreclosure costs and delays, resulting in continuing credit losses.

Non-interest expense for the year ended December 31, 2011 increased 13.4% to $1,057 million. The increase for the year ended December 31, 2011 was driven primarily by a second quarter 2010 reversal of the provision for derivative counterparty credit losses and a one-time, $50 million charge during the year ended December 31, 2011.

Assessments for the year ended December 31, 2011 decreased 52.1% to $348 million driven by the satisfaction of the FHLBanks' REFCORP liability and lower net income before assessments.

See *Combined Statement of Condition* and *Combined Results of Operations* for further information.

Combined Statement of Condition

The following discussion contains information on the major categories of the FHLBanks' Combined Statement of Condition, including advances, investments, mortgage loans, consolidated obligations, deposits and capital.

Advances

The FHLBanks provide liquidity to members and eligible non-members through secured loans (advances), thereby increasing the availability of credit for residential mortgages, community investments, and other services for housing and community development. Each FHLBank makes advances based on the security of mortgage loans and other eligible types of collateral pledged by the borrowing institutions.

Table 9 presents advances outstanding by product type, some of which include advances that contain embedded put or call options. A member can either sell an embedded option to an FHLBank or it can purchase an embedded option from an FHLBank. (See *Note 9—Advances* to the accompanying combined financial statements for additional information on putable and callable advances and their potential effect on advance maturities.)

Table 9 - Advances Outstanding by Product Type

(dollars in millions)

	December 31, 2011		December 31, 2010	
	Amount	Percentage of Total	Amount	Percentage of Total
Fixed-rate	$ 256,496	63.6%	$ 269,387	58.1%
Adjustable/variable-rate indexed	93,350	23.2%	119,955	25.8%
Hybrid(1)	25,082	6.2%	39,414	8.5%
Convertible	16,139	4.0%	22,881	4.9%
Amortizing(2)/mortgage-matched	11,649	2.9%	12,334	2.7%
Other advances	570	0.1%	15	—
Total par value	403,286	100.0%	463,986	100.0%
Other(3)	14,871		14,603	
Total	$ 418,157		$ 478,589	

(1) A hybrid advance contains a one-time option to embed either a floor or cap at any time during the life of the advance. A hybrid advance may be either fixed- or variable-rate at the date of issuance.
(2) Amortizing advances include index-amortizing advances, which require repayment in accordance with predetermined amortization schedules linked to various indices. Generally, as market interest rates rise (fall), the maturity of an index-amortizing advance extends (contracts).
(3) Consists of hedging and fair value option valuation adjustments, unamortized premiums, discounts and commitment fees.

The outstanding carrying value of advances declined $60.4 billion or 12.6% from December 31, 2010 to December 31, 2011. This reduction is attributable primarily to decreased member demand, scheduled maturities and continuing prepayments. The percentage of members with outstanding advances decreased to 60.7% at December 31, 2011 compared to 64.9% at December 31, 2010. Advance demand remained weak because of high deposit levels and low demand for loans at member institutions. Additionally, uncertainty about the economic recovery, high unemployment and the weak housing market have contributed to the continuing decline in advance balances.

Table 10 presents cash flows related to advances, illustrating the continued trend of advance repayments exceeding new advance originations, resulting in lower advance balances.

Table 10 - Advance Originations and Repayments

(dollars in millions)

	Year Ended December 31,			Change 2011 vs. 2010		Change 2010 vs. 2009	
	2011	2010	2009	$	%	$	%
Advances originated	$ 1,500,874	$ 1,404,056	$ 3,046,597	$ 96,818	6.9%	$ (1,642,541)	(53.9)%
Advances repaid	1,561,619	1,556,077	3,331,163	5,542	0.4%	(1,775,086)	(53.3)%
Net decrease (increase)	$ (60,745)	$ (152,021)	$ (284,566)				

The FHLBanks lend advances primarily to their members. Table 11 presents the advances at par by type of borrower and Table 12 presents the member borrower by type of member.

Table 11 - Advances at Par Value by Type of Borrower

(dollars in millions)

	December 31, 2011		December 31, 2010	
	Par Value	Percentage of Total Par Value of Advances	Par Value	Percentage of Total Par Value of Advances
Commercial bank members	$ 210,811	52.3%	$ 263,635	56.8%
Thrift members	89,078	22.1%	107,367	23.2%
Insurance company members	46,840	11.6%	45,090	9.7%
Credit union members	24,154	6.0%	26,105	5.6%
Community development financial institution members	39	—	—	—
Total member advances	370,922	92.0%	442,197	95.3%
Non-member borrowers	31,223	7.7%	20,672	4.5%
Housing associates	1,141	0.3%	1,117	0.2%
Total par value	$ 403,286	100.0%	$ 463,986	100.0%

Table 12 - Member Borrowers by Type of Member

	December 31, 2011		December 31, 2010	
	Number	Percentage of Total Member Borrowers	Number	Percentage of Total Member Borrowers
Commercial banks	3,473	73.7%	3,796	74.5%
Thrifts	754	16.0%	797	15.6%
Credit unions	387	8.2%	413	8.1%
Insurance companies	96	2.0%	90	1.8%
Community development financial institutions	5	0.1%	—	—
Total member borrowers	4,715	100.0%	5,096	100.0%
Total members	7,774		7,849	

Table 13 presents the FHLBanks' top ten advance holding borrowers at the holding-company level on a combined basis based on advances outstanding at par at December 31, 2011. The percentage of total advances for each holding company was computed by dividing the par value of advances by subsidiaries of that holding company by the total combined par amount of advances. These percentage concentrations do not represent borrowing concentrations in an individual FHLBank.

Table 13 - Top 10 Advance Holding Borrowers by Holding Company

(dollars in millions)

Holding Company Name(1)	FHLBank Districts(2)	Par Value	Percentage of Total Par Value of Advances
Bank of America Corporation	Boston, New York, Atlanta, Indianapolis, San Francisco, Seattle	$ 26,637	6.6%
JPMorgan Chase & Co.	San Francisco, Seattle	17,770	4.4%
MetLife, Inc.	Boston, New York, Des Moines	17,565	4.4%
Citigroup Inc.	Dallas, San Francisco	15,809	3.9%
Banco Santander, S.A.	New York, Pittsburgh	11,395	2.8%
New York Community Bancorp, Inc.	New York, Cincinnati	9,512	2.4%
BB&T Corporation	Atlanta	9,098	2.3%
Hudson City Bancorp, Inc.	New York	8,925	2.2%
U.S. Bancorp	Cincinnati, Des Moines, Dallas, Topeka, San Francisco	8,042	2.0%
Navy Federal Credit Union	Atlanta	7,605	1.9%
		$ 132,358	32.9%

(1) Holding company information was obtained from the Federal Reserve System's website, the National Information Center (NIC) and SEC filings. The NIC is a central repository of data about banks and other institutions for which the Federal Reserve System has a supervisory, regulatory, or research interest, including both domestic and foreign banking organizations operating in the United States.

(2) Each holding company had subsidiaries with advance borrowings at December 31, 2011 in these FHLBank districts.

Five Largest Advance Holding Borrowers from Each FHLBank. Table 14 presents information on the five largest borrowers from each FHLBank at December 31, 2011. The information presented on borrowings in Table 14 is for individual FHLBank advance holding borrowers. 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 advance holding borrowers but that are not listed in the table. Each FHLBank describes its risk management policies, including disclosures about its concentration risk, if any, in its periodic reports filed with the SEC. (See *Explanatory Statement about Federal Home Loan Banks Combined Financial Report*.)

Table 14 - Top 5 Advance Holding Borrowers by FHLBank at December 31, 2011

(*dollars in millions*)

District	Name	Holding Company Name(1)	Par Value	Percentage of FHLBank Total Par Value of Advances(2)
Boston	RBS Citizens, N.A.		$ 4,620	18.8%
	First Niagara Bank, N.A.(3)		1,514	6.2%
	Webster Bank, National Association		1,252	5.1%
	Massachusetts Mutual Life Insurance Co.		600	2.4%
	Washington Trust Company(4)		541	2.2%
			$ 8,527	34.7%
New York	Metropolitan Life Insurance Company	MetLife, Inc.	$ 11,655	17.4%
	Hudson City Savings Bank, FSB(4)	Hudson City Bancorp, Inc.	8,925	13.3%
	New York Community Bank(4)	New York Community Bancorp, Inc.	8,755	13.1%
	MetLife Bank, N.A.	MetLife, Inc.	4,765	7.1%
	The Prudential Insurance Co. of America		2,424	3.6%
			$ 36,524	54.5%
Pittsburgh	Sovereign Bank	Banco Santander, S.A.	$ 11,095	37.9%
	Ally Bank		5,366	18.3%
	PNC Bank, N.A.(4)		2,500	8.5%
	Susquehanna Bank(4)		967	3.3%
	Northwest Savings Bank		696	2.4%
			$ 20,624	70.4%
Atlanta	Bank of America, National Association	Bank of America Corporation	$ 16,039	19.4%
	Branch Banking and Trust Company(4)	BB&T Corporation	9,098	11.0%
	Navy Federal Credit Union	Navy Federal Credit Union	7,605	9.2%
	SunTrust Bank		7,027	8.5%
	Capital One, National Association		6,373	7.7%
			$ 46,142	55.8%
Cincinnati	U.S. Bank, N.A.	U.S. Bancorp	$ 7,314	26.3%
	PNC Bank, National Association(3)		3,996	14.4%
	Fifth Third Bank		2,533	9.1%
	Protective Life Insurance Company		1,000	3.6%
	Republic Bank & Trust Company		935	3.4%
			$ 15,778	56.8%
Indianapolis	Flagstar Bank, FSB		$ 3,953	22.2%
	Jackson National Life Insurance Company		1,915	10.8%
	Blue Cross Blue Shield of Michigan		1,053	5.9%
	Guggenheim Life and Annuity Company		1,038	5.8%
	American United Life Insurance Company		832	4.7%
			$ 8,791	49.4%

District	Name	Holding Company Name(1)	Par Value	Percentage of FHLBank Total Par Value of Advances(2)
Chicago	BMO Harris Bank National Association		$ 2,375	15.7%
	State Farm Bank, F.S.B.		1,600	10.6%
	Associated Bank, National Association		1,500	9.9%
	The Northern Trust Company(4)		1,001	6.6%
	Bankers Life and Casualty Company		750	4.9%
			$ 7,226	47.7%
Des Moines	Transamerica Life Insurance Company		$ 3,375	13.2%
	Aviva Life and Annuity Company		2,530	9.9%
	TCF National Bank		2,450	9.5%
	ING USA Annuity and Life Insurance Company		1,579	6.2%
	Principal Life Insurance Company		1,250	4.9%
			$ 11,184	43.7%
Dallas	Comerica Bank		$ 2,000	10.9%
	Texas Capital Bank, N.A.		1,200	6.6%
	Beal Bank USA		875	4.8%
	ViewPoint Bank		751	4.1%
	Southside Bank(4)		623	3.4%
			$ 5,449	29.8%
Topeka	Capitol Federal Savings Bank		$ 2,550	15.1%
	MidFirst Bank		2,195	13.0%
	Security Life of Denver Insurance Co.		1,640	9.8%
	Security Benefit Life Insurance Co.		1,259	7.5%
	Pacific Life Insurance Company		1,000	5.9%
			$ 8,644	51.3%
San Francisco	JPMorgan Bank & Trust Company, National Association	JPMorgan Chase & Co.	$ 16,100	23.9%
	Citibank, NA(3)	Citigroup Inc.	15,808	23.4%
	Bank of America California, N.A.	Bank of America Corporation	5,850	8.7%
	Bank of the West		4,611	6.8%
	OneWest Bank, FSB		4,190	6.2%
			$ 46,559	69.0%
Seattle	Bank of America Oregon, NA	Bank of America Corporation	$ 4,251	39.0%
	Washington Federal Savings and Loan Association		1,950	17.9%
	Capmark Bank		391	3.6%
	Sterling Savings Bank		304	2.8%
	Umpqua Bank		245	2.3%
			$ 7,141	65.6%

(1) The holding company is only shown for each Top 5 advance holding borrower that has its holding company listed in Table 13 - Top 10 Advance Holding Borrowers by Holding Company.
(2) For consistency with the individual FHLBank's presentation of its Top 5 advance holders at December 31, 2011, amounts used to calculate percentages of FHLBank advances may be based on numbers in thousands. Accordingly, recalculations using the amounts in millions as presented in this report may not produce the same results.
(3) Non-member advance holding borrower.
(4) Indicates that an officer or director of the member was an FHLBank director at December 31, 2011.

Investments

The FHLBanks maintain investment portfolios for liquidity purposes, to use balance sheet capacity and to provide additional earnings. This investment income bolsters the FHLBanks' capacity to meet their commitments to affordable housing and community investment, and to cover operating expenses. Table 15 presents the composition of investments and investment securities as of December 31, 2011, 2010 and 2009.

Table 15 - Investments by Contractual Maturity

(dollars in millions)

	December 31,						
	2011					2010	2009
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Carrying Value	Carrying Value	Carrying Value
Interest-bearing deposits(1)	$ 1,205	$ 2	$ —	$ —	$ 1,207	$ 9	$ 11
Securities purchased under agreements to resell	12,675	—	—	—	12,675	16,400	7,175
Federal funds sold	41,139	—	—	—	41,139	75,855	54,597
Trading Securities							
Trading non-mortgage-backed securities							
U.S. Treasury obligations	1,061	—	—	—	1,061	3,068	1,029
Commercial paper	599	—	—	—	599	2,349	2,590
Certificates of deposit	1,020	—	—	—	1,020	7,075	3,200
Other U.S. obligations	—	—	—	9	9	—	—
Government-sponsored enterprises and Tennessee Valley Authority obligations	5,011	4,128	494	64	9,697	12,355	9,452
State or local housing agency obligations	—	1	2	—	3	3	10
Temporary Liquidity Guarantee Program debentures and promissory notes	5,179	—	—	—	5,179	2,126	4,479
Other(2)	10	—	78	208	296	271	752
Total trading non-mortgage-backed securities	12,880	4,129	574	281	17,864	27,247	21,512
Trading mortgage-backed securities							
Other U.S. obligations residential MBS(3)	—	—	1	42	43	49	55
Government-sponsored enterprises residential MBS	1	—	13	535	549	765	607
Government-sponsored enterprises commercial MBS	—	14	235	—	249	230	73
Total trading mortgage-backed securities	1	14	249	577	841	1,044	735
Total trading securities	12,881	4,143	823	858	18,705	28,291	22,247
Available-for-Sale Securities							
Available-for-sale non-mortgage-backed securities							
Certificates of deposit	3,954	—	—	—	3,954	5,790	9,270
Other U.S. obligations(4)	—	103	511	626	1,240	984	762
Government-sponsored enterprises and Tennessee Valley Authority obligations	3,410	5,398	5,535	638	14,981	11,177	4,310
Temporary Liquidity Guarantee Program debentures and promissory notes	9,546	—	—	—	9,546	10,576	3,299
Federal Family Education Loan Programs ABS	—	—	65	8,094	8,159	8,799	9,323
Other(5)	228	—	6	706	940	577	396
Total available-for-sale non-mortgage-backed securities	17,138	5,501	6,117	10,064	38,820	37,903	27,360

	December 31,						
	2011					2010	2009
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Carrying Value	Carrying Value	Carrying Value
Available-for-sale mortgage-backed securities							
Other U.S. obligations residential MBS(3)	—	—	82	3,036	3,118	3,179	1,620
Government-sponsored enterprises residential MBS	18	625	11,775	9,343	21,761	22,012	17,489
Government-sponsored enterprises commercial MBS	—	103	50	—	153	303	310
Private-label residential MBS	—	—	8	14,187	14,195	8,047	5,695
Home equity loan ABS	—	—	—	15	15	15	14
Total available-for-sale mortgage-backed securities	18	728	11,915	26,581	39,242	33,556	25,128
Total available-for-sale securities	17,156	6,229	18,032	36,645	78,062	71,459	52,488
Held-to-Maturity Securities							
Held-to-maturity non-mortgage-backed securities							
Commercial paper	1,800	—	—	—	1,800	2,500	1,100
Certificates of deposit	7,209	—	—	—	7,209	13,176	13,263
Other U.S. obligations(6)	351	50	572	1,286	2,259	1,468	474
Government-sponsored enterprises and Tennessee Valley Authority obligations	517	1,789	—	310	2,616	3,171	1,662
State or local housing agency obligations	62	52	124	1,987	2,225	2,477	2,789
Temporary Liquidity Guarantee Program debentures and promissory notes	3,295	—	—	—	3,295	3,379	2,373
Other	—	2	—	—	2	4	7
Total held-to-maturity non-mortgage-backed securities	13,234	1,893	696	3,583	19,406	26,175	21,668
Held-to-maturity mortgage-backed securities							
Other U.S. obligations residential MBS(7)	—	1	2,291	7,152	9,444	8,547	4,109
Other U.S. obligations commercial MBS(7)	—	—	2	519	521	53	55
Government-sponsored enterprises residential MBS	—	363	8,170	62,772	71,305	72,361	78,536
Government-sponsored enterprises commercial MBS	185	621	2,704	—	3,510	1,780	1,106
Private-label residential MBS	—	3	1,575	13,134	14,712	28,776	40,594
Private-label commercial MBS	—	—	—	48	48	160	284
Manufactured housing loan ABS	—	—	—	171	171	196	224
Home equity loan ABS	—	—	—	360	360	408	1,257
Total held-to-maturity mortgage-backed securities	185	988	14,742	84,156	100,071	112,281	126,165
Total held-to-maturity securities	13,419	2,881	15,438	87,739	119,477	138,456	147,833
Total investment securities	43,456	13,253	34,293	125,242	216,244	238,206	222,568
Total investments	$ 98,475	$ 13,255	$ 34,293	$ 125,242	$ 271,265	$ 330,470	$ 284,351

	December 31,						
	2011					2010	2009
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Carrying Value	Carrying Value	Carrying Value
Total Investment Securities by Major Security Type							
Investment securities non-mortgage-backed securities							
U.S. Treasury obligations	$ 1,061	$ —	$ —	$ —	$ 1,061	$ 3,068	$ 1,029
Commercial paper	2,399	—	—	—	2,399	4,849	3,690
Certificates of deposit	12,183	—	—	—	12,183	26,041	25,733
Other U.S. obligations	351	153	1,083	1,921	3,508	2,452	1,236
Government-sponsored enterprises and Tennessee Valley Authority obligations	8,938	11,315	6,029	1,012	27,294	26,703	15,424
State or local housing agency obligations	62	53	126	1,987	2,228	2,480	2,799
Temporary Liquidity Guarantee Program debentures and promissory notes	18,020	—	—	—	18,020	16,081	10,151
Federal Family Education Loan Programs ABS	—	—	65	8,094	8,159	8,799	9,323
Other	238	2	84	914	1,238	852	1,155
Total investment securities non-mortgage-backed securities	43,252	11,523	7,387	13,928	76,090	91,325	70,540
Investment securities mortgage-backed securities							
Other U.S. obligations residential MBS	—	1	2,374	10,230	12,605	11,775	5,784
Other U.S. obligations commercial MBS	—	—	2	519	521	53	55
Government-sponsored enterprises residential MBS	19	988	19,958	72,650	93,615	95,138	96,632
Government-sponsored enterprises commercial MBS	185	738	2,989	—	3,912	2,313	1,489
Private-label residential MBS	—	3	1,583	27,321	28,907	36,823	46,289
Private-label commercial MBS	—	—	—	48	48	160	284
Manufactured housing loan ABS	—	—	—	171	171	196	224
Home equity loan ABS	—	—	—	375	375	423	1,271
Total investment securities mortgage-backed securities	204	1,730	26,906	111,314	140,154	146,881	152,028
Total investment securities	$ 43,456	$ 13,253	$ 34,293	$ 125,242	$ 216,244	$ 238,206	$ 222,568
Yield on trading securities	0.76%	3.40%	4.58%	3.53%			
Yield on available-for-sale securities	0.46%	1.92%	3.73%	3.41%			
Yield on held-to-maturity securities	0.49%	2.46%	3.28%	2.54%			
Yield on investment securities	0.56%	2.49%	3.54%	2.80%			

(1) Primarily consists of deposits with Branch Banking and Trust Company by the FHLBank of Atlanta at December 31, 2011. Branch Banking and Trust Company was one of the top ten borrowers of the FHLBank of Atlanta and the FHLBank System. One of the FHLBank of Atlanta's member directors is a senior executive vice president of Branch Banking and Trust Company.
(2) Primarily consists of taxable municipal bonds.
(3) Primarily consists of mortgage-backed securities issued or guaranteed by Government National Mortgage Association (Ginnie Mae).
(4) Primarily consists of debt securities issued or guaranteed by Small Business Administration (SBA) and Export-Import Bank of the U.S. (Ex-Im Bank).
(5) Primarily consists of taxable municipal bonds, debentures issued by Inter-American Development Bank (IDB) and debt securities issued by International Bank for Reconstruction and Development (IBRD).
(6) Primarily consists of debt securities issued or guaranteed by SBA and National Credit Union Administration (NCUA).
(7) Primarily consists of mortgage-backed securities issued or guaranteed by Ginnie Mae, NCUA, and SBA.

Total investments decreased by $59.2 billion from December 31, 2010 to December 31, 2011 due to a net decrease of $22.0 billion in investment securities and a net $37.2 billion decrease in interest-bearing deposits, securities purchased under agreements to resell and Federal funds sold. The decline in total investments was consistent with the decline in total assets and was driven by reductions in short-term investments and runoff of residential mortgage-backed securities.

Short-term Investments. The FHLBanks maintain short-term investment portfolios, which may provide funds to meet the credit needs of their members. These portfolios may include:

- interest-bearing deposits;
- securities purchased under agreements to resell;
- Federal funds sold;
- U.S. Treasury obligations;
- commercial paper;
- certificates of deposit; and
- GSE obligations.

The yield earned on these short-term investments is tied directly to short-term market interest rates. At December 31, 2011, the FHLBanks continued to maintain significant short-term investment balances as part of their ongoing strategy and to satisfy regulatory liquidity requirements.

Long-term Investments. The FHLBanks also enhance interest income and cover operating expenses by holding long-term investments. These investments generally provide the FHLBanks with higher returns than those available on short-term investments.

Gross Unrealized Losses on Mortgage-Backed Securities. Gross unrealized losses, including the net effect of non-credit-related OTTI recognized in AOCI, on the FHLBanks' available-for-sale (AFS) MBS increased $1.9 billion from December 31, 2010 to December 31, 2011, which primarily related to private-label residential MBS and private-label commercial MBS, manufactured housing loan asset-backed securities (ABS) and home equity loan ABS (collectively referred to as private-label mortgage-backed securities). This increase was primarily driven by the transfers of certain private-label residential MBS that had OTTI losses recorded during the year ended December 31, 2011 from each affected FHLBank's held-to-maturity (HTM) portfolio to its AFS portfolio. These transfers allow management the option to decide to sell these securities prior to maturity in response to changes in interest rates, changes in prepayment risk or other factors, while recognizing management's intent to hold these securities for an indefinite period of time.

Gross unrealized losses, including the net effect of non-credit-related OTTI recognized in AOCI, on the FHLBanks' HTM MBS decreased $3.6 billion from December 31, 2010 to December 31, 2011, of which $3.4 billion related to private-label mortgage-backed securities. This decrease is primarily a result of transfers of certain private-label residential MBS that had OTTI losses from each affected FHLBank's HTM portfolio to its AFS portfolio. Contributing to the decrease was the accretion of the non-credit portion of impairment losses of HTM securities that had experienced non-credit-related OTTI in previous quarters. For these securities, the non-credit-related impairment is accreted prospectively, based on the amount and timing of future cash flows, over the remaining life of the security as an increase in its carrying value. There is no effect on earnings unless the security is subsequently sold or there are additional decreases in cash flows expected to be collected. (See *Note 6—Available-for-Sale Securities* and *Note 7—Held-to-Maturity Securities* to the accompanying combined financial statements for discussion of those securities with unrealized losses.)

OTTI on Investment Securities. Each FHLBank evaluates its individual AFS and HTM investment securities holdings for OTTI on a quarterly basis. Private-label mortgage-backed securities are those investment securities that generally carry the greatest risk of loss. For the year ended December 31, 2011, affected FHLBanks recognized $856 million of net OTTI losses related to AFS and HTM private-label mortgage-backed securities. For the year ended December 31, 2010, affected FHLBanks recognized $1,071 million of net OTTI losses related to AFS and HTM private-label mortgage-backed securities. The net OTTI losses related to AFS and HTM private-label mortgage-backed securities for the years ended December 31, 2011 and 2010 were recognized after each of these FHLBanks determined that it was likely that it would not recover the entire amortized cost basis of each of these securities.

In addition to those securities with OTTI, the FHLBanks have certain private-label mortgage-backed securities in unrealized loss positions at December 31, 2011. However, these declines are considered temporary, as each of the affected FHLBanks expects to recover the entire amortized cost basis on these securities and neither intends to sell these securities, nor considers it more likely than not that it would be required to sell these securities before its anticipated recovery of each security's remaining amortized cost basis. The FHLBanks' portfolio monitoring is ongoing, and further deterioration in delinquency rates, loss rates and real estate values may cause an additional increase in recognized losses on investment securities.

See *Critical Accounting Estimates - OTTI for Investment Securities*, *Risk Management - Credit Risk - Investments*, and *Note 8—Other-than-Temporary Impairment Analysis* to the accompanying combined financial statements for additional information.

Mortgage-Backed Securities to Total Regulatory Capital Ratio. Current regulatory policy prohibits an FHLBank from purchasing MBS if its investment in MBS exceeds 300% of that FHLBank's previous month-end regulatory capital on the day it purchases the securities. On March 24, 2008, the Federal Housing Finance Board temporarily increased this limit from 300% to 600% for certain kinds of MBS under certain conditions; this temporary increase expired on March 31, 2010. At December 31, 2011, each of the FHLBanks of Chicago, Des Moines, Dallas and Topeka had MBS holdings in excess of the current investment limit and are precluded from purchasing additional MBS investments until their respective MBS ratio declines below 300%. Each of these FHLBanks was not required to sell any previously purchased MBS that were in compliance with the applicable limit at the time of purchase. Each of the remaining FHLBanks was in compliance with the regulatory limit at the time of its respective MBS purchases and at December 31, 2011. The ratio of MBS (net of regulatory excluded MBS) to total regulatory capital and the Designated Amount of subordinated notes, for the FHLBanks on a combined basis at December 31, 2011 was 2.6.

In addition to this limitation, in connection with the approval of the FHLBank of Chicago's capital plan, the FHFA now requires and the FHLBank of Chicago board of directors has resolved that the FHLBank of Chicago obtain FHFA approval for any new investments that have a term to maturity in excess of 270 days until such time as the FHLBank of Chicago's MBS portfolio is less than three times its total regulatory capital and its advances represent more than 50% of its total assets.

Mortgage Loans Held for Portfolio, Net

The FHLBanks purchase mortgage loans to support the FHLBanks' housing mission, diversify their investments and provide an additional source of liquidity to FHLBank members. The two primary programs are the Mortgage Purchase Program (MPP) and the Mortgage Partnership Finance® (MPF) Program. (See *Risk Management - Credit Risk - Mortgage Loans Held for Portfolio* for more information.)

Table 16 - Mortgage Loans Held for Portfolio, Net

(dollars in millions)

	December 31, 2011	December 31, 2010	Change
Mortgage loans held for portfolio	$ 53,515	$ 61,277	$ (7,762)
Allowance for credit losses on mortgage loans	(138)	(86)	(52)
Total mortgage loans held for portfolio, net	$ 53,377	$ 61,191	$ (7,814)

Mortgage Loans Held for Portfolio. The mortgage loans held for portfolio balance continued to decline from December 31, 2010 primarily due to the following:

- low purchase volume due to difficulties in the housing and mortgage markets and certain FHLBanks no longer accepting additional Master Commitments or purchasing additional mortgage loans (see *Note 10—Mortgage Loans* to the accompanying combined financial statements for more information);
- principal paydowns; and
- the FHLBank of Seattle's sale of $1.3 billion of mortgage loans on July 26, 2011. (See *Note 10—Mortgage Loans* to the accompanying combined financial statements for more information.)

Allowance for Credit Losses on Mortgage Loans. Periodically, each FHLBank evaluates the allowance for credit losses for its mortgage loans based on its policies and procedures to determine if an allowance for credit losses is necessary. The allowance for credit losses on mortgage loans increased $52 million compared to the balance at December 31, 2010. The FHLBanks generally increased their individual allowance for credit losses on mortgage loans during 2011 primarily in response to ongoing deterioration in home prices nationwide, costs associated with delays in foreclosure proceedings and the increase in loan foreclosures in many areas of the country.

Table 17 - Mortgage Loans Held for Portfolio - Characteristics and Credit Losses

(dollars in millions)

	December 31,(1)				
	2011	2010	2009	2008	2007
Total past due 90 days or more and still accruing interest	$ 729	$ 820	$ 946	$ 578	$ 414
Non-accrual loans(2)	$ 674	$ 535	$ 371	$ 165	$ 86
Troubled debt restructurings (not included above)	$ 21	$ 6	$ —	$ —	$ —

	Year Ended December 31,				
	2011	2010	2009	2008	2007
Allowance for credit losses, beginning of period	$ 86	$ 32	$ 15	$ 8	$ 7
Charge-offs	(20)	(6)	(1)	(1)	—
Provision for credit losses(3)	72	60	18	8	1
Allowance for credit losses, end of period	$ 138	$ 86	$ 32	$ 15	$ 8

(1) Balances reflect unpaid principal balance.
(2) Non-accrual mortgage loans are defined as conventional mortgage loans where either (a) the collection of interest or principal is doubtful, or (b) interest or principal is past due for 90 days or more, except when the loan is well secured and in the process of collection.
(3) The provision for credit losses includes only the provision related specifically to mortgage loans and does not include the reversal for credit losses related to Banking on Business loans specific to the FHLBank of Pittsburgh of $1 million and $2 million for the years ended December 31, 2011 and 2010.

Table 18 - Interest Shortfall on Nonaccrual Loans and Loans Modified in Troubled Debt Restructurings

(dollars in millions)

	Year Ended December 31,				
	2011	2010	2009	2008	2007
Gross amount of interest that would have been recorded based on original terms	$ 30	$ 22	$ 16	$ 7	$ 5
Interest actually recognized in income during the period	11	9	7	3	2
Shortfall	$ 19	$ 13	$ 9	$ 4	$ 3

See *Note 11—Allowance for Credit Losses* to the accompanying combined financial statements and *Combined Results of Operations - Net Interest Income after Provision (Reversal) for Credit Losses* for more information.

Consolidated Obligations

Consolidated obligations consist of consolidated obligation bonds (consolidated bonds) and consolidated obligation discount notes (consolidated discount notes), which are debt instruments issued through the Office of Finance. Consolidated obligations are the principal funding source used by the FHLBanks to make advances and to purchase mortgage loans and investments.

Consolidated bonds are issued primarily to raise intermediate- and long-term funds. Consolidated bonds generally carry fixed- or variable-rate payment terms and have maturities typically ranging from one month to 30 years.

Consolidated discount notes are issued primarily to provide short-term funding. These consolidated discount notes presently have a maturity range of one day through one year, are sold at a discount and mature at par. Much of the consolidated discount note activity reflects the refinancing of overnight discount notes.

Table 19 - Consolidated Obligations Outstanding

(dollars in millions)

	December 31, 2011	December 31, 2010	Change
Par value of consolidated obligations due in 1 year or less			
Consolidated discount notes	$ 190,175	$ 194,478	$ (4,303)
Consolidated bonds	228,480	264,479	(35,999)
Total	418,655	458,957	(40,302)
Par value of long-term consolidated bonds(1)	273,004	337,224	(64,220)
Total par value	691,659	796,181	(104,522)
Other(2)	5,465	4,817	648
Total consolidated obligations	$ 697,124	$ 800,998	$ (103,874)

(1) Includes $3.4 billion and $4.5 billion of index-amortizing notes as of December 31, 2011 and December 31, 2010.
(2) Consists of hedging and fair value option valuation adjustments, and unamortized premiums and discounts.

Table 20 presents cash flows related to consolidated obligations, which illustrates the continued trend of payments exceeding proceeds, resulting in lower consolidated obligation balances.

Table 20 - Net Proceeds and Payments for Consolidated Obligations

(dollars in millions)

	Year Ended December 31,			Change	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Net proceeds from issuance of consolidated obligations					
Discount notes	$ 4,142,368	$ 6,754,406	$ 7,200,128	$ (2,612,038)	$ (445,722)
Bonds	409,216	533,165	506,688	(123,949)	26,477
Net proceeds	4,551,584	7,287,571	7,706,816	$ (2,735,987)	$ (419,245)
Net payments for maturing and retiring consolidated obligations					
Discount notes	(4,146,626)	(6,758,372)	(7,440,075)	$ (2,611,746)	$ (681,703)
Bonds	(509,255)	(662,620)	(582,306)	(153,365)	80,314
Net payments	(4,655,881)	(7,420,992)	(8,022,381)	$ (2,765,111)	$ (601,389)
Net decrease	$ (104,297)	$ (133,421)	$ (315,565)		

During the year ended December 31, 2011, the daily average balance outstanding for consolidated discount notes and consolidated bonds with original maturities of one year or less decreased when compared to the daily average balance for the years ended December 31, 2010 and 2009 due to a decrease in demand for advances by the FHLBanks' members during the year ended December 31, 2011.

Table 21 - Short-Term Consolidated Obligations Outstanding

(dollars in millions)

	Consolidated Discount Notes(1)			Consolidated Bonds With Original Maturities of One Year or Less(2)		
	2011	2010	2009	2011	2010	2009
Outstanding at end of the period	$ 190,149	$ 194,431	$ 198,532	$ 73,325	$ 72,452	$ 145,881
Weighted-average interest rate at end of the period	0.05%	0.15%	0.18%	0.17%	0.33%	0.61%
Daily average outstanding for the period	$ 181,590	$ 192,613	$ 338,359	$ 74,643	$ 86,918	$ 157,083
Weighted-average interest rate for the period	0.29%	0.35%	0.64%	0.25%	0.45%	1.15%
Highest outstanding at any month-end	$ 192,798	$ 206,702	$ 446,180	$ 85,297	$ 135,591	$ 172,114

(1) Values are derived using the carrying value of the consolidated discount notes.
(2) Values are derived using the par value of the consolidated bonds.

Consolidated Bonds. Consolidated bonds often have investor-determined features. The decision to issue a consolidated bond using a particular structure is based upon the desired amount of funding and the ability of the FHLBank(s) receiving the proceeds of the consolidated bonds issued to hedge the risks. The issuance of a consolidated bond with a simultaneously-transacted interest-rate exchange agreement usually results in a funding vehicle with a lower cost than an FHLBank could otherwise achieve. The continued attractiveness of such debt/swap transactions depends on price relationships in both the consolidated bond and interest-rate exchange markets. If conditions in these markets change, the FHLBanks may alter the types or terms of the bonds issued. The increase in funding alternatives available to the FHLBanks through negotiated debt/swap transactions is beneficial to the FHLBanks because it may diversify the investor base, reduce funding costs and provide additional asset/liability management tools.

Table 22 - Par Value of Consolidated Bonds Outstanding by Payment Terms

(dollars in millions)

	December 31, 2011		December 31, 2010	
	Par Value(1)	Percentage of Total	Par Value(1)	Percentage of Total
Fixed-rate, noncallable	$ 326,872	65.1%	$ 354,082	58.7%
Fixed-rate, callable	93,367	18.6%	109,687	18.2%
Single-index, non-capped variable-rate	49,958	10.0%	94,957	15.8%
Step-up/step-down	24,598	4.9%	36,507	6.1%
Index-amortizing notes	3,383	0.7%	4,540	0.8%
Other(2)	3,514	0.7%	2,123	0.4%
Total	$ 501,692	100.0%	$ 601,896	100.0%

(1) Consolidated bonds outstanding have not been adjusted for interbank holdings totaling $208 million at December 31, 2011 and $193 million at December 31, 2010.
(2) Primarily consists of conversion, capped variable-rate and range consolidated bonds.

The types of consolidated bonds issued can fluctuate based on comparative changes in their cost levels, supply and demand conditions, advance demand and the FHLBanks' individual balance sheet management strategies. On a combined basis, the FHLBanks generally relied on negotiated bullet and swapped callable bonds for the majority of its bond funding needs during the year ended December 31, 2011.

Table 23 - Percentage of Total Consolidated Bonds Issued by Bond Type

	Year Ended December 31,		
	2011	2010	2009
Fixed-rate, callable	42.9%	42.6%	26.3%
Fixed-rate, fixed-term, noncallable (bullet)	36.5%	27.9%	40.8%
Step-up/step-down(1)	12.2%	13.1%	11.8%
Single-index, variable-rate	7.4%	15.4%	20.4%
Other	1.0%	1.0%	0.7%
Total	100.0%	100.0%	100.0%

(1) Primarily consists of callable step-up bonds.

The FHLBanks may use callable swaps to hedge against the interest-rate risk associated with the callable bonds. The hedged callable bond is generally called if the call feature of the derivative is exercised. These call features could require the FHLBanks to refinance a substantial portion of outstanding liabilities during times of decreasing interest rates. Call options on unhedged callable consolidated bonds generally are exercised when the bond can be replaced at a lower cost. The callable bond enables the FHLBanks to meet its funding needs at costs not otherwise directly attainable solely through the issuance of non-callable debt.

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

- advances with short-term maturities or repricing intervals;

- convertible advances or callable/putable advance programs;
- variable-rate advance programs; or
- money-market investments.

Debt Financing Activity. The FHLBanks have diversified sources and channels of funding based on the need for funding from the capital markets. The Global Debt Program issued $161.4 billion and $282.5 billion at par in term funds during the years ended December 31, 2011 and 2010. The TAP Issue Program consolidates issuances through daily auctions of bullet consolidated bonds of common maturities by re-opening previously issued consolidated bonds. TAP issues generally remain open for three months, after which a new series of TAP issues is opened to replace them. This program has reduced the number of separate bullet consolidated bonds issued, but more importantly has enhanced market awareness through increased issue size and secondary market activity, while providing enhanced funding diversification for the FHLBanks. Through this program, the Office of Finance seeks to enhance the liquidity of these issues. During the year ended December 31, 2011, $14.4 billion of consolidated bonds were issued through the TAP Issue Program. This issuance represents a decrease of $16.5 billion from the year ended December 31, 2010. The decline in TAP issuance during the year ended December 31, 2011 is due to more attractive funding opportunities available through the bond negotiation process, the increased issuance of shorter-term bonds and an overall reduction in the funding needs of the FHLBanks due to a decrease in demand for advances by the FHLBanks' members.

Consolidated bonds can be negotiated individually or auctioned competitively through approximately 75 underwriters. Consolidated bonds can be offered daily through auction and include fixed-rate bullets (through the TAP Issue Program) and American-style callables, which are bonds that are redeemable continuously on and after the first redemption date until maturity. Underwriters may contact the Office of Finance if there is a structure/dollar target they need to meet investor demand, although many times they negotiate directly with the FHLBanks. Competitively-bid transactions are generally initiated when an FHLBank needs funds of a particular structure and size. Dealers are invited to bid and the trade is executed by the Office of Finance if the FHLBank's funding parameters are satisfied.

Table 24 - Percentage of Total Consolidated Bonds Issued by Transaction Type

	Year Ended December 31,		
	2011	2010	2009
Negotiated transactions	88.9%	84.0%	89.8%
Competitive bid	11.1%	16.0%	10.2%
Total	100.0%	100.0%	100.0%

Deposits

The FHLBanks offer demand, overnight and term deposit programs to their members and to qualifying non-members. At December 31, 2011, deposits totaled $12.6 billion, a decrease of $1.8 billion or 12.8% from December 31, 2010. These deposits represent a relatively small portion of the FHLBanks' funding. Deposits vary depending upon market factors, such as the attractiveness of the FHLBanks' deposit pricing relative to the rates available on alternative money market instruments, FHLBank members' investment preferences with respect to the maturity of their investments and FHLBank members' liquidity. Interest-bearing demand and overnight deposits comprised 93.9% and 88.7% of deposits at December 31, 2011 and December 31, 2010, with the remaining deposits primarily being term deposits and non-interest bearing deposits.

Table 25 presents term deposits issued in amounts of $100 thousand or more at December 31, 2011 and 2010.

Table 25 - Term Deposits Issued in Amounts of $100,000 or More

(dollars in millions)

	December 31, 2011	December 31, 2010
3 months or less	$ 111	$ 511
Over 3 months through 6 months	48	525
Over 6 months through 12 months	97	58
Over 12 months	35	31
Total	$ 291	$ 1,125

Capital

Table 26 - Total Capital and Capital-to-Assets Ratios

(dollars in millions)

	December 31, 2011	December 31, 2010	Change
Capital stock	$ 35,542	$ 41,735	$ (6,193)
Retained earnings	8,577	7,552	1,025
AOCI	(4,298)	(5,546)	1,248
Total GAAP capital	39,821	43,741	(3,920)
Exclude:			
AOCI	4,298	5,546	(1,248)
Add:			
Mandatorily redeemable capital stock	8,013	7,066	947
Subordinated notes(1)	800	1,000	(200)
Other(2)	4	3	1
Total regulatory capital	$ 52,936	$ 57,356	$ (4,420)
Total assets	$ 766,086	$ 878,109	$ (112,023)
GAAP capital-to-assets ratio	5.20%	4.98%	
Regulatory capital-to-assets ratio	6.91%	6.53%	

(1) Consists of the Designated Amount of subordinated notes of $800 million as of December 31, 2011 and $1.0 billion as of December 31, 2010, which the FHLBank of Chicago was allowed to include in determining compliance with its regulatory capital requirements. (See *Note 19—Capital* to the accompanying combined financial statements for information on regulatory capital requirements.)

(2) Includes rounding adjustments.

GAAP Capital. During the year ended December 31, 2011, the total GAAP capital-to-assets ratio increased 22 basis points to 5.20%, driven primarily by the 12.8% decrease in total assets. However, total GAAP capital decreased 9.0% to $39.8 billion primarily due to the reduction in capital stock outstanding, partially offset by an improvement in AOCI and growth in retained earnings.

Capital Stock. The decrease in total capital stock outstanding was driven primarily by capital stock repurchases/redemptions of $7,662 million, largely due to the repayment of advances because an FHLBank member's capital stock requirement is generally based on its use of FHLBank products, including advances, and net shares reclassified to mandatorily redeemable capital stock of $3,430 million, driven by changes in membership composition, such as mergers, acquisitions and liquidations, partially offset by capital stock issuances of $4,867 million.

AOCI. The improvement in AOCI was driven primarily by $645 million in subsequent net fair value increases on previously other-than-temporarily impaired AFS securities, $584 million in reclassification of previous non-credit OTTI losses on HTM and AFS securities from AOCI into credit losses, $581 million in accretion of the non-credit portion of OTTI losses on HTM securities, and $431 million in net fair value increases on AFS securities not classified as other-than-temporarily impaired, partially offset by $572 million in net fair value decreases related to cash flow hedging activities and the non-credit portion of OTTI losses of $334 million.

Retained Earnings. The increase in retained earnings was driven by net income of $1,593 million, partially offset by cash dividends of $536 million.

Regulatory Capital. During the year ended December 31, 2011, the combined regulatory capital-to-assets ratio increased 38 basis points to 6.91%, driven primarily by the 12.8% decrease in total assets. However, combined regulatory capital decreased 7.7% to $52.9 billion driven primarily by the reduction in capital stock outstanding (net of reclassifications from mandatorily redeemable capital stock), partially offset by growth in retained earnings.

Table 27 - GAAP Capital Components as a Percentage of Total Capital

	December 31, 2011	December 31, 2010
Capital stock	89.3 %	95.4 %
Retained earnings	21.5 %	17.3 %
AOCI	(10.8)%	(12.7)%
Total GAAP capital	100.0 %	100.0 %

Combined Results of Operations

Net Income

The primary source of each FHLBank's earnings is net interest income, which is the interest earned on advances, investments and mortgage loans, less the interest paid on consolidated obligations, deposits and other borrowings. Net income for the year ended December 31, 2011 decreased 23.5% to $1,593 million due to lower net interest income and higher non-interest expense, partially offset by a lower loss recorded in non-interest income (loss) and lower assessments. Net income for the year ended December 31, 2010 increased 12.2% to $2,081 million due to lower credit-related OTTI charges, net gains on trading securities, and a decrease in net losses on financial instruments held under fair value option, partially offset by net losses on derivatives and hedging activities and a modest decrease in net interest income.

Table 28 - Changes in Net Income

(dollars in millions)

	Year Ended December 31,			Change	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Net interest income after provision (reversal) for credit losses	$ 4,033	$ 5,162	$ 5,407	$ (1,129)	$ (245)
Non-interest income (loss)	(1,035)	(1,422)	(1,779)	387	357
Non-interest expense	1,057	932	943	125	(11)
Assessments	348	727	830	(379)	(103)
Net income (loss)	$ 1,593	$ 2,081	$ 1,855	$ (488)	$ 226

Net Interest Income after Provision (Reversal) for Credit Losses

Net interest income after provision (reversal) for credit losses for the year ended December 31, 2011 compared to the prior year decreased 21.9% to $4,033 million resulting from lower net interest margin and lower average balances on interest-earning assets. Net interest income after provision (reversal) for credit losses for the year ended December 31, 2010 decreased 4.5% to $5,162 million resulting from lower average balances on interest-earning assets, partially offset by higher net interest margin driven by higher prepayment fees on advances and lower average balances on interest-bearing liabilities.

Table 29 - Net Interest Income after Provision (Reversal) for Credit Losses

(dollars in millions)

	Year Ended December 31,			Change	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Interest income					
Advances	$ 3,267	$ 4,592	$ 9,756	$ (1,325)	$ (5,164)
Prepayment fees on advances, net	263	533	166	(270)	367
Interest-bearing deposits	9	15	67	(6)	(52)
Securities purchased under agreements to resell	17	42	25	(25)	17
Federal funds sold	101	150	134	(49)	16
Trading securities	404	343	401	61	(58)
Available-for-sale securities	1,448	1,268	638	180	630
Held-to-maturity securities	3,258	4,362	5,839	(1,104)	(1,477)
Mortgage loans	2,639	3,187	3,873	(548)	(686)
Other	2	4	3	(2)	1
Total interest income	11,408	14,496	20,902	(3,088)	(6,406)
Interest expense					
Consolidated obligations — Discount notes	529	667	2,174	(138)	(1,507)
Consolidated obligations — Bonds	6,645	8,462	13,156	(1,817)	(4,694)
Deposits	8	17	23	(9)	(6)
Securities sold under agreements to repurchase	17	18	26	(1)	(8)
Subordinated notes	57	57	57	—	—
Mandatorily redeemable capital stock	48	54	40	(6)	14
Other borrowings	—	1	1	(1)	—
Total interest expense	7,304	9,276	15,477	(1,972)	(6,201)
Net interest income	4,104	5,220	5,425	(1,116)	(205)
Provision (reversal) for credit losses	71	58	18	13	40
Net interest income after provision (reversal) for credit losses	$ 4,033	$ 5,162	$ 5,407	$ (1,129)	$ (245)

Table 30 presents average balances and yields of the major categories of interest-earning assets and interest-bearing liabilities. It also presents spreads between yields on total interest-earning assets and the cost of interest-bearing liabilities and spreads between yields on total earning assets and the cost of total funding sources (interest-bearing liabilities, plus capital, plus other interest-free liabilities). Net interest income when expressed as a percentage of the average balance of interest-earning assets equals the net interest margin. Net interest spread, when expressed as a percentage, is the difference between the annualized yield on interest-earning assets and the annualized yield on interest-bearing liabilities.

Table 30 - Spread and Yield Analysis

(dollars in millions)

	Year Ended December 31,								
	2011			2010			2009		
	Average Balance	Interest	Annualized Yield	Average Balance	Interest	Annualized Yield	Average Balance	Interest	Annualized Yield
Advances(1)	$ 433,404	$ 3,530	0.81%	$ 542,775	$ 5,125	0.94%	$ 754,264	$ 9,922	1.32%
Mortgage loans	56,889	2,639	4.64%	66,436	3,187	4.80%	78,605	3,873	4.93%
Investments									
Interest-bearing deposits and other	9,032	11	0.12%	8,006	19	0.24%	29,162	70	0.24%
Securities purchased under agreements to resell	15,543	17	0.11%	21,668	42	0.19%	14,003	25	0.18%
Federal funds sold	74,805	101	0.14%	78,938	150	0.19%	71,264	134	0.19%
Trading securities	26,563	404	1.52%	20,206	343	1.70%	19,051	401	2.10%
Available-for-sale securities(2)	76,337	1,448	1.90%	65,515	1,268	1.94%	30,773	638	2.07%
Held-to-maturity securities(2)	130,203	3,258	2.50%	146,986	4,362	2.97%	170,450	5,839	3.43%
Total investments	332,483	5,239	1.58%	341,319	6,184	1.81%	334,703	7,107	2.12%
Total interest-earning assets	822,776	11,408	1.39%	950,530	14,496	1.53%	1,167,572	20,902	1.79%
Other non-interest-earning assets	8,193			8,326			11,142		
Fair-value adjustment on investment securities(2)	(4,809)			(8,063)			(6,116)		
Total assets	$ 826,160			$ 950,793			$ 1,172,598		
Consolidated obligations									
Discount notes	$ 181,590	529	0.29%	$ 192,613	667	0.35%	$ 338,359	2,174	0.64%
Bonds	558,706	6,645	1.19%	664,264	8,462	1.27%	733,571	13,156	1.79%
Interest-bearing deposits and other borrowings(3)	25,657	130	0.51%	29,654	147	0.50%	27,823	147	0.53%
Total interest-bearing liabilities	765,953	7,304	0.95%	886,531	9,276	1.05%	1,099,753	15,477	1.41%
Non-interest-bearing liabilities	17,978			21,070			25,929		
Total liabilities	783,931			907,601			1,125,682		
Capital	42,229			43,192			46,916		
Total liabilities and capital	$ 826,160			$ 950,793			$ 1,172,598		
Net interest income		$ 4,104			$ 5,220			$ 5,425	
Net interest spread			0.44%			0.48%			0.38%
Net interest margin			0.50%			0.55%			0.46%

(1) Interest income for advances includes prepayment fees on advances, net.

(2) The average balances of HTM securities and AFS securities are reflected at amortized cost; therefore, the resulting yields do not give effect to changes in fair value or the non-credit component of previously recognized OTTI reflected in AOCI.

(3) The balances do not include non-interest-bearing deposits, but do include the average balances of mandatorily redeemable capital stock and subordinated notes and the related interest expense.

Changes in both interest rates and average balances of interest-earning assets and interest-bearing liabilities have a direct influence on changes in net interest income, net interest margin and net interest spread. Table 31 presents changes in interest income and interest expense due to volume-related and rate-related factors. Changes in interest income and interest expense not identifiable as either volume-related or rate-related, but rather 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.

Table 31 - Rate and Volume Analysis

	2011 vs. 2010			2010 vs. 2009		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income						
Advances(1)	$ (948)	$ (647)	$ (1,595)	$ (2,391)	$ (2,406)	$ (4,797)
Mortgage loans	(446)	(102)	(548)	(586)	(100)	(686)
Investments	(157)	(788)	(945)	138	(1,061)	(923)
Total interest income	(1,551)	(1,537)	(3,088)	(2,839)	(3,567)	(6,406)
Interest Expense						
Consolidated obligations	(1,175)	(780)	(1,955)	(2,730)	(3,471)	(6,201)
Deposits and other borrowings(2)	(20)	3	(17)	9	(9)	—
Total interest expense	(1,195)	(777)	(1,972)	(2,721)	(3,480)	(6,201)
Changes in net interest income	$ (356)	$ (760)	$ (1,116)	$ (118)	$ (87)	$ (205)

(1) Includes prepayment fees on advances, net.
(2) The balances do not include non-interest-bearing deposits, but do include the average balances of mandatorily redeemable capital stock and subordinated notes and the related interest expense.

Net Interest Margin. Net interest margin narrowed 5 basis points to 0.50% during the year ended December 31, 2011 compared to the prior year due to lower net interest spreads, lower yields on capital invested, and lower prepayment fees on advances. The yield on interest-earning assets during the year ended December 31, 2011 continued to decline, driven by lower yields on new advances and investments, lower prepayment fees on advances and pay down of higher yielding investments and mortgage loans. The yield on interest-bearing liabilities continued to decline during the year ended December 31, 2011 due to lower interest rates on newer debt issuances and repurchases of higher cost obligations prior to maturity.

Net interest margin widened 9 basis points to 0.55% during the year ended December 31, 2010 compared to the prior year due to higher net interest spreads driven by an increase in the proportion of higher-yielding assets, as advances declined at a greater rate than other higher-yielding assets, and an increase in prepayment fees on advances. However, the yields on interest-earning assets continued to decline during the year ended December 31, 2010 due to lower yields on new advances and investments, and the pay down of older, higher-yielding advances, investments and mortgage loans. The yields on interest-bearing liabilities declined during the year ended December 31, 2010 due to lower interest rates on newer debt issuance and repurchases of higher cost obligations prior to maturity.

Lower Average Balances. Total average interest-earning assets continued to decline 13.4% and 18.6% during the years ended December 31, 2011 and 2010 compared to the prior year, negatively affecting net interest income. These declines were primarily due to decreases of 20.2% and 28.0% in the average balance of advances and decreases of 14.4% and 15.5% in the average balances of mortgage loans. Advances continued to decline during the years ended December 31, 2011 and 2010 compared to the prior year as a result of continued low demand by member institutions resulting from higher levels of liquidity in the market as well as high levels of deposits and low loan demand experienced at FHLBank member institutions. Mortgage loans decreased as a result of low purchase volumes, principal repayments and the sale of mortgage loans by certain FHLBanks. Consistent with the declines in average interest-earning assets, the average balance of consolidated obligations decreased 13.6% and 20.1% during the years ended December 31, 2011 and 2010 compared to the prior year.

Non-Interest Income (Loss)

Net losses recorded in non-interest income (loss) for the year ended December 31, 2011 decreased 27.2% from the prior year to a loss of $1,035 million driven by lower credit-related OTTI charges, more favorable fair value adjustments on financial instruments held under fair value option, realized gains recorded by certain FHLBanks on the sale of investments and mortgage loans, and lower realized losses on the extinguishment of debt, partially offset by less favorable mark-to-market adjustments on trading securities and higher mark-to-market losses related to derivatives and hedging activities. For the year ended December 31, 2010, net losses recorded in non-interest income (loss) decreased 20.1% from the prior year to a loss of $1,422 million resulting from lower credit-related OTTI charges, more favorable fair value adjustments on trading securities and financial instruments held under fair value option, partially offset by less favorable mark-to-market adjustments related to derivatives and hedging activities and higher realized losses on the extinguishment of debt.

Table 32 - Changes in Non-Interest Income (Loss)

(dollars in millions)

	Year Ended December 31,			Change	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Net other-than-temporary impairment losses	$ (856)	$ (1,071)	$ (2,431)	$ 215	$ 1,360
Net gains (losses) on trading securities	(11)	69	(140)	(80)	209
Net realized gains (losses) from sale of available-for-sale securities	24	20	7	4	13
Net realized gains (losses) from sale of held-to-maturity securities	35	8	17	27	(9)
Net gains (losses) on financial instruments held under fair value option	6	(106)	(457)	112	351
Net gains (losses) on derivatives and hedging activities	(316)	(302)	1,207	(14)	(1,509)
Service fees	35	35	32	—	3
Other, net	48	(75)	(14)	123	(61)
Total non-interest income (loss)	$ (1,035)	$ (1,422)	$ (1,779)	$ 387	$ 357

Other-than-Temporary Impairment Losses. Each quarter, the FHLBanks update their OTTI analysis to reflect current housing market conditions, changes in anticipated housing market conditions, observed and anticipated borrower behavior, and updated information on collateral supporting private-label mortgage backed securities. This process includes updating key aspects of the FHLBanks' loss projection models. Credit-related OTTI charges of $856 million during the year ended December 31, 2011 reflected the impact of additional projected losses on loan collateral underlying certain private-label mortgage-backed securities. Factors that adversely affected projected borrower default rates and projected loan loss severity included the impact of large inventories of unsold homes on current and forecasted housing prices, continued weakness in the economy and in employment, and increased foreclosure costs and delays, resulting in continuing credit losses.

Credit-related OTTI charges of $1,071 million during the year ended December 31, 2010 reflected the ongoing deterioration in the credit quality of certain private-label mortgage-backed securities. However, as compared to credit-related OTTI charges of $2,431 million during the year ended December 31, 2009, credit-related OTTI losses in 2010 decreased significantly, primarily due to the relative stabilization of home prices and economic conditions that affect the expected performance of the mortgage loans underlying the FHLBanks' private-label mortgage-backed securities.

Table 33 - Other-than-Temporary Impairment Losses

(dollars in millions)

	Year Ended December 31,								
	2011			2010			2009		
	Total Losses	AOCI(1)	Credit Loss	Total Losses	AOCI(1)	Credit Loss	Total Losses	AOCI(1)	Credit Loss
OTTI by Collateral type(2)									
Private-label residential MBS									
Prime	$ (108)	$ (126)	$ (234)	$ (328)	$ (96)	$ (424)	$ (3,602)	$ 2,884	$ (718)
Alt-A	(479)	(119)	(598)	(755)	209	(546)	(7,042)	5,533	(1,509)
Subprime	(17)	—	(17)	(37)	(53)	(90)	(2)	1	(1)
Total OTTI Private-label residential MBS	(604)	(245)	(849)	(1,120)	60	(1,060)	(10,646)	8,418	(2,228)
Home equity loan ABS									
Alt-A	—	(1)	(1)	—	(1)	(1)	(17)	10	(7)
Subprime	(2)	(4)	(6)	(5)	(5)	(10)	(534)	338	(196)
Total OTTI Home equity loan ABS	(2)	(5)	(7)	(5)	(6)	(11)	(551)	348	(203)
Total	$ (606)	$ (250)	$ (856)	$ (1,125)	$ 54	$ (1,071)	$ (11,197)	$ 8,766	$ (2,431)
OTTI by Period									
Securities newly impaired during the period	$ (312)	$ 283	$ (29)	$ (972)	$ 890	$ (82)	$ (10,688)	$ 8,983	$ (1,705)
Securities previously impaired prior to current period(3)	(294)	(533)	(827)	(153)	(836)	(989)	(509)	(217)	(726)
Total	$ (606)	$ (250)	$ (856)	$ (1,125)	$ 54	$ (1,071)	$ (11,197)	$ 8,766	$ (2,431)

(1) Represents the net amount of impairment losses reclassified to/(from) AOCI.
(2) The FHLBanks classify securities as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by a nationally recognized statistical rating organization upon issuance of the securities.
(3) For the years ended December 31, 2011, 2010 and 2009, securities previously impaired prior to current period represents all securities that were impaired prior to January 1, 2011, 2010 and 2009.

See *Note 8—Other-than-Temporary Impairment Analysis* to the accompanying combined financial statements and *Critical Accounting Estimates - OTTI for Investment Securities* for additional information.

Gains (Losses) on Trading Securities. The FHLBanks generally hold trading securities for liquidity purposes. Trading securities are recorded at fair value with changes in fair value reflected in non-interest income. The net losses on trading securities of $11 million for the year ended December 31, 2011 were driven by the recognition of acquisition premiums on certain trading securities purchased with above-market coupon rates. The related premiums paid are reflected as mark-to-market losses on the securities as their fair values approach par at maturity. These losses were partially offset by gains on certain other trading securities as a result of declines in interest rates and a flattening of the interest rate curve despite a slight increase in interest rate volatility.

The net gains on trading securities for the year ended December 31, 2010 resulted from decreases in interest rates in the first three quarters of 2010, partially offset by losses recorded in the fourth quarter of 2010 resulting from increases in interest rates. Conversely, increases in interest rates in 2009 generally drove declines in the fair value of the fixed-rate trading securities.

Gains (Losses) on Financial Instruments Held Under Fair Value Option. Certain FHLBanks elected the fair value option for certain financial assets and certain financial liabilities and recognize the changes in fair value on these assets and liabilities as unrealized gains and losses in current period earnings. The use of the fair value option allows these FHLBanks to mitigate potential income statement volatility that can arise from economic hedging relationships.

Table 34 - Gains (Losses) on Financial Instruments Held under Fair Value Option

(dollars in millions)

	Year Ended December 31,			Change	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Advances	$ 184	$ (163)	$ (573)	$ 347	$ 410
Consolidated obligations					
Discount notes	(2)	(2)	—	—	(2)
Bonds	(188)	63	116	(251)	(53)
Other liabilities(1)	12	(4)	—	16	(4)
Total net gains (losses) on financial instruments held under fair value option	$ 6	$ (106)	$ (457)	$ 112	$ 351

(1) Represents optional advance commitments.

The fluctuations in total net unrealized gains and losses on financial instruments held under fair value option are driven primarily by changes in the level and volatility of interest rates. During the year ended December 31, 2011, net unrealized fair value gains on advances of $184 million were driven primarily by the lower interest-rate environment relative to the actual rates on the FHLBanks' advances. Net unrealized fair value losses on consolidated bonds of $188 million were driven primarily by the lower interest-rate environment relative to the actual rates on consolidated bonds.

During the years ended December 31, 2010 and 2009, net unrealized fair value losses on advances of $163 million and $573 million were driven primarily by the higher interest-rate environment relative to the actual rates on the FHLBanks' advances. Net unrealized fair value gains on consolidated bonds of $63 million and $116 million were driven primarily by higher interest rates on newly issued consolidated obligation bonds relative to the actual rates on the FHLBanks' consolidated obligation bonds.

Gains (Losses) on Derivatives and Hedging Activities. The FHLBanks' derivatives and hedging positions fluctuate due to volatility in the overall interest-rate environment, as FHLBanks hedge their asset risk exposures. In general, an FHLBank holds derivatives and associated hedged instruments to the maturity, call or put date. Therefore, as a matter of timing, nearly all of the cumulative net gains and losses for these financial instruments generally reverse over the remaining contractual terms of the hedged financial instruments. However, there may be instances in which an FHLBank terminates these instruments prior to maturity or prior to the call or put dates. Terminating the financial instrument or hedging relationship may result in a realized gain or loss.

Table 35 - Net Gains (Losses) on Derivatives and Hedging Activities

(dollars in millions)

	Year Ended December 31,			Change	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Net gains (losses) related to fair value hedge ineffectiveness	$ 287	$ 274	$ 774	$ 13	$ (500)
Net gains (losses) related to cash flow hedge ineffectiveness	41	5	7	36	(2)
Net gains (losses) related to derivatives not designated as hedging instruments	(644)	(581)	426	(63)	(1,007)
Total net gains (losses) on derivatives and hedging activities	$ (316)	$ (302)	$ 1,207	$ (14)	$ (1,509)

The net losses on derivatives and hedging activities during the years ended December 31, 2011 and 2010 resulted primarily from losses related to economic hedging, partially offset by gains related to fair-value hedge ineffectiveness. During the years ended December 31, 2011 and 2010, the net losses on economic hedges were primarily associated with the effects of changes in interest rates. Hedge ineffectiveness occurs when changes in the fair value of the derivative and the associated hedged instrument do not perfectly offset. The gains resulting from fair value hedge ineffectiveness during the years ended December 31, 2011 and 2010 were due primarily to normal mark-to-market activities resulting from changes in benchmark interest rates and volatility. The net gains on derivatives and hedging activities during the year ended December 31, 2009 were primarily attributable to changes in interest-rate spreads and a decrease in LIBOR. (See *Note 12—Derivatives and Hedging Activities* to the accompanying combined financial statements for the earnings effect resulting from derivatives and hedging

activities and *Quantitative and Qualitative Disclosures About Market Risk - Use of Derivatives to Manage Interest-Rate Risk.*)

Other, net. Other, net includes any gains or losses on the sale of mortgage loans and any gains or losses on the extinguishment of debt. During the years ended December 31, 2011 and 2009, certain FHLBanks recorded gains of $78 million and $1 million on the sale of mortgage loans. There were no gains or losses on the sale of mortgage loans in 2010. During the years ended December 31, 2011, 2010 and 2009, certain FHLBanks recorded net losses of $105 million, $144 million and $64 million on the extinguishment of debt.

Non-interest Expense

Table 36 presents the components and changes in non-interest expense for the years ended December 31, 2011, 2010 and 2009. For the year ended December 31, 2011, non-interest expense increased when compared to the same period in 2010, due primarily to the 2010 reversal of the provision for derivative counterparty credit losses and the 2011 increases in compensation and benefits and FHFA expenses, as well as a one-time charge by the FHLBank of Chicago to other expense. For the year ended December 31, 2010, non-interest expense decreased, when compared to the year ended December 31, 2009, due primarily to the reversal of the provision for derivative counterparty credit losses in 2010 offset by increases in compensation and benefits and FHFA expenses.

Table 36 - Changes in Non-interest Expense

(dollars in millions)

	Year Ended December 31,			Change	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Compensation and benefits	$ 540	$ 533	$ 487	$ 7	$ 46
Other operating expenses	313	327	326	(14)	1
Federal Housing Finance Agency	79	55	42	24	13
Office of Finance	43	39	35	4	4
Provision (reversal) of derivative counterparty credit losses	5	(55)	35	60	(90)
Other	77	33	18	44	15
Total non-interest expense	$ 1,057	$ 932	$ 943	$ 125	$ (11)

Compensation and Benefits. These expenses include costs for FHLBank employees, including salaries, incentives, and health and retirement benefits. For the year ended December 31, 2011, compensation and benefits expenses increased, when compared to the year ended December 31, 2010, due primarily to additional pension fund contributions to eliminate a funding shortfall, which were expensed in the current period. For the year ended December 31, 2010, compensation and benefits expenses increased, when compared to year ended December 31, 2009, due primarily to severance expenses and additional pension fund contributions.

FHFA Expenses. The FHLBanks fund the portion of the FHFA's operating costs and working capital fund that relate to the FHLBanks, as determined by the FHFA. These costs are based on the FHFA's annual budget and are under the sole control of the FHFA. Each FHLBank pays its pro-rata share of FHFA expenses based on the ratio of each FHLBank's minimum required regulatory capital to the aggregate minimum required regulatory capital of all FHLBanks. FHFA expenses allocated to the FHLBanks increased for the year ended December 31, 2011, due to increased operating expenses incurred by the FHFA, including additional expenses for the FHFA's Office of the Inspector General.

Office of Finance Expenses. The FHLBanks also fund the costs of the Office of Finance, a joint office of the FHLBanks that issues and services consolidated obligations, prepares the FHLBanks' combined quarterly and annual financial reports, and fulfills certain other functions. The increase in Office of Finance expenses for the years ended December 31, 2011 and 2010 were due primarily to increases in Office of Finance compensation related to additional staffing to support business initiatives and increased regulatory requirements.

Provision (Reversal) of Derivative Counterparty Credit Losses. The FHLBanks are exposed to credit risk due to the possibility of counterparties' nonperformance on interest-rate exchange agreements. The $5 million provision recorded during the year ended December 31, 2011 represents a $7 million charge taken by the FHLBank of Dallas to settle a dispute related to the bankruptcy of Lehman Brothers Special Financing, Inc. offset by the reversal of the provision for derivative counterparty credit

losses of $2 million by the FHLBank of Pittsburgh. The $55 million gain recorded during the year ended December 31, 2010 represents the reversal of provisions for derivative counterparty credit losses of $51 million by the FHLBank of Atlanta and $4 million by the FHLBank of Seattle. The reversal of the previously established provisions was due to an increase in the realizable amount related to sales of the net receivables due from Lehman Brothers Special Financing, Inc. to a third party.

Each FHLBank manages counterparty credit risk through credit analyses, collateral requirements and adherence to the requirements set forth in that FHLBank's policies and FHFA regulations. Based on credit analyses and collateral requirements, the FHLBanks did not anticipate any credit losses on their interest-rate exchange agreements. Therefore, no additional provision for derivative counterparty credit losses was recorded for the year ended December 31, 2011.

Other. For the year ended December 31, 2011, the increase in other was primarily due to a one-time, $50 million charge by the FHLBank of Chicago. This charge resolves a dispute over an interpretation of regulatory compliance pertaining to investments made in 2010. The funds will supplement the FHLBank of Chicago's current affordable housing and community investment programs and be used to promote affordable housing and economic development in its district.

Assessments

Table 37 - Assessments

(dollars in millions)

	Year Ended December 31,			Change	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
AHP	$ 188	$ 229	$ 258	$ (41)	$ (29)
REFCORP	160	498	572	(338)	(74)
Total assessments	$ 348	$ 727	$ 830	$ (379)	$ (103)

Affordable Housing Program (AHP). By regulation, the FHLBanks must annually set aside for the AHP the greater of the aggregate of $100 million or 10% of net earnings, after any assessment for the Resolution Funding Corporation (REFCORP). For purposes of the AHP calculation, net earnings is defined as net income before assessments, plus interest expense related to mandatorily redeemable capital stock, less any assessment for REFCORP. Any FHLBank with a net loss for a quarter is not required to pay the AHP assessment for that quarter. (See *Note 16—Affordable Housing Program (AHP)* to the accompanying combined financial statements for discussion regarding the satisfaction of the FHLBanks' REFCORP obligation and its effect on each FHLBank's AHP contributions.)

AHP helps members provide subsidized and other low-cost funding as well as grants to create affordable rental and home ownership opportunities. All FHLBank operating costs for the AHP are included in operating expenses, so all AHP assessments go directly to support affordable housing projects.

REFCORP. On August 5, 2011, the FHFA certified that the FHLBanks had fully satisfied their REFCORP obligation. The FHLBanks entered into a Joint Capital Enhancement Agreement, as amended, which requires each FHLBank to allocate 20% of its net income to a separate restricted retained earnings account, beginning in the third quarter of 2011. (See *Note 19—Capital* to the accompanying combined financial statements and *Capital Adequacy - Joint Capital Enhancement Agreement and REFCORP Certification* for further discussion.) As a result of fully satisfying their REFCORP obligation, the FHLBanks did not record a REFCORP assessment for each of the last two quarters of 2011.

Prior to the satisfaction of the FHLBanks' REFCORP obligation, each FHLBank was required to make payments to REFCORP (20% of annual GAAP net income before REFCORP assessments and after payment of AHP assessments) until the total amount of payments actually made was equivalent to a $300 million annual annuity with a final maturity date of April 15, 2030. The Regulator shortened or lengthened the period during which the FHLBanks were required to make payments to REFCORP depending on actual payments made relative to the referenced annuity. The Regulator, in consultation with the U.S. Secretary of the Treasury, selected the appropriate discounting factors used in calculating the annuity.

Interbank Transfers of Consolidated Bonds and Their Effect on Combined Net Income

Combined net income of the FHLBanks is affected by interbank transfers of liability on outstanding consolidated bonds. These transactions arise when one FHLBank transfers its direct liability on outstanding consolidated bonds to another FHLBank. By engaging in these transactions, two FHLBanks are able to better match their funding needs by transferring funds held by one FHLBank to another FHLBank that needs funds. 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.

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

The transferring FHLBank treats the transfer as a debt extinguishment because that FHLBank has been released from being the primary obligor. Specifically, the release is made effective by the Office of Finance recording the transfer in its records. The Office of Finance provides release by acting within the confines of the regulations that govern the determination of which FHLBank is the primary obligor. The assuming FHLBank becomes the primary obligor because it now is directly responsible for repaying the debt.

The assuming FHLBank records the fair value, including any premium or discount, as the initial carrying amount for the consolidated bond it received from the transferring FHLBank. Under this transfer scenario, no transaction with a third party independent of the FHLBanks takes place. Under the principles of combination accounting, combining adjustments are required to reflect the transaction as if the transferring FHLBank still holds the consolidated bond for purposes of the combined financial statements of the FHLBanks. The following amounts are eliminated as combining adjustments in the condensed combining schedules accompanying the combined financial statements and will reverse over the remaining term of the consolidated bonds:

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

2. all statement of condition and statement of income effects with respect to the premium or discount related to the purchase of the consolidated bonds by the assuming FHLBank are eliminated; and

3. the original premium or discount, concession fees and derivative-related basis adjustments of the transferring FHLBank are reinstated and amortized over the life of the consolidated bond.

Total interbank consolidated bonds of $165 million and $1.3 billion at par value were transferred from an FHLBank to another FHLBank during the years ended December 31, 2011 and 2010. The amount of total interbank consolidated bonds transferred during a period depends on a variety of factors, such as (1) whether or not an assuming FHLBank can obtain equal or lower funding costs through interbank transfers as compared to issuing new debt, (2) an FHLBank's overall asset/liability management strategy and (3) current market conditions.

The combining adjustments for the elimination of the transfers of interbank consolidated bond liabilities resulted in the following effect on the Combined Statement of Income. In addition, interbank commissions and fees related to the MPF Program are eliminated in total non-interest income (loss) and total non-interest expense; however, there is no effect on net income.

Table 38 - Effect of Combining Adjustments on Combined Statement of Income

(dollars in millions)

	Year Ended December 31,			Change	
Effect on:	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2011 vs. 2010**
Net interest income	$ (25)	$ (4)	$ (19)	$ (21)	$ 15
Total non-interest income (loss)	$ 11	$ 77	$ 31	$ (66)	$ 46
Total non-interest expense	$ (6)	$ (6)	$ (6)	$ —	$ —
Net income (loss)	$ (8)	$ 79	$ 18	$ (87)	$ 61

Comprehensive Income

Comprehensive income is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) is reported under the accumulated other comprehensive income (loss) section within the Combined Statement of Capital and presents the net change in the accumulated other comprehensive income (loss) balances.

Comprehensive income during the year ended December 31, 2011 compared to the year ended December 31, 2010 decreased $1,900 million to $2,841 million due primarily to a $488 million decrease in net income, a $1,119 million decrease in the net change in the non-credit portion of OTTI losses and a $305 million decrease in the net change in unrealized losses relating to hedging activities. The net change in the non-credit portion of OTTI losses is related to certain of the FHLBanks' private-label mortgage-backed securities, while the net change in unrealized losses relating to hedging activities is related to the FHLBanks' cash flow hedges.

Comprehensive income for the year ended December 31, 2010 compared to the year ended December 31, 2009 increased $8,072 million to $4,741 million due primarily to a $9,032 million increase in the net change in the non-credit portion of OTTI losses, offset by a $479 million decrease in the net change in unrealized gains on AFS securities and a $656 million decrease in the net change in unrealized losses relating to hedging activities. The net change in the non-credit portion of OTTI losses is related to certain of the FHLBanks' private-label mortgage-backed securities, while the net change in unrealized gains on AFS securities is related to the change in fair value of AFS securities and the net change in unrealized losses relating to hedging activities is related to the FHLBanks' cash flow hedges.

Table 39 - Comprehensive Income (Loss)

(dollars in millions)

	Year Ended December 31,			Change	
	2011	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Net income (loss)	$ 1,593	$ 2,081	$ 1,855	$ (488)	$ 226
Other comprehensive income (loss)					
Net unrealized gains/losses on available-for-sale securities	418	384	863	34	(479)
Net unrealized gains/losses on held-to-maturity securities transferred from available-for-sale securities	3	14	54	(11)	(40)
Net non-credit portion of other-than-temporary impairment losses on available-for-sale securities	(1,851)	876	(2,123)	(2,727)	2,999
Net non-credit portion of other-than-temporary impairment losses on held-to-maturity securities	3,316	1,708	(4,325)	1,608	6,033
Net unrealized gains/losses relating to hedging activities	(617)	(312)	344	(305)	(656)
Pension and postretirement benefits	(21)	(10)	1	(11)	(11)
Total other comprehensive income (loss)	1,248	2,660	(5,186)	(1,412)	7,846
Total comprehensive income (loss)	$ 2,841	$ 4,741	$ (3,331)	$ (1,900)	$ 8,072

Other comprehensive income (loss) on AFS securities. Other comprehensive income (loss) on AFS securities is classified into two separate components, net change in unrealized gains/losses on AFS securities and the net change in the non-credit portion of other-than-temporary impairment losses on AFS securities. The distinction between the two categories is whether the AFS security has incurred an OTTI charge. The changes in the fair value of AFS securities, which are primarily due to

changes in interest rates, are recorded in other comprehensive income (loss). The other comprehensive income (loss) is also impacted by the occurrence of an OTTI charge on an AFS security, the transfer of securities from the HTM portfolio to the AFS portfolio, and the reclassifications of the non-credit portion of OTTI losses to net income (loss).

Other comprehensive income (loss) on HTM securities. Other comprehensive income (loss) on HTM securities is comprised of the net unrealized gains/losses on HTM securities transferred to AFS securities and the net non-credit portion of OTTI losses on HTM securities. The net non-credit portion of OTTI losses on HTM securities is the primary driver of activity within other comprehensive income (loss) on HTM securities.

Net unrealized gains/losses relating to hedging activities. Other comprehensive income (loss) on net unrealized gains/losses relating to hedging activities is comprised of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, until earnings are affected by the variability of the cash flows of the hedged transaction. The FHLBanks' costs of hedging activities fluctuate with volatility in the overall interest rate environment and the positions taken by the FHLBanks to hedge their risk exposure using cash flow hedges.

Capital Adequacy

The FHLBank Act prescribes minimum capital requirements for the FHLBanks, and following the passage of the "Housing and Economic Recovery Act of 2008" (Housing Act), the Director of the FHFA is responsible for setting the risk-based capital standards for the FHLBanks. In addition, on March 3, 2011, the FHFA issued a final rule authorizing the Director of the FHFA to temporarily increase the minimum capital level for an FHLBank if the Director of the FHFA determines that the current level is insufficient to address that FHLBank's risks. At December 31, 2011, each of the FHLBanks was in compliance with its statutory minimum capital requirements. (See *Note 19—Capital* to the accompanying combined financial statements for more information on each FHLBank's minimum capital requirements and regulatory actions related to each of the FHLBanks of Chicago and Seattle.)

Regulatory guidance requires each FHLBank to assess, at least once a year, the adequacy of its retained earnings under various future financial and economic scenarios, including:

- parallel and non-parallel interest-rate shifts;
- changes in the basis relationship between different yield curves; and
- changes in the credit quality of the FHLBank's assets.

Management and the board of directors of each FHLBank review the capital structure of that FHLBank on a periodic basis to ensure the capital structure supports the risk associated with its assets and addresses applicable regulatory and supervisory matters. In addition, an individual FHLBank may institute a higher capital requirement to meet internally-established thresholds or to address supervisory matters, or may limit dividend payments as part of its retained earnings policies. As of December 31, 2011, certain FHLBanks have limited dividend payments and/or restricted excess capital stock redemptions and repurchases. These limitations may be revised from time to time. (See *Dividend and Excess Stock Limitations* for more information on certain FHLBank limits on dividend payments and excess capital stock repurchases.)

Joint Capital Enhancement Agreement

The Joint Capital Enhancement Agreement, as amended (Capital Agreement) is intended to enhance the capital position of each FHLBank. The intent of the Capital Agreement is to allocate that portion of each FHLBank's earnings historically paid to satisfy its REFCORP obligation to a separate retained earnings account at that FHLBank.

Each FHLBank had been required to contribute 20% of its earnings toward payment of the interest on REFCORP bonds until satisfaction of its REFCORP obligation, as certified by the FHFA on August 5, 2011. The Capital Agreement provides that, upon full satisfaction of the REFCORP obligation, each FHLBank will allocate 20% of its net income each quarter to a separate restricted retained earnings account until the balance of that account equals at least one percent of that FHLBank's average balance of outstanding consolidated obligations for the previous quarter. These restricted retained earnings are not available to pay dividends.

Each FHLBank subsequently amended its capital plan or capital plan submission, as applicable, to implement the provisions of the Capital Agreement, and the FHFA approved the capital plan amendments on August 5, 2011. In accordance with the Capital Agreement, starting in the third quarter of 2011, each FHLBank allocates 20% of its net income to a separate restricted

retained earnings account. (See *Note 19—Capital* - *Restricted Retained Earnings* to the accompanying combined financial statements for more information.)

Dividend and Excess Stock Limitations

Certain FHLBanks have implemented voluntary actions to suspend dividend payments and/or repurchases or redemptions of excess capital stock. These actions were implemented as a capital preservation measure and to reflect a conservative approach to financial management during a period of severe market volatility and due to impairment of private-label mortgage-backed securities. (See *Note 19—Capital* - *Excess Capital Stock* to the accompanying combined financial statements for information on the regulatory restrictions related to excess capital stock.)

FHLBank of Boston. Effective December 8, 2008, the FHLBank of Boston placed a moratorium on all excess capital stock repurchases, except in limited cases of insolvency, to help preserve its capital in the light of certain challenges that arose during 2008 and 2009, including challenges based on its investments in private-label mortgage-backed securities. At December 31, 2011 and 2010, members and non-members with capital stock outstanding held excess capital stock totaling $2.1 billion and $1.9 billion, representing approximately 55.1% and 50.8% of total capital stock outstanding.

On March 9, 2012, the FHLBank of Boston conducted a partial repurchase of excess capital stock in the aggregate amount of $250 million. Of this amount, $13 million was repurchased from mandatorily redeemable capital stock. This was the FHLBank of Boston's first such repurchase since the moratorium was established in December 2008 and will be the only such repurchase that it intends to make in 2012.

FHLBank of Pittsburgh. On December 23, 2008, the FHLBank of Pittsburgh announced its voluntary decision to temporarily suspend payment of dividends until further notice. There were no dividends declared or paid in 2009, 2010 or in 2011. On February 23, 2012, the FHLBank of Pittsburgh paid a dividend equal to an annual yield of 0.10%.

The market value of equity to par value of capital stock ratio provides a current assessment of the liquidation value of the balance sheet and measures the FHLBank of Pittsburgh's current ability to honor the par put redemption feature of its capital stock. The risk metric is used to evaluate the adequacy of retained earnings and develop dividend payment and excess capital stock repurchase recommendations.

The FHLBank of Pittsburgh's market value of equity to par value of capital stock ratio was 96.9% and 93.3% at December 31, 2011 and 2010. The improvement in the market value of equity to par value of capital stock ratio in 2011 was primarily due to principal paydowns on the private-label mortgage-backed securities portfolio and increased retained earnings, which more than offset a decline in private-label mortgage-backed securities prices. Because the market value of equity to par value of capital stock ratio was above the 87.5% floor at December 31, 2011, the FHLBank of Pittsburgh performed additional analysis of capital adequacy taking into consideration the effect of excess capital stock repurchases to determine if any excess stock should be repurchased. As a result of this analysis, the FHLBank of Pittsburgh repurchased approximately $165 million in excess capital stock on February 23, 2012. The FHLBank of Pittsburgh also executed partial repurchases in February, April, July and October 2011, totaling $715 million in 2011. The effect of the repurchases was a minor reduction in the market value of equity to par value of capital stock ratio, which was more than offset by the factors noted above that drove the overall improvement in the ratio throughout the year. In February 2012, the FHLBank of Pittsburgh's board approved a change to the market value of equity to par value of capital stock floor, and it is now at 90.0%.

Decisions regarding any future repurchases of excess capital stock or dividend payouts will be made on a quarterly basis. The FHLBank of Pittsburgh will continue to monitor the market value of equity to par value of capital stock ratio as well as the condition of its private-label mortgage-backed securities portfolio, its overall financial performance and retained earnings, developments in the mortgage and credit markets and other relevant information as the basis for determining the status of dividends and excess capital stock repurchases in future quarters.

FHLBank of Chicago. Under the terms of the Consent Cease and Desist Order (C&D Order), the FHLBank of Chicago's dividend declarations and capital stock repurchases and redemptions are subject to the prior written approval of the Deputy Director, Division of FHLBank Regulation of the FHFA (Deputy Director). In addition to the restrictions under the C&D Order, the FHLBank of Chicago may not pay dividends if it fails to satisfy its minimum capital and liquidity requirements under the FHLBank Act and FHFA regulations.

In connection with its new capital plan, the FHLBank of Chicago submitted a plan for repurchasing the excess capital stock of current members over a period of time (Repurchase Plan). The FHLBank of Chicago received approval from the FHFA on December 22, 2011 to implement the Repurchase Plan, under which the FHLBank of Chicago repurchased excess capital stock of $500 million on February 15, 2012. Although the FHLBank of Chicago's goal is to repurchase all of the excess capital stock that members no longer wish to hold by the end of 2013 pursuant to the Repurchase Plan, market and financial conditions may prohibit it from doing so, even if the considerations and criteria set forth in the Repurchase Plan are met.

The FHLBank of Chicago's board of directors paid cash dividends at an annualized rate of 0.10% in each quarter of 2011 based on the previous quarter's earnings. Total cash paid to shareholders for the year ended December 31, 2011 was $2.8 million, of which $2.3 million was recorded as a dividend and $493 thousand was recorded as interest expense related to mandatorily redeemable capital stock. On February 14, 2012, the FHLBank of Chicago also paid a cash dividend at an annualized rate of 0.10% per share based on its financial results for the fourth quarter of 2011.

Although the FHLBank of Chicago's board's decision to restore a dividend considered the importance of sustaining a dividend, any future dividend determination by the FHLBank of Chicago's board will depend on future operating results and be reviewed in accordance with its retained earnings and dividend policy, as well as remain subject to prior written approval of the Deputy Director under the terms of the C&D Order. In January 2012, the FHLBank of Chicago's board of directors resolved that dividends paid in any given quarter must not exceed, in the aggregate, the average of three-month LIBOR for that quarter on an annualized basis plus 100 basis points. The FHLBank of Chicago board may not modify or terminate this resolution without the written consent of the Deputy Director. (See *Note 19—Capital* - *FHLBank of Chicago Regulatory Actions* to the accompanying combined financial statements for more information on the FHLBank of Chicago's new capital plan, restricted dividends, and repurchases and redemptions of capital stock.)

FHLBank of San Francisco. On a quarterly basis, the FHLBank of San Francisco determines whether it will repurchase excess capital stock. Because of a decision to preserve capital in view of the possibility of future other-than-temporary impairment charges on the FHLBank of San Francisco's private-label residential mortgage-backed securities portfolio, the FHLBank of San Francisco did not fully repurchase excess stock created by declining advance balances in 2011 and 2010. The FHLBank of San Francisco opted to maintain its strong regulatory capital position, while repurchasing $1,845 million and $1,444 million in excess capital stock during 2011 and 2010. During 2011 and 2010, the five-year redemption period for $57 million and $3 million in mandatorily redeemable capital stock expired, and the FHLBank of San Francisco redeemed the stock at its $100 par value on the relevant expiration dates.

On March 16, 2012, the FHLBank of San Francisco repurchased $446 million in excess capital stock. This repurchase, combined with the scheduled redemption of $5 million in mandatorily redeemable capital stock during the first quarter of 2012, reduced the FHLBank of San Francisco's excess capital stock by $451 million. The amount of excess capital stock to be repurchased from any shareholder will be based on the shareholder's pro-rata ownership share of total capital stock outstanding as of the repurchase date, up to the amount of the shareholder's excess capital stock.

The FHLBank of San Francisco paid dividends (including dividends on mandatorily redeemable capital stock) totaling $34 million at an annualized rate of 0.29% in 2011, and $45 million at an annualized rate of 0.34% in 2010. On February 22, 2012, the FHLBank of San Francisco's board of directors declared a cash dividend on the capital stock outstanding during the fourth quarter of 2011 at an annualized dividend rate of 0.48%. The FHLBank of San Francisco recorded the dividend on February 22, 2012, the day it was declared by the board of directors. The FHLBank of San Francisco paid the dividend (including dividends on mandatorily redeemable capital stock), totaling $13 million, on March 15, 2012. (See *Note 19—Capital* - *Restricted Retained Earnings* to the accompanying combined financial statements for more information on the FHLBank of San Francisco's retained earnings and dividend policy.)

The FHLBank of San Francisco will continue to monitor the condition of its private-label residential mortgage-backed securities portfolio, the ratio of the estimated market value of its capital stock to the par value of its capital stock, its overall financial performance and retained earnings, developments in the mortgage and credit markets, and other relevant information as the basis for determining the status of dividends and capital stock repurchases in future quarters.

FHLBank of Seattle. As a result of its undercapitalized classification and the Consent Arrangement, the FHLBank of Seattle is currently unable to declare or pay dividends, or redeem or repurchase capital stock, without prior approval of the FHFA. The FHLBank of Seattle has been unable to redeem Class A or Class B capital stock at the end of the six-month or five-year statutory redemption period since March 2009. There can be no assurance of when or if the FHLBank of Seattle's board of directors will declare dividends in the future. (See *Note 19—Capital* - *FHLBank of Seattle Capital Classification and Consent*

Arrangement to the accompanying combined financial statements for a description of the FHLBank of Seattle's Consent Arrangement with the FHFA.)

Liquidity

Each FHLBank is required to maintain liquidity in accordance with the FHLBank Act and certain regulations and policies established by its management and board of directors. Each FHLBank seeks to be in a position to meet the credit and liquidity needs of its members and to meet all current and future financial commitments by managing holdings of liquid investments and obtaining cost-effective sources of funds.

The FHLBanks need liquidity to:

- satisfy their members' demand for short- and long-term funds;
- repay maturing consolidated obligations; and
- meet other obligations.

The FHLBanks also maintain liquidity to redeem or repurchase excess capital stock at their discretion upon the request of a member or under an FHLBank's capital plan. (See *Capital Adequacy - Dividend and Excess Stock Limitations* for a discussion of certain FHLBanks' dividend payment suspensions and/or excess stock purchase restrictions.)

The FHLBanks' primary sources of liquidity are the issuance of new consolidated obligations and holdings of short-term investments. Historically, GSE status and favorable credit ratings have provided the FHLBanks with excellent access to capital markets. Consolidated obligations enjoy GSE status; however, they are not obligations of the United States and the United States does not guarantee them. The FHLBanks' consolidated obligations have historically received the same credit rating as the government bond credit rating of the United States even though the consolidated obligations are not obligations of the United States. The ratings also reflect the FHLBanks' status as GSEs. The FHLBanks' consolidated obligations' ratings have not been affected by rating actions taken with respect to individual FHLBanks.

On August 5, 2011, S&P lowered its long-term credit rating on the United States from AAA to AA+ with a negative outlook. S&P has indicated that its ratings of the FHLBanks and the FHLBank System are constrained by the long-term credit rating of the United States. On August 8, 2011, S&P downgraded the long-term credit ratings on the senior unsecured debt issues of the FHLBank System and 10 of the 12 FHLBanks from AAA to AA+. The FHLBanks of Chicago and Seattle were already rated as AA+ prior to the United States downgrade. S&P's outlook for the FHLBank System's senior unsecured debt and all 12 FHLBanks is negative. However, S&P's actions did not affect the short-term A-1+ ratings of the FHLBanks and the FHLBank System's short-term debt issues.

On August 2, 2011, Moody's confirmed the Aaa bond rating of the U.S. government following the raising of the U.S. statutory debt limit on August 2, 2011, and changed the rating outlook of the U.S. government to negative. Moody's also confirmed the long-term Aaa rating on the senior unsecured debt issues of the FHLBank System, the 12 FHLBanks, and other ratings Moody's considers directly linked to the U.S. government. Additionally, in conjunction with the revision of the U.S. government outlook to negative, the rating outlook for the FHLBank System and the 12 FHLBanks was also revised to negative.

Investors should note that a rating issued by a nationally recognized statistical rating organization is not a recommendation to buy, sell or hold securities and that the ratings may be revised or withdrawn by the nationally recognized statistical rating organization at any time. Investors should evaluate the rating of each nationally recognized statistical rating organization independently. (See *Recent Rating Agency Actions* and *Risk Factors - Market Risk*.)

Other short-term borrowings, such as member deposits and securities sold under agreements to repurchase, may also provide liquidity. In addition, by regulation, the U.S. Secretary of the Treasury may acquire up to $4 billion of consolidated obligations of the FHLBanks. The authority provided by this regulation may be exercised only if alternative means cannot be effectively employed to permit the FHLBanks to continue to supply reasonable amounts of funds to the mortgage market, and the ability to supply such funds is substantially impaired because of monetary stringency and a high level of interest rates. Any funds borrowed shall be repaid by the FHLBanks at the earliest practicable date.

For liquidity purposes, each FHLBank holds investments that are primarily high-quality, short- and intermediate-term financial instruments. This strategy allows the FHLBanks to maintain liquidity to satisfy member demand for short- and long-term funds, repay maturing consolidated obligations and meet other obligations. This strategy also reduces the risk of loss when investments are liquidated if an FHLBank elects to repurchase excess capital stock.

Each FHLBank manages its contracting balance sheet and corresponding liquidity requirements in response to its members' reduced credit needs. An FHLBank may allow its consolidated obligations to mature without replacement, or repurchase and retire outstanding consolidated obligations, allowing its balance sheet to shrink. Similarly, an FHLBank's ability to expand its balance sheet and corresponding liquidity requirements in response to its members' increased credit needs is correlated to its members' capital stock requirements for advances and mortgage loans.

The FHLBanks may not be able to predict future trends in member credit needs because they are driven by complex interactions among a number of factors, including members' mortgage loan originations, other loan portfolio growth, deposit growth and the attractiveness of advances compared to other wholesale borrowing alternatives. Each FHLBank regularly monitors current trends and anticipates future debt issuance needs to be prepared to fund its members' credit needs and its investment opportunities.

To protect the FHLBanks against temporary disruptions in access to the debt markets in response to a rise in capital markets volatility, the FHFA requires each FHLBank to: (1) maintain contingent liquidity sufficient to meet liquidity needs which shall, at a minimum, cover five calendar days of inability to access consolidated obligations in the debt markets; (2) have available at all times an amount greater than or equal to its members' current deposits invested in advances with maturities not to exceed five years, deposits in banks or trust companies and obligations of the U.S. Treasury; (3) maintain, in the aggregate, unpledged qualifying assets in an amount at least equal to the amount of its participation in total consolidated obligations outstanding; and (4) maintain, through short-term investments, an amount at least equal to its anticipated cash outflows under two different scenarios.

- One scenario assumes that an FHLBank cannot access the capital markets for a period of between 10 to 20 days, with initial guidance set at 15 days, and that during that time members do not renew any maturing, prepaid or called advances.

- The second scenario assumes that an FHLBank cannot access the capital markets for a period of between three to seven days, with initial guidance set at five days, and that during that period an FHLBank will automatically renew maturing and called advances for all members except very large members provided the member is well-rated by its primary Federal regulator or its state regulator equivalent for insurance companies; has a rating assigned by a nationally recognized statistical rating organization that is investment quality; and is well-rated by the individual FHLBank's internal credit rating system.

Each FHLBank also maintains a contingency liquidity plan designed to enable it to meet its obligations and the liquidity needs of members in the event of operational disruptions at the FHLBanks and/or the Office of Finance, or short-term capital market disruptions. For instance, federal budget deficit and debt ceiling issues and any related rating downgrades could continue to cause adverse reactions in the financial markets, which could result in higher interest rates, higher FHLBank borrowing costs, greater demand for collateral from FHLBanks and difficulty accessing liquidity on acceptable terms. Therefore, certain FHLBanks continue to take actions to bolster the amount of liquidity in the event access to the debt markets is disrupted.

Off-Balance Sheet Arrangements and Other Commitments

In the ordinary course of business, the FHLBanks engage in financial transactions that, in accordance with GAAP, are not recorded on the FHLBanks' Combined Statement of Condition or may be recorded on the FHLBanks' Combined Statement of Condition in amounts that are different from the full contract or notional amount of the transactions. (See *Note 22—Commitments and Contingencies* - *Off-Balance Sheet Commitments* to the accompanying combined financial statements for a discussion and the amounts of the FHLBanks' off-balance sheet arrangements and other commitments.) The FHLBanks do not have any special purpose entities or any other types of off-balance sheet conduits.

Contractual Obligations

In the ordinary course of operations, the FHLBanks enter into certain contractual obligations. Table 40 presents the FHLBanks' significant contractual obligations at December 31, 2011.

Table 40 - Payments Due or Expiration Terms by Type of Contractual Obligation

(dollars in millions)

	Payments Due or Expiration Terms by Period				
	< 1 year	1 to 3 years	> 3 to 5 years	> 5 years	Total
Consolidated bonds(1)	$ 229,858	$ 148,483	$ 58,239	$ 64,904	$ 501,484
Capital lease obligations	12	7	9	—	28
Operating leases	23	37	28	88	176
Subordinated notes	—	—	1,000	—	1,000
Securities sold under agreements to repurchase	400	—	—	—	400
Mandatorily redeemable capital stock(2)	110	3,921	3,736	246	8,013
Commitments to fund/purchase mortgage loans	1,024	—	—	—	1,024
Pension and post-retirement contributions(3)	50	19	20	74	163
Total contractual obligations	$ 231,477	$ 152,467	$ 63,032	$ 65,312	$ 512,288

(1) Does not include consolidated discount notes and contractual interest payments related to consolidated bonds. Period for consolidated bonds (including index-amortizing notes) is allocated based on contractual maturities. The actual timing of payments could be affected by factors affecting redemptions.

(2) The amount in the greater than five years column represents mandatorily redeemable capital stock that is past the end of the contractual redemption period because there is activity outstanding to which the mandatorily redeemable capital stock relates and capital stock redemptions that are restricted by regulatory actions related to the FHLBank of Seattle. (See *Note 19—Capital-FHLBank of Seattle Capital Classification and Consent Arrangement* to the accompanying combined financial statements for discussions on this FHLBank's mandatorily redeemable capital stock.)

(3) Includes future funding contributions for the qualified pension plans in the less than one year column only. Includes scheduled benefit payments for the nonqualified (unfunded) pension plans for all periods.

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires each FHLBank's management to make a number of judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities (if applicable), and the reported amounts of income and expense during the reported periods. Although each FHLBank's management believes that its judgments, estimates and assumptions are reasonable, actual results may differ, and may differ substantially, from the estimates and other parties could arrive at different conclusions as to the likelihood of various default and severity outcomes.

Each individual FHLBank manages its operations independently and is responsible for establishing its own accounting and financial reporting policies in accordance with GAAP. An individual FHLBank's accounting and financial reporting policies and practices, including accounting estimates, are not always identical to those used by other FHLBanks because alternative policies and presentations are permitted under GAAP in certain circumstances. Among other things, the FHLBanks might not use the same models and assumptions in determining the fair values of their respective assets and liabilities. The use of different models or assumptions by individual FHLBanks could result in materially different valuation estimates or other estimates, even when similar or identical assets and liabilities are being measured, and could have materially different effects on the net income and retained earnings of the respective FHLBanks, although each of these methodologies is in compliance with GAAP. However, the FHLBanks and the Office of Finance recognize the importance of transparency and enhanced consistency in financial reporting, and have implemented a uniform framework for completing their OTTI analyses of private-label MBS and a uniform valuation technique for determining the fair value of agency MBS and private-label MBS.

The accounting estimates and assumptions discussed in this section are those generally considered by each FHLBank's management to be the most critical to an understanding of its financial statements and the financial data it provides to the Office of Finance for this combined financial report. These estimates require FHLBank management to make subjective or complex judgments about matters that are inherently uncertain. Investors are cautioned that future events rarely develop exactly as forecast, and the best estimates routinely require adjustments, which could be material. A change in an estimate or assumption could have a material effect on an FHLBank's reported results of operations or its financial condition, and differences between the assumptions and estimates used by individual FHLBanks could result in material differences in the reported results of operations and financial condition of those FHLBanks.

Estimates and assumptions that are significant to the results of operations and financial condition of the FHLBanks include those used in conjunction with: (1) OTTI for investment securities; (2) fair value estimates; (3) derivative hedging relationships; (4) amortization of premium and accretion of discount on investment securities and purchased mortgage loans; and (5) calculation of allowances for credit losses for each identified portfolio segment of financing receivables. (See *Note 1—Summary of Significant Accounting Policies* to the accompanying combined financial statements for a description of accounting policies related to these estimates and assumptions.)

OTTI for Investment Securities

Uniform OTTI Framework. The 12 FHLBanks have developed a common framework for completing their OTTI analyses in compliance with FASB guidance on the recognition and presentation of OTTI in the financial statements. Implementation of this uniform OTTI framework and adoption of FASB's guidance provided greater consistency among the 12 FHLBanks regarding their OTTI analyses, including the calculation of any expected credit losses for impaired securities.(See *Note 8—Other-than-Temporary Impairment Analysis* to the accompanying combined financial statements for additional discussion regarding the recognition and presentation of OTTI.)

Most of the FHLBanks select all of their private-label MBS for purposes of OTTI cash flow analysis to be evaluated using the common framework developed by the 12 FHLBanks. Furthermore, the FHLBanks, consistent with the objectives of FHFA guidance, enhanced their overall OTTI process by creating an OTTI Governance Committee, which established a formal process by which the FHLBanks could provide input on and approve key OTTI assumptions. The OTTI Governance Committee is responsible for reviewing and approving key OTTI assumptions, including interest rates and housing prices, along with related modeling inputs and methodologies to be used to generate cash flow projections.

To assess whether the entire amortized cost bases of the FHLBanks' private-label MBS will be recovered, the FHLBanks performed a cash flow analysis for each such security that was previously other-than-temporarily impaired or where fair value was less than amortized cost as of the balance sheet date, except for certain private-label MBS where the underlying loan-level collateral data was not available using the uniform OTTI modeling methodology under the FHLBanks' common framework.

At December 31, 2011, eight FHLBanks owned certain private-label MBS where the underlying loan-level collateral data was not available. For private-label MBS that could not be modeled under the FHLBanks' common framework, alternative procedures were determined and approved by the OTTI Governance Committee. These alternative procedures established a formal process by which the FHLBanks could provide input on and approve key OTTI assumptions. Each affected FHLBank considered the approved alternative procedures to assess these securities for OTTI. These securities, which are backed by residential, home equity, manufactured housing, reverse mortgage and commercial real estate loans and/or home equity lines of credit, represented approximately 3% of the FHLBanks' total unpaid principal balance of private-label MBS at December 31, 2011.

Each FHLBank updates its OTTI analysis each quarter to reflect current and anticipated housing market conditions, observed and anticipated borrower behavior, and updated information on the loans supporting the FHLBank's private-label MBS. This process includes updating key aspects of the FHLBank's loss projection models. In doing so, an FHLBank considers many factors including, but not limited to:

- the credit ratings assigned to the securities by the nationally recognized statistical rating organizations;
- other indicators of issuer credit quality;
- the strength of the provider of any guarantees;
- the duration and magnitude of the unrealized loss; and
- whether the FHLBank has the intent to sell the security or more likely than not will be required to sell the security before the recovery of its amortized cost basis.

In the case of its private-label MBS, each FHLBank also considers prepayment speeds, the historical and projected performance of the underlying loans and the credit support provided by the subordinate securities.

In performing the cash flow analysis for the private-label MBS under the common framework, each FHLBank uses two third-party models. The first model forecasts loan-level prepayment, default and severity behavior. The second model is used to determine the resulting cash flows. The FHLBanks also assess the potential mitigation of projected credit losses through the application of existing monoline bond insurance from third parties by performing a qualitative assessment of the respective

insurer's ability to cover the security's projected shortfall of contractual principal or interest. (See *Note 8—Other-than-Temporary Impairment Analysis* to the accompanying combined financial statements for additional information.)

The modeling assumptions, significant inputs and methodologies are material to an OTTI determination. Any changes to these assumptions, significant inputs or methodologies could result in materially different outcomes to this determination, including the realization of additional OTTI charges that may be substantial. Each FHLBank is responsible for making its own OTTI determination and assessing the reasonableness of assumptions, significant inputs and methodologies used, as well as for performing the required present value calculations using appropriate historical cost bases and yields. Two or more FHLBanks that hold the same private-label MBS are required to consult with one another to ensure they reach the same conclusion on any decision that a commonly-held private-label MBS is other-than-temporarily impaired. This includes the determination that the fair value and the credit loss component of the unrealized loss are consistent among those FHLBanks.

Table 41 presents the significant inputs used to assess private-label residential MBS and home equity loan ABS under the FHLBanks' common framework for OTTI as well as related current credit enhancements as of December 31, 2011. Credit enhancement is defined as the percentage of credit subordination, excess spread and over-collateralization, if any, in a security structure that will generally absorb losses before each FHLBank will experience a loss on the security. The calculated averages represent the dollar-weighted averages of all the private-label residential MBS and home equity loan ABS in each category shown.

Table 41 - Significant Inputs for Private-label Residential MBS and Home Equity Loan ABS

(dollars in millions)

		Significant Inputs for All Private-label Residential MBS(1)							
		Prepayment Rates		Default Rates		Loss Severities		Current Credit Enhancement	
Year of Securitization	Unpaid Principal Balance	Weighted-Average %	Range %	Weighted-Average %	Range %	Weighted-Average %	Range %	Weighted-Average %	Range %
Prime									
2008	$ 764	7.3	6.1 - 8.1	45.5	26.2 - 60.2	47.8	42.9 - 52.3	24.1	12.5 - 44.4
2007	1,358	7.8	4.8 - 22.7	24.1	0.0 - 59.9	43.6	0.0 - 53.3	4.9	0.6 - 21.1
2006	2,354	7.4	4.0 - 24.7	23.2	2.0 - 53.1	47.0	29.1 - 85.4	5.1	0.0 - 20.0
2005	2,710	8.7	4.4 - 24.9	13.9	0.5 - 33.2	36.5	19.8 - 58.2	7.4	0.0 - 28.6
2004 and prior	5,981	14.5	0.5 - 84.5	7.9	0.0 - 49.3	28.8	0.0 - 86.4	8.9	2.3 - 69.8
Total prime	13,167	10.9	0.5 - 84.5	15.7	0.0 - 60.2	36.3	0.0 - 86.4	8.4	0.0 - 69.8
Alt-A									
2008	362	6.8	4.7 - 8.8	53.2	38.9 - 61.7	44.8	44.0 - 49.2	34.4	23.9 - 38.5
2007	6,943	4.7	1.4 - 8.7	66.9	31.6 - 91.6	52.1	32.1 - 65.8	21.5	0.0 - 50.5
2006	5,502	5.0	1.6 - 15.4	61.6	1.3 - 90.3	52.3	19.3 - 68.3	15.7	(1.5) - 61.3 [(a)]
2005	6,958	6.6	2.1 - 12.6	41.1	5.5 - 84.1	47.1	26.1 - 61.7	15.4	(0.1) - 84.4 [(a)]
2004 and prior	3,122	9.4	2.0 - 18.1	15.9	0.0 - 67.4	33.0	0.0 - 69.0	14.9	3.6 - 86.5
Total Alt-A	22,887	6.0	1.4 - 18.1	50.6	0.0 - 91.6	47.9	0.0 - 69.0	17.5	(1.5) - 86.5 [(a)]
Subprime									
2007	10	4.2	4.2	76.2	76.2	69.8	69.8	41.5	41.5
2006	969	4.4	2.7 - 5.7	76.6	66.7 - 88.0	71.4	65.1 - 80.5	23.7	(23.8) - 95.2 [(a)]
2005	71	3.8	1.9 - 5.4	77.6	60.5 - 90.4	67.4	61.0 - 72.8	48.0	13.0 - 84.7
2004 and prior	25	9.0	5.9 - 11.2	36.2	18.5 - 59.5	77.4	63.2 - 94.0	40.3	(7.8) - 100.0 [(a)]
Total subprime	1,075	4.4	1.9 - 11.2	75.8	18.5 - 90.4	71.3	61.0 - 94.0	25.9	(23.8) - 100.0 [(a)]
Total all private-label residential MBS	$ 37,129	7.7	0.5 - 84.5	39.0	0.0 - 91.6	44.5	0.0 - 94.0	14.5	(23.8) - 100.0 [(a)]

Year of Securitization	Unpaid Principal Balance	Significant Inputs for All Home Equity Loan ABS(1)						Current Credit Enhancement	
		Prepayment Rates		Default Rates		Loss Severities			
		Weighted-Average %	Range %	Weighted-Average %	Range %	Weighted-Average %	Range %	Weighted-Average %	Range %
Alt-A									
2006	$ 15	13.8	13.8	5.7	5.7	100.0	100.0	0.0	0.0
2005	2	19.4	19.4	0.3	0.3	100.0	100.0	56.7	56.7
2004 and prior	25	11.2	7.9 - 18.2	4.5	0.8 - 6.4	100.0	100.0	2.8	0.0 - 7.6
Total Alt-A	42	12.6	7.9 - 19.4	4.7	0.3 - 6.4	100.0	100.0	4.6	0.0 - 56.7
Subprime									
2004 and prior	457	4.0	0.0 - 13.0	6.1	1.0 - 45.6	75.3	30.0 - 133.5 (b)	31.5	(21.4) - 100.0 (a)
Total subprime	457	4.0	0.0 - 13.0	6.1	1.0 - 45.6	75.3	30.0 - 133.5 (b)	31.5	(21.4) - 100.0 (a)
Total all home equity loan ABS	$ 499	4.7	0.0 - 19.4	6.0	0.3 - 45.6	77.4	30.0 - 133.5 (b)	29.2	(21.4) - 100.0 (a)

(a) A negative current credit enhancement exists when the remaining principal balance on the supporting collateral is less than the remaining principal balance of the security.
(b) Although investment losses cannot exceed 100%, the loss severity of the underlying collateral can exceed 100% as a result of extended periods in foreclosure that result in an accumulation of taxes, insurance, maintenance and other fees.
(1) The classification (prime, Alt-A and subprime) is based on the model used to run the estimated cash flows for the individual securities, which may not necessarily be the same as the classification at the time of origination.

Adverse Case Scenario. In addition to evaluating its private-label MBS under a base case (or best estimate) scenario as discussed in *Note 8—Other-than-Temporary Impairment Analysis* to the accompanying combined financial statements, each FHLBank performed a cash flow analysis for each of these securities under a more stressful housing price scenario. This more stressful scenario was based on a housing price forecast that was 5 percentage points lower at the trough than the base case scenario, followed by a flatter recovery path. Under this scenario, current-to-trough home price declines were projected to range from 5.0% to 13.0% over the 3- to 9-month period beginning October 1, 2011. From the trough, home prices were projected to recover using one of five different recovery paths that vary by housing market. Table 42 presents projected home price recovery ranges by year under the adverse case scenario.

Table 42 - Adverse Case Scenario Recovery Ranges of Housing Price Change

	Recovery Range %
Year 1	0.0 - 1.9
Year 2	0.0 - 2.0
Year 3	1.0 - 2.7
Year 4	1.3 - 3.4
Years 5 and 6	1.3 - 4.0
Thereafter	1.5 - 3.8

The stress test scenario and associated results do not represent each FHLBank's current expectations, and therefore should not be construed as a prediction of each FHLBank's future results, market conditions or the actual performance of these securities. Rather, the results from this hypothetical stress test scenario provide a measure of the credit losses that the FHLBanks might incur if home price declines (and subsequent recoveries) are more adverse than those projected in each FHLBank's OTTI assessment.

Table 43 presents the combined credit losses under the base case and adverse case scenario for other-than-temporarily impaired private-label MBS for the three months ended December 31, 2011. The base case scenario represents actual OTTI-related credit losses recognized in earnings for the three months ended December 31, 2011. The adverse case scenario's estimated cash flows were generated to show what the OTTI charges would have been under the more stressful housing price scenario at December 31, 2011.

Table 43 - Base Case and Adverse Case Scenarios

(dollars in millions)

	December 31, 2011					
	Base Case(1)			Adverse Case		
	Number of Securities	Unpaid Principal Balance	OTTI Related to Credit Loss	Number of Securities	Unpaid Principal Balance	OTTI Related to Credit Loss
Private-label residential MBS						
Prime(2)	45	$ 2,426	$ (39)	128	$ 6,421	$ (184)
Alt-A(2)	95	4,860	(36)	271	12,407	(333)
Subprime(2)	5	31	(1)	17	210	(5)
Total private-label residential MBS	145	7,317	(76)	416	19,038	(522)
Home equity loan ABS						
Alt-A(2)	2	12	—	5	24	(3)
Subprime(2)	7	26	(5)	8	27	(5)
Total home equity loan ABS	9	38	(5)	13	51	(8)
Total	154	$ 7,355	$ (81)	429	$ 19,089	$ (530)

(1) Represents securities and related OTTI credit losses for the three months ended December 31, 2011.
(2) Based on the originator's classification at the time of origination or based on classification by a nationally recognized statistical rating organization upon issuance of the MBS.

Monoline Bond Insurers. Certain FHLBanks' investment securities are insured by monoline bond insurers. The bond insurance on these investments guarantees the timely payments of principal and interest if these payments cannot be satisfied from the cash flows of the underlying mortgage pool(s). Private-label residential MBS, manufactured housing loans and home equity loan investments insured by monoline bond insurers are cash flow tested for credit impairment. For private-label residential MBS, manufactured housing loans and home equity loan investments protected by such monoline insurance, an FHLBank's OTTI analysis would look first to the performance of the underlying security, considering its embedded credit enhancements in the form of excess spread, over-collateralization and credit subordination, to determine the collectability of all amounts due. If these protections are deemed insufficient to make timely payment of all amounts due, then an FHLBank may consider the capacity of the monoline bond insurer to cover any shortfalls.

In determining monoline bond insurer support, an FHLBank would consider the contractual terms of the insurance guarantee, and whether the credit protection under the terms of the agreement applies to the security if it is projected that the security would have to rely on insurance protection for cash flow sufficiency, either currently or in the future. FHLBanks that have investments insured by monoline bond insurers follow the guidelines provided by the FHLBank of New York when performing their OTTI analysis.

In estimating an insurer's capacity to provide credit protection in the future to cover any decrease in cash flows expected to be collected for securities deemed to be OTTI, the FHLBank of New York developed a methodology to assess the ability of a monoline bond insurer to meet its future insurance obligations. The methodology establishes boundaries that can be used on a consistent basis, and includes both quantitative and qualitative factors. This methodology calculates the length of time that a monoline bond insurer is expected to remain financially viable in order to pay claims for insured securities and it primarily employs information that is publicly available to identify cash flows used up by a monoline bond insurer for insurance claims. Based on the monoline bond insurer's existing insurance reserves, the methodology attempts to predict the length of time the monoline bond insurer's claims-paying resources could sustain bond insurance losses and estimate a future point in time when the monoline bond insurer's claim-paying resources may be exhausted.

For insured securities that are deemed to be credit-impaired without insurer protection, this methodology compares the timing and the amount of cash flow shortfalls to the estimated timing for when a monoline bond insurer's claim-paying resources would be exhausted in order to quantify both the timing and the amount of cash flow shortfalls that the monoline insurer is unlikely to be able to cover. However, an FHLBank must use significant judgment and assumptions when estimating a monoline bond insurer's financial strength to remain viable over a long-term horizon, predicting when a monoline bond insurer may no longer have the ability to perform under its contractual agreement and comparing the timing and the amounts of cash flow shortfalls for securities that are credit-impaired without insurer protection. The results of the monoline bond insurer financial analysis, which projects the time horizon of credit protection provided by a monoline bond insurer as a function of claim-paying resources and anticipated claims in the future (monoline burn-out period), are incorporated as a key input in the third-party cash flow model. If this cash flow model projects cash flow shortfalls (credit impairment) on a

monoline-insured security, the monoline “burn-out” date is then input into the cash flow model. That input then provides the necessary information to the cash flow model for the continuation of cash flows until the burn-out date. Any cash flow shortfalls beyond the “burn-out” date are deemed to be unrecoverable and the monoline-insured security will be credit impaired.

Fair Value Estimates

The use of fair value to measure the FHLBanks' financial instruments is fundamental to the FHLBanks' financial statements and is a critical accounting estimate because a significant portion of the assets and liabilities are carried at fair value, including: trading securities, available-for-sale securities, derivative assets and liabilities, certain advances, certain consolidated obligations and certain other liabilities. In addition, certain assets and certain liabilities are measured at fair value on a non-recurring basis. These assets and liabilities are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

GAAP defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date, or an exit price. In general, the transaction price will equal the exit price and, therefore, represents the fair value of the asset or liability at initial recognition. However, in concluding whether a transaction price represents fair value, each reporting entity is required to consider factors specific to the transaction and the asset or liability. In addition, the reporting entity must determine the unit of account, highest and best use, principal market, and market participants. These determinations allow the reporting entity to define the inputs for fair value and level of hierarchy. The three-level fair value hierarchy prioritizes the inputs into the valuation technique used to measure the fair value of the assets and liabilities held at fair value. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements).

Each FHLBank uses valuation techniques that maximize the use of observable market based inputs, when appropriate, to value the assets and liabilities carried at fair value on a recurring basis or to determine whether a fair value adjustment is needed for assets and liabilities to be carried at fair value on a non-recurring basis. Given the nature of some of the assets and liabilities carried at fair value, whether on a recurring or non-recurring basis, clearly determinable market based valuation inputs are often not available. Therefore, the fair value measurements of these instruments use unobservable inputs and are classified as Level 3 within the fair value hierarchy. Level 3 assets primarily consist of private-label MBS. Due to unavailability of observable inputs for the Level 3 assets, fair values are determined on valuation models that use either:

- third-party vendor prices;
- discounted cash flows, using market estimates of interest rates and volatility; or
- dealer prices on similar instruments.

The assumptions used in these models are based on each FHLBank's best estimate with respect to:

- discount rates;
- prepayments;
- market volatility; and
- other factors.

These assumptions may have a significant effect on the reported fair value of assets and liabilities. The use of different assumptions, as well as changes in market conditions, could result in materially different net income and retained earnings.

Uniform Valuation Technique for MBS. The FHLBanks' MBS Pricing Governance Committee established a uniform valuation technique to determine the fair value of MBS (agency MBS and private-label MBS), which was adopted by all 12 FHLBanks as of March 31, 2010.

Prior to December 31, 2011, the FHLBanks established a price for each MBS using a formula that was based upon the number of third-party vendor prices received:

- if four prices were received, the average of the middle two prices was used;
- if three prices were received, the middle price was used;
- if two prices were received, the average of the two prices was used; and

- if one price was received, it was used subject to further validation.

Effective December 31, 2011, the FHLBanks refined their valuation technique for estimating the fair values of MBS. The FHLBanks' refined valuation technique first requires the establishment of a median price for each security using a formula that is based upon the number of third-party vendor prices received:

- if four prices are received, the middle two prices are averaged to establish a median price;
- if three prices are received, the middle price is the median price;
- if two prices are received, the prices are averaged to establish a median price; and
- if one price is received, it is the median price (and also the final price), subject to further validation, consistent with the evaluation of outliers as discussed in the next paragraph.

All prices that are within a specified tolerance threshold of the median price are included in the cluster of prices that are averaged to compute a default price. Prices that are outside the threshold (outliers) are subject to further analysis, including but not limited to comparison to prices provided by an additional third-party valuation service, prices for similar securities, and non-binding dealer estimates, to determine if an outlier is a better estimate of fair value. If an outlier or some other price identified in the analysis is determined to be a better estimate of fair value, then the outlier or the other price as appropriate is used as the final price rather than the default price. If the analysis confirms that an outlier is in fact not representative of fair value and the default price is the best estimate, then the default price is used as the final price. In all cases, the final price is used to determine the fair value of the security.

Each individual FHLBank has its set of control processes that are designed to ensure its fair value measurements are appropriate and reliable. These control processes may include, but are not limited to, the following:

- obtaining the third-party pricing service methodologies and control reports;
- challenging a third-party pricing vendor when a price falls outside of the tolerance parameters;
- identifying a stale price, a price that changed significantly from prior valuations and other anomalies that may indicate that a price may not be accurate; and
- visually checking pricing consistency within the same asset group to identify anomalies.

In addition, each FHLBank reviewed the final fair value estimates of certain of its private-label MBS holdings as of December 31, 2011 for reasonableness using an implied yield test. Each FHLBank calculated an implied yield for certain of its private-label MBS using the estimated fair value derived from the process described and the security's projected cash flows from the FHLBank's OTTI process, and compared such yield to the market yield for comparable securities according to dealers and other third-party sources to the extent comparable market yield data was available. Significant variances were evaluated in conjunction with all other available pricing information to determine whether an adjustment to the fair value estimate was appropriate.

Prices for MBS CUSIPs held in common with other FHLBanks are reviewed for consistency. In using this common methodology, each FHLBank remains responsible for the selection and application of its fair value methodology and the reasonableness of assumptions and inputs used. (See *Note 21—Fair Value* to the accompanying combined financial statements for further discussion regarding how the FHLBanks measure financial assets and financial liabilities at fair value.)

Derivative Hedging Relationships

Derivatives accounting involves estimating the fair value of the derivatives and assessing the effectiveness of the hedging relationship using regression-based testing, based on simulated valuations derived from historical market data. These estimates include subjective calculations and estimates based on information available as of the date of the financial statements, which could be materially different based on different assumptions, calculations, and estimates. If hedging relationships meet the criteria, two approaches to hedge accounting can be used: short-cut hedge accounting and long-haul hedge accounting.

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

- the notional amount of the interest-rate swap matches the principal amount of the interest-bearing financial instrument being hedged;
- the fair value of the interest-rate swap at the inception of the hedging relationship is zero;
- the formula for computing net settlements under the interest-rate swap is the same for each net settlement; and
- the interest-bearing financial instrument is not prepayable.

Provided that no terms changed, the entire change in the hedging instrument's fair value is considered to be effective at achieving offsetting changes in fair values or cash flows of the hedged asset or liability. If all the criteria are met, the FHLBank applies the short-cut method to a qualifying hedge when the relationship is designated on the trade date of both the hedging instrument and the hedged items (for example, advances or consolidated obligation bonds are issued). The hedged item is not recognized for accounting purposes until its settlement date; however, the FHLBanks record the changes in the hedging instrument and the hedged item's fair value beginning on the trade date, but the derivative relationship has no effect on earnings or capital.

Long-Haul Hedge Accounting. A long-haul hedging relationship implies a highly-effective hedging relationship that requires the FHLBank to assess, retrospectively and prospectively, whether the derivative and hedged item has been and will be highly effective in offsetting changes in fair value attributable to the hedged risk. The changes in fair value for the derivative and the hedged item may or may not be perfectly correlated. Any difference in the change of fair value between the two will be recognized as a net gain or loss in the statement of income. To maintain the highly-effective relationship, this effectiveness testing of the hedge is performed at the inception of the hedge and on at least a quarterly basis. Typically, the FHLBank performs dollar-offset prospective testing at the inception of the hedge and calculates retrospective regressions after a sufficient number of data points have been accumulated to render a statistically significant result. Alternatively, an FHLBank may employ regression-based testing prospectively based on simulated valuations derived from historical market data. If, during this effectiveness testing, the hedge fails to maintain effectiveness at any point, the hedge relationship will be deemed ineffective. As a result, the hedged item's changes in fair value will no longer be evaluated for effectiveness, and will be treated as not-highly-effective.

If a hedging relationship is not considered highly effective, it does not qualify for hedge accounting treatment. Therefore, the hedged item's changes in fair value are not evaluated, even though an offsetting relationship between fair values or cash flows of the hedge and hedged items may be demonstrated. Changes in the fair value of such economic hedges of assets or liabilities for asset/liability management purposes are recorded in current-period earnings. (See *Note 1—Summary of Significant Accounting Policies* and *Note 12—Derivatives and Hedging Activities* to the accompanying combined financial statements for additional discussion regarding the FHLBanks' accounting for derivatives and types of hedging transactions.)

Amortization of Premiums and Accretion of Discounts on Investment Securities and Purchased Mortgage Loans

When an FHLBank purchases investment securities and mortgage loans, it may not pay the seller the par value or the unpaid principal balance of the asset. If an FHLBank purchases the asset at a premium, the premium reduces the yield that an FHLBank recognizes on the asset below the stated coupon amount. Conversely, if an FHLBank purchases the asset at a discount, the discount increases the yield that FHLBank recognizes on the asset above the stated coupon amount.

The FHLBanks amortize premiums and accrete discounts in accordance with GAAP and recognize the amounts of amortization or accretion in current period earnings as a decrease or increase to interest income. An offsetting adjustment is made to the asset's net carrying value as the premiums are amortized and the discounts are accreted into interest income.

Contractual Interest Method. The amortization of premiums or accretion of discounts to interest income using the contractual interest method produces a constant level-yield over the contractual life, which represents the stated maturity. The contractual interest method recognizes the income effects of premiums and discounts over the contractual life of the asset based on the actual behavior of the underlying assets, including adjustments for actual prepayment activities, and reflects the contractual terms of the asset without regard to changes in estimated prepayments based on assumptions about future borrower behavior.

Retrospective Interest Method. Except when the contractual interest method is used, the FHLBanks apply the retrospective interest method on their investment securities and purchased mortgage loans for which prepayments reasonably can be expected and estimated. The retrospective interest method requires that an FHLBank estimate prepayments over the estimated life of the securities and make a retrospective adjustment of the effective yield each time that it changes the estimated life as if the new estimate had been known since the original acquisition date of the asset. Use of the retrospective

method may increase volatility of reported earnings during periods of changing interest rates, and the use of different estimates or assumptions, as well as changes in external factors, could produce significantly different results. Reductions in interest rates generally accelerate prepayments, which accelerate the amortization of premiums and reduce current-period earnings. Typically, declining interest rates accelerate the accretion of discounts, thereby increasing current-period earnings. Conversely, in a rising interest-rate environment, prepayments will generally extend over a longer period, shifting some of the premium amortization and discount accretion to future periods.

Allowance for Credit Losses

Each FHLBank is required to assess potential credit losses and establish an allowance for credit losses, as applicable, for each identified portfolio segment of financing receivables. A portfolio segment is the level at which an FHLBank develops and documents a systematic method for determining its allowance for credit losses. The FHLBanks' allowances for credit losses methodology is discussed below for the following portfolio segments:

- credit products (advances, letters of credit and other extensions of credit to borrowers);
- conventional MPF Loans held for portfolio, conventional MPP Loans held for portfolio; and
- government-guaranteed or -insured mortgage loans held for portfolio.

Furthermore, the FHLBanks established a systematic methodology for assessing other financing receivables for potential credit losses, including other loans, term securities purchased under agreements to resell and term Federal funds sold. (See *Note 11—Allowance for Credit Losses* to the accompanying combined financial statements for additional information on the FHLBanks' allowance for credit losses methodologies.)

The allowance for credit losses represents each FHLBank's management's best estimate of the probable credit losses inherent in its financing receivable portfolios. Determining the amount of the allowance for credit losses is considered a critical accounting estimate because management's evaluation of the adequacy of the allowance for credit losses is subjective and requires significant estimates, such as the amounts and timing of estimated future cash flows, estimated losses based on historical loss experience, and consideration of current economic trends, all of which are susceptible to change. Each FHLBank's assumptions and judgments related to its allowance for credit losses are based on information available as of the date of the corresponding financial statements. Actual losses could differ from these estimates. (See *Risk Management* - *Credit Risk* for further discussion of how the FHLBanks monitor, limit and assess credit risk on their financing receivables.)

Credit Products. Each FHLBank expects to collect all amounts due according to the contractual terms of its credit products based on the nature and quality of the collateral held as security for its credit products, its credit extension and collateral policies, its credit analysis and the repayment history on its credit products. Accordingly, no allowance for losses on credit products was deemed necessary at December 31, 2011 and 2010. Furthermore, no liability to reflect an allowance for credit losses for off-balance sheet exposures was recorded at December 31, 2011 and 2010. No FHLBank has ever experienced a credit loss on any of its credit products.

The FHLBanks are required by FHFA regulation to obtain sufficient collateral on credit products to protect against losses. The FHLBanks are permitted to accept only certain collateral, such as:

- U.S. government or agency securities;
- residential mortgage loans;
- FHLBank deposits; and
- other real estate-related assets.

Each FHLBank may require additional collateral (whether or not that additional collateral meets the eligibility criteria previously discussed) or require that the borrower substitute existing collateral at any time. An FHLBank also has a statutory lien upon each member's FHLBank stock as additional security for the indebtedness of that member. At December 31, 2011 and 2010, the rights to collateral held by the FHLBanks on a borrower-by-borrower basis had an estimated value that exceeded the outstanding advances for each individual borrower. Management of each FHLBank believes that adequate policies and procedures are in place to effectively manage that FHLBank's respective credit risk on its credit products. These policies and procedures may include, but are not limited to: (1) monitoring the creditworthiness and financial condition of the institutions to which the FHLBank lends funds; (2) reviewing the quality and value of collateral pledged by members to secure extensions of credit; (3) estimating borrowing capacity based on collateral value and collateral type for each member; and (4) evaluating historical loss experience.

Conventional MPF Mortgage Loans Held for Portfolio. At December 31, 2011 and 2010, each MPF FHLBank that holds mortgage loans under the MPF Program had an allowance for credit losses on mortgage loans held under that program. Each MPF FHLBank bases its allowance on its management's estimate of credit losses inherent in its mortgage loan portfolio at the balance sheet date. The estimate is either based on the individual MPF FHLBank's loan portfolio performance history or is based on analysis of industry statistics for similar mortgage loan portfolios. Conventional loans, in addition to having the related real estate as collateral, are also credit enhanced either by the participating financial institution (PFI), which is required to pledge qualified collateral to secure its credit enhancement obligation, or by the supplemental mortgage insurance (SMI) purchased by the PFI. If an MPF FHLBank had losses in excess of the estimated liquidation value of collateral held and credit enhancement amount, credit losses would be recognized for financial reporting purposes.

The allowance for credit losses on mortgage loans held under the MPF Program is established at a level that each FHLBank's management believes to be adequate to absorb its estimated credit losses related to specifically identified loans and estimated credit losses inherent in its total MPF Loan portfolio.

The estimation of credit losses in the total MPF Loan portfolio involves assessing the effect of current economic trends and specific events on the allowance for credit losses on mortgage loans. Furthermore, each FHLBank takes into consideration the following factors: (1) management's judgment as to the eligibility of PFIs to continue to service and credit-enhance the loans delivered to an MPF FHLBank; (2) evaluation of credit exposure on portfolio loans; (3) valuation and collectability of credit enhancements provided by PFIs or mortgage insurers; (4) estimation of loss exposure and historical loss experience; (5) loan portfolio characteristics and collateral valuations; and (6) industry data and prevailing economic conditions. Setting the level of reserves requires significant judgment and regular evaluation by management.

The MPF FHLBanks review loans that are on non-accrual status to determine whether they are collateral dependent. These collateral-dependent loans are treated separately from the remaining MPF Loans because sufficient information exists to make a reasonable estimate of the inherent loss for such MPF Loans on an individual loan basis. Certain FHLBanks apply migration analysis to MPF loans that are delinquent. The allowance for credit losses for an FHLBank's conventional loan pools is based on an analysis of the migration of its delinquent loans to default since the inception of the MPF Program. An MPF FHLBank then analyzes the probable loss severity on that portion of the delinquent loans that the migration analysis indicates will default within one year. Primary mortgage insurance (PMI) and the credit enhancement amount provided by the PFI or by SMI are generally factored into the allowance for credit loss determination, provided that collection from the PFI or insurance companies is determined to be probable. The combination of these factors, as well as an additional judgmental amount determined by management due to uncertainties inherent in the estimation process (margin for imprecision), represents the estimated credit losses from conventional MPF Loans. Although the margin for imprecision is not allocated to any specific economic or credit event, it is intended to cover other inherent losses that may not be captured in the methodology previously described. Therefore, the allowance for credit losses that includes this margin for imprecision represents management's best estimate of probable loan losses. However, the actual loss that may occur on homogeneous pools of mortgage loans may be more or less than the estimated loss. Any potential losses that would be recovered from the credit enhancement amount, as well as PMI, are not generally reserved for as part of the allowance for credit losses on mortgage loans.

Conventional MPP Mortgage Loans Held for Portfolio. Each MPP FHLBank that has acquired mortgage loans under the MPP analyzes its MPP Loans on a quarterly basis by estimating probable credit losses, comparing these losses to credit enhancements, including the recoverability of insured amounts, and then establishes general or real estate owned-specific reserves based on the results. At December 31, 2011 and 2010, each MPP FHLBank either had an allowance for credit losses on mortgage loans acquired under its MPP or has determined that no such allowance was required, due in part to the structure of the allocation of credit risk under that program. If an MPP FHLBank had losses in excess of the estimated liquidation value of collateral held, PMI (if applicable), lender risk account, and SMI (if applicable), credit losses would be recognized for financial reporting purposes.

The MPP FHLBanks apply a consistent methodology to determine the adequacy of the allowance for credit losses. The key estimates and assumptions that affect each MPP FHLBank's allowance for credit losses generally include: (1) the characteristics of specific delinquent conventional loans outstanding under the MPP; (2) evaluations of the overall delinquent loan portfolio through the use of migration analysis; (3) loss severity estimates; (4) historical claims and default experience; (5) expected proceeds from credit enhancements; (6) comparisons to reported industry data; and (7) current economic trends and conditions.

These estimates require significant judgments, especially considering the prolonged deterioration in the national housing market, the inability to readily determine the fair value of all underlying properties and the uncertainty in other macroeconomic factors that make estimating defaults and severity imprecise.

Government-Guaranteed or -Insured Mortgage Loans Held for Portfolio. FHLBanks purchase both conventional mortgage loans and government-guaranteed or -insured mortgage loans under the MPF Program and MPP. Government loans are insured or guaranteed by federal agencies, including the Federal Housing Administration, Veterans Affairs, Rural Housing Service or Department of Housing and Urban Development. Any losses from such mortgage loans are expected to be recovered from those entities or absorbed by the servicers. Accordingly, the FHLBanks have determined that no allowance for credit losses is necessary in connection with government-guaranteed or -insured mortgage loans held for portfolio at December 31, 2011 and 2010.

Recent Accounting Developments

See *Note 2—Recently Issued and Adopted Accounting Guidance* to the accompanying combined financial statements for a discussion regarding the effect of recently issued accounting guidance on the FHLBanks' combined financial condition, combined results of operations or combined cash flows.

Legislative and Regulatory Developments

The legislative and regulatory environment for the FHLBank System has changed significantly over the past few years, starting with the Housing Act in 2008 and continuing with financial regulators' issuance of proposed and/or final rules to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) enacted in July 2010 and deliberations by the U.S. Congress regarding housing finance and GSE reform. The FHLBanks' business operations, funding costs, rights, obligations, or the business environment in which the FHLBanks carry out their housing finance mission are likely to be affected by the Dodd-Frank Act. However, the full effect of the Dodd-Frank Act will become known only after the required regulations, studies and reports are issued and finalized. The significant regulatory actions and developments since December 31, 2010 are summarized in this section.

Dodd-Frank Act

New Requirements for the FHLBanks' Derivatives Transactions.

The Dodd-Frank Act provides for new statutory and regulatory requirements for derivative transactions, including those used by each FHLBank to hedge its interest-rate risk and other risks. As a result of these requirements, certain derivative transactions will be required to be cleared through a third-party central clearinghouse, via clearing members who are permitted to process, clear and settle swap trades through that clearinghouse, and traded on regulated exchanges or new swap execution facilities.

Mandatory Clearing of Derivatives Transactions. The Commodity Futures Trading Commission (CFTC) has issued a final rule regarding the process to determine which types of swaps will require mandatory clearing, but these determinations have not been made yet. The CFTC has also proposed a rule setting forth an implementation schedule for effectiveness of its mandatory clearing determinations. Pursuant to this proposed rule, the mandatory clearing would not take effect until certain rules being promulgated by the CFTC and the SEC under the Dodd-Frank Act have been finalized, regardless of when the CFTC determines that a type of swap is required to be cleared. In addition, the proposal provides that each time the CFTC determines that a type of swap requires mandatory clearing, the CFTC would have the option to implement such requirement in three phases. Under the proposed rule, each FHLBank would be a “category 2 entity” and would therefore have to comply with mandatory clearing requirements for a particular swap during phase 2 (within 180 days of the CFTC's issuance of such requirements). Based on the CFTC's proposed implementation schedule and the time periods set forth in the rule for CFTC determinations regarding mandatory clearing, the FHLBanks may be required to begin mandatory clearing as early as the fourth quarter of 2012.

Collateral Requirements for Cleared Swaps. Cleared swaps will be subject to initial margin and variation margin requirements established by the clearinghouse and its clearing members. While clearing swaps may reduce counterparty credit risk, the margin requirements for cleared swaps have the potential of making derivative transactions more costly. In addition, mandatory swap clearing will require each FHLBank to enter into new relationships and accompanying documentation with its clearing members and additional documentation with its swap counterparties.

The CFTC has issued a final rule requiring that collateral posted by swap customers to a clearinghouse in connection with cleared swaps be legally segregated on a customer-by-customer basis. Pursuant to this final rule, customer collateral must be segregated on a customer-by-customer basis on the books of a futures commission merchant and derivatives clearing organization, but may be commingled with the collateral of other customers of the same futures commission merchant in one physical account. The final rule provides greater protection to collateral posted for cleared swaps than is currently provided to collateral posted for futures contracts. However, the final rule does not afford complete protection for a customer's collateral for cleared swaps because of inherent operational and investment risks and certain provisions applicable to futures commission merchant insolvencies under the U.S. Bankruptcy Code. To the extent the CFTC's final rule places the FHLBanks' posted collateral at greater risk of loss in the clearing structure than under the current over-the-counter market structure, FHLBanks may be adversely affected.

Definitions of Certain Terms under New Derivatives Requirements. The Dodd-Frank Act will require swap dealers and certain other large users of derivatives to register as “swap dealers” or “major swap participants” with the CFTC and/or the SEC. Based on the definitions in the proposed rules jointly issued by the CFTC and SEC, it does not appear likely that any FHLBank will be required to register as a “major swap participant,” although this remains a possibility. Also, based on the definitions in the proposed rules, it does not appear likely that any FHLBank will be required to register as a “swap dealer” for the derivative transactions that an FHLBank enters into with dealer counterparties for the purpose of hedging and managing its interest-rate risk. However, based on the proposed rules, it is possible that an FHLBank could be required to register with the CFTC as a swap dealer if it enters into intermediated swaps with its members beyond a very narrow proposed exemption.

It is also unclear how the final rule will treat the embedded call and put options in certain advances to an FHLBank's members. The CFTC and SEC have issued joint proposed rules further defining the term “swap” under the Dodd-Frank Act. These proposed rules and accompanying interpretive guidance attempt to clarify what products will and will not be regulated as “swaps.” While it is unlikely that advance transactions between an FHLBank and its member customers will be treated as “swaps,” the proposed rules and accompanying interpretive guidance are not entirely clear on this issue.

Depending on how the terms “swap” and “swap dealer” are defined in the final regulations, each FHLBank may be faced with the business decision of whether to continue to offer certain types of advance products to its member customers if those transactions would require that FHLBank to register as a swap dealer. Designation as a swap dealer would subject an FHLBank to significant additional regulation and cost including registration with the CFTC, new internal and external business conduct standards, additional reporting requirements and additional swap-based capital and margin requirements. Even if an FHLBank is designated as a swap dealer as a result of its advance activities, the proposed regulations would permit that FHLBank to apply to the CFTC to limit that designation to those specified activities for which it is acting as a swap dealer. Upon that designation, that FHLBank's hedging activities would not be subject to the full requirements generally imposed on traditional swap dealers.

Uncleared Derivatives Transactions. The Dodd-Frank Act will also change the regulatory landscape for derivative transactions that are not subject to mandatory clearing requirements (uncleared trades). While each FHLBank expects to continue to enter into uncleared trades on a bilateral basis, those trades will be subject to new regulatory requirements, including mandatory reporting, documentation, and minimum margin and capital requirements. Under the proposed margin rules, each FHLBank will have to post both initial margin and variation margin to its swap dealer counterparties, but may be eligible in both instances for modest unsecured thresholds as “low-risk financial end users.” Pursuant to additional FHFA provisions, each FHLBank will be required to collect both initial margin and variation margin from its swap dealer counterparties, without any unsecured thresholds. These margin requirements and any related capital requirements could adversely affect the liquidity and pricing of certain uncleared derivative transactions entered into by an FHLBank, making such trades more costly.

The CFTC has proposed a rule setting forth an implementation schedule for the effectiveness of the new margin and documentation requirements for uncleared swaps. Pursuant to the proposed rule, regardless of when the final rules for these requirements are issued, those rules would not take effect until (1) certain other rules being promulgated under the Dodd-Frank Act take effect and (2) a certain additional time period has elapsed. The length of this additional time period depends on the type of entity entering into the uncleared swaps. Each FHLBank would be a “category 2 entity” and would therefore have to comply with the new requirements during phase 2 (within 180 days of the effectiveness of the final applicable rulemaking). Accordingly, the FHLBanks may be required to comply with the new margin and documentation requirements as early as the fourth quarter of 2012.

Temporary Exemption from Certain Provisions. While certain provisions of the Dodd-Frank Act took effect on July 16, 2011, the CFTC has issued an order (and an amendment to that order) temporarily exempting persons or entities with respect to provisions of Title VII of the Dodd-Frank Act that reference "swap dealer," "major swap participant," "eligible contract participant," and "swap." These exemptions will expire upon the earlier of: (1) the effective date of the applicable final rule further defining the relevant terms or (2) July 16, 2012. In addition, the provisions of the Dodd-Frank Act that will have the most effect on each FHLBank did not take effect on July 16, 2011, but will take effect no sooner than 60 days after the CFTC publishes final regulations implementing these provisions. The CFTC expects to publish these final regulations during the first half of 2012, but it is not expected that such final regulations will become effective until later in 2012, and delays beyond that time are possible. In addition, mandatory clearing requirements and new margin and documentation requirements for uncleared swaps may be subject to additional implementation schedules, further delaying the effective dates of these requirements.

The FHLBanks are actively participating in the regulatory process regarding the Dodd-Frank Act by formally commenting to the regulators regarding a variety of rulemakings that could affect the FHLBanks. The FHLBanks are also working to implement the processes and documentation necessary to comply with the Dodd-Frank Act's new requirements for derivatives.

Regulation of Systemically Important Nonbank Financial Companies.

Federal Reserve Board Proposed Prudential Standards. On January 5, 2012, the Federal Reserve Board issued a proposed rule that would implement the enhanced prudential standards and early remediation standards required by the Dodd-Frank Act for nonbank financial companies identified by the Financial Stability Oversight Council (Oversight Council) as posing a threat to U.S. financial stability. These proposed prudential standards include: risk-based capital and leverage requirements, liquidity standards, requirements for overall risk management, single-counterparty credit limits, stress test requirements and a debt-to-equity limit. The capital and liquidity requirements would be implemented in phases and would be based on or exceed the Basel international capital and liquidity framework (as discussed in further detail under *Additional Developments*). The deadline for comments on this proposed rule has been extended from March 31, 2012 to April 30, 2012.

The Federal Reserve Board and Oversight Council proposed rules are broad enough to likely capture an FHLBank as a nonbank financial company, requiring application of the Federal Reserve Board's oversight and prudential standards, unless the final rules exempt the FHLBanks. If an FHLBank is designated by the Oversight Council for supervision and oversight by the Federal Reserve Board, then its operations and business could be adversely affected by additional costs and business activities' restrictions resulting from that oversight.

Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies. On October 18, 2011, the Oversight Council issued a second notice of proposed rulemaking to provide guidance regarding the standards and procedures it will consider in designating nonbank financial companies whose financial activities or financial condition may pose a threat to the overall financial stability of the United States, and to subject those companies to Federal Reserve Board supervision and certain prudential standards. This notice rescinds the prior first notice of proposed rulemaking on these designations and proposes a three-stage process that includes a six-category framework for evaluating a nonbank financial company. Under the proposed designation process, in non-emergency situations the Oversight Council will first identify those U.S. nonbank financial companies that have $50 billion or more of total consolidated assets and exceed one of five quantitative threshold indicators of interconnectedness or susceptibility to material financial distress. One threshold indicator of significance to FHLBanks is whether a company has $20 billion or more of borrowing outstanding, including bonds issued, or in this case, an FHLBank's consolidated obligations. If a nonbank financial company meets any of these quantitative thresholds, the Oversight Council will then analyze its potential threat to U.S. financial stability, based on information from that company's primary financial regulator (in the case of an FHLBank, the FHFA) and nonpublic information collected directly from the company. Comments on this proposed rule were due by December 19, 2011.

Federal Reserve Board Proposed Definitions. On February 11, 2011, the Federal Reserve Board issued a proposed rule that would define certain key terms relevant to "nonbank financial companies" under the Dodd-Frank Act, including the possibility of regulatory oversight by the Federal Reserve Board. The proposed rule provides that a company is "predominantly engaged in financial activities" and thus a nonbank financial company if:

- the annual gross financial revenue of the company represents 85% or more of the company's gross revenue in either of its two most recent completed fiscal years; or
- the company's total financial assets represent 85% or more of the company's total assets as of the end of either of its two most recently completed fiscal years.

The FHLBanks would be deemed predominantly engaged in financial activities and thus a nonbank financial company under the proposed rule. Comments on the proposed rule were due by March 30, 2011.

Joint Regulatory Actions.

Payment of Interest on Demand Deposit Accounts. The Dodd-Frank Act repealed the statutory prohibition against the payment of interest on demand deposits. To conform their regulations to this provision, the FDIC and the Federal Reserve Board issued separate final rules in July 2011 to rescind their regulations that prohibit paying interest on demand deposits. FHLBank members' ability to pay interest on their customers' demand deposit accounts may increase their ability to attract or retain customer deposits, which could reduce their funding needs from the FHLBanks. Each of these final rules became effective on July 21, 2011.

Joint Proposed Rule on Credit Risk Retention for Asset-Backed Securities. On April 29, 2011, the federal banking agencies, the FHFA, the U.S. Department of Housing and Urban Development and the SEC jointly issued a proposed rule that would require sponsors of asset-backed securities to retain at least a 5% economic interest in a portion of the credit risk of the assets collateralizing asset-backed securities, unless all of the securitized assets satisfy specified qualifications. The proposed rule specifies criteria for qualified residential mortgage, commercial real estate, auto and other commercial loans that would make these loans exempt from the risk retention requirement. The criteria for qualified residential mortgages is described as those underwriting and product features that, based on historical data, are associated with low risk even in periods of housing price decline and high unemployment.

Key issues in the proposed rule include: (1) the appropriate terms for treatment as a qualified residential mortgage; (2) the extent to which Fannie Mae and Freddie Mac related securitizations will be exempt from the risk retention rules and (3) the possibility of creating a category of high-quality, non-qualified residential mortgage loans that would have less than a 5% risk retention requirement. If adopted as proposed, the rule could reduce the number of loans originated by FHLBank members, which could adversely affect their demand for FHLBank products. Comments on this proposed rule were due by June 10, 2011.

FDIC Regulatory Actions.

Assessments, Large Bank Pricing. On February 25, 2011, the FDIC issued a final rule to revise the assessment system applicable to FDIC-insured financial institutions. The rule, among other things, implements a provision in the Dodd-Frank Act to redefine the assessment base used for calculating deposit insurance assessments. Specifically, the rule changes the assessment base for most institutions from adjusted domestic deposits to average consolidated total assets minus average tangible equity. This rule became effective on April 1, 2011, so FHLBank advances are now included in its members' assessment base. The rule also eliminates an adjustment to the base assessment rate paid for secured liabilities, including FHLBank advances, in excess of 25% of an institution's domestic deposits because these are now part of the assessment base. This rule may adversely affect demand for FHLBank advances to the extent that these assessments increase the cost of advances for affected members.

Orderly Liquidation Resolution Authority Provisions. On January 25, 2011, the FDIC issued an interim final rule on how the FDIC would treat certain creditor claims under the new orderly liquidation authority established by the Dodd-Frank Act. The Dodd-Frank Act provides for the appointment of the FDIC as receiver for a financial company, not including FDIC-insured depository institutions, in instances where the failure of the company and its liquidation under other insolvency procedures (such as bankruptcy) would pose a significant risk to the financial stability of the United States. The interim final rule provides, among other things:

- a valuation standard for collateral on secured claims;
- that all unsecured creditors must expect to absorb losses in any liquidation and that secured creditors will only be protected to the extent of the fair value of their collateral;
- a clarification of the treatment for contingent claims; and
- that secured obligations collateralized with U.S. government obligations will be valued at fair market value.

Valuing most collateral at fair value, rather than at par, could adversely affect the value of an FHLBank's investments in the event of the issuer's insolvency. Comments on this interim final rule were due by March 28, 2011.

Housing Finance and GSE Reform

On February 11, 2011, the U.S. Departments of the Treasury and Housing and Urban Development issued a joint report to Congress entitled *Reforming America's Housing Finance Market*. This report's primary focus is to provide options for Congressional consideration regarding the long-term structure of housing finance, including specific reforms for Fannie Mae and Freddie Mac. Although the FHLBanks are not the primary focus of these housing finance reforms, they have been recognized as playing a vital role in helping smaller financial institutions access liquidity and capital to compete in an increasingly competitive marketplace.

In response, several bills were introduced in the U.S. Congress during 2011, including legislation relating to covered bonds, and Congress continues to consider various proposals to reform the U.S. housing finance system, including specific reforms for Fannie Mae and Freddie Mac. However, any housing finance and GSE reform is not expected to progress significantly prior to the 2012 U.S. presidential election. While none of the legislation introduced so far proposes specific changes to the FHLBanks, the FHLBanks could nonetheless be affected in numerous ways by changes to the U.S. housing finance structure, including changes to Fannie Mae and Freddie Mac. The ultimate effects of housing finance and GSE reform or any other legislation, including legislation to address the debt limit or federal deficit, on the FHLBanks is unknown at this time and will depend on the legislation, if any, that is finally enacted.

FHFA Regulatory Actions

Final Rules.

Private Transfer Fee Covenants. On March 16, 2012, the FHFA issued a final rule that restricts an FHLBank from purchasing, investing or otherwise dealing in, or taking a security interest in, mortgage loans on properties encumbered by private transfer fee covenants, securities backed by such mortgage loans, and securities backed by the income stream from such covenants, except for certain transfer fee covenants. Excepted transfer fee covenants would include covenants to pay a private transfer fee to covered associations (including organizations comprising owners of homes, condominiums, or cooperatives or certain other tax-exempt organizations) that use the private transfer fee exclusively for the direct benefit of the property. The foregoing restrictions would apply only to mortgages on properties encumbered by private transfer fee covenants created on or after February 8, 2011, to securities backed by such mortgages, and to securities issued after that date and backed by revenue from private transfer fees regardless of when the covenants were created. To the extent that the final rule limits the type of collateral an FHLBank accepts for advances and the type of loans eligible for purchase under the MPF Xtra product, an FHLBank's business may be adversely affected. Each FHLBank is required to comply with the final rule not later than July 16, 2012.

Voluntary Mergers of FHLBanks. On November 28, 2011, the FHFA issued a final rule that establishes the conditions and procedures for the consideration and approval of voluntary mergers between FHLBanks. Under the rule, two or more FHLBanks may merge provided:

- the FHLBanks have agreed upon the terms of the proposed merger and the board of directors of each constituent FHLBank has authorized the execution of the merger agreement;
- the constituent FHLBanks have jointly filed a merger application with the FHFA to obtain the approval from the Director of the FHFA;
- the Director of the FHFA has granted approval of the merger, subject to any closing conditions as the Director may determine must be met before the merger is consummated;
- the members of each constituent FHLBank ratify the merger agreement;
- the Director of the FHFA has received evidence that the closing conditions have been met; and
- the Director of the FHFA has accepted the organization certificate of the continuing FHLBank.

This rule became effective on December 28, 2011.

Conservatorship and Receivership. On June 20, 2011, the FHFA issued a final rule to establish a framework for conservatorship and receivership operations for the FHLBanks, if such operations became necessary. The final rule addresses the nature of a conservatorship or receivership and provides greater specificity on the FHLBank's operations, in line with procedures set forth in similar regulatory frameworks, such as the FDIC's receivership authority. The rule clarifies the relationship among various classes of creditors and equity holders under a conservatorship or receivership and the priorities for contract parties and other claimants in receivership. This rule became effective on July 20, 2011.

Temporary Increases in Minimum Capital Levels. On March 3, 2011, the FHFA issued a final rule that authorizes the Director of the FHFA to increase the minimum capital level for an FHLBank if the Director of the FHFA determines that the current level is insufficient to address such FHLBank's risks. The rule provides certain factors that the Director of the FHFA may consider in making this determination (including current or anticipated declines in the value of assets held by the FHLBank and current or projected declines in its capital), and gives the Director of the FHFA discretion to consider other conditions as appropriate. The rule provides that the Director of the FHFA shall consider the need to maintain, modify or rescind any such increase no less than every 12 months. If an FHLBank is required to increase its minimum capital level, that FHLBank may need to lower or suspend dividend payments to increase retained earnings to satisfy such increase. Alternatively, an FHLBank could satisfy an increased capital requirement by disposing of assets to decrease the size of its balance sheet relative to total outstanding stock, which may adversely affect that FHLBank's results of operations and financial condition and ability to satisfy its mission. This rule became effective on April 4, 2011.

Proposed Rules.

Prudential Management and Operations Standards. On June 20, 2011, the FHFA issued a proposed rule, as required by the Housing Act, to establish prudential standards with respect to ten categories of operation and management of the FHLBanks and the other housing finance GSEs, including internal controls, interest-rate risk exposure and market risk. The FHFA has proposed to adopt the standards as guidelines set out in an appendix to the rule, which generally provide principles and leave to the regulated entities the obligation to organize and manage their operations in a way that ensures the standards are met, subject to the oversight of the FHFA. The proposed rule also includes potential consequences for failing to meet applicable standards, such as requirements regarding submission of a corrective action plan and the authority of the Director of the FHFA to impose other sanctions, such as limits on asset growth or increases in capital that the Director of the FHFA believes are appropriate, until the regulated entity returns to compliance with the prudential standards. Comments on this proposed rule were due by August 19, 2011.

Incentive-based Compensation Arrangements. On April 14, 2011, seven federal financial regulators, including the FHFA, issued a proposed rule that would prohibit “covered financial institutions” from entering into incentive-based compensation arrangements with covered persons (including executive officers and other employees that may be in a position to expose the institution to risk of material loss) that encourage inappropriate risks. Among other things, the proposed rule would require mandatory deferrals of incentive compensation for executive officers and require board identification and oversight of incentive-based compensation for covered persons who are not executive officers. The proposed rule would affect the design of an FHLBank's compensation policies and practices, including its incentive compensation policies and practices, if adopted as proposed. Comments on the proposed rule were due by May 31, 2011.

Advance Notice of Proposed Rulemaking.

Use of Nationally Recognized Statistical Rating Organizations' Credit Ratings. On January 31, 2011, the FHFA issued an advance notice of proposed rulemaking that would implement a provision in the Dodd-Frank Act that requires all federal agencies to remove regulations that require use of nationally recognized statistical rating organizations' credit ratings in the assessment of a security. This notice seeks comment regarding certain specific FHFA regulations applicable to FHLBanks, including risk-based capital requirements, prudential requirements, investments and consolidated obligations. Comments on this advance notice of proposed rulemaking were due by March 17, 2011.

Other Regulatory Actions.

Home Affordable Refinance Program Changes and Other Foreclosure Prevention Efforts. During 2011, the FHFA and Fannie Mae and Freddie Mac (the Enterprises) announced a series of changes to the Home Affordable Refinance Program (HARP) that are intended to help more eligible borrowers benefit from refinancing their home mortgages. The changes include lowering or eliminating certain risk-based fees, removing the current 125% loan-to-value ceiling on fixed-rate mortgages backed by the Enterprises, waiving certain representations and warranties, eliminating the need for a new property appraisal where there is a reliable automated valuation model estimate provided by the Enterprises, and extending the end date for the program until December 31, 2013 for loans originally sold to the Enterprises on or before May 31, 2009. Other federal agencies have implemented additional programs during the past few years to prevent foreclosure (including the Home Affordable Modification Program and the Principal Reduction Alternative).

These programs focus on lowering a homeowner's monthly payments through mortgage modifications or refinancings, providing temporary reductions or suspensions of mortgage payments, and helping homeowners transition to more affordable

housing. Other proposals such as expansive principal write-downs or principal forgiveness, or converting delinquent borrowers into renters and conveying the properties to investors, have recently gained some popularity as well, and a settlement was recently announced between state attorneys general and five larger servicers. Currently, no FHLBank expects the HARP changes or existing foreclosure prevention programs to have a material effect on its MBS investment portfolios. Although it is unclear at this time whether additional foreclosure prevention efforts will be implemented during 2012, if new programs include expansive principal write-downs or forgiveness with respect to securitized loans, they could have a material adverse effect on FHLBanks' MBS investment portfolios.

Additional Developments

National Credit Union Administration Proposal on Emergency Liquidity. On December 22, 2011, the National Credit Union Administration issued an advance notice of proposed rulemaking that would require federally-insured credit unions to have access to backup federal liquidity sources for use in times of financial emergency and distressed economic circumstances. The proposed rule would require federally-insured credit unions, as part of their contingency funding plans, to have access to backup federal liquidity sources through one of four ways:

- becoming a member in good standing of the Central Liquidity Facility directly;
- becoming a member in good standing of the Central Liquidity Facility indirectly through a corporate credit union;
- obtaining and maintaining demonstrated access to the Federal Reserve Discount Window; or
- maintaining a certain percentage of assets in highly-liquid U.S. Treasury securities.

This rule would apply to both federal- and state-chartered credit unions. If promulgated, the rule may encourage credit unions to favor these sources of liquidity over FHLBank membership and advances, which could have an adverse effect on the FHLBanks' results of operations. Comments on the advance notice of proposed rulemaking were due by February 21, 2012.

Basel Committee on Banking Supervision Capital Framework. In September 2010, the Basel Committee on Banking Supervision (Basel Committee) approved a new capital framework for internationally active banks. Banks subject to the new framework will be required to have increased amounts of capital with core capital being more strictly defined to include only common equity and other capital assets that are able to fully absorb losses. The Basel Committee also proposed a liquidity coverage ratio for short-term liquidity needs that would be phased in by 2015, as well as a net stable funding ratio for longer-term liquidity needs that would be phased in by 2018.

On January 5, 2012, the Federal Reserve Board issued its proposed rule on enhanced prudential standards and early remediation requirements, as required by the Dodd-Frank Act, for nonbank financial companies designated as systemically important by the Oversight Council. The proposed rule declines to finalize certain standards such as liquidity requirements until the Basel Committee framework gains greater international consensus, but the Federal Reserve Board has proposed a liquidity buffer requirement that would be in addition to the final Basel Committee framework requirements. The size of the buffer would be determined through liquidity stress tests, taking into account a financial institution's structure and risk factors.

While it is still uncertain how the capital and liquidity standards being developed by the Basel Committee ultimately will be implemented by U.S. regulatory authorities, the new framework and the Federal Reserve Board's proposed plan could require some of the FHLBanks' members to divest assets in order to comply with the more stringent capital and liquidity requirements, thereby tending to decrease their need for advances. On the other hand, the new framework may increase members' demand for FHLBank term advances to provide balance sheet liquidity. The requirements may also adversely affect investor demand for the FHLBanks' consolidated obligations to the extent that affected institutions divest or limit their investments in these consolidated obligations, which could in turn increase FHLBank funding costs.

Recent Rating Agency Actions

Table 44 - FHLBanks' Long-Term and Short-Term Credit Ratings at March 15, 2012

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

S&P Recent Rating Actions

On August 5, 2011, S&P lowered its long-term credit rating on the United States from AAA to AA+ with a negative outlook. S&P has indicated that its ratings of the FHLBanks and the FHLBank System are constrained by the long-term credit rating of the United States. On August 8, 2011, S&P downgraded the long-term credit ratings on the senior unsecured debt issues of the FHLBank System and 10 of the 12 FHLBanks from AAA to AA+. The FHLBanks of Chicago and Seattle were already rated as AA+ prior to the United States downgrade. S&P's outlook for the FHLBank System's senior unsecured debt and all 12 FHLBanks is negative. However, S&P's actions did not affect the short-term A-1+ ratings of the FHLBanks and the FHLBank System's short-term debt issues.

Moody's Recent Rating Actions

On August 2, 2011, Moody's confirmed the Aaa bond rating of the U.S. government following the raising of the U.S. statutory debt limit on August 2, 2011 and changed the rating outlook of the U.S. government to negative. Moody's also confirmed the long-term Aaa rating on the senior unsecured debt issues of the FHLBank System, the 12 FHLBanks, and other ratings Moody's considers directly linked to the U.S. government. Additionally, in conjunction with the revision of the U.S. government outlook to negative, the rating outlook for the FHLBank System and the 12 FHLBanks was also revised to negative.

Risk Management

The fundamental business of each FHLBank is to provide a readily available, competitively-priced source of funds in a wide range of maturities to meet the borrowing demands of its members and housing associates. The principal sources of funds for these activities are the proceeds from the issuance of consolidated obligations and, to a lesser extent, capital and deposits from members. Lending and investing funds, and engaging in interest-rate exchange agreements, can potentially expose the FHLBanks to a number of risks, including market risk and credit risk. (See *Quantitative and Qualitative Disclosures about Market Risk* for a discussion of market risk). The FHLBanks are also subject to liquidity risk, operational risk and business risk. Each FHLBank has established policies and procedures to evaluate, manage and control these risks and must file periodic compliance reports with the FHFA. The FHFA has established regulations governing the risk management practices of the FHLBanks and conducts an annual on-site examination of each FHLBank and the Office of Finance as well as off-site analyses.

Credit Risk

Advances. Each FHLBank manages its credit exposure to advances through an integrated approach that provides for the ongoing review of the financial condition of its borrowers coupled with conservative collateral and lending policies and procedures to limit its risk of loss while balancing its borrowers' needs for a reliable source of funding. The FHLBanks protect

against credit risk on advances by collateralizing all advances. The FHLBank Act requires that FHLBanks obtain and maintain collateral from their borrowers to secure advances at the time the advances are originated or renewed. Furthermore, under the FHLBank Act, an FHLBank has a statutory lien on that FHLBank's capital stock held by its members, which serves as further collateral for the indebtedness of these members to the FHLBank. The FHLBank Act also allows FHLBanks to further protect their security position with respect to advances by allowing them to require the posting of additional collateral, whether or not such additional collateral is eligible to originate or renew an advance. The FHLBanks perfect their security interests by filing applicable financing statements or taking delivery of collateral. In addition, the FHLBank Act states that a security interest granted to an FHLBank member, or any affiliate of the member to an FHLBank, is entitled to a priority over the claims and rights of any party (including any receiver, conservator, trustee or similar lien creditor), except the claims and rights of a party that would be entitled to priority under otherwise applicable law and is an actual *bona fide* purchaser for value of such collateral or is an actual secured party whose security interest in such collateral is perfected in accordance with applicable state law. Collateral arrangements will vary depending upon: (1) borrower credit quality, financial condition and performance; (2) borrowing capacity; (3) collateral availability; and (4) overall credit exposure to the borrower.

Each FHLBank establishes each borrower's borrowing capacity by determining the amount it will lend against each collateral type. Borrowers are also required to collateralize the face amount of any letters of credit issued for their benefit by an FHLBank. In addition, the FHLBanks must take any steps necessary to ensure that their security interest in all collateral pledged by non-depository member institutions (i.e., insurance companies and housing associates) is as secure as their security interests in collateral pledged by depository member institutions.

Residential mortgage loans are the principal form of collateral for advances. Collateral eligible to secure new or renewed advances includes:

- one-to-four family and multifamily mortgage loans (delinquent for no more than 90 days) and securities representing such mortgages;
- loans and securities issued, insured or guaranteed by the U.S. government or any U.S. government agency (for example, mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae);
- cash or deposits in the FHLBank;
- certain other collateral that is real estate-related, provided that the collateral has a readily ascertainable value and that the FHLBank can perfect a security interest in it; and
- certain qualifying securities representing undivided equity interests in eligible advance collateral.

Each FHLBank generally establishes an overall FHLBank credit limit for each borrower, which caps the amount of FHLBank credit availability to the borrower. This limit is designed to mitigate the FHLBank's credit exposure to an individual borrower, while encouraging borrowers to diversify their funding sources. A borrower's total credit limit with an FHLBank includes the principal amount of outstanding advances, the face amount of outstanding letters of credit, the total exposure of the FHLBank to the borrower under any derivative contract and credit enhancement obligation of the borrower on mortgage loans sold to the FHLBank. Each FHLBank determines the credit limit of its borrower by evaluating a wide variety of factors, including, but not limited to, the borrower's overall creditworthiness and collateral management practices. Most of the FHLBanks generally impose borrowing limits on borrowers within a maximum range of 30% to 55% of a borrower's total assets.

Based upon the financial condition of the borrower, each FHLBank classifies each borrower by the method of pledging collateral into one of three collateral categories: (1) blanket lien status; (2) listing (specific identification) pledge status; or (3) delivery (possession) status. The least restrictive collateral status, and the most widely used by the FHLBanks' borrowers, is the blanket lien status. This status is generally assigned to lower risk institutions pledging collateral. Under the blanket lien status, an individual FHLBank allows a borrower to retain possession of eligible collateral pledged to the FHLBank, provided the borrower executes a written security agreement and agrees to hold the collateral for the benefit of the FHLBank. Origination of new advances or renewal of advances must only be supported by certain eligible collateral categories. The blanket pledge is typically accepted by the FHLBanks only for loan collateral; most securities collateral must be delivered to the FHLBank or an FHLBank-approved third-party custodian and pledged for the benefit of the applicable FHLBank.

An FHLBank may require borrowers to provide a detailed listing of eligible advance collateral being pledged to the FHLBank due to their high usage of FHLBank credit products, the type of assets being pledged or the credit condition of the borrower.

Under this listing pledge status, the borrower retains physical possession of specific collateral pledged to an FHLBank, but the borrower provides listings of loans pledged to its FHLBank with detailed loan information, such as loan amount, payments, maturity date, interest rate, loan-to-value, collateral type and FICO® scores. From a borrower's perspective, the benefit of listing collateral in lieu of a blanket pledge security agreement is that, in some cases, the discount or haircut applicable to such collateral may be lower than that for blanket lien collateral. From an FHLBank's perspective, the benefit of listing collateral is that it provides more detailed loan information to arrive at a more precise valuation.

For borrowers on delivery status, an FHLBank requires the borrower to place physical possession of eligible collateral with the FHLBank or a third-party custodian to sufficiently secure all outstanding obligations. Typically, an FHLBank would take physical possession or control of collateral if the financial condition of the borrower was deteriorating or if the borrower exceeded certain credit product usage triggers. However, to ensure its position as a first-priority secured creditor, an FHLBank is generally more likely to take possession of collateral posted by insurance companies. Delivery of collateral may also be required if there is a regulatory action against the borrower by its regulator that would indicate inadequate controls or other conditions that would be of concern to the FHLBank.

At December 31, 2011, each FHLBank had rights to collateral with an estimated value greater than the related outstanding advances. All borrower obligations to the FHLBanks are secured with eligible collateral, the value of which is discounted to protect the FHLBanks from default in adverse circumstances. Collateral discounts, or haircuts, used in determining lending values of the collateral are calculated to project that the lending value of collateral securing each borrower's obligations exceeds the amount the borrower may borrow from the FHLBanks. Table 45 presents the range of collateral lending values for the blanket lien, listing and delivery methods of pledging collateral across the 12 FHLBanks.

Collateral lending values are determined by subtracting the collateral haircut from 100%. Certain collateral haircuts may also reflect haircuts applied to advances outstanding based upon borrowers' actual financial performance. Effective lending value percentages are equal to collateral lending value divided by the unpaid principal balance of eligible loan collateral or market value of eligible securities collateral. Average effective lending values are calculated based on the total lending value against eligible collateral for all borrowers without regard to the amount of credit extended to any particular borrower. Individual borrower credit obligations to the FHLBanks are not cross-collateralized between borrowers.

Table 45 - Lending Values by Type of Collateral for all Borrowers

	December 31, 2011	
Collateral Type	**Effective Lending Values Applied to Collateral**	**Average Effective Lending Value**
Blanket Lien		
Single-family mortgage loans	14%-95%	72%
FHA(1) and VA(2) loans	64%-93%	88%
Multifamily mortgage loans	5%-90%	62%
Other U.S. government-guaranteed mortgage loans	84%-93%	86%
Home equity loans and lines of credit	6%-89%	45%
CFI collateral	10%-79%	48%
Commercial loans	16%-86%	55%
Other loan collateral	25%-84%	48%
Listing		
Single-family mortgage loans	2%-89%	66%
FHA(1) and VA(2) loans	64%-89%	70%
Multifamily mortgage loans	21%-85%	74%
Other U.S. government-guaranteed mortgage loans	79%-92%	92%
Home equity loans and lines of credit	5%-85%	43%
CFI collateral	5%-74%	46%
Commercial loans	24%-78%	59%
Other loan collateral	12%-74%	52%

Collateral Type	December 31, 2011 Effective Lending Values Applied to Collateral	Average Effective Lending Value
Delivery		
Cash, U.S. government and U.S. Treasury securities	82%-100%	94%
State and local government securities	75%-90%	87%
U.S. agency securities	65%-99%	95%
U.S. agency MBS and CMOs(3)	55%-98%	94%
Private-label MBS and CMOs(3)	25%-98%	86%
CFI securities	91%-95%	91%
Commercial MBS	53%-92%	82%
Equity securities	82%-97%	87%
Other securities	74%-90%	78%
Single-family mortgage loans	2%-90%	62%
FHA(1) and VA(2) loans	14%-94%	81%
Multifamily mortgage loans	20%-82%	60%
Other U.S. government-guaranteed mortgage loans	76%-94%	76%
Home equity loans and lines of credit	5%-75%	47%
CFI collateral	13%-63%	49%
Commercial loans	2%-76%	51%
Other loan collateral	5%-65%	45%

(1) FHA - Federal Housing Administration.
(2) VA - Department of Veterans Affairs.
(3) CMOs - Collateralized mortgage obligations.

As of December 31, 2011, there were 70 individual FHLBank borrowers (65 FHLBank members and 5 non-member financial institutions) that each held advance balances of at least $1.0 billion. When a non-member financial institution acquires some or all of the assets and liabilities of an FHLBank member, including outstanding advances and FHLBank capital stock, an FHLBank may allow those advances to remain outstanding to that non-member financial institution. The non-member borrower would be required to meet all of that FHLBank's credit and collateral requirements, including requirements regarding creditworthiness and collateral borrowing capacity. Eligible collateral values include market values for securities and the unpaid principal balance for all other collateral pledged by the blanket lien, listing or delivery method. The collateralization ratio was 2.7 at December 31, 2011, which represents the total of these 70 individual FHLBank borrowers' eligible collateral divided by these borrowers' advances and other credit products outstanding at December 31, 2011.

Table 46 presents advances, other credit products and collateral outstanding for borrowers with at least $1.0 billion of advances outstanding as compared to all advance borrowers.

Table 46 - Advances, Other Credit Products and Collateral Outstanding

(dollars in millions)

	December 31, 2011		
	Borrowers with at Least $1.0 Billion of Advances Outstanding	All Borrowers	Percentage
Advances outstanding, at par	$ 254,748	$ 403,286	63.2%
Other credit products outstanding, at par	$ 26,663	$ 53,959	49.4%
Collateral outstanding	$ 754,522	$ 1,491,585	50.6%

Table 47 presents information on a combined basis regarding the type of collateral securing the advances to the 70 individual FHLBank borrowers with at least $1.0 billion of advances outstanding.

Table 47 - Type of Collateral Securing Advances to Borrowers with at Least $1.0 Billion of Advances Outstanding

(dollars in millions)

	December 31, 2011							
	Blanket Lien		Listing		Delivery		Total	
Collateral Type	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Single-family mortgage loans	$ 119,804	15.9%	$ 254,383	33.7%	$ 15,059	2.0%	$ 389,246	51.6%
Home equity loans and lines of credit	46,840	6.2%	79,560	10.5%	883	0.1%	127,283	16.8%
Commercial real estate loans	56,407	7.5%	25,336	3.4%	6,688	0.9%	88,431	11.8%
Multifamily mortgage loans	17,386	2.3%	40,623	5.4%	2,124	0.3%	60,133	8.0%
U.S. agency MBS and CMOs	—	N/A	—	N/A	48,401	6.4%	48,401	6.4%
Commercial MBS	—	N/A	—	N/A	13,703	1.8%	13,703	1.8%
U.S. agency securities (excluding MBS)	—	N/A	—	N/A	10,565	1.4%	10,565	1.4%
FHA and VA loans	3,516	0.5%	698	0.1%	645	0.1%	4,859	0.7%
Private-label MBS and CMOs	—	N/A	—	N/A	1,879	0.2%	1,879	0.2%
Other	2,637	0.3%	1,386	0.2%	5,999	0.8%	10,022	1.3%
Total Collateral	$ 246,590	32.7%	$ 401,986	53.3%	$ 105,946	14.0%	$ 754,522	100.0%

N/A—Collateral is not pledged using this pledging method.

The FHLBank Act also permits borrowers that qualify as a Community Financial Institution (CFI) to pledge certain CFI-specific collateral to the extent that its FHLBank accepts such loans as collateral for advances. The Housing Act defines CFIs as depository institutions insured by the FDIC with average total assets over the preceding three-year period of less than $1.0 billion (the average total asset cap), with the average total asset cap adjusted annually for inflation. As of January 1, 2012, the FHFA adjusted the average total asset cap to $1.076 billion from $1.040 billion as of January 1, 2011.

The FHLBanks that accept CFI-specific collateral mitigate the potential increased credit risk through higher haircuts (lower lending values) on such collateral as presented in Table 45. CFI-specific collateral consists of small business, small farm and agri-business loans. Furthermore, on December 9, 2010, the FHFA issued a final rule that provided the FHLBanks with regulatory authority to receive community development loans as collateral for advances from CFI members. Advances to CFIs secured with expanded eligible collateral represented approximately $2.6 billion of the $403.3 billion of total advances outstanding at par value at December 31, 2011.

Member Failures. The financial condition of all members and housing associates is closely monitored for compliance with financial criteria as set forth in each FHLBank's credit policies. During the year ended December 31, 2011, no FHLBank incurred any credit loss on any of its advances, including advances to failed borrowers. During the same period, 87 of the 92 FDIC-insured institutions that failed were members of the FHLBanks with approximately $10.6 billion of advances outstanding at the time of the failure, all of which were either assumed by another member or non-member institution or repaid by the acquiring institution or the FDIC. From January 1, 2012 to March 15, 2012, 12 of the 13 FDIC-insured institutions that failed were members of the FHLBanks. All $63 million of advances outstanding to these members at the time of their failure were either assumed by another member or a non-member institution or repaid by the acquiring institution or the FDIC.

All extensions of credit by the FHLBanks to members are secured by eligible collateral. However, if a member were to default, and the value of the collateral pledged by the member declined to a point such that an FHLBank was unable to realize sufficient value from the pledged collateral to cover the member's obligations and an FHLBank was unable to obtain additional collateral to make up for the reduction in value of such collateral, that FHLBank could incur losses. A default by a member or non-member with significant obligations to an FHLBank could result in significant financial losses, which would adversely affect the FHLBank's results of operations and financial condition. In light of the deterioration in the housing and mortgage markets, each FHLBank continues to evaluate and make changes to its collateral guidelines when reviewing its borrowers' financial condition to further mitigate the credit risk of advances. The management of each FHLBank believes it has adequate policies and procedures in place to manage its credit risk on advances effectively.

Investments. The FHLBanks are subject to credit risk on investments consisting of investment securities, interest-bearing deposits, securities purchased under agreements to resell and Federal funds sold.

The FHLBanks maintain short-term investment portfolios, which may provide funds to meet the credit needs of their members. These short-term investments are transacted with government agencies and large financial institutions with investment-grade credit ratings. Within this portfolio of short-term investments, the FHLBanks have unsecured credit exposure on certain investments.

The FHLBanks also enhance interest income and meet operating expenses by holding long-term investments. Within this portfolio of long-term investments, the FHLBanks are primarily subject to credit risk related to private-label mortgage-backed securities that are either directly or indirectly supported by underlying mortgage loans.

Regulatory Restrictions on Investments. To minimize credit risk on investments, the FHLBanks are prohibited by FHFA regulations from investing in any of the following security types:

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

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

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

- whole mortgages or other whole loans, or interests in mortgages or loans, other than:

  - whole mortgages or loans acquired under an FHLBank's Acquired Member Asset program;
  - 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 (which include agency and private-label pools of commercial and residential mortgage loans), or asset-backed securities collateralized by manufactured housing loans or home equity loans, that meet the definition of the term “securities” under the Securities Act of 1933; and
  - certain foreign housing loans authorized under section 12(b) of the FHLBank Act;

- residual interest and interest accrual classes of securities;

- interest-only and principal-only securities;

- mortgage-backed securities or eligible asset-backed securities that on the trade date are at rates equal to their contractual cap, with average lives that vary more than six years under an assumed instantaneous rate change of 300 basis points, unless the instrument qualifies as an Acquired Member Asset; and

- foreign currency or commodity positions.

In terms of exposure to European holdings, which includes those countries that are members of the European Union, the FHLBanks did not own any financial instruments issued by sovereign European governments as of December 31, 2011. The FHLBanks are prohibited by FHFA regulation from investing in financial instruments of non-U.S. entities other than those issued by U.S. branches of foreign commercial banks.

Investment Ratings. The FHLBanks mitigate the credit risk on investments by investing in highly-rated investments. At December 31, 2011 and December 31, 2010, 84.8% and 85.3% of the carrying value of total investment securities held by the FHLBanks were rated in the two highest investment rating categories based on the nationally recognized statistical rating organization(s) used.

Table 48 - Investment Ratings

(dollars in millions)

	December 31, 2011 (1)(2)											
	Carrying Value											
	Investment Grade(3)				Below Investment Grade(3)							
	Triple-A	Double-A	Single-A	Triple-B	Double-B	Single-B	Triple-C	Double-C	Single-C	Single-D	Unrated	Total
	A-1 or higher Rating/ P-1	A-2/P-2	A-3/P-3		B-1	B-2	B-3	C		D		
Interest-bearing deposits(4)	$ —	$ 6	$ 1,201	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,207
Securities purchased under agreements to resell	600	200	6,975	4,900	—	—	—	—	—	—	—	12,675
Federal funds sold	6,395	19,495	14,944	269	—	—	—	—	—	—	36	41,139
Investment securities												
Non-mortgage backed securities												
U.S. Treasury obligations	—	1,061	—	—	—	—	—	—	—	—	—	1,061
Commercial paper	2,399	—	—	—	—	—	—	—	—	—	—	2,399
Certificates of deposit	3,360	2,743	6,080	—	—	—	—	—	—	—	—	12,183
Other U.S. obligations(5)	—	3,496	—	—	—	—	—	—	—	—	12	3,508
Government-sponsored enterprise and Tennessee Valley Authority obligations	—	27,294	—	—	—	—	—	—	—	—	—	27,294
State or local housing agency obligations	124	1,524	2	578	—	—	—	—	—	—	—	2,228
Temporary Liquidity Guarantee Program debentures and promissory notes	—	18,020	—	—	—	—	—	—	—	—	—	18,020
Federal Family Education Loan Program ABS	1,340	6,819	—	—	—	—	—	—	—	—	—	8,159
Other(6)	1,047	168	—	—	—	—	—	—	—	—	23	1,238
Total non-mortgage-backed securities	8,270	61,125	6,082	578	—	—	—	—	—	—	35	76,090
Mortgage-backed securities												
Other U.S. obligations residential MBS(7)	364	12,241	—	—	—	—	—	—	—	—	—	12,605
Other U.S. obligations commercial MBS(7)	—	521	—	—	—	—	—	—	—	—	—	521
Government-sponsored enterprise residential MBS	—	93,615	—	—	—	—	—	—	—	—	—	93,615
Government-sponsored enterprise commercial MBS	—	3,912	—	—	—	—	—	—	—	—	—	3,912
Private-label residential MBS	1,844	1,108	1,836	2,995	2,287	2,834	8,559	3,350	3,463	627	4	28,907
Private-label commercial MBS	48	—	—	—	—	—	—	—	—	—	—	48
Manufactured housing loan ABS	—	171	—	—	—	—	—	—	—	—	—	171
Home equity loan ABS	24	106	79	34	5	67	42	6	—	12	—	375
Total mortgage-backed securities	2,280	111,674	1,915	3,029	2,292	2,901	8,601	3,356	3,463	639	4	140,154
Total investment securities	10,550	172,799	7,997	3,607	2,292	2,901	8,601	3,356	3,463	639	39	216,244
Total Investments	$ 17,545	$ 192,500	$ 31,117	$ 8,776	$ 2,292	$ 2,901	$ 8,601	$ 3,356	$ 3,463	$ 639	$ 75	$ 271,265

	December 31, 2010 (2)(8)											
	Carrying Value											
	Investment Grade(3)				Below Investment Grade(3)							
	Triple-A	Double-A	Single-A	Triple-B	Double-B	Single-B	Triple-C	Double-C	Single-C	Single-D	Unrated	Total
	A-1 or higher Rating/ P-1	A-2/P-2	A-3/P-3		B-1	B-2	B-3	C		D		
Interest-bearing deposits	$ 9	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 9
Securities purchased under agreements to resell	6,025	225	1,500	4,750	—	—	—	—	—	—	3,900	16,400
Federal funds sold	10,833	36,354	28,313	326	—	—	—	—	—	—	29	75,855
Investment securities												
Non-mortgage backed securities												
U.S. Treasury obligations	3,068	—	—	—	—	—	—	—	—	—	—	3,068
Commercial paper	4,849	—	—	—	—	—	—	—	—	—	—	4,849
Certificates of deposit	5,640	12,597	7,804	—	—	—	—	—	—	—	—	26,041
Other U.S. obligations(5)	2,439	—	—	—	—	—	—	—	—	—	13	2,452
Government-sponsored enterprise and Tennessee Valley Authority obligations	26,678	25	—	—	—	—	—	—	—	—	—	26,703
State or local housing agency obligations	297	1,444	547	190	—	—	—	—	—	—	2	2,480
Temporary Liquidity Guarantee Program debentures and promissory notes	16,081	—	—	—	—	—	—	—	—	—	—	16,081
Federal Family Education Loan Program ABS	8,799	—	—	—	—	—	—	—	—	—	—	8,799
Other(6)	711	114	—	—	—	—	—	—	—	—	27	852
Total non-mortgage-backed securities	68,562	14,180	8,351	190	—	—	—	—	—	—	42	91,325
Mortgage-backed securities												
Other U.S. obligations residential MBS(7)	11,775	—	—	—	—	—	—	—	—	—	—	11,775
Other U.S. obligations commercial MBS(7)	53	—	—	—	—	—	—	—	—	—	—	53
Government-sponsored enterprise residential MBS	95,138	—	—	—	—	—	—	—	—	—	—	95,138
Government-sponsored enterprise commercial MBS	2,313	—	—	—	—	—	—	—	—	—	—	2,313
Private-label residential MBS	8,041	2,517	2,829	1,566	1,579	4,076	9,993	3,871	2,020	327	4	36,823
Private-label commercial MBS	160	—	—	—	—	—	—	—	—	—	—	160
Manufactured housing loan ABS	—	196	—	—	—	—	—	—	—	—	—	196
Home equity loan ABS	124	104	74	17	14	38	34	7	—	11	—	423
Total mortgage-backed securities	117,604	2,817	2,903	1,583	1,593	4,114	10,027	3,878	2,020	338	4	146,881
Total investment securities	186,166	16,997	11,254	1,773	1,593	4,114	10,027	3,878	2,020	338	46	238,206
Total investments	$ 203,033	$ 53,576	$ 41,067	$ 6,849	$ 1,593	$ 4,114	$ 10,027	$ 3,878	$ 2,020	$ 338	$ 3,975	$ 330,470

(1) Does not reflect any changes in ratings, outlook or watch status occurring after December 31, 2011. These ratings represent the lowest rating available for each security owned by an individual FHLBank, based on the nationally recognized statistical rating organization(s) used by that FHLBank.
(2) Investment amounts noted in Table 48 represent the carrying value and do not include related accrued interest.
(3) Dollar amounts include both short-term and long-term ratings.
(4) Primarily consists of deposits with Branch Banking and Trust Company by the FHLBank of Atlanta. Branch Banking and Trust Company was one of the top ten borrowers of the FHLBank of Atlanta and the FHLBank System. One of the FHLBank of Atlanta's member directors is a senior executive vice president of Branch Banking and Trust Company.
(5) Primarily consists of debt securities issued or guaranteed by Ex-Im Bank, SBA and NCUA.
(6) Primarily consists of taxable municipal bonds, debentures issued by IDB and debt securities issued by IBRD.
(7) Primarily consists of MBS issued or guaranteed by Ginnie Mae, NCUA, and SBA.
(8) Does not reflect any changes in ratings, outlook or watch status occurring after December 31, 2010. These ratings represent the lowest rating available for each security owned by an individual FHLBank based on the nationally recognized statistical rating organization(s) used by that FHLBank.

On August 5, 2011, S&P lowered its long-term credit rating on the United States from AAA to AA+ with a negative outlook. As a result, on August 8, 2011, S&P lowered the long-term issuer credit ratings and related issue ratings on select government related entities from AAA to AA+ with a negative outlook, including Fannie Mae, Freddie Mac, the Farm Credit System and Tennessee Valley Authority. In addition, S&P also lowered the ratings from AAA to AA+ on 126 FDIC-guaranteed debt issues from 30 financial institutions under the Temporary Liquidity Guarantee Program and four National Credit Union Association-guaranteed debt issues from two corporate credit unions under the Temporary Corporate Credit Union Guarantee Program, which reflects their direct credit support from the U.S. Treasury for timely and ultimate repayment.

Of the $271.3 billion of total investments held by the FHLBanks at December 31, 2011, $21.3 billion (based on carrying value) of this amount was rated below investment grade. An additional $30 million (based on carrying value) of total investments was downgraded to below investment grade from January 1, 2012 through March 15, 2012 based on the nationally recognized statistical rating organization(s) as presented in Table 49.

Table 49 - Subsequent Downgrades

(dollars in millions)

Investment Ratings(1)		Downgrades - Balances Based on Values at December 31, 2011 (2)					
At December 31, 2011	At March 15, 2012	Private-Label Residential MBS		Home Equity Loan ABS		Non-MBS	
From	To	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Triple-A	Double-A	$ 53	$ 52	$ —	$ —	$ 1,302	$ 1,302
	Single-A	9	9	—	—	—	—
Double-A	Single-A	5	5	7	6	—	—
	Triple-B	16	16	—	—	—	—
Single-A	Triple-B	24	23	—	—	—	—
	Double-B	5	4	—	—	—	—
Triple-B	Double-B	12	11	4	3	—	—
	Triple-C	9	9	—	—	—	—
Double-B	Single-B	57	55	—	—	—	—
Triple-C	Double-C	13	13	—	—	—	—
Double-C	Single-D	96	96	—	—	—	—
Single-C	Single-D	187	196	—	—	—	—
Total		$ 486	$ 489	$ 11	$ 9	$ 1,302	$ 1,302

(1) Represents the lowest rating available for each security owned by an individual FHLBank based on the nationally recognized statistical rating organization(s) used by that FHLBank.

(2) Represents investment amounts at December 31, 2011 that were subsequently downgraded during the period from January 1, 2012 through March 15, 2012.

At December 31, 2011, 2.8% of total investments were on negative watch by S&P, Moody's and/or Fitch. Table 50 presents investments on negative watch at March 15, 2012. The carrying value and fair value of the investments on negative watch at March 15, 2012 are based on December 31, 2011 balances.

Table 50 - Investments on Negative Watch

(dollars in millions)

	Private-Label Residential MBS		Home Equity Loan ABS		Non-MBS	
Investment Ratings(1)	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Triple-A	$ 110	$ 108	$ 2	$ 1	$ —	$ —
Double-A	374	338	18	13	1,090	1,090
Single-A	540	506	11	9	1,225	1,225
Triple-B	860	777	—	—	—	—
Double-B	345	288	2	1	—	—
Single-B	13	10	25	21	—	—
Total	$ 2,242	$ 2,027	$ 58	$ 45	$ 2,315	$ 2,315

(1) Represents the lowest rating available for each security owned by an individual FHLBank based on the nationally recognized statistical rating organization(s) used by that FHLBank.

Table 51 - Unpaid Principal Balance by Fixed- or Variable-Rate

(dollars in millions)

	December 31, 2011			December 31, 2010		
	Fixed-Rate(1)	Variable-Rate(1)	Total	Fixed-Rate(1)	Variable-Rate(1)	Total
Private-label residential MBS(2)						
Prime	$ 3,544	$ 13,102	$ 16,646	$ 6,488	$ 15,777	$ 22,265
Alt-A	6,372	13,249	19,621	7,495	14,833	22,328
Subprime	—	1,088	1,088	—	1,202	1,202
Total private-label residential MBS	9,916	27,439	37,355	13,983	31,812	45,795
Private-label commercial MBS(2)						
Prime	48	—	48	91	70	161
Total private-label commercial MBS	48	—	48	91	70	161
Manufactured housing loan ABS(2)						
Subprime	171	—	171	196	—	196
Total manufactured housing loan ABS	171	—	171	196	—	196
Home equity loan ABS(2)						
Alt-A	—	42	42	—	51	51
Subprime	353	104	457	389	119	508
Total home equity loan ABS	353	146	499	389	170	559
Total private-label MBS, manufactured housing loan ABS, and home equity loan ABS	$ 10,488	$ 27,585	$ 38,073	$ 14,659	$ 32,052	$ 46,711

(1) The determination of fixed or variable is based upon the contractual coupon type of the security.
(2) The FHLBanks classify securities as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by a nationally recognized statistical rating organization(s) upon issuance of the securities.

Long-term Investments. Within the portfolio of long-term investments, the FHLBanks are primarily subject to credit risk related to private-label mortgage-backed securities that are either directly or indirectly supported by underlying mortgage loans. The FHLBanks invested in private-label mortgage-backed securities, which at the date of purchase were substantially all rated triple-A. Each private-label mortgage-backed security may contain one or more forms of credit protection/ enhancements including, but not limited to: (1) guarantee of principal and interest, (2) subordination, (3) over-collateralization and excess interest, and (4) insurance wrap. Credit enhancement achieved through subordination features results in the subordination of payments to junior classes to support cash flows received by senior classes held by investors such as the FHLBanks.

Although the FHLBanks invested in private-label mortgage-backed securities, which at the date of purchase were substantially all rated triple-A, many of these securities are projected to sustain credit losses based on current economic conditions and housing market trends. The domestic housing market continues to be depressed, with significant variations in regional market performance. Housing prices remain low, and delinquency and foreclosure rates have continued to rise.

As a result of each affected FHLBank's evaluation of its portfolio during the year ended December 31, 2011, the FHLBanks recognized OTTI losses related to $4,251 million (unpaid principal balance) of HTM securities and $19,340 million (unpaid principal balance) of AFS securities. The FHLBanks recognized total credit-related OTTI charges on private-label MBS of $856 million during the year ended December 31, 2011, which included $250 million of losses reclassified from accumulated other comprehensive income (loss).

The FHLBanks classify private-label mortgage-backed securities as prime, Alt-A, or subprime based on the classification by a nationally recognized statistical rating organization upon issuance of the security. Although there is no universally accepted definition of Alt-A, loans with credit characteristics that range between prime and subprime are generally classified as Alt-A. Participants in the mortgage market have used the Alt-A classification principally to describe loans for which the underwriting process has been streamlined in order to reduce the documentation requirements of the borrower or allow alternative documentation.

Current credit enhancement percentages reflect the ability of subordinated classes of securities to absorb principal losses and interest shortfalls before the senior classes held by the FHLBanks are affected (i.e., the losses, expressed as a percentage

of the outstanding principal balances, that could be incurred in the underlying loan pools before the securities held by the FHLBanks would be affected, assuming that all of those losses occurred on the measurement date). Depending upon the timing and amount of losses in the underlying loan pools, it is possible that the senior classes held by the FHLBanks could have losses in scenarios where the cumulative loan losses do not exceed the current credit enhancement percentage.

Table 52 presents collateral performance and credit enhancement information related to private-label mortgage-backed securities at December 31, 2011. No FHLBank has purchased private-label MBS since 2008.

Table 52 - Credit Ratings of Private-Label Mortgage-Backed Securities at December 31, 2011

(dollars in millions)

	Total by Year of Securitization					
	Total	2008	2007	2006	2005	2004 and Prior
Unpaid Principal Balance (UPB) by credit rating(1)						
Triple-A	$ 1,924	$ —	$ —	$ 71	$ 56	$ 1,797
Double-A	1,391	—	3	92	1	1,295
Single-A	1,930	—	—	—	324	1,606
Triple-B	3,067	108	138	81	133	2,607
Below investment grade						
Double-B	2,329	—	242	118	657	1,312
Single-B	3,202	306	50	267	1,452	1,127
Triple-C	12,491	455	4,823	2,544	4,424	245
Double-C	5,289	255	1,242	1,716	2,061	15
Single-C	5,188	—	2,030	2,678	477	3
Single-D	1,258	—	410	745	79	24
Unrated	4	—	—	—	—	4
Total	$ 38,073	$ 1,124	$ 8,938	$ 8,312	$ 9,664	$ 10,035
Amortized cost	$ 33,785	$ 1,063	$ 7,430	$ 6,529	$ 8,800	$ 9,963
Gross unrealized losses(2)	(5,516)	(192)	(1,537)	(1,276)	(1,657)	(854)
Fair value	28,491	870	5,914	5,401	7,148	9,158
Credit losses(3)						
Total OTTI	$ (604)	$ (57)	$ (74)	$ (83)	$ (314)	$ (76)
AOCI(4)(5)	(246)	35	(161)	(185)	13	52
Credit losses(5)	$ (850)	$ (22)	$ (235)	$ (268)	$ (301)	$ (24)
Fair value to UPB						
Private-label residential MBS	74.7%	77.4%	66.2%	65.0%	74.0%	91.8%
Private-label commercial MBS	102.3%	—	—	—	—	102.3%
Manufactured housing loan ABS	93.0%	—	—	—	—	93.0%
Home equity loan ABS	78.5%	—	—	72.2%	90.8%	78.6%
Total	74.8%	77.4%	66.2%	65.0%	74.0%	91.3%

	Prime(6) by Year of Securitization					
	Total	2008	2007	2006	2005	2004 and Prior
Private-label residential MBS						
UPB by credit rating(1)						
Triple-A	$ 1,619	$ —	$ —	$ 55	$ 35	$ 1,529
Double-A	759	—	—	—	—	759
Single-A	1,321	—	—	—	246	1,075
Triple-B	1,610	—	138	69	83	1,320
Below investment grade						
Double-B	1,704	—	86	57	517	1,044
Single-B	1,662	88	50	203	612	709
Triple-C	2,718	246	1,048	165	1,181	78
Double-C	2,136	129	654	753	600	—
Single-C	2,754	—	858	1,809	87	—
Single-D	363	—	27	336	—	—
Total	$ 16,646	$ 463	$ 2,861	$ 3,447	$ 3,361	$ 6,514
Amortized cost	$ 15,356	$ 414	$ 2,384	$ 2,912	$ 3,160	$ 6,486
Gross unrealized losses(2)	(1,680)	(33)	(269)	(447)	(413)	(518)
Fair value	13,859	381	2,123	2,605	2,748	6,002
Credit losses(3)						
Total OTTI	$ (106)	$ (8)	$ (16)	$ (18)	$ (15)	$ (49)
AOCI(4)(5)	(122)	(7)	(48)	(62)	(42)	37
Credit losses(5)	$ (228)	$ (15)	$ (64)	$ (80)	$ (57)	$ (12)
Weighted-average percentage						
Fair value to UPB	83.3%	82.2%	74.2%	75.6%	81.8%	92.1%
Original credit support(7)	8.5%	24.4%	14.1%	10.2%	8.5%	3.9%
Credit support(8)	8.4%	21.0%	7.7%	4.2%	9.2%	9.5%
Collateral delinquency(9)	14.1%	24.3%	21.5%	18.9%	14.0%	7.6%
Private-label commercial MBS						
UPB by credit rating(1)						
Triple-A	$ 48	$ —	$ —	$ —	$ —	$ 48
Total	$ 48	$ —	$ —	$ —	$ —	$ 48
Amortized cost	$ 48	$ —	$ —	$ —	$ —	$ 48
Fair value	49	—	—	—	—	49
Weighted-average percentage						
Fair value to UPB	102.3%	—	—	—	—	102.3%
Original credit support(7)	19.5%	—	—	—	—	19.5%
Credit support(8)	24.9%	—	—	—	—	24.9%
Collateral delinquency(9)	2.4%	—	—	—	—	2.4%

	Alt-A(6) by Year of Securitization					
	Total	2008	2007	2006	2005	2004 and Prior
Private-label residential MBS						
UPB by credit rating(1)						
Triple-A	$ 232	$ —	$ —	$ 16	$ 21	$ 195
Double-A	345	—	3	77	—	265
Single-A	516	—	—	—	75	441
Triple-B	1,388	108	—	—	50	1,230
Below investment grade						
Double-B	524	—	156	—	107	261
Single-B	1,415	218	—	55	832	310
Triple-C	9,350	209	3,765	2,070	3,224	82
Double-C	2,662	126	588	498	1,450	—
Single-C	2,318	—	1,172	756	390	—
Single-D	871	—	383	409	79	—
Total	$ 19,621	$ 661	$ 6,067	$ 3,881	$ 6,228	$ 2,784
Amortized cost	$ 16,980	$ 649	$ 5,037	$ 2,932	$ 5,571	$ 2,791
Gross unrealized losses(2)	(3,570)	(159)	(1,266)	(653)	(1,236)	(256)
Fair value	13,432	489	3,783	2,280	4,337	2,543
Credit losses(3)						
Total OTTI	$ (479)	$ (49)	$ (57)	$ (49)	$ (299)	$ (25)
AOCI(4)	(119)	42	(113)	(123)	55	20
Credit losses	$ (598)	$ (7)	$ (170)	$ (172)	$ (244)	$ (5)
Weighted-average percentage						
Fair value to UPB	68.5 %	74.0%	62.4%	58.7%	69.7%	91.3 %
Original credit support(7)	22.7 %	33.7%	32.7%	26.6%	16.3%	7.0 %
Credit support(8)	18.9 %	31.2%	25.1%	16.8%	15.0%	14.2 %
Collateral delinquency(9)	29.5 %	21.4%	39.6%	39.8%	22.9%	10.1 %
Home equity loan ABS						
UPB by credit rating(1)						
Double-A	$ 15	$ —	$ —	$ 15	$ —	$ —
Single-A	2	—	—	—	2	—
Below investment grade						
Single-B	13	—	—	—	—	13
Triple-C	8	—	—	—	—	8
Double-C	4	—	—	—	—	4
Total	$ 42	$ —	$ —	$ 15	$ 2	$ 25
Amortized cost	$ 35	$ —	$ —	$ 15	$ 2	$ 18
Gross unrealized losses(2)	(8)	—	—	(4)	—	(4)
Fair value	27	—	—	10	2	15
Credit losses(3)						
Total OTTI	$ —	$ —	$ —	$ —	$ —	$ —
AOCI(4)	(1)	—	—	—	—	(1)
Credit losses	$ (1)	$ —	$ —	$ —	$ —	$ (1)
Weighted-average percentage						
Fair value to UPB	67.6 %	—	—	72.2%	90.8%	62.6 %
Original credit support(7)(10)	(0.7)%	—	—	—	3.1%	(1.5)%
Credit support(8)	4.6 %	—	—	—	56.7%	2.8 %
Collateral delinquency(9)	8.7 %	—	—	5.3%	0.4%	11.6 %

	Subprime(6) by Year of Securitization					
	Total	2008	2007	2006	2005	2004 and Prior
Private-label residential MBS						
UPB by credit rating(1)						
Triple-A	$ 1	$ —	$ —	$ —	$ —	$ 1
Double-A	9	—	—	—	1	8
Single-A	5	—	—	—	1	4
Triple-B	18	—	—	12	—	6
Below investment grade						
Double-B	96	—	—	61	33	2
Single-B	19	—	—	9	8	2
Triple-C	341	—	10	309	19	3
Double-C	479	—	—	465	11	3
Single-C	116	—	—	113	—	3
Unrated	4	—	—	—	—	4
Total	$ 1,088	$ —	$ 10	$ 969	$ 73	$ 36
Amortized cost	$ 775	$ —	$ 9	$ 670	$ 67	$ 29
Gross unrealized losses(2)	(186)	—	(2)	(172)	(8)	(4)
Fair value	601	—	8	506	61	26
Credit losses(3)						
Total OTTI	$ (17)	$ —	$ (1)	$ (16)	$ —	$ —
AOCI(4)	—	—	—	—	—	—
Credit losses	$ (17)	$ —	$ (1)	$ (16)	$ —	$ —
Weighted-average percentage						
Fair value to UPB	55.2%	—	76.0%	52.2%	81.7%	76.6%
Original credit support(7)	22.9%	—	23.0%	22.5%	22.1%	34.7%
Credit support(8)	26.1%	—	41.5%	23.7%	48.1%	41.4%
Collateral delinquency(9)	41.4%	—	39.1%	42.1%	41.1%	21.5%
Manufactured housing loan ABS						
UPB by credit rating(1)						
Double-A	$ 171	$ —	$ —	$ —	$ —	$ 171
Total	$ 171	$ —	$ —	$ —	$ —	$ 171
Amortized cost	$ 171	$ —	$ —	$ —	$ —	$ 171
Gross unrealized losses(2)	(12)	—	—	—	—	(12)
Fair value	159	—	—	—	—	159
Weighted-average percentage						
Fair value to UPB	93.0%	—	—	—	—	93.0%
Original credit support(7)	92.9%	—	—	—	—	92.9%
Credit support(8)	27.9%	—	—	—	—	27.9%
Collateral delinquency(9)	3.0%	—	—	—	—	3.0%

	Subprime(6) by Year of Securitization					
	Total	2008	2007	2006	2005	2004 and Prior
Home equity loan ABS						
UPB by credit rating(1)						
Triple-A	$ 24	$ —	$ —	$ —	$ —	$ 24
Double-A	92	—	—	—	—	92
Single-A	86	—	—	—	—	86
Triple-B	51	—	—	—	—	51
Below investment grade						
Double-B	5	—	—	—	—	5
Single-B	93	—	—	—	—	93
Triple-C	74	—	—	—	—	74
Double-C	8	—	—	—	—	8
Single-D	24	—	—	—	—	24
Total	$ 457	$ —	$ —	$ —	$ —	$ 457
Amortized cost	$ 420	$ —	$ —	$ —	$ —	$ 420
Gross unrealized losses(2)	(60)	—	—	—	—	(60)
Fair value	364	—	—	—	—	364
Credit losses(3)						
Total OTTI	$ (2)	$ —	$ —	$ —	$ —	$ (2)
AOCI(4)	(4)	—	—	—	—	(4)
Credit losses	$ (6)	$ —	$ —	$ —	$ —	$ (6)
Weighted-average percentage						
Fair value to UPB	79.5%	—	—	—	—	79.5%
Original credit support(7)	55.2%	—	—	—	—	55.2%
Credit support(8)	31.5%	—	—	—	—	31.5%
Collateral delinquency(9)	17.4%	—	—	—	—	17.4%

(1) Represents the lowest rating available for each security owned by an individual FHLBank based on the nationally recognized statistical rating organization(s) used by that FHLBank.
(2) Represents total gross unrealized losses including non-credit-related impairment recognized in AOCI.
(3) The credit losses presented are for the year ended December 31, 2011.
(4) Represents the net amount of impairment losses reclassified to/(from) AOCI.
(5) Amounts exclude $6 million relating to credit losses and $4 million relating to net amount of impairment losses reclassified from AOCI on private-label residential MBS sold during the year ended December 31, 2011.
(6) The FHLBanks classify securities as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by a nationally recognized statistical rating organization(s) upon issuance of the securities.
(7) Original weighted-average credit support is based on the credit support at the time of issuance and is determined based on the unpaid principal balance of the individual securities in the category and their respective original credit support.
(8) Weighted-average credit support is based on the credit support as of December 31, 2011 and is determined based on the unpaid principal balance of the individual securities in the category and their respective credit support as of December 31, 2011.
(9) Weighted-average collateral delinquency rate is determined based on the underlying loans that are 60 days or more past due and is determined based on the unpaid principal balance of the individual securities in the category and their respective delinquencies.
(10) Negative original credit enhancement exists due to over-collateralization and excess spread.

Table 53 presents, by loan type, characteristics of private-label mortgage-backed securities in a gross unrealized loss position at December 31, 2011. The lowest ratings available used by that FHLBank for each security is reported as of March 15, 2012 based on the security's unpaid principal balance at December 31, 2011. The FHLBanks held a total of $5,058 million in Alt-A option ARMs, of which $4,991 million are in a gross unrealized loss position based on their unpaid principal balance at December 31, 2011, as presented in Table 53.

Table 53 - Private-Label Mortgage-Backed Securities in a Gross Unrealized Loss Position

(dollars in millions)

	December 31, 2011					March 15, 2012 MBS Ratings Based on December 31, 2011 Unpaid Principal Balance(1)(2)(3)			
	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Weighted-Average Collateral Delinquency Rate (4)	Percentage Rated Triple-A (3)	Percentage Rated Triple-A	Percentage Rated Investment Grade (5)	Percentage Rated Below Investment Grade	Percentage on Watchlist
Private-label residential MBS backed by(5)									
Prime loans									
First lien	$ 14,499	$ 13,284	$ (1,680)	15.3%	3.7%	3.5%	22.2%	74.3%	7.2%
Total private-label residential MBS backed by prime loans	14,499	13,284	(1,680)	15.3%	3.7%	3.5%	22.2%	74.3%	7.2%
Alt-A and other loans									
Alt-A option ARM	4,991	4,029	(1,342)	47.5%	—	—	—	100.0%	—
Alt-A other	13,804	12,194	(2,228)	24.1%	0.9%	0.8%	12.1%	87.1%	5.0%
Total private-label residential MBS backed by Alt-A and other loans	18,795	16,223	(3,570)	30.3%	0.7%	0.6%	8.9%	90.5%	3.7%
Subprime loans									
First lien	1,080	772	(186)	41.5%	0.1%	—	3.0%	96.6%	0.2%
Total private-label residential MBS backed by subprime loans	1,080	772	(186)	41.5%	0.1%	—	3.0%	96.6%	0.2%
Manufactured housing loan ABS backed by(5)									
Subprime loans									
First lien	171	171	(12)	3.0%	—	—	100.0%	—	—
Total manufactured housing loan ABS backed by subprime loans	171	171	(12)	3.0%	—	—	100.0%	—	—
Home equity loan ABS backed by(5)									
Alt-A and other loans									
Alt-A other	42	36	(8)	8.7%	—	—	42.2%	57.8%	68.0%
Total home equity loan ABS backed by Alt-A loans	42	36	(8)	8.7%	—	—	42.2%	57.8%	68.0%
Subprime loans									
First lien	176	166	(31)	19.2%	12.7%	12.6%	31.1%	56.3%	11.9%
Second lien	4	4	(1)	23.8%	12.6%	12.6%	—	87.4%	40.8%
Total home equity loan ABS backed by subprime loans	180	170	(32)	19.3%	12.7%	12.6%	30.4%	57.0%	12.6%
Other - Not Classified(6)	274	249	(28)	—	—	0.8%	61.9%	37.3%	4.7%
Total	$ 35,041	$ 30,905	$ (5,516)	24.0%	2.0%	1.8%	15.2%	82.9%	5.2%

(1) The percentages include the effect of paydowns in full subsequent to December 31, 2011.

(2) Represents the lowest ratings available for each security owned by an individual FHLBank based on the nationally recognized statistical rating organization(s) used by that FHLBank.

(3) Weighted-average collateral delinquency rate is determined based on the underlying loans that are 60 days or more past due. The reported delinquency percentage represents the weighted-average based on the unpaid principal balance of the individual securities in the category and their respective delinquencies.

(4) Represents investment grade from double-A to triple-B.

(5) The FHLBanks classify securities as prime, Alt-A and subprime based on the originator's classification at the time of origination(s) or based on classification by a nationally recognized statistical rating organization upon issuance of the securities.

(6) The FHLBank of New York owns certain private-label securities that were acquired prior to 2004 for which only the original lien information is available. The current lien information is not available. In certain instances, the servicer is no longer in business to provide this information. In other instances, the servicers were never required to track the information subsequent to origination.

Monoline Bond Insurance. Certain FHLBank investment securities portfolios include a limited number of investments that are insured by monoline bond insurers. The monoline bond insurance on these investments guarantees the timely payment of principal and interest if these payments cannot be satisfied from the cash flows of the underlying mortgage collateral. The affected FHLBanks closely monitor the financial condition of these monoline bond insurers on an ongoing basis.

The monoline bond insurers continue to be subject to adverse ratings, rating downgrades and weakening financial performance measures. A rating downgrade implies an increased risk that the monoline bond insurer will fail to fulfill its obligations to reimburse the insured investor for claims made under the related insurance policies. Table 54 presents the financial strength ratings of monoline bond insurers that provide monoline bond insurance coverage for the FHLBanks' private-label residential MBS, manufactured housing loan ABS and home equity loan ABS. (See *Critical Accounting Estimates - OTTI for Investment Securities* for information regarding the FHLBanks' processes for evaluating monoline bond insurance for purposes of OTTI analysis.)

Table 54 - Monoline Bond Insurers' Financial Strength Ratings as of March 15, 2012

	Moody's Credit Rating	S&P Credit Rating
Assured Guaranty Municipal Corp.	Aa3	AA-
MBIA Insurance Corp.	B3	B
AMBAC Assurance Corp.	Withdrawn	Not Rated
Financial Guaranty Insurance Company	Withdrawn	Not Rated
Syncora Guarantee Inc.	Ca	Withdrawn

As of December 31, 2011, total monoline bond insurance coverage was $612 million, of which $315 million represents the FHLBanks' private-label residential MBS, manufactured housing loan ABS and home equity loan ABS covered by the monoline bond insurance that the FHLBanks are relying on at December 31, 2011 for modeling the cash flows, as presented in Table 55.

Table 55 - Monoline Bond Insurance Coverage and Related Unrealized Losses of Certain MBS

(dollars in millions)

	As of December 31, 2011					
	Assured Guaranty Municipal Corp.		MBIA Insurance Corp.(1)		Total	
	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses
Private-label residential MBS(2)						
Alt-A loans	$ 3	$ —	$ —	$ —	$ 3	$ —
Subprime loans	1	—	—	—	1	—
Total private-label residential MBS	4	—	—	—	4	—
Manufactured housing loan ABS(2)						
Subprime loans	154	(8)	—	—	154	(8)
Total manufactured housing loan ABS	154	(8)	—	—	154	(8)
Home equity loan ABS(2)						
Alt-A loans	15	(4)	13	(2)	28	(6)
Subprime loans	81	(7)	48	(6)	129	(13)
Total home equity loan ABS	96	(11)	61	(8)	157	(19)
Total	$ 254	$ (19)	$ 61	$ (8)	$ 315	$ (27)

(1) MBIA Insurance Corp.'s burn-out period ends on March 31, 2012. (See *Note 8—Other-than-Temporary Impairment Analysis* to the accompanying combined financial statements.)

(2) The FHLBanks classify securities as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by a nationally recognized statistical rating organization upon issuance of the securities.

Short-term Investments. Within the portfolio of short-term investments, the FHLBanks' primary credit risk is related to unsecured credit exposure on certain investments. Table 56 presents the FHLBanks' unsecured credit exposure of investments with private counterparties that have maturities ranging between overnight and nine months. At December 31, 2011, the FHLBanks had aggregate unsecured credit exposure of $1 billion or more to each of 19 private counterparties. The aggregate unsecured credit exposure to these counterparties represented 83.3% of the FHLBanks' total unsecured credit exposure to private counterparties.

Table 56 - Unsecured Credit Exposure

(dollars in millions)

Carrying Value(1)	December 31, 2011	December 31, 2010
Interest-bearing deposits(2)	$ 1,201	$ —
Federal funds sold	41,139	75,855
Commercial paper	2,399	4,849
Certificates of deposit	12,183	26,041
Other(3)	686	401
Total	$ 57,608	$ 107,146

(1) Excludes unsecured credit exposure to U.S. government and U.S. government agencies and instrumentalities, and does not include related accrued interest.
(2) Primarily consists of deposits with Branch Banking and Trust Company by the FHLBank of Atlanta at December 31, 2011. Branch Banking and Trust Company was one of the top ten borrowers of the FHLBank of Atlanta and the FHLBank System. One of the FHLBank of Atlanta's member directors is a senior executive vice president of Branch Banking and Trust Company.
(3) Primarily consists of debentures issued by IDB and debt securities issued by IBRD.

Mortgage Loans Held for Portfolio. The FHFA's Acquired Member Asset regulation permits the FHLBanks to purchase and hold specified mortgage loans from their members. All 12 FHLBanks have established or participated in Acquired Member Asset programs such as the Mortgage Partnership Finance® (MPF) Program and Mortgage Purchase Program (MPP) as services to their members. Members and eligible housing associates may apply to become a participating financial institution (PFI) of their respective FHLBank. The mortgage loans purchased or funded under these programs may carry more credit risk than advances, even though the respective member or housing associate provides credit enhancement and continues to bear a portion of the credit risk.

An FHLBank must hold risk-based capital against acquired member assets or pools of assets that have an implied credit rating of less than AA. However, neither the PFI's credit enhancements nor the mortgage loans are rated by the rating agencies. The regulation requires that the FHLBank's relevant credit-risk exposure must be determined by a formal rating from a nationally recognized statistical rating organization or an equivalent rating using a comparable methodology. All of the mortgage loans acquired under these programs that were not government-guaranteed or -insured were credit-enhanced by members to a level at least equivalent to an investment-grade rating (BBB) in accordance with the FHFA's regulation.

Management at each FHLBank believes that it has adequate policies and procedures in place to manage credit risk on mortgage loans appropriately. All of the FHLBanks that are currently participating or previously participated in Acquired Member Asset programs have established loan loss allowances under each program or have determined that no loan loss allowances are necessary. (See *Note 11—Allowance for Credit Losses* to the accompanying combined financial statements for additional information about mortgage loan credit quality indicators, allowance for credit losses, and delinquency statistics by Acquired Member Asset program and type of loan.)

Table 57 presents the comparison of MPF and MPP products at December 31, 2011. A variety of MPF products have been developed to meet the differing needs of PFIs, but they are all premised on the same risk-sharing concept. While the MPP operates with a single structure, it also includes Federal Housing Administration (FHA) insured mortgage loans.

Table 57 - MPP and MPF Product Comparison at December 31, 2011

Product Name	FHLBank First Loss Account/Lender Risk Account Size	PFI Credit Enhancement(CE) Description	Average CE Amount(1)	CE Fee to PFI(2)	CE Fee Offset(3)	Servicing Fee to PFI
Original MPF	3 to 6 basis points; added each year based on the unpaid balance	Equivalent to "AA"	2.61%	7 to 11 basis points/year-paid monthly	No	25 basis points/year
MPF 100	100 basis points; fixed based on the size of the loan pool at closing	Equivalent to "AA" including FLA	1.62%	7 to 10 basis points/year-paid monthly; performance-based after 2 or 3 years	Yes - after first 2 to 3 years	25 basis points/year
MPF 125	100 basis points; fixed based on the size of the loan pool at closing	Equivalent to "AA" including FLA	3.05%	7 to 10 basis points/year-paid monthly; performance-based	Yes	25 basis points/year
MPF Plus	An agreed-upon amount not less than expected losses	0 to 20 basis points after FLA and SMI, equivalent to "AA"	1.80%	13 to 14 basis points/year in total, with a varying split between performance-based (delayed for 1 year) and a fixed rate; all fees paid monthly	Yes	25 basis points/year
MPF Government(4)	N/A	N/A - (Unreimbursed servicing expenses)	N/A	N/A	N/A	44 basis points/year plus 2 basis points/ year- paid monthly (U.S. Government loan fee)
MPF Xtra	N/A	N/A	N/A	N/A	N/A	25 basis points/year
MPP	30 to 175 basis points; based on pool risk factors and expected losses	After LRA to at least "BBB"	N/A	N/A	N/A	25 basis points/year
MPP FHA	N/A	N/A - Unreimbursed servicing expenses	N/A	N/A	N/A	44 basis points/year

(1) Represents the average CE amounts for all MPF FHLBanks; thus, the CE amounts for individual MPF FHLBanks may vary depending on each FHLBank's individual master commitment characteristics.

(2) For the FHLBank of Des Moines, the CE Fees on certain MPF products differ from those listed above as follows:
- Original MPF: 8 to 11 basis points/year-paid monthly
- MPF 100: 7 to 11 basis points/year-paid monthly; performance-based after three years
- MPF Plus: 6.5 to 8.5 basis points/year-plus 8 to 10 basis points/year; performance-based (delayed for one year); all fees are paid monthly

(3) Future payouts of performance-based CE Fees are reduced when losses are allocated to the First Loss Account.

(4) Formerly called Original MPF for FHA/VA. For Master Commitments issued prior to February 2, 2007, the PFI is paid a monthly government loan fee equal to 0.02% (2 basis points) annually based on the month-end outstanding aggregate principal balance of the Master Commitment, which is in addition to the customary 0.44% (44 basis points) annual servicing fee that continues to apply for Master Commitments issued after February 1, 2007, and that is retained by the PFI on a monthly basis, based on the outstanding aggregate principal balance of the MPF Government Loans.

MPF Loans - Loss Allocation. Credit losses on conventional MPF Loans not absorbed by the borrower's equity in the mortgaged property, property insurance or primary mortgage insurance are allocated for each Master Commitment between the MPF FHLBank and the PFI as follows:

- First, up to an agreed-upon amount to the First Loss Account maintained by the MPF FHLBank. The First Loss Account is structured as a memo account to track losses not covered by the credit enhancement amount provided by the PFI, (or not yet recovered by the withholding of performance-based credit enhancement fees). The PFI is paid a monthly credit enhancement fee for managing credit risk on the mortgage loans. In certain cases, the credit enhancement fees are performance-based, which provides incentive to the PFI to minimize credit losses on MPF Loans. These fees may be withheld to recover losses incurred by the MPF FHLBank for each Master Commitment, if any, up to the First Loss Account.

- Second, credit losses in excess of the First Loss Account, if any, to the PFI under its credit enhancement obligation, up to the credit enhancement amount. The credit enhancement amount may consist of a direct liability of the PFI to pay credit losses up to a specified amount, a contractual obligation of the PFI to provide supplemental mortgage insurance or a combination of both.

- Third, any remaining unallocated losses are absorbed by the MPF FHLBank.

The First Loss Account and credit enhancement amount apply to all the MPF Loans and an MPF FHLBank's share of credit losses is based on its respective participation interest in the entire Master Commitment. An MPF FHLBank's credit risk on MPF

Loans is the potential for financial loss due to borrower default or depreciation in the value of the real estate collateral securing the MPF Loan, offset by the PFI's credit enhancement amount. The PFI is required to pledge collateral to secure any portion of its credit enhancement amount that is a direct obligation.

The MPF FHLBanks also face credit risk through potential losses on MPF Loans to the extent that such losses are not recoverable from PFIs and with respect to MPF Government Loans, amounts not recoverable from the applicable government agency with respect to MPF Government Loans (including servicer-paid losses not covered by the applicable federal agency). The outstanding balance of MPF Loans exposed to credit losses, which are not recoverable from these sources, was approximately $31.8 billion and $36.9 billion at December 31, 2011 and 2010. The MPF FHLBanks' actual credit exposure is significantly less than these amounts because the borrower's equity, which represents the fair value of underlying property in excess of the outstanding MPF Loan balance, has not been considered. For those loans with a loan-to-value ratio (LTV) over 80% at origination, the MPF FHLBanks require primary mortgage insurance. If the original value of the real estate collateral securing an MPF Loan does not decline, then the principal paydowns will lower the LTV over the life of the loan.

MPF Loans - Setting Credit Enhancements. The type of the credit enhancement fee depends upon the product selected, though no credit enhancement fee is payable under the MPF Xtra product as the PFI has no credit enhancement amount under that product. A model-based rating methodology (based on a nationally recognized statistical rating organization's model) is used to determine the required credit enhancement amount, which is calculated to equal the difference between the amount needed for the Master Commitment to have a rating equivalent to a AA rated mortgage-backed security and an MPF FHLBank's initial First Loss Account exposure. An MPF FHLBank determines its First Loss Account exposure by taking the initial First Loss Account and reducing it by the estimated value of any performance-based credit enhancement fees that would be payable to the PFI.

The MPF products were designed to allow for periodic resets of the credit enhancement amount for each Master Commitment, and for certain products, the First Loss Account for each Master Commitment, because the amount of credit enhancement necessary to maintain an FHLBank's risk of loss equivalent to the losses of an investor in a AA rated mortgage-backed security for any Master Commitment is usually reduced over time. Under the MPF Program, the PFI's credit enhancement amount may take the form of a contingent, performance-based credit enhancement fee as well as the credit enhancement amount (which is a direct liability to pay credit losses or the requirement for the PFI to pay for an supplemental mortgage insurance policy insuring a portion of the credit losses). The credit enhancement amounts for the Original MPF, MPF 100 and MPF 125 products are initially reset 10 years from the date of the Master Commitment. The supplemental mortgage insurance policy for the MPF Plus product is reset after five years and annually thereafter, with any PFI's credit enhancement amount reset at the same time or starting five years after the date of the Master Commitment. In addition to scheduled resets, a PFI's credit enhancement amount may be reduced to equal the balance of the MPF Loans in a Master Commitment if the balance of the MPF Loans equals or is less than the credit enhancement amount.

MPP Loans - Loss Allocation. Each FHLBank participating in the MPP is exposed to credit risk on loans purchased from members through its MPP. Like the MPF Program, MPP is governed by the Regulator's Acquired Member Asset regulation, and mortgage loans purchased from PFIs under the program also must carry sufficient credit enhancements to give them a credit risk exposure equivalent to no less than BBB rated assets based upon a model-based rating methodology (based on a nationally recognized statistical rating organization's model) at the time of purchase. For FHA guaranteed loans, MPP FHLBanks believe they bear no credit risk on purchased FHA loans, and therefore do not require either a Lender Risk Account or supplemental mortgage insurance coverage for these U.S. government-guaranteed or -insured loans.

The MPP FHLBanks' primary management of credit risk for conventional loans involves the mortgage assets themselves (homeowners' equity) as well as additional layers of credit enhancements. In order of priority, credit enhancements include:

- primary mortgage insurance (when applicable),
- Lender Risk Account, and
- supplemental mortgage insurance (when applicable).

For conventional loans, primary mortgage insurance, if applicable, covers losses or exposure down to an LTV of between approximately 61% and 80% based upon the original appraisal, original LTV, term, amount of primary mortgage insurance coverage, and characteristics of the loan. At the time the underlying conventional loan is funded, a Lender Risk Account is established by the FHLBank for each PFI selling an MPP Loan. Generally, after five years, if the balance of the funds in the Lender Risk Account exceeds the required balance, the excess amounts are distributed to the PFI based on a step-down schedule set forth in the Master Commitment contract that establishes the Lender Risk Account.

The MPP mortgage loans are not rated by any nationally recognized statistical rating organization. Participating MPP FHLBanks use a model-based rating methodology (based off a nationally recognized statistical rating organization's model) to assign the Lender Risk Account percentage to each Master Commitment and to manage the credit risk of committed and purchased conventional loans. The rating model evaluates the characteristics of the loans the PFIs actually delivered to the FHLBanks for the likelihood of timely payment of principal and interest. The model results are based on numerous standard borrowers and loan attributes, such as the LTV, loan purpose (such as purchase of home, refinance, or cash-out refinance), type of documentation, income and debt expense ratios, and credit scores. Based upon the credit assessment, each MPP FHLBank is required to hold risk-based capital to help mitigate the potential credit risk in accordance with FHFA regulations.

In addition to the Lender Risk Accounts, participating MPP FHLBanks with supplemental mortgage insurance coverage are protected from a portion of credit losses. This coverage may be exceeded based on the severity of a loss on a loan and in certain cases subject to an aggregate stop-loss provision in the supplemental policy. If an MPP FHLBank does not have supplemental mortgage insurance coverage for its MPP Loans, it would seek additional credit enhancements, including expanded use of the Lender Risk Account and aggregation of loan purchases into larger loan pools, in order for the purchased mortgage loan pool to achieve a rating equivalent to at least BBB at the time of acquisition. If any loss extends beyond the insurance coverage and the balance held in the Lender Risk Account, the FHLBank holding the interest in the affected MPP Loan would be responsible for absorbing this remaining loss. The totality of the credit enhancements have historically protected the MPP FHLBanks against credit risk exposure on each conventional loan down to approximately a 50% LTV level at the time of origination.

Each MPP FHLBank performs periodic reviews of its portfolio to identify incurred losses and to determine the likelihood of loan collection. Should an MPP FHLBank have incurred losses in excess of the collateral held, primary mortgage insurance (if applicable), Lender Risk Account and supplemental mortgage insurance (if applicable), these amounts would be recognized as credit losses. In 2011, participating MPP FHLBanks recorded a $21 million provision for credit losses related to the MPP. This provision was based on actual losses and an assessment of additional estimated incurred losses. In addition to the MPP FHLBanks' credit enhancements, the underwriting and loan characteristics indicate favorable credit performance and the portfolios have experienced only a modest, albeit increasing, overall amount of delinquencies and defaults. Because of these factors, participating MPP FHLBanks believe their exposure to credit risk on conventional loans is moderate.

Mortgage Insurance. In addition to credit risk associated with mortgage loans purchased or funded through the Acquired Member Asset programs, the FHLBanks are exposed to the risk of non-performance of mortgage insurers that provide primary mortgage insurance and supplemental mortgage insurance coverage on mortgage loans.

Primary Mortgage Insurance. Qualified mortgage insurance companies issue primary mortgage insurance for conventional mortgage loans with LTVs greater than 80% to cover all types of losses except those generally classified as special hazard losses. Historically, the FHLBanks have depended on the primary mortgage insurance policies for loss coverage. An FHLBank may be exposed to credit risk if a primary mortgage insurance provider fails to fulfill its claims payment obligations to that FHLBank. Each FHLBank has policies to limit its credit exposure to each mortgage insurance company based on certain criteria, including, but not limited to, the mortgage insurance company's rating by nationally recognized statistical rating organizations, or limiting its credit exposure to a certain percentage of the mortgage insurance company's regulatory capital. The FHLBanks receive primary mortgage insurance coverage information at acquisition of the mortgage loans and generally do not receive notification of any subsequent changes in primary mortgage insurance coverage. As a result, they can only estimate the amount of primary mortgage insurance in force at any time subsequent to acquisition.

If a primary mortgage insurance provider is downgraded, an FHLBank may request that the servicer obtain replacement primary mortgage insurance coverage with a different provider. However, it is possible that replacement coverage may be unavailable or result in additional cost to the FHLBank. Primary mortgage insurance for conventional mortgage loans must be issued by a mortgage insurance company on that FHLBank's approved mortgage insurance company list whenever primary mortgage insurance coverage is required. In order for a mortgage insurance company to remain on the current approved mortgage insurance company list, the mortgage insurance company must be acceptable for use in that FHLBank's rating modeling software used to calculate the required amount of credit enhancement. In addition, many FHLBanks perform a quarterly analysis evaluating the financial condition and concentration risk regarding the primary mortgage insurance providers, which may include a review of rating levels, ratings watch and outlook, and profitability.

Tables 58 and 59 present the FHLBanks' primary mortgage insurance coverage for seriously delinquent loans (conventional loans 90 days or more delinquent or in the process of foreclosure) by MPF Program and MPP.

Table 58 - Seriously Delinquent Conventional MPF Loans with Primary Mortgage Insurance

(dollars in millions)

Insurance Provider	Credit Rating(1) by Moody's/S&P	December 31, 2011 Unpaid Principal Balance(2)	December 31, 2011 Maximum Coverage Outstanding(3)
Mortgage Guaranty Insurance Co.	B1/B	$ 52	$ 15
Genworth Mortgage Insurance	Ba1/B	34	9
United Guaranty Residential Insurance	Baa1/BBB	29	7
Republic Mortgage Insurance	Not Rated/R(4)	27	8
PMI Mortgage Insurance Co.	Caa3/R(4)	24	7
Radian Guaranty, Inc.	Ba3/B	18	5
Other		21	5
Total		$ 205	$ 56

(1) Represents the credit rating as of March 15, 2012.
(2) Represents the unpaid principal balance of conventional loans 90 days or more delinquent or in the process of foreclosure. Assumes primary mortgage insurance is in effect at time of origination. Insurance coverage may be discontinued once a certain LTV ratio is met.
(3) Represents the estimated contractual limit for reimbursement of principal losses (i.e., risk in force) assuming the primary mortgage insurance at origination is still in effect. The amount of expected claims under these insurance contracts is substantially less than the contractual limit for reimbursement.
(4) Represents "regulatory action".

Table 59 - Seriously Delinquent Conventional MPP Loans with Primary Mortgage Insurance

(dollars in millions)

Insurance Provider	Credit Rating(1) by Moody's/S&P	December 31, 2011 Unpaid Principal Balance(2)	December 31, 2011 Maximum Coverage Outstanding(3)
Mortgage Guaranty Insurance Co.	B1/B	$ 12	$ 3
Republic Mortgage Insurance	Not Rated/R(4)	9	3
Genworth Mortgage Insurance	Ba1/B	9	2
Radian Guaranty, Inc.	Ba3/B	9	2
United Guaranty Residential Insurance	Baa1/BBB	7	2
PMI Mortgage Insurance Co.	Caa3/R(4)	4	1
Other		1	—
Total		$ 51	$ 13

(1) Represents the credit rating as of March 15, 2012.
(2) Represents the unpaid principal balance of conventional loans 90 days or more delinquent or in the process of foreclosure. Assumes primary mortgage insurance in effect at time of origination. Insurance coverage may be discontinued once a certain LTV ratio is met.
(3) Represents the estimated contractual limit for reimbursement of principal losses (i.e., risk in force) assuming the primary mortgage insurance at origination is still in effect. The amount of expected claims under these insurance contracts is substantially less than the contractual limit for reimbursement.
(4) Represents "regulatory action".

On October 20, 2011, the Arizona Department of Insurance took possession and control of PMI Mortgage Insurance Co. and beginning October 24, 2011, PMI Mortgage Insurance Co. has only been paying out 50% of claim amounts with the remaining claim being deferred until the company is liquidated. The FHLBanks do not expect the seizure of PMI Mortgage Insurance Co. and its limitation on claim payments to have a material effect on the FHLBanks' combined financial condition and combined results of operations.

On January 19, 2012, the North Carolina Department of Insurance issued an Order of Supervision providing for immediate administrative supervision of Republic Mortgage Insurance Co. (RMIC). Under the order, RMIC continues to retain its status as a wholly-owned subsidiary of its parent holding company, Old Republic International Corporation. The primary effect on affected FHLBanks is that RMIC may not pay more than 50% of any claims allowed under any policy of insurance it has issued. The remaining 50% will be deferred and credited to a temporary surplus account on the books of RMIC during an initial period not to exceed one year. Accordingly, all claim payments made on January 19, 2012 and thereafter will be made at a 50% rate. The FHLBanks do not expect RMIC's limitation on claim payments to have a material effect on the FHLBanks' combined financial condition and combined results of operations.

Supplemental Mortgage Insurance. Certain FHLBanks use supplemental mortgage insurance as a credit enhancement to limit the loss exposure for their Acquired Member Asset programs. For MPF/MPP loans credit enhanced with supplemental mortgage insurance, the FHFA's regulations require the FHLBank members that sell loans to their respective FHLBanks to maintain supplemental mortgage insurance with an insurer rated no lower than the second-highest rating category by any nationally recognized statistical rating organization, unless this requirement is waived by the FHFA. Rating downgrades imply an increased risk that the affected mortgage insurer(s) will fail to fulfill their obligations to reimburse the FHLBanks for claims under insurance policies. If a mortgage insurer fails to fulfill its obligations, the affected FHLBank(s) may bear any remaining loss of the borrower's default on the related mortgage loans not covered by the member.

On August 6, 2009, the Director of the FHFA granted a temporary waiver of this requirement subject to certain conditions. The waiver required the FHLBanks to evaluate the claims-paying ability of their supplemental mortgage insurance providers and hold retained earnings or take other steps necessary to mitigate any attendant risk associated with using a supplemental mortgage insurance provider having a rating below AA. On July 29, 2010, the FHFA extended the waiver for an additional year and on July 31, 2011, the FHFA extended the waiver again until such time as the regulation is amended to revise or eliminate the supplemental mortgage insurance rating.

As of March 15, 2012, all of the FHLBanks' mortgage insurance providers have had their external ratings for claims-paying ability or insurer financial strength downgraded below AA- by all relevant nationally recognized statistical rating organizations. Due to the rating agency actions, certain MPF FHLBanks increased their estimated allowance for credit losses on mortgage loans and discontinued paying the associated performance credit enhancement fees as the relevant PFIs have elected not to assume the credit enhancement obligations as their own. Certain MPF FHLBanks discontinued obtaining coverage on new loans from mortgage insurers that have a rating below BBB as rated by any nationally recognized statistical rating organization or insurers exceed those FHLBanks' internal exposure limits.

The FHLBank of Seattle canceled its supplemental mortgage insurance policies and is currently exploring options to credit enhance its conventional MPP Loans to achieve the minimum level of portfolio credit protection specified by the FHFA. The other MPP FHLBanks discontinued obtaining supplemental mortgage insurance on new loans as part of the approved new business activity plan and continue to use the downgraded insurance providers for existing loans in compliance with the temporary waiver issued by the FHFA. The FHFA approved notices of new business activity plans for certain MPP FHLBanks that use an enhanced Lender Risk Account, which is funded by an FHLBank upfront as a portion of the purchase proceeds, for additional credit enhancement for new MPP business, consistent with FHFA regulations. At this time, the MPP FHLBanks expect each of the supplemental mortgage insurance providers to fulfill their obligations provided in the mortgage insurance contracts.

Each affected FHLBank has evaluated the claims-paying ability of its supplemental mortgage insurance providers and either determined that it is not necessary to hold retained earnings to mitigate the risk of using these supplemental mortgage insurance providers or increased the amount of required risk-based capital as a result of assigning a higher risk weighting to the assets covered by a downgraded supplemental mortgage insurance provider under the credit risk-based capital calculations. Each MPP FHLBank believes its exposure to remaining supplemental insurance providers (if applicable) constitutes a small amount of credit exposure except in the most unlikely adverse scenarios, given the low occurrence of claims made.

FICO® Score and LTVs. High LTVs, in which homeowners have little or no equity at stake, and low FICO® scores are key drivers in potential mortgage delinquencies and defaults. The FHLBanks generally consider a FICO® score of over 660, and an LTV of 80% or lower, as benchmarks indicating reduced credit risk of default. As of December 31, 2011, outstanding conventional loans with FICO® scores under 660 at origination totaled 9.6% and 4.5% of the total MPF and MPP mortgage loan portfolios. Considering both qualitative and quantitative factors, these loans were not considered high-risk loans at origination or at the time of purchase based on the Acquired Member Asset program's design and the original terms and structure of the loans. Each FHLBank's allowance for credit losses on mortgage loans reflects the incurred losses associated with loans that are considered high-risk subsequent to origination or purchase.

Table 60 presents conventional MPF and MPP loans by FICO® score at origination and current delinquency rate at December 31, 2011.

Table 60 - MPF and MPP Conventional Loans by FICO® Score and Delinquency Rate

(dollars in millions)

	December 31, 2011				
		Percent Delinquent			
FICO® Score at Origination (1)	Unpaid Principal Balance	Current	30 Days	60 Days	90 Days or More
MPF Conventional Loans					
619 or less	$ 733	81.5%	7.7%	2.5%	8.3%
620-659	2,469	86.9%	5.3%	1.9%	5.9%
660 or higher	29,834	97.0%	1.1%	0.3%	1.6%
No FICO® score	230	94.2%	2.3%	1.1%	2.4%
Total	$ 33,266	95.9%	1.5%	0.5%	2.1%
MPP Conventional Loans					
619 or less	$ 21	84.1%	5.5%	1.2%	9.2%
620-659	555	84.7%	5.3%	2.0%	8.0%
660 or higher	12,257	96.5%	1.1%	0.5%	1.9%
No FICO® score	—	—	—	—	—
Total	$ 12,833	96.1%	1.3%	0.5%	2.1%
Weighted-average FICO® score - MPF	734				
Weighted-average FICO® score - MPP	750				

(1) Represents the original lowest FICO® score of the borrowers and co-borrowers.

Table 61 presents LTVs at origination for MPF and MPP conventional loans outstanding at December 31, 2011.

Table 61 - MPF and MPP Conventional Loans by LTV at Origination

	December 31, 2011			
	MPF Conventional Loans		MPP Conventional Loans	
LTV at Origination	Unpaid Principal Balance	Percent	Unpaid Principal Balance	Percent
< = 60%	$ 8,435	25.4%	$ 2,527	19.7%
> 60% to 70%	5,475	16.5%	2,203	17.2%
> 70% to 80%	15,548	46.7%	6,800	53.0%
> 80% to 90% (1)	2,331	7.0%	763	5.9%
> 90% (1)	1,477	4.4%	540	4.2%
Total	$ 33,266	100.0%	$ 12,833	100.0%
Weighted-average LTV %		69.1%		70.8%

(1) These conventional loans were required to have primary mortgage insurance at origination.

Geographic Concentrations. Tables 62 and 63 provide the percentage of unpaid principal balance of conventional mortgage loans held for portfolio outstanding at December 31, 2011 for the five largest state concentrations, with comparable data at December 31, 2010. These tables show the state concentration on an aggregated basis for all 12 FHLBanks that purchased or funded loans under the MPF Program and MPP. As a result, these tables do not necessarily reflect the actual state concentration with respect to each individual FHLBank.

Table 62 - State Concentrations of MPF Program

	December 31,(1)	
	2011	2010
California	9.3%	9.2%
Wisconsin	7.1%	7.6%
Iowa	6.0%	4.5%
Illinois	5.7%	6.1%
Pennsylvania	5.4%	5.0%
All other	66.5%	67.6%
Total	100.0%	100.0%

(1) Calculated percentage based on unpaid principal balance of conventional loans at the end of the period. The state concentrations reflect the top five states at December 31, 2011.

Table 63 - State Concentrations of MPP

	December 31,(1)	
	2011	2010
Ohio	27.8%	21.2%
Indiana	12.7%	9.8%
Michigan	9.5%	8.4%
California	7.0%	10.2%
Kentucky	5.5%	4.0%
All other	37.5%	46.4%
Total	100.0%	100.0%

(1) Calculated percentage based on unpaid principal balance of conventional loans at the end of the period. The state concentrations reflect the top five states at December 31, 2011.

Derivatives and Counterparty Ratings. In addition to market risk, each FHLBank is subject to credit risk because of the potential non-performance by counterparties to interest-rate exchange agreements. The amount of counterparty credit risk on derivatives depends on the extent to which netting procedures, collateral requirements and other credit enhancements are used and are effective in mitigating the risk. Each FHLBank manages counterparty credit risk through credit analysis, collateral management and other credit enhancements. The FHLBanks are also required to follow the requirements set forth by applicable regulation. The FHLBanks require collateral on interest-rate exchange agreements. The amount of net unsecured credit exposure that is permissible with respect to each counterparty depends on the credit rating of that counterparty. A counterparty must deliver collateral to an FHLBank if the total market value of the FHLBank's exposure to that counterparty rises above a specific trigger point. As a result of these risk mitigation initiatives, the management of each FHLBank does not anticipate any credit losses on its interest-rate exchange agreements with counterparties as of December 31, 2011.

The FHLBanks actively monitor their counterparties' exposure to European sovereign debt and consider this exposure as a component of their credit risk review process. Due to the significant European sovereign credit concerns, certain FHLBanks suspended or reduced new derivatives transactions with certain European counterparties to reduce the exposure to these counterparties. They may further suspend or limit derivative transactions with other European counterparties in accordance with their risk management policies and regulatory requirements. As of December 31, 2011, none of the FHLBanks believes that the European debt crisis is likely to have a material effect on its financial condition and results of operations.

The contractual or notional amount of interest-rate exchange agreements reflects the involvement of an FHLBank in the various classes of financial instruments. The maximum credit risk of an FHLBank with respect to interest-rate exchange agreements is the estimated cost of replacing interest-rate swaps, forward agreements and purchased caps and floors if the counterparty defaults, minus the value of any related collateral. In determining maximum credit risk, the FHLBanks consider, with respect to each counterparty, accrued interest receivables and payables as well as the legal right to offset assets and liabilities. This calculation of maximum credit risk excludes the amount of excess cash collateral received from counterparties in instances where a counterparty's pledged collateral to an FHLBank exceeds the FHLBank's net position.

Table 64 - Derivative Counterparty Credit Exposure at December 31, 2011

(dollars in millions)

Credit Rating(1)	Notional Amount	Credit Exposure Net of Cash Collateral	Other Collateral Held	Net Exposure After Collateral
Double-A	$ 74,825	$ 92	$ 9	$ 83
Single-A	620,872	514	447	67
Triple-B	8,344	—	—	—
Unrated(2)	70	—	—	—
Subtotal	704,111	606	456	150
Member institutions(3)	2,189	30	23	7
Total derivatives	$ 706,300	$ 636	$ 479	$ 157

(1) This chart does not reflect any changes in rating, outlook or watch status occurring after December 31, 2011. The ratings were obtained from S&P, Moody's and/or Fitch.

(2) Represents one broker-dealer used to purchase or sell forward contracts relating to to-be-announced mortgage-backed securities to hedge the market value of commitments on fixed-rate mortgage loans. All broker-dealer counterparties are subject to thorough credit review procedures in accordance with an FHLBank's risk management policy. There was no exposure at December 31, 2011 related to this unrated counterparty.

(3) Member institutions include mortgage delivery commitments and derivatives with members where an FHLBank is acting as an intermediary. Collateral held with respect to derivatives with member institutions where an FHLBank is acting as an intermediary represents the amount of eligible 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 that FHLBank.

At December 31, 2011, 98.8% of the notional amount of the FHLBanks' outstanding interest-rate exchange agreements (excluding interest-rate exchange agreements with member institutions) were with counterparties rated single-A or higher. (See each FHLBank's 2011 SEC Form 10-K for additional discussion regarding derivatives and counterparty ratings.)

Liquidity Risk

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

- Operational Liquidity Risk. The potential inability of an FHLBank to meet its deposit liquidity requirements to fund its anticipated (or unanticipated) day-to-day needs through normal sources of funding, including the short-term discount note market; and

- Contingency Liquidity Risk. The potential inability of an FHLBank to meet its liquidity needs due to an unanticipated increase in borrowing requests from its members or an inability to access the capital markets, including the short-term discount note market, for a period of time due to a market disruption, operational failure or problems with its credit quality.

To address liquidity risk, the FHLBank Act and FHFA regulations set liquidity requirements for the FHLBanks. (See *Liquidity* for FHFA regulations on the FHLBanks' liquidity requirements.) An individual FHLBank's board of directors may also set additional liquidity policies.

The FHLBanks' primary sources of liquidity may include maturities of overnight and short-term money-market investments and advances, and the issuance of consolidated discount notes and consolidated bonds. The FHLBanks' consolidated obligations outstanding declined further from year-end 2010 to year-end 2011, mirroring the decline in advance demand. Consolidated bonds outstanding decreased by $100 billion and consolidated discount notes outstanding decreased by $4 billion during this time period. Although the consolidated obligations outstanding declined for the year ended December 31, 2011, the FHLBanks maintained access to funding throughout 2011, while structuring their debt issuance to meet the needs of the capital markets as well as their members' need for funding. The FHLBanks increased their use of swapped callable bonds and negotiated bullet bonds, representing more than 60% of consolidated bond funding during 2011. (See *Liquidity* for additional discussion and analysis regarding the FHLBanks' liquidity requirements.)

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 risk assessments, as well as financial and operating policies and procedures, to reduce the likelihood of such occurrences and the potential for damage that could result from them. They have also instituted appropriate insurance coverage for these risks. The policies and procedures of the FHLBanks include controls to ensure that system-generated data are reconciled to source documentation on a regular basis. The internal audit department of each FHLBank, which reports directly to the audit committee of the individual FHLBank, regularly monitors compliance by that FHLBank with the established policies and procedures. In addition, each of the FHLBanks and the Office of Finance has a disaster recovery plan that is designed to restore critical business processes and systems in the event of a disaster. Some of the operational risks of the FHLBanks and Office of Finance, however, are beyond their control. Furthermore, the failure of other parties to address their operational risk adequately could adversely affect the FHLBanks. (See *Risk Factors* - *Operational Risk* for additional information about certain operational risks and *Controls and Procedures* for additional information regarding each FHLBank's controls over its financial reporting and the Office of Finance's controls and procedures over the combined financial reporting process.)

Business Risk

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

Each FHLBank's board of directors and management try to mitigate these business risks through long-term strategic planning and by continually monitoring economic indicators and their external environment. Additionally, the 12 FHLBanks are members of the Council of Federal Home Loan Banks (Council), a trade association based in Washington, D.C. whose primary function is to represent the positions and views of the Council's members to policymakers. The Council's mission is to: (1) ensure the FHLBanks' common legislative and regulatory interests are served; (2) promote enactment of laws and regulations which are beneficial to the FHLBanks; and (3) enhance awareness and understanding of the FHLBanks among Washington, D.C. leaders, including members of the U.S. Congress, the executive branch of the U.S. government, regulators, trade associations and the financial media.

FHLBank Member Concentration Risk. A number of FHLBanks also have member concentration risk. An FHLBank's financial strategies are generally designed to enable it to safely expand and contract its assets, liabilities and capital in response to changes in its member base and in its members' credit needs. An FHLBank's capital generally grows when members are required to purchase additional capital stock as they increase their advances borrowings or other business activities with their FHLBank. Some FHLBanks may also repurchase excess capital stock from members as business activities with those members decline. In addition, an individual FHLBank, at the discretion of its board of directors or management, could undertake the following capital preservation initiatives in order to meet internally established thresholds or meet its regulatory capital requirement: (1) voluntarily reduce or eliminate the payment of dividends; (2) suspend excess capital stock repurchases; or (3) raise the capital stock holding requirements for its members. As a result of these strategies, the FHLBanks have been able to achieve their mission by meeting member credit needs and managing fluctuations in assets, liabilities and capital.

A number of FHLBanks have concentrations in advances and therefore analyze the implications for their financial management and profitability if they were to lose the advances of one or more of these members. (See *Combined Statement of Condition - Advances* for the *Top 10 Advance Holding Borrowers by Holding Company* for the FHLBank System's member concentration risk and *Top 5 Advance Holding Borrowers by FHLBank at December 31, 2011* for more information regarding each FHLBank's member concentration risk.)

If an FHLBank loses one or more large borrowers that represent a significant portion of its business, that FHLBank could, depending on the magnitude of the effect, compensate for the loss by:

- lowering dividend rates;
- raising advance rates;
- attempting to reduce operating expenses; or
- undertaking some combination of these actions.

The magnitude of the effect would depend, in part, on the FHLBank's size and profitability at the time the institution ceases to be a borrower. Each FHLBank describes its risk management policies, including disclosures about its member concentration risk, if any, in its periodic reports filed with the SEC.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Each FHLBank is responsible for establishing its own risk management philosophies, practices and policies. Each FHLBank describes its risk management policies for its business, including quantitative and qualitative disclosures about its market risk, in its periodic reports filed with the SEC. (See *Explanatory Statement about Federal Home Loan Banks Combined Financial Report.*)

Each FHLBank has established policies and procedures to evaluate, manage and mitigate market risks. The FHFA has established regulations governing the risk management practices of the FHLBanks. The FHLBanks must file periodic compliance reports with the FHFA. The FHFA conducts an annual on-site examination of each FHLBank and the Office of Finance as well as off-site analyses.

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, and operating within, an appropriate framework and limits. The FHLBanks generally manage interest-rate risk by acquiring and maintaining a portfolio of assets and liabilities and entering into related interest-rate exchange agreements to limit the expected mismatches in duration. The FHLBanks measure and monitor interest rate-risk with commonly used methods, which include the calculations of market value of equity, duration of equity and duration gap.

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

The FHLBanks hold mortgage-related investments, such as mortgage loans and mortgage-backed securities. Because mortgage-related investments may contain prepayment options, changes in interest rates may cause the expected maturities of these investments to become shorter (prepay) or longer (extend). The rate and timing of unscheduled payments and collections of principal on mortgage loans are difficult to predict accurately and will be affected by a variety of factors. While the FHLBanks manage prepayment and extension risk by using a combination of debt and derivative financial instruments, if the level of actual prepayments is higher or lower than expected, the FHLBanks may incur additional costs to hedge the change in this market-risk exposure, which would result in reduced earnings. FHFA regulation also limits this source of interest-rate risk by restricting the types of mortgage-backed securities the FHLBanks may own. FHLBanks may own only those mortgage-backed securities with limited average life extension under certain interest-rate shock scenarios. The FHLBanks may hedge against prepayment 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 change the characteristics of investment securities, other than mortgage-backed securities, to match the cash flow characteristics and/or market value of the hedged item.

Market Value of Equity and Duration of Equity

An FHLBank may analyze its interest-rate risk exposure by evaluating its theoretical market value of equity. Market value of equity represents the difference between the theoretical market value of total assets and the theoretical market value of total liabilities, including off-balance sheet items. It measures, in present value terms, the long-term economic value of current capital and the long-term level and volatility of net interest income. Generally, an FHLBank analyzes the sensitivity of the market value of equity to changes in interest rates, prepayment speeds, options prices, mortgage and debt spreads, interest rate volatility, and other market variables. Therefore, market values can be calculated under various interest rate scenarios, and the resulting changes in net equity can provide an indicator of the exposure of the FHLBank’s market value of equity to market volatility. However, market value of equity should not be considered indicative of the market value of an FHLBank as a going concern or the value of an FHLBank in a liquidation scenario because it does not consider future new business activities, risk management strategies, or the net profitability of assets after funding costs are subtracted.

Another measure of interest-rate risk is duration of equity, which measures how sensitive a theoretical market value of equity is to changes in interest rates. Duration of equity equals the market value-weighted duration of assets minus the market value-weighted duration of liabilities, divided by the market value of equity. Each FHLBank has an internal modeling system for measuring its duration of equity; therefore, individual FHLBank measurements may not be directly comparable. Each FHLBank reports the results of its duration of equity calculations to the FHFA each quarter. However, not all FHLBanks manage to the duration of equity risk measure. The capital adequacy rules of the Regulator require each FHLBank (except for the FHLBank of Chicago) to hold permanent capital in an amount sufficient to cover the sum of its credit, market and operations risk-based capital requirements, which are defined by applicable regulations. Each of these FHLBanks has developed a market risk model that calculates the market risk component of this requirement. (See *FHLBank of Chicago's Changes in Market Value of Equity* for its regulatory measurement of market changes.)

Table 65 presents each FHLBank that includes quantitative market value of equity and duration of equity information in its individual 2011 SEC Form 10-K.

Table 65 - Individual FHLBank's Market Value of Equity and Duration of Equity Disclosure

FHLBank	Market Value of Equity	Duration of Equity
Boston	✓	✓
New York	✓	✓
Pittsburgh	(1)	✓
Atlanta	✓	✓
Cincinnati	✓	✓
Indianapolis	✓	✓
Chicago	(2)	(2)
Des Moines	(3)	(3)
Dallas	✓	✓
Topeka	(4)	✓
San Francisco	✓	(5)
Seattle	✓	✓

(1) The FHLBank of Pittsburgh's market value of equity volatility metrics are monitored. The FHLBank of Pittsburgh measures market value of equity to par value of capital stock (MV/CS), as described in its 2011 SEC Form 10-K. The FHLBank of Pittsburgh also monitors the earned dividend spread (EDS) volatility metric relative to a predetermined EDS floor, established and approved by its board of directors.

(2) The FHLBank of Chicago disclosed the dollar limits on changes in fair value under parallel interest rate shocks instead of the duration and convexity limits in its 2011 SEC Form 10-K, as presented in Table 68.

(3) Although the FHLBank of Des Moines measures and monitors market value of equity and duration of equity, those measures are not disclosed as key market risk measures. The FHLBank of Des Moines disclosed, in its 2011 SEC Form 10-K, market value of capital stock (MVCS) and economic value of capital stock (EVCS) as key risk measures. The FHLBank of Des Moines measures and limits movements in MVCS.

(4) The FHLBank of Topeka measures and monitors market value of equity (MVE); however, the FHLBank of Topeka measures market value risk in terms of its MVE in relation to its total regulatory capital stock outstanding instead of to its book value of equity. As described in its 2011 SEC Form 10-K, the FHLBank of Topeka believes this is a reasonable metric because as a cooperative, the metric reflects the market value of the FHLBank of Topeka relative to the book value of its capital stock.

(5) Although the FHLBank of San Francisco measures duration of equity, this measure is not disclosed as a key market risk measure.

Table 66 presents the duration of equity reported by each FHLBank to the FHFA in accordance with the FHFA's guidance, which prescribes that down and up interest-rate shocks equal 200 basis points. However, the applicable regulation restricts the down rate from assuming a negative interest rate. Therefore, each FHLBank adjusts the down rate accordingly in periods of very low levels of interest rates. (See *Table 65* for each FHLBank's market and interest-rate risk measurement disclosure in its individual 2011 SEC Form 10-K.)

Table 66 - Duration of Equity

(in years)

	December 31, 2011			December 31, 2010		
FHLBank	Down	Base	Up	Down	Base	Up
Boston	1.8	1.1	2.6	2.6	1.6	4.8
New York	1.3	0.0	2.7	2.2	(1.1)	2.9
Pittsburgh	1.7	2.7	4.4	1.8	3.0	4.5
Atlanta	(0.3)	1.3	3.3	(1.0)	0.2	3.2
Cincinnati	(0.3)	(3.8)	3.7	(1.2)	1.7	6.5
Indianapolis	(6.9)	(1.5)	2.4	(1.0)	0.6	2.9
Des Moines	(2.3)	(1.6)	9.1	(12.7)	0.0	2.9
Dallas	4.7	1.2	3.8	3.6	3.6	5.8
Topeka	0.9	(0.4)	0.2	(1.0)	(1.7)	1.4
San Francisco	1.9	2.1	1.7	1.9	2.0	1.7
Seattle	0.9	2.2	4.8	1.2	1.3	5.6

Duration Gap

A related measure of interest-rate risk is duration gap, which is the difference between the estimated durations (market value sensitivity) of assets and liabilities and reflects the extent to which estimated maturity and repricing cash flows for assets and liabilities are matched. Duration gap determines the sensitivity of assets and liabilities to interest-rate changes. Each FHLBank has an internal modeling system for measuring its duration gap; therefore, individual FHLBank measurements may not be directly comparable. Duration generally indicates the expected change in an instrument's market value resulting from an increase or a decrease in interest rates. Higher duration numbers, whether positive or negative, indicate greater volatility in the market value of equity in response to changing interest rates. Duration gap numbers in Table 67 include the effect of interest-rate exchange agreements.

Table 67 - Duration Gap

(in months)

FHLBank	December 31, 2011	December 31, 2010
Boston	0.9	1.1
New York	(0.2)	(0.9)
Pittsburgh	1.4	1.7
Atlanta	0.6	(0.2)
Cincinnati	(0.3)	0.1
Indianapolis	(2.1)	(0.6)
Chicago	1.1	0.0
Des Moines	(1.4)	(0.6)
Dallas	0.5	2.0
Topeka	(0.3)	(1.0)
San Francisco	1.5	1.4
Seattle	0.1	0.0

FHLBank of Chicago's Changes in Market Value of Equity

The FHLBank of Chicago's Asset/Liability Management Committee provides oversight of its risk management practices and policies. This includes routine reporting to the FHLBank of Chicago's senior management and its board of directors, as well as maintaining the market risk policy, which defines its interest-rate risk limits. Table 68 presents the change in market risk limits under the market risk policy.

Table 68 - FHLBank of Chicago's Changes in Market Value of Equity

(dollars in millions)

	December 31, 2011		December 31, 2010	
Scenario as of	Change in Market Value of Equity	Limit	Change in Market Value of Equity	Limit
-200 bp	$ 199.0	$ (185.0)	$ (a)	$ (185.0)
-100 bp	138.7	(77.5)	(a)	(77.5)
-50 bp	78.0	(30.0)	(a)	(30.0)
-25 bp	30.0	(15.0)	0.7	(15.0)
+25 bp	(7.4)	(30.0)	2.0	(30.0)
+50 bp	(4.0)	(60.0)	2.0	(60.0)
+100 bp	11.2	(155.0)	(22.7)	(155.0)
+200 bp	2.6	(370.0)	(173.2)	(370.0)

(a) Due to the low interest-rate environment, these values were not calculated.

Use of Derivatives to Manage Interest-Rate Risk

An FHLBank enters into derivatives to manage interest-rate risk, prepayment risk and exposure inherent in otherwise unhedged assets and funding positions. An FHLBank attempts to use derivatives to reduce interest-rate exposure in the most cost-efficient manner. Derivatives are used to adjust the effective maturity, repricing frequency, or option characteristics of financial instruments to achieve risk-management objectives. (See *Note 12—Derivatives and Hedging Activities* to the accompanying combined financial statements for a discussion of managing interest-rate risk exposure.)

Table 69 presents the notional amount of the derivatives used to manage interest-rate risk. The notional amount of derivatives serves as a factor in determining periodic interest payments or cash flows received and paid. The notional amount of derivatives represents neither the actual amounts exchanged nor the overall exposure of the FHLBanks to credit and market risk. The overall amount that could potentially be subject to credit loss is much smaller. Interest-rate risk is evaluated on a portfolio basis, taking into account the derivatives, the items being hedged and any offsets between the two.

Table 69 - Hedging Strategies

(dollars in millions)

Hedged Item / Hedging Instrument	Hedging Objective	Hedge Accounting Designation (1)	December 31, 2011 Notional Amount	December 31, 2010 Notional Amount
Advances				
Pay-fixed, receive-float interest-rate swap (without options)	Converts the advance's fixed rate to a variable-rate index.	Fair Value	$ 104,024	$ 111,517
		Economic	7,756	7,338
Pay-fixed, receive-float interest-rate swap (with options)	Converts the advance's fixed rate to a variable-rate index and offsets option risk in the advance.	Fair Value	80,028	120,525
		Economic	2,744	4,256
Receive-fixed, pay-float interest-rate swap	Converts the advance's variable rate to a fixed rate.	Economic	—	150
Pay-float with embedded features, receive-float interest-rate swap (non-callable)	Reduces interest-rate sensitivity and repricing gaps by converting the advance's variable-rate to a different variable-rate index and/or offsets embedded option risk in the advance.	Fair Value	965	434
Pay-float with embedded features, receive-float interest-rate swap (callable)	Reduces interest-rate sensitivity and repricing gaps by converting the advance's variable-rate to a different variable-rate index and/or offsets embedded option risk in the advance.	Fair Value	1,210	1,633
Pay-float, receive-float basis swap	Reduces interest-rate sensitivity and repricing gaps by converting the advance's variable-rate to a different variable-rate index.	Economic	454	623
Interest-rate cap, floor, corridor, or collar	Offsets the interest cap, floor, corridor or collar embedded in a variable-rate advance.	Fair Value	285	292
		Economic	213	1,204
Interest-rate swaption	Provides the option to enter into an interest-rate swap to offset interest-rate risk associated with an optional advance commitment.	Economic	200	150
		Total	197,879	248,122
Investments				
Pay-fixed, receive-float interest-rate swap	Converts the investment's fixed rate to a variable-rate index.	Fair Value	14,824	10,218
		Economic	7,954	6,140
Pay-float, receive-float interest-rate swap	Converts the investment's variable rate to a different variable-rate index.	Economic	1,733	2,183
Interest-rate cap or floor	Offsets the interest-rate cap or floor embedded in a variable-rate investment.	Economic	12,847	12,904
Pay-fixed, receive-float interest-rate swap (with options)	Converts the investment's fixed-rate to a variable-rate index and offsets option risk in the investment.	Fair Value	—	34
		Total	37,358	31,479
Mortgage Loans				
Pay-fixed, receive-float interest-rate swap	Converts the mortgage loan's fixed rate to a variable-rate index.	Fair Value	1,010	1,137
		Economic	11,910	10,406
Receive-fixed, pay-float interest-rate swap	Converts the variable rate to a fixed rate in a pooled mortgage portfolio hedge.	Fair Value	424	604
		Economic	8,997	10,737
Interest-rate swaption	Provides the option to enter into an interest-rate swap to offset interest-rate or prepayment risk in a pooled mortgage portfolio hedge.	Fair Value	370	870
		Economic	4,820	9,420
Interest-rate cap or floor	Protects against changes in income of certain mortgage assets due to changes in interest rates.	Economic	1,875	2,408
Forward settlement agreement	Protects against changes in market value of fixed-rate mortgage delivery commitments resulting from changes in interest-rates.	Economic	536	262
		Total	29,942	35,844
Deposits				
Receive-fixed, pay-float interest-rate swap	Converts the deposit's fixed rate to a variable-rate index.	Fair Value	20	20
		Total	20	20

Hedged Item / Hedging Instrument	Hedging Objective	Hedge Accounting Designation (1)	December 31, 2011 Notional Amount	December 31, 2010 Notional Amount
Consolidated Bonds				
Receive-fixed or -structured, pay-float interest-rate swap (without options)	Converts the bond's fixed or structured rate to a variable-rate index.	Fair Value	191,339	204,860
		Economic	25,120	21,859
Receive-fixed or -structured, pay-float interest-rate swap (with options)	Converts the bond's fixed- or structured-rate to a variable-rate index and offsets option risk in the bond.	Fair Value	76,203	82,728
		Economic	9,846	21,368
Receive-float with embedded features, pay-float interest-rate swap (callable)	Reduces interest-rate sensitivity and repricing gaps by converting the bond's variable rate to a different variable-rate index and/or offsets embedded option risk in the bond.	Fair Value	2,834	3,541
Receive-float with embedded features, pay-float interest rate swap (non-callable)	Reduces interest-rate sensitivity and repricing gaps by converting the bond's variable rate to a different variable-rate index and/or offsets embedded option risk in the bond.	Fair Value	115	—
Receive-float, pay-float basis swap	Reduces interest-rate sensitivity and repricing gaps by converting the bond's variable rate to a different variable-rate index.	Economic	37,218	44,386
Basis swap	Fixed-rate or floating-rate non-callable bond previously converted to a floating-rate index, converted to another floating rate to reduce interest-rate sensitivity and repricing gaps.	Economic	14,300	27,505
Forward-starting interest-rate swap	Locks in the cost of funding on anticipated issuance of debt.	Cash Flow	700	—
Pay-fixed, receive-float interest-rate swap	Fixed-rate or floating-rate non-callable bond, which may have been previously converted to LIBOR, converted to fixed-rate debt that offsets the interest-rate risk of mortgage assets.	Economic	470	3,315
		Total	358,145	409,562
Consolidated Discount Notes				
Receive-fixed, pay-float interest-rate swap	Converts the discount note's fixed rate to a variable-rate index.	Fair Value	4,391	2,746
		Economic	41,248	22,745
Pay-fixed, receive-float interest-rate swap (with options)	Discount note converted to fixed-rate callable debt that offsets the prepayment risk of mortgage assets.	Economic	1,865	1,627
Pay-fixed, receive-float interest-rate swap (without options)	Discount note converted to fixed-rate non-callable debt that offsets the interest-rate risk of mortgage assets.	Economic	1,580	65
Interest-rate cap, floor, or swap	Mitigates the variability of cash flows associated with the benchmark interest rate (LIBOR).	Cash Flow	8,101	8,262
		Total	57,185	35,445
Balance Sheet				
Pay-fixed, receive-float interest-rate swap	Converts the asset or liability fixed rate to a variable-rate index.	Economic	125	225
Pay-float, receive-float basis swap	To reduce interest-rate sensitivity and repricing gaps by converting the asset or liability's variable rate to the same variable-rate index as the funding source or asset being funded.	Economic	4,700	6,700
Interest-rate cap or floor	Protects against changes in income of certain assets due to changes in interest rates.	Economic	17,842	15,042
		Total	22,667	21,967
Intermediary Positions and Other				
Pay-fixed, receive-fixed interest-rate swap	To offset interest-rate swaps executed with members by executing interest-rate swaps with derivatives counterparties.	Economic	275	276
Pay-fixed, receive-float interest-rate swap, and receive-fixed, pay-float interest-rate swap	To provide interest-rate swaps to members and to offset interest-rate swaps executed with members by executing interest-rate swaps with derivatives counterparties.	Economic	579	665
Interest-rate cap or floor	To offset interest-rate caps or floors executed with members by executing interest-rate caps or floors with derivatives counterparties.	Economic	976	3,034
		Total	1,830	3,975

Hedged Item / Hedging Instrument	Hedging Objective	Hedge Accounting Designation (1)	December 31, 2011 Notional Amount	December 31, 2010 Notional Amount
Stand-Alone Derivatives				
Mortgage delivery commitment	Exposed to fair-value risk associated with fixed-rate mortgage purchase commitments.	N/A	1,274	750
		Total	1,274	750
Total notional amount			$ 706,300	$ 787,164

(1) The Fair Value and Cash Flow categories represent hedging strategies for which qualifying hedge accounting is achieved. The Economic category represents hedging strategies for which qualifying hedge accounting is not achieved.

At December 31, 2011, certain FHLBanks had full fair value hedges of advances with a notional amount of $420 million and an estimated fair value loss of $14 million, and had full fair value hedges of consolidated bonds with a notional amount of $3.0 billion and an estimated fair value gain of $536 million. The remaining fair value hedges presented in Table 69 at December 31, 2011 represent benchmark interest-rate hedges.

Table 70 presents the net effect of derivatives and hedging activities on the Combined Statement of Income resulting from the FHLBanks applying different hedging strategies.

Table 70 - Net Effect of Derivatives and Hedging Activities

(dollars in millions)

	Year Ended December 31, 2011									
Net Effect of Derivatives and Hedging Activities	Advances	Investments	Mortgage Loans	Deposits	CO Bonds	CO DNs	Balance Sheet	Optional Advance Commitments	Intermediary Positions and Other	Total
Net interest income										
Amortization and accretion of hedging activities in net interest income(1)	$ (447)	$ 39	$ (63)	$ —	$ 165	$ (17)	$ —	$ —	$ —	$ (323)
Net interest settlements included in net interest income(2)	(6,417)	(393)	(8)	2	4,191	(319)	—	—	—	(2,944)
Total net interest income	(6,864)	(354)	(71)	2	4,356	(336)	—	—	—	(3,267)
Net gains (losses) on derivatives and hedging activities										
Gains (losses) on fair value hedges	270	30	(5)	—	(9)	1	—	—	—	287
Gains (losses) on cash flow hedges	37	—	—	—	—	4	—	—	—	41
Gains (losses) on derivatives not receiving hedge accounting	(384)	(386)	28	—	312	(85)	(117)	(12)	—	(644)
Total net gains (losses) on derivatives and hedging activities	(77)	(356)	23	—	303	(80)	(117)	(12)	—	(316)
Subtotal	(6,941)	(710)	(48)	2	4,659	(416)	(117)	(12)	—	(3,583)
Net gains (losses) on trading securities(3)	—	32	—	—	—	—	—	—	—	32
Net gains (losses) on financial instruments held at fair value	184	—	—	—	(188)	(2)	—	12	—	6
Total net effect of derivatives and hedging activities	$ (6,757)	$ (678)	$ (48)	$ 2	$ 4,471	$ (418)	$ (117)	$ —	$ —	$ (3,545)

Net Effect of Derivatives and Hedging Activities	Year Ended December 31, 2010									
	Advances	Investments	Mortgage Loans	Deposits	CO Bonds	CO DNs	Balance Sheet	Optional Advance Commitments	Intermediary Positions and Other	Total
Net interest income										
Amortization and accretion of hedging activities in net interest income(1)	$ (495)	$ 11	$ (45)	$ —	$ 180	$ (18)	$ —	$ —	$ —	$ (367)
Net interest settlements included in net interest income(2)	(9,097)	(266)	(47)	2	6,046	(308)	—	—	—	(3,670)
Total net interest income	(9,592)	(255)	(92)	2	6,226	(326)	—	—	—	(4,037)
Net gains (losses) on derivatives and hedging activities										
Gains (losses) on fair value hedges	270	13	(3)	—	(3)	(3)	—	—	—	274
Gains (losses) on cash flow hedges	—	—	—	—	—	5	—	—	—	5
Gains (losses) on derivatives not receiving hedge accounting	(319)	(495)	—	—	346	(76)	(38)	—	1	(581)
Total net gains (losses) on derivatives and hedging activities	(49)	(482)	(3)	—	343	(74)	(38)	—	1	(302)
Subtotal	(9,641)	(737)	(95)	2	6,569	(400)	(38)	—	1	(4,339)
Net gains (losses) on trading securities(3)	—	83	—	—	—	—	—	—	—	83
Net gains (losses) on financial instruments held at fair value	(163)	—	—	—	63	(2)	—	(4)	—	(106)
Total net effect of derivatives and hedging activities	$ (9,804)	$ (654)	$ (95)	$ 2	$ 6,632	$ (402)	$ (38)	$ (4)	$ 1	$ (4,362)

Net Effect of Derivatives and Hedging Activities	Year Ended December 31, 2009									
	Advances	Investments	Mortgage Loans	Deposits	CO Bonds	CO DNs	Balance Sheet	Optional Advance Commitments	Intermediary Positions and Other	Total
Net interest income										
Amortization and accretion of hedging activities in net interest income(1)	$ (850)	$ 9	$ 4	$ —	$ 179	$ (11)	$ —	$ —	$ —	$ (669)
Net interest settlements included in net interest income (2)	(10,334)	(150)	(79)	1	6,678	(89)	—	—	—	(3,973)
Total net interest income	(11,184)	(141)	(75)	1	6,857	(100)	—	—	—	(4,642)
Net gains (losses) on derivatives and hedging activities										
Gains (losses) on fair value hedges	444	86	(20)	—	270	(6)	—	—	—	774
Gains (losses) on cash flow hedges	—	—	—	—	—	7	—	—	—	7
Gains (losses) on derivatives not receiving hedge accounting	(141)	166	(170)	—	200	204	167	—	—	426
Total net gains (losses) on derivatives and hedging activities	303	252	(190)	—	470	205	167	—	—	1,207
Subtotal	(10,881)	111	(265)	1	7,327	105	167	—	—	(3,435)
Net gains (losses) on trading securities(3)	—	(212)	—	—	—	—	—	—	—	(212)
Net gains (losses) on financial instruments held at fair value	(573)	—	—	—	116	—	—	—	—	(457)
Total net effect of derivatives and hedging activities	$ (11,454)	$ (101)	$ (265)	$ 1	$ 7,443	$ 105	$ 167	$ —	$ —	$ (4,104)

(1) Represents amortization and accretion of hedging fair-value adjustments included in net interest income.
(2) Represents interest income or expense on derivatives included in net interest income.
(3) Includes only those gains or losses on trading securities that have an economic derivative "assigned;" therefore, this line item may not agree to the Combined Statement of Income.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial Statements

The combined financial statements and accompanying notes, including the Report of the Audit Committee and the Report of Independent Registered Public Accounting Firm, begin on page F-1 of this Combined Financial Report.

Supplementary Financial Data

Table 71 - Selected Quarterly Combined Results of Operations (Unaudited)

(dollars in millions)

	2011 Quarter Ended			
	December 31	September 30	June 30	March 31
Total interest income	$ 2,730	$ 2,745	$ 2,883	$ 3,050
Total interest expense	1,680	1,751	1,881	1,992
Net interest income before provision for credit losses	1,050	994	1,002	1,058
Provision (reversal) for credit losses	28	12	10	21
Net interest income after provision (reversal) for credit losses	1,022	982	992	1,037
Non-interest income (loss)	(123)	(226)	(400)	(286)
Non-interest expense	319	237	240	261
Assessments	65	50	101	132
Net income (loss)	$ 515	$ 469	$ 251	$ 358

	2010 Quarter Ended			
	December 31	September 30	June 30	March 31
Total interest income	$ 3,337	$ 3,749	$ 3,738	$ 3,672
Total interest expense	2,075	2,346	2,415	2,440
Net interest income before provision for credit losses	1,262	1,403	1,323	1,232
Provision (reversal) for credit losses	25	14	11	8
Net interest income after provision (reversal) for credit losses	1,237	1,389	1,312	1,224
Non-interest income (loss)	5	(205)	(676)	(546)
Non-interest expense	308	228	173	223
Assessments	236	224	137	130
Net income (loss)	$ 698	$ 732	$ 326	$ 325

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

There were no changes in accountants or disagreements with accountants in the period covered by this Combined Financial Report.

CONTROLS AND PROCEDURES

FHLBanks

The management of each FHLBank is required under applicable laws and regulations to establish and maintain effective disclosure controls and procedures as well as effective internal control over financial reporting, as such disclosure controls and procedures and internal control over financial reporting relate to that FHLBank only. Each FHLBank's management assessed the effectiveness of its individual internal control over financial reporting as of December 31, 2011, based on the framework established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, each FHLBank's management concluded, as of December 31, 2011, that its individual internal control over financial reporting is effective based on the criteria established in *Internal Control-Integrated Framework.* Additionally, the independent registered public accounting firm of each FHLBank opined that the individual FHLBank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011. (See *Part II. Item 8 - Financial Statements and Supplementary Data* or *Item 9A - Controls and Procedures* of each FHLBank's 2011 SEC Form 10-K for its *Management's Report on Internal Control over Financial Reporting*.)

Each of the FHLBanks indicated that there were no changes to its internal control over financial reporting during the fiscal quarter ended December 31, 2011 that materially affected, or are reasonably likely to affect, its internal control over financial reporting. Additionally, management of each FHLBank concluded that its disclosure controls and procedures were effective at a reasonable assurance level as of the fiscal quarter ended December 31, 2011. (See *Part II. Item 9A - Controls and Procedures* of each FHLBank's 2011 SEC Form 10-K.)

Office of Finance Controls and Procedures over the Combined Financial Reporting Combining Process

The Office of Finance is not responsible for the preparation, accuracy or adequacy of the information or financial data provided by the FHLBanks to the Office of Finance for use in preparing the combined financial reports, or for the quality or effectiveness of the disclosure controls and procedures or internal control over financial reporting of the FHLBanks as they relate to such information and financial data. Each FHLBank is responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting with respect to the information and financial data provided to the Office of Finance. Although the Office of Finance is not an SEC registrant, FHFA regulations require that the combined financial report form and content generally be consistent with SEC Regulations S-K and S-X, as interpreted by the FHFA. The Office of Finance is not required to establish and maintain, and in light of the nature of its role has not established and maintained, disclosure controls and procedures and internal control over financial reporting at the FHLBank System level in the same manner as those maintained by each FHLBank. The Office of Finance has established procedures and controls concerning the FHLBanks' submission of information and financial data to the Office of Finance, the process of combining the financial statements of the individual FHLBanks and the review of such information.

The Office of Finance does not independently verify the financial information submitted by each FHLBank that comprise the combined financial statements, the condensed combining schedules and other disclosures included in this Combined Financial Report. Instead, the Office of Finance relies on each FHLBank management's certification and representation regarding the accuracy and completeness of its data submitted to the Office of Finance for use in preparing this Combined Financial Report.

Audit Committee Charter

In July 2010, the Office of Finance's audit committee was restructured to implement the FHFA's regulations affecting the Office of Finance's board of directors that were effective June 2, 2010. The charter of the audit committee of the Office of Finance's board of directors is available on the Office of Finance's website at www.fhlb-of.com. This web site address is provided as a matter of convenience only, and its contents are not made part of this report and are not intended to be incorporated by reference into this report.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Each FHLBank is a member-owned cooperative, whose members elect a majority of that FHLBank's directors from among the officers and directors of its members. The FHLBanks conduct their advances and mortgage loan business primarily with members. As a result, in the normal course of business, the FHLBanks regularly extend credit to members whose officers and/or directors may serve as directors of the FHLBanks and members (or affiliates) owning more than 5% of an FHLBank's capital stock. This credit is extended on market terms that are no more favorable to these "related" members than comparable transactions with other members of the same FHLBank.

An FHLBank provides Affordable Housing Program subsidies in the form of direct grants and below-market interest rate advances to members, which use the funds to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. Only FHLBank members, along with their nonmember Affordable Housing Program project sponsors, may submit Affordable Housing Program applications. All Affordable Housing Program subsidies are made in the normal course of business. In instances where Affordable Housing Program subsidies involve a member (or its affiliate) owning more than 5% of an FHLBank's capital stock, a member with an officer or director who serves as a director of an FHLBank, or an entity with an officer, director or general partner who serves as a director of an FHLBank (and has a direct or indirect interest in the Affordable Housing Program subsidies), such Affordable Housing Program subsidies are subject to the same eligibility and other program criteria and requirements as Affordable Housing Program subsidies provided to all other members, and the regulations governing the operations of the Affordable Housing Program. As of December 31, 2011, the FHLBanks had $41.8 billion of advances outstanding to members whose officers and/or directors were serving as directors of the FHLBanks, which represented 10.4% of total advances at par value. (See *Market for Capital Stock and Related Stockholder Matters* and *Financial Discussion and Analysis - Combined Statement of Condition - Advances* for additional information on FHLBank advances and membership.)

An FHLBank may also have deposits with members and purchase short-term investments, Federal funds and mortgage-backed securities from members, some of whose officers and/or directors may serve as directors of their respective FHLBank. All investments are market-rate transactions and all mortgage-backed securities are purchased through securities brokers or dealers. (See each FHLBank's 2011 SEC Form 10-K under *Item 13—Certain Relationships and Related Transactions, and Director Independence* for additional information regarding related transactions with its members.)

PRINCIPAL ACCOUNTING FEES AND SERVICES

Each of the audit committees of the FHLBanks and the Office of Finance pre-approve audit and non-audit services provided by the principal independent public accountant to the entity it oversees. Also, each audit committee annually considers whether the services identified under the caption “all other fees” and rendered to the entity it oversees are compatible with maintaining the principal accountant's independence. Table 72 presents the aggregate fees billed or to be billed to the FHLBanks by their principal independent public accountant, PricewaterhouseCoopers LLP.

Table 72 - Principal Accounting Fees and Services

(dollars in millions)

	Year Ended December 31,	
	2011	2010
Audit fees(1)	$ 9	$ 10
Audit-related fees(2)	1	1
Tax fees	—	—
All other fees(3)	1	1
Total fees	$ 11	$ 12

(1) Audit fees consist of fees incurred in connection with the annual audits and quarterly reviews of the FHLBanks' individual and combined financial statements, including audits of internal controls over financial reporting, and for the review of related financial information.

(2) Audit-related fees primarily consist of assurance and related services related to accounting consultations and combined audit central team services.

(3) All other fees consist of services rendered for non-financial information system related consulting. No fees were paid to the principal independent public accountant for financial information system design and implementation.

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OFFICE OF FINANCE AUDIT COMMITTEE REPORT

By Federal Housing Finance Agency (FHFA) regulation, the Audit Committee of the Office of Finance Board of Directors (OF Board) performs oversight duties in connection with the preparation of the annual combined financial report of the Federal Home Loan Banks (FHLBanks), which includes the audited combined financial statements of the FHLBanks. The Audit Committee is comprised of five independent directors not employed by an FHLBank or the Office of Finance; who were selected by the Office of Finance Board, subject to review by the FHFA; and who as a group must have substantial experience in financial and accounting matters. In connection with its duties, the Audit Committee has adopted a written charter, which has been posted on the Office of Finance web site. The Audit Committee members are not required to satisfy any express qualification or independence standards governing their service as an audit committee that are separate and distinct from their qualifications to serve as members of the Office of Finance Board.

There is no system-wide centralized management of the FHLBanks. Each FHLBank is a separately chartered entity. Each has its own board of directors and management. 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 FHFA and the audit committee independence requirements set forth in Section 10A(m) of the Securities Exchange Act of 1934, but who may not be considered "independent" based on corporate governance standards of independence used by the FHLBanks for disclosure purposes as required under SEC rules and regulations. In addition, each FHLBank's board of directors and management is responsible for establishing its own accounting and financial reporting policies in accordance with accounting principles generally accepted in the United States of America. Each FHLBank is subject to certain reporting requirements of the Securities Exchange Act of 1934 and must file periodic reports and other information including annual audited financial statements with the Securities and Exchange Commission. (See *Explanatory Statement about Federal Home Loan Banks Combined Financial Report*.)

In connection with its responsibilities in preparing combined financial reports and combined financial statements, 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 and the underlying data it provides to the Office of Finance for inclusion in the combined financial reports and combined financial statements. Based on FHFA regulation and guidance related to the combined financial reports, the Audit Committee's responsibilities are limited to the oversight of the preparation of the combined financial reports with regard to the basis and approach to combining information from the FHLBanks. The Audit Committee is responsible for ensuring that the FHLBanks adopt consistent accounting policies and procedures to the extent necessary for information submitted by the FHLBanks to the Office of Finance to be combined to create accurate and meaningful combined financial reports. However, the Audit Committee is not responsible for overseeing the reliability and integrity of the accounting policies and financial reporting of the individual FHLBanks or the accuracy of the information that they submit to the Office of Finance.

The Audit Committee has reviewed and discussed the audited combined financial statements with senior management of the Office of Finance, and discussed with the independent accountants the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board.

The Audit Committee has also received the written disclosures and the letter from the independent accountant required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and has discussed with the independent accountant their independence.

Based on the review and discussions referred to above, the Office of Finance Board determined to include the audited combined financial statements in the FHLBanks' 2011 Combined Financial Report.

H Ronald Weissman, Chair
J. Michael Davis
Kathleen Crum McKinney
Walter H. Morris, Jr.
Jonathan A. Scott

March 29, 2012

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REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying combined statements of condition and the related combined statements of income, capital and cash flows present fairly, in all material respects, the combined financial position of the Federal Home Loan Banks (FHLBanks) at December 31, 2011 and 2010, and the combined results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, 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 FHLBanks 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 combined financial statements in accordance with auditing standards generally accepted in the United States of America and the standards of the Public Company Accounting Oversight Board (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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted 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's financial statements and have also issued separate reports on the financial statements of each of the FHLBanks. The condensed combining information shown on pages F-96 to F-113 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 condensed combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is presented fairly in all material respects in relation to the combined financial statements taken as a whole.

PricewaterhouseCoopers LLP

McLean, Virginia
March 29, 2012

FEDERAL HOME LOAN BANKS
COMBINED STATEMENT OF CONDITION

(dollars in millions and capital stock shares in thousands)	December 31, 2011	December 31, 2010
Assets		
Cash and due from banks *(Note 3)*	$ 20,182	$ 3,801
Interest-bearing deposits	1,207	9
Securities purchased under agreements to resell *(Note 4)*	12,675	16,400
Federal funds sold	41,139	75,855
Investment securities		
Trading securities, includes $15 and $243 pledged as collateral that may be repledged *(Note 5)*	18,705	28,291
Available-for-sale securities, includes $646 and $358 pledged as collateral that may be repledged *(Note 6)*	78,062	71,459
Held-to-maturity securities, includes $651 and $1,354 pledged as collateral that may be repledged, fair value of $120,886 and $140,266 *(Note 7)*	119,477	138,456
Total investment securities	216,244	238,206
Advances, includes $8,693 and $10,494 at fair value held under fair value option *(Note 9)*	418,157	478,589
Mortgage loans held for portfolio, net		
Mortgage loans held for portfolio *(Note 10)*	53,515	61,277
Allowance for credit losses on mortgage loans *(Note 11)*	(138)	(86)
Total mortgage loans held for portfolio, net	53,377	61,191
Accrued interest receivable	1,613	1,921
Premises, software and equipment, net	221	229
Derivative assets, net *(Note 12)*	636	897
Other assets	635	1,011
Total assets	$ 766,086	$ 878,109
Liabilities		
Deposits *(Note 13)*		
Interest-bearing	$ 12,203	$ 13,980
Non-interest-bearing	361	421
Total deposits	12,564	14,401
Securities sold under agreements to repurchase *(Note 14)*	400	1,200
Consolidated obligations *(Note 15)*		
Discount notes, includes $19,862 and $5,820 at fair value held under fair value option	190,149	194,431
Bonds, includes $38,981 and $47,395 at fair value held under fair value option	506,975	606,567
Total consolidated obligations	697,124	800,998
Mandatorily redeemable capital stock	8,013	7,066
Accrued interest payable	1,763	2,471
Affordable Housing Program payable *(Note 16)*	718	773
Payable to REFCORP *(Note 17)*	—	159
Derivative liabilities, net *(Note 12)*	3,570	5,467
Other liabilities, includes $2 and $11 at fair value held under fair value option	1,113	833
Subordinated notes *(Note 18)*	1,000	1,000
Total liabilities	726,265	834,368
Commitments and contingencies (Notes 22 and 23)		
Capital *(Note 19)*		
Capital stock		
Class B putable ($100 par value) issued and outstanding shares: 324,834 and 386,845	32,485	38,683
Class A putable ($100 par value) issued and outstanding shares: 6,566 and 7,198	655	719
Pre-conversion putable ($100 par value) issued and outstanding shares: 24,024 and 23,333	2,402	2,333
Total capital stock	35,542	41,735
Retained earnings		
Unrestricted	6,603	5,943
Restricted	1,974	1,609
Total retained earnings	8,577	7,552
Accumulated other comprehensive income (loss)		
Net unrealized gains (losses) on available-for-sale securities *(Note 6)*	1,255	837
Net unrealized gains (losses) on held-to-maturity securities transferred from available-for-sale securities	(5)	(8)
Net non-credit portion of other-than-temporary impairment losses on available-for-sale securities *(Note 8)*	(3,157)	(1,306)
Net non-credit portion of other-than-temporary impairment losses on held-to-maturity securities *(Note 8)*	(1,125)	(4,441)
Net unrealized gains (losses) relating to hedging activities *(Note 12)*	(1,196)	(579)
Pension and postretirement benefits *(Note 20)*	(70)	(49)
Total accumulated other comprehensive income (loss)	(4,298)	(5,546)
Total capital	39,821	43,741
Total liabilities and capital	$ 766,086	$ 878,109

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

FEDERAL HOME LOAN BANKS
COMBINED STATEMENT OF INCOME

(dollars in millions)	Year Ended December 31, 2011	2010	2009
Interest income			
Advances	$ 3,267	$ 4,592	$ 9,756
Prepayment fees on advances, net	263	533	166
Interest-bearing deposits	9	15	67
Securities purchased under agreements to resell	17	42	25
Federal funds sold	101	150	134
Trading securities	404	343	401
Available-for-sale securities	1,448	1,268	638
Held-to-maturity securities	3,258	4,362	5,839
Mortgage loans	2,639	3,187	3,873
Other	2	4	3
Total interest income	11,408	14,496	20,902
Interest expense			
Consolidated obligations — Discount notes	529	667	2,174
Consolidated obligations — Bonds	6,645	8,462	13,156
Deposits	8	17	23
Securities sold under agreements to repurchase	17	18	26
Subordinated notes	57	57	57
Mandatorily redeemable capital stock	48	54	40
Other borrowings	—	1	1
Total interest expense	7,304	9,276	15,477
Net interest income	4,104	5,220	5,425
Provision (reversal) for credit losses	71	58	18
Net interest income after provision (reversal) for credit losses	4,033	5,162	5,407
Non-interest income (loss)			
Total other-than-temporary impairment losses	(606)	(1,125)	(11,197)
Net amount of impairment losses reclassified to/(from) accumulated other comprehensive income (loss)	(250)	54	8,766
Net other-than-temporary impairment losses	(856)	(1,071)	(2,431)
Net gains (losses) on trading securities	(11)	69	(140)
Net realized gains (losses) from sale of available-for-sale securities	24	20	7
Net realized gains (losses) from sale of held-to-maturity securities	35	8	17
Net gains (losses) on financial instruments held under fair value option	6	(106)	(457)
Net gains (losses) on derivatives and hedging activities	(316)	(302)	1,207
Service fees	35	35	32
Other, net	48	(75)	(14)
Total non-interest income (loss)	(1,035)	(1,422)	(1,779)
Non-interest expense			
Compensation and benefits	540	533	487
Other operating expenses	313	327	326
Federal Housing Finance Agency	79	55	42
Office of Finance	43	39	35
Provision (reversal) of derivative counterparty credit losses	5	(55)	35
Other	77	33	18
Total non-interest expense	1,057	932	943
Income (loss) before assessments	1,941	2,808	2,685
Assessments			
Affordable Housing Program	188	229	258
REFCORP	160	498	572
Total assessments	348	727	830
Net income (loss)	$ 1,593	$ 2,081	$ 1,855

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

FEDERAL HOME LOAN BANKS
COMBINED STATEMENT OF CAPITAL
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	Capital Stock[1]			
	Class B		Class A	
(dollars and shares in millions)	Shares	Par Value	Shares	Par Value
Balance, December 31, 2008	465	$ 46,413	7	$ 752
Cumulative effect of adjustment relating to amended other-than-temporary impairment guidance	—	—	—	—
Proceeds from issuance of capital stock	56	5,689	—	27
Repurchase/redemption of capital stock	(66)	(6,559)	(1)	(118)
Net shares reclassified to mandatorily redeemable capital stock	(34)	(3,498)	(1)	(102)
Comprehensive income (loss)				
Net income (loss)	—	—	—	—
Other comprehensive income (loss)				
Net unrealized gains/losses on available-for-sale securities				
Unrealized gains (losses)	—	—	—	—
Reclassification of realized net (gains) losses included in net income (loss)	—	—	—	—
Net unrealized gains/losses on held-to-maturity securities transferred from available-for-sale securities				
Reclassification of (gains) losses included in net income (loss)	—	—	—	—
Net non-credit portion of other-than-temporary impairment losses on available-for-sale securities				
Non-credit portion OTTI loss	—	—	—	—
Reclassification of non-credit portion from held-to-maturity securities to available-for-sale securities	—	—	—	—
Net change in fair value of OTTI securities	—	—	—	—
Reclassification of non-credit portion included in net income (loss)	—	—	—	—
Net non-credit portion of other-than-temporary impairment losses on held-to-maturity securities				
Non-credit portion OTTI loss	—	—	—	—
Reclassification of non-credit portion included in net income (loss)	—	—	—	—
Accretion of non-credit portion	—	—	—	—
Reclassification of non-credit portion from held-to-maturity securities to available-for-sale securities	—	—	—	—
Net unrealized gains/losses relating to hedging activities				
Unrealized gains (losses)	—	—	—	—
Reclassification of (gains) losses included in net income (loss)	—	—	—	—
Pension and postretirement benefits	—	—	—	—
Total other comprehensive income (loss)				
Total comprehensive income (loss)				
Transfer between Class B and Class A shares	1	132	(1)	(132)
Dividends on capital stock				
Cash	—	—	—	—
Stock	—	50	—	—
Balance, December 31, 2009	422	$ 42,227	4	$ 427

(1) Putable

Capital Stock[1]				Retained Earnings			Accumulated Other Comprehensive Income (Loss)	Total Capital
Pre-conversion		Total						
Shares	Par Value	Shares	Par Value	Unrestricted	Restricted	Total		
24	$ 2,386	496	$ 49,551	$ 2,760	$ 176	$ 2,936	$ (1,137)	$ 51,350
—	—	—	—	1,883	—	1,883	(1,883)	—
1	102	57	5,818	—	—	—	—	5,818
—	—	(67)	(6,677)	—	—	—	—	(6,677)
(2)	(160)	(37)	(3,760)	—	—	—	—	(3,760)
—	—	—	—	792	1,063	1,855	—	1,855
—	—	—	—	—	—	—	946	946
—	—	—	—	—	—	—	(83)	(83)
—	—	—	—	—	—	—	54	54
—	—	—	—	—	—	—	(254)	(254)
—	—	—	—	—	—	—	(3,250)	(3,250)
—	—	—	—	—	—	—	1,023	1,023
—	—	—	—	—	—	—	358	358
—	—	—	—	—	—	—	(10,220)	(10,220)
—	—	—	—	—	—	—	1,352	1,352
—	—	—	—	—	—	—	1,293	1,293
—	—	—	—	—	—	—	3,250	3,250
—	—	—	—	—	—	—	302	302
—	—	—	—	—	—	—	42	42
—	—	—	—	—	—	—	1	1
								(5,186)
								(3,331)
—	—	—	—	—	—	—	—	—
—	—	—	—	(591)	—	(591)	—	(591)
—	—	—	50	(50)	—	(50)	—	—
23	$ 2,328	449	$ 44,982	$ 4,794	$ 1,239	$ 6,033	$ (8,206)	$ 42,809

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

FEDERAL HOME LOAN BANKS
COMBINED STATEMENT OF CAPITAL (continued)
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	Capital Stock[1]			
	Class B		Class A	
(dollars and shares in millions)	Shares	Par Value	Shares	Par Value
Balance, December 31, 2009	422	$ 42,227	4	$ 427
Adjustment for cumulative effect of accounting change — fair value guidance for scope exception related to embedded credit derivative	—	—	—	—
Proceeds from issuance of capital stock	37	3,553	—	4
Repurchase/redemption of capital stock	(65)	(6,511)	—	—
Net shares reclassified to mandatorily redeemable capital stock	(3)	(215)	(1)	(129)
Comprehensive income (loss)				
Net income (loss)	—	—	—	—
Other comprehensive income (loss)				
Net unrealized gains/losses on available-for-sale securities				
Unrealized gains (losses)	—	—	—	—
Reclassification of realized net (gains) losses included in net income (loss)	—	—	—	—
Net unrealized gains/losses on held-to-maturity securities transferred from available-for-sale securities				
Reclassification of (gains) losses included in net income (loss)	—	—	—	—
Net non-credit portion of other-than-temporary impairment losses on available-for-sale securities				
Reclassification of non-credit portion from held-to-maturity securities to available-for-sale securities	—	—	—	—
Net change in fair value of OTTI securities	—	—	—	—
Unrealized gains (losses)	—	—	—	—
Reclassification of (gains) losses included in net income (loss)	—	—	—	—
Reclassification of non-credit portion included in net income (loss)	—	—	—	—
Net non-credit portion of other-than-temporary impairment losses on held-to-maturity securities				
Non-credit portion OTTI loss	—	—	—	—
Reclassification of non-credit portion included in net income (loss)	—	—	—	—
Accretion of non-credit portion	—	—	—	—
Reclassification of non-credit portion from held-to-maturity securities to available-for-sale securities	—	—	—	—
Net unrealized gains/losses relating to hedging activities				
Unrealized gains (losses)	—	—	—	—
Reclassification of (gains) losses included in net income (loss)	—	—	—	—
Pension and postretirement benefits	—	—	—	—
Total other comprehensive income (loss)				
Total comprehensive income (loss)				
Transfer between Class B and Class A shares	(4)	(417)	4	417
Dividends on capital stock				
Cash	—	—	—	—
Stock	—	46	—	—
Balance, December 31, 2010	387	$ 38,683	7	$ 719

(1) Putable

Capital Stock[1]				Retained Earnings			Accumulated Other Comprehensive Income (Loss)	Total Capital
Pre-conversion		Total						
Shares	Par Value	Shares	Par Value	Unrestricted	Restricted	Total		
23	$ 2,328	449	$ 44,982	$ 4,794	$ 1,239	$ 6,033	$ (8,206)	$ 42,809
—	—	—	—	25	—	25	—	25
1	70	38	3,627	—	—	—	—	3,627
—	—	(65)	(6,511)	—	—	—	—	(6,511)
(1)	(65)	(5)	(409)	—	—	—	—	(409)
—	—	—	—	1,711	370	2,081	—	2,081
—	—	—	—	—	—	—	394	394
—	—	—	—	—	—	—	(10)	(10)
—	—	—	—	—	—	—	14	14
—	—	—	—	—	—	—	(683)	(683)
—	—	—	—	—	—	—	1,190	1,190
—	—	—	—	—	—	—	21	21
—	—	—	—	—	—	—	(10)	(10)
—	—	—	—	—	—	—	358	358
—	—	—	—	—	—	—	(1,051)	(1,051)
—	—	—	—	—	—	—	639	639
—	—	—	—	—	—	—	1,437	1,437
—	—	—	—	—	—	—	683	683
—	—	—	—	—	—	—	(301)	(301)
—	—	—	—	—	—	—	(11)	(11)
—	—	—	—	—	—	—	(10)	(10)
								2,660
								4,741
—	—	—	—	—	—	—	—	—
—	—	—	—	(541)	—	(541)	—	(541)
—	—	—	46	(46)	—	(46)	—	—
23	$ 2,333	417	$ 41,735	$ 5,943	$ 1,609	$ 7,552	$ (5,546)	$ 43,741

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

FEDERAL HOME LOAN BANKS
COMBINED STATEMENT OF CAPITAL (continued)
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	Capital Stock[1]			
	Class B		Class A	
(dollars and shares in millions)	Shares	Par Value	Shares	Par Value
Balance, December 31, 2010	387	$ 38,683	7	$ 719
Proceeds from issuance of capital stock	47	4,785	—	7
Repurchase/redemption of capital stock	(77)	(7,628)	—	(34)
Net shares reclassified to mandatorily redeemable capital stock	(31)	(3,242)	(2)	(182)
Comprehensive income (loss)				
Net income (loss)	—	—	—	—
Other comprehensive income (loss)				
Net unrealized gains/losses on available-for-sale securities				
Unrealized gains (losses)	—	—	—	—
Reclassification of realized net (gains) losses included in net income (loss)	—	—	—	—
Net unrealized gains/losses on held-to-maturity securities transferred from available-for-sale securities				
Reclassification of (gains) losses included in net income (loss)	—	—	—	—
Net non-credit portion of other-than-temporary impairment losses on available-for-sale securities				
Non-credit portion OTTI loss	—	—	—	—
Reclassification of non-credit portion from held-to-maturity securities to available-for-sale securities	—	—	—	—
Net change in fair value of OTTI securities	—	—	—	—
Unrealized gains (losses)	—	—	—	—
Reclassification of (gains) losses included in net income (loss)	—	—	—	—
Reclassification of non-credit portion included in net income (loss)	—	—	—	—
Net non-credit portion of other-than-temporary impairment losses on held-to-maturity securities				
Non-credit portion OTTI loss	—	—	—	—
Reclassification of non-credit portion included in net income (loss)	—	—	—	—
Accretion of non-credit portion	—	—	—	—
Reclassification of non-credit portion from held-to-maturity securities to available-for-sale securities	—	—	—	—
Net unrealized gains/losses relating to hedging activities				
Unrealized gains (losses)	—	—	—	—
Reclassification of (gains) losses included in net income (loss)	—	—	—	—
Pension and postretirement benefits	—	—	—	—
Total other comprehensive income (loss)				
Total comprehensive income (loss)				
Transfer between Class B and Class A shares	(1)	(145)	1	145
Dividends on capital stock				
Cash	—	—	—	—
Stock	—	32	—	—
Balance, December 31, 2011	325	$ 32,485	6	$ 655

(1) Putable

Capital Stock[1]				Retained Earnings			Accumulated Other Comprehensive Income (Loss)	Total Capital
Pre-conversion		Total						
Shares	Par Value	Shares	Par Value	Unrestricted	Restricted	Total		
23	$ 2,333	417	$ 41,735	$ 5,943	$ 1,609	$ 7,552	$ (5,546)	$ 43,741
1	75	48	4,867	—	—	—	—	4,867
—	—	(77)	(7,662)	—	—	—	—	(7,662)
—	(6)	(33)	(3,430)	—	—	—	—	(3,430)
—	—	—	—	1,228	365	1,593	—	1,593
—	—	—	—	—	—	—	431	431
—	—	—	—	—	—	—	(13)	(13)
—	—	—	—	—	—	—	3	3
—	—	—	—	—	—	—	(4)	(4)
—	—	—	—	—	—	—	(2,772)	(2,772)
—	—	—	—	—	—	—	829	829
—	—	—	—	—	—	—	(184)	(184)
—	—	—	—	—	—	—	(11)	(11)
—	—	—	—	—	—	—	291	291
—	—	—	—	—	—	—	(330)	(330)
—	—	—	—	—	—	—	293	293
—	—	—	—	—	—	—	581	581
—	—	—	—	—	—	—	2,772	2,772
—	—	—	—	—	—	—	(572)	(572)
—	—	—	—	—	—	—	(45)	(45)
—	—	—	—	—	—	—	(21)	(21)
								1,248
								2,841
—	—	—	—	—	—	—	—	—
—	—	—	—	(536)	—	(536)	—	(536)
—	—	—	32	(32)	—	(32)	—	—
24	$ 2,402	355	$ 35,542	$ 6,603	$ 1,974	$ 8,577	$ (4,298)	$ 39,821

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

FEDERAL HOME LOAN BANKS
COMBINED STATEMENT OF CASH FLOWS

(dollars in millions)	Year Ended December 31, 2011	2010	2009
Operating activities			
Net income (loss)	$ 1,593	$ 2,081	$ 1,855
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	35	72	(1,500)
Change in net derivatives and hedging activities	1,048	1,949	723
Net other-than-temporary impairment losses	856	1,071	2,431
Other adjustments	(33)	(16)	49
Net change in fair value adjustments on trading securities	11	(68)	169
Net change in fair value adjustments on financial instruments held under fair value option	(6)	106	457
Net change in			
Trading securities	151	149	(780)
Accrued interest receivable	288	501	1,746
Other assets	(27)	(48)	(85)
Accrued interest payable	(720)	(1,329)	(2,526)
Other liabilities(1)	(80)	85	174
Total adjustments	1,523	2,472	858
Net cash provided by (used in) operating activities	3,116	4,553	2,713
Investing activities			
Net change in			
Interest-bearing deposits	(3,525)	(11)	53,809
Securities purchased under agreements to resell	3,725	(9,225)	(280)
Federal funds sold	34,716	(21,258)	(14,299)
Premises, software and equipment	(54)	(54)	(70)
Trading securities			
Net decrease (increase) in short-term	11,407	(6,237)	(7,343)
Proceeds from long-term	6,068	3,488	3,697
Purchases of long-term	(8,057)	(2,946)	(5,602)
Available-for-sale securities			
Net decrease (increase) in short-term	1,618	3,480	(6,758)
Proceeds from long-term	11,782	6,997	6,105
Purchases of long-term	(9,874)	(25,125)	(30,137)
Held-to-maturity securities			
Net decrease (increase) in short-term	6,721	(2,713)	5,275
Proceeds from long-term	31,128	42,463	39,439
Purchases of long-term	(26,970)	(33,393)	(22,427)
Advances			
Principal collected	1,561,619	1,556,077	3,331,163
Made	(1,500,874)	(1,404,056)	(3,046,597)
Mortgage loans held for portfolio			
Principal collected	13,193	16,417	21,415
Purchases	(6,900)	(6,504)	(7,996)
Mortgage loans held for sale			
Proceeds	1,468	—	2,124
Principal collected	—	—	128
Proceeds from sales of foreclosed assets	140	154	75
Principal collected on other loans	2	2	2
Net cash provided by (used in) investing activities	127,333	117,556	321,723

FEDERAL HOME LOAN BANKS
COMBINED STATEMENT OF CASH FLOWS (continued)

(dollars in millions)	Year Ended December 31, 2011	2010	2009
Financing activities			
Net change in			
Deposits and pass-through reserves	$ (2,248)	$ (2,573)	$ (137)
Borrowings	(773)	4	(409)
Net proceeds (payments) on derivative contracts with financing element	(936)	(1,742)	(1,607)
Net proceeds from issuance of consolidated obligations			
Discount notes	4,142,368	6,754,406	7,200,128
Bonds	409,216	533,165	506,688
Payments for maturing and retiring consolidated obligations			
Discount notes	(4,146,626)	(6,758,372)	(7,440,075)
Bonds	(509,255)	(662,620)	(582,306)
Proceeds from issuance of capital stock	4,867	3,627	5,818
Payments for repurchase/redemption of mandatorily redeemable capital stock	(2,483)	(1,481)	(1,758)
Payments for repurchase/redemption of capital stock	(7,662)	(6,511)	(6,677)
Cash dividends paid	(536)	(541)	(591)
Net cash provided by (used in) financing activities	(114,068)	(142,638)	(320,926)
Net increase (decrease) in cash and due from banks	16,381	(20,529)	3,510
Cash and due from banks at beginning of the period	3,801	24,330	20,820
Cash and due from banks at end of the period	$ 20,182	$ 3,801	$ 24,330
Supplemental disclosures			
Interest paid	$ 8,752	$ 11,254	$ 19,593
AHP payments, net	$ 243	$ 249	$ 277
REFCORP assessments, net	$ 252	$ 411	$ 406
Transfers of mortgage loans to real estate owned	$ 166	$ 213	$ 160
Transfers of mortgage loans held for portfolio to mortgage loans held for sale	$ 1,324	$ 121	$ 2,414
Transfers of mortgage loans held for sale to mortgage loans held for portfolio	$ —	$ —	$ 163
Transfers of other-than-temporarily impaired held-to-maturity securities to available-for-sale securities	$ 8,578	$ 2,902	$ 5,341
Transfers from held-to-maturity securities to trading securities	$ —	$ 390	$ —

(1) Other liabilities includes the net change in the REFCORP receivable/payable.

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

NOTES TO COMBINED FINANCIAL STATEMENTS

Background Information

These financial statements present the combined financial position and combined results of operations of the 12 Federal Home Loan Banks (FHLBanks). The FHLBanks serve the public by enhancing the availability of credit for residential mortgages and targeted community development. They are financial cooperatives that provide a readily available, competitively-priced source of funds to their member institutions. All members must purchase stock in their district's FHLBank. Member institutions own substantially all of the capital stock of each FHLBank. Former members (including certain non-members that own FHLBank capital stock as a result of merger or acquisition of an FHLBank member) own the remaining capital stock to support business transactions still carried on an FHLBank's statement of condition. All holders of an FHLBank's capital stock may, to the extent declared by that FHLBank's board of directors, receive dividends on their capital stock. Regulated financial depositories and insurance companies engaged in residential housing finance may apply for membership. Additionally, qualified Community Development Financial Institutions are eligible to be members of an FHLBank. State and local housing authorities that meet certain statutory and regulatory criteria may also borrow from the FHLBanks; while eligible to borrow, housing associates are not members of the FHLBanks and, as such, are not allowed to hold capital stock.

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 Federal Housing Finance Agency (FHFA) was established and became the independent Federal regulator (the Regulator) of the FHLBanks, Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae), effective July 30, 2008 with the passage of the Housing and Economic Recovery Act of 2008 (the Housing Act). Pursuant to the Housing Act, all regulations, orders, determinations, and resolutions that were issued, made, prescribed, or allowed to become effective by the former Federal Housing Finance Board will remain in effect until modified, terminated, set aside, or superseded by the Director of the FHFA, any court of competent jurisdiction, or operation of law. The FHFA's stated mission with respect to the FHLBanks is to provide effective supervision, regulation and housing mission oversight of the FHLBanks to promote their safety and soundness, support housing finance and affordable housing, and support a stable and liquid mortgage market.

The Office of Finance is a joint office of the FHLBanks established to facilitate the issuance and servicing of the debt instruments of the FHLBanks, known as consolidated obligation bonds (consolidated bonds) and consolidated obligation discount notes (consolidated discount notes), and to prepare the combined quarterly and annual financial reports of the 12 FHLBanks. As provided by the Federal Home Loan Bank Act of 1932, as amended (FHLBank Act), and applicable regulations, consolidated bonds and consolidated discount notes (collectively referred to as consolidated obligations) are backed only by the financial resources of the 12 FHLBanks. Consolidated obligations are the primary source of funds for the FHLBanks in addition to deposits, other borrowings and capital stock issued to members. Each FHLBank primarily uses these funds to provide advances to members. Certain FHLBanks also use these funds to acquire mortgage loans from members (acquired member assets) through their respective FHLBank's Mortgage Purchase Program (MPP) or the Mortgage Partnership Finance® (MPF) Program. "Mortgage Partnership Finance," "MPF," “MPF Shared Funding,” “eMPF” and “MPF Xtra” are registered trademarks of the FHLBank of Chicago. In addition, some FHLBanks offer their member institutions correspondent services, such as wire transfer, security safekeeping, and settlement services.

Note 1—Summary of Significant Accounting Policies

Basis of Presentation

These combined financial statements include the financial statements and records of the 12 FHLBanks that are prepared in accordance with generally accepted accounting principles in the United States of America (GAAP).

Principles of Combination. Transactions among the FHLBanks have been eliminated in accordance with combination accounting principles similar to consolidation under GAAP. The most significant transactions between the FHLBanks are:

1. *Transfers of Direct Liability on Consolidated Bonds between FHLBanks.* These transfers occur when consolidated bonds issued on behalf of one FHLBank are transferred to and assumed by another FHLBank. The transferring FHLBank treats the transfer as a debt extinguishment because it is released from being the primary obligor when the Office of Finance records the transfer, pursuant to its duties under applicable regulations. The assuming FHLBank then becomes the

primary obligor while the transferring FHLBank has a contingent liability because it still has joint and several liability with respect to repaying the transferred consolidated bonds.

The FHLBank assuming the consolidated bond liability initially records the consolidated bond at fair value, which represents the amount paid to the assuming FHLBank by the transferring FHLBank to assume the debt. A premium or discount exists for the amount paid above or below par. Because these transfers represent inter-company transfers under combination accounting principles, an inter-company elimination is made for any gain or loss on transfer. As a result, the subsequent amortization of premium or discount, amortization of concession fees and recognition of hedging-related adjustments represent those of the transferring FHLBank in the combined financial statements.

2. *Purchases of Consolidated Bonds.* These purchases occur when consolidated bonds issued on behalf of one FHLBank are purchased by another FHLBank in the open market. All purchase transactions occur at market prices with third parties and the purchasing FHLBanks treat these consolidated bonds as investments. Under combination accounting principles, the investment and the consolidated bonds and related contractual interest income and expense are eliminated in combination.

No other transactions among the FHLBanks had a material effect on operating results. (See the *Condensed Combining Schedules* for the combining adjustments made to the combined financial statements.)

Segment Reporting. FHFA regulations consider each FHLBank to be a segment. However, because there is no centralized, system-wide management or centralized board of director oversight of the individual FHLBanks, there is no single chief operating decision maker. (See the *Condensed Combining Schedules* for segment information.)

Reclassifications and Revisions to Prior Period Amounts. The Combined Statement of Condition as of December 31, 2010 reflects a reclassification of $1,609 million from retained earnings to restricted retained earnings related to a change in presentation that is consistent with the FHLBank of San Francisco's restricted retained earnings as of December 31, 2010. (See *Note 19—Capital* - *Restricted Retained Earnings* for additional information.)

Certain other amounts in the 2010 and 2009 combined financial statements have been reclassified to conform to the financial statement presentation as of and for the year ended December 31, 2011. Additionally, certain prior period amounts have been revised and may not agree to the Federal Home Loan Banks Combined Financial Report for the year ended December 31, 2010. These amounts were not deemed to be material.

Subsequent Events. For purposes of this Combined Financial Report, subsequent events have been evaluated from January 1, 2012 through the time of publication. (See *Note 23—Subsequent Events* for more information.)

Significant Accounting Policies

The following summary of significant accounting policies has been compiled from the 12 FHLBanks' individual summaries of significant accounting policies. While the 12 FHLBanks' accounting and financial reporting policies are not necessarily always identical, each FHLBank is responsible for establishing its own accounting and financial reporting policies in accordance with GAAP. The following paragraphs describe the more significant accounting policies followed by the FHLBanks, including the more notable alternatives acceptable under GAAP.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires each FHLBank's management to make subjective assumptions and estimates that may 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 include the determination of other-than-temporary impairments of securities and fair value of derivatives, certain advances, certain investment securities and certain consolidated obligations that are reported at fair value in the Combined Statement of Condition. Actual results could differ from these estimates significantly.

Fair Value. The fair value amounts, recorded on the Combined Statement of Condition and presented in the note disclosures, have been determined by the FHLBanks using available market information and each FHLBank's best judgment of appropriate valuation methods. These estimates are based on pertinent information available to the FHLBanks at December 31, 2011 and 2010. Although an FHLBank uses its best judgment in estimating the fair value of these financial

instruments, there are inherent limitations in any valuation technique. Therefore, these fair values may not be indicative of the amounts that would have been realized in market transactions at the reporting dates. (See *Note 21—Fair Value* for more information.)

Interest-Bearing Deposits, Securities Purchased under Agreements to Resell, and Federal Funds Sold

These investments provide short-term liquidity and are carried at cost. Interest-bearing deposits include certificates of deposit and bank notes not meeting the definition of a security. The FHLBanks treat securities purchased under agreements to resell as collateralized financings.

Investment Securities

The FHLBanks classify investment securities as trading, available-for-sale (AFS) and held-to-maturity (HTM) at the date of acquisition. Purchases and sales of securities are recorded on a trade date basis.

Trading. Securities classified as trading are held for liquidity purposes and carried at fair value. The FHLBanks record changes in the fair value of these investments through non-interest income as net gains (losses) on trading securities. FHFA regulation and each FHLBank's risk management policy prohibit trading in or the speculative use of these instruments and limit credit risk arising from these instruments.

Available-for-Sale. Securities that are not classified as HTM or trading are classified as AFS and are carried at fair value. The FHLBanks record changes in the fair value of these securities in accumulated other comprehensive income (loss) (AOCI) as net unrealized gains (losses) on available-for-sale securities. For AFS 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 non-interest income as net gains (losses) on derivatives and hedging activities together with the related change in the fair value of the derivative, and record the remainder of the change in the fair value of the investment in AOCI as net unrealized gains (losses) on available-for-sale securities. For AFS that have been hedged and qualify as a cash flow hedge, the FHLBanks record the effective portion of the change in value of the derivative related to the risk being hedged in AOCI as net unrealized gains (losses) relating to hedging activities. The ineffective portion is recorded in non-interest income and presented as net gains (losses) on derivatives and hedging activities.

Held-to-Maturity. Securities that the FHLBanks have both the ability and intent to hold to maturity are classified as HTM and are carried at amortized cost, adjusted for periodic principal repayments, amortization of premiums and accretion of discounts, previous other-than-temporary impairment (OTTI) recognized in net income, and accretion of the non-credit portion of OTTI recognized in AOCI.

Certain changes in circumstances may cause an FHLBank to change its intent to hold a security to maturity without calling into question its intent to hold other debt securities to maturity in the future. Thus, the sale or transfer of an HTM security due to certain changes in circumstances, such as evidence of significant deterioration in the issuer's creditworthiness or changes in regulatory requirements, is not considered to be inconsistent with its original classification. Other events that are isolated, nonrecurring, and unusual for the FHLBanks that could not have been reasonably anticipated may cause an FHLBank to sell or transfer an HTM security without necessarily calling into question its intent to hold other debt securities to maturity. In addition, sale of a debt security that meets either of the following two conditions would not be considered inconsistent with the original classification of that security:

1. the sale occurs near enough to its maturity date (or call date if exercise of the call is probable) that interest-rate risk is substantially eliminated as a pricing factor and the changes in market interest rates would not have a significant effect on the security's fair value, or

2. the sale of a security occurs after the FHLBank has already collected a substantial portion (at least 85 percent) of the principal outstanding at acquisition due either to prepayments on the debt security or to scheduled payments on a debt security payable in equal installments (both principal and interest) over its term.

Premiums and Discounts. The FHLBanks amortize purchased premiums and accrete purchased discounts on investment securities using either the contractual level-yield (contractual interest method) or the retrospective level-yield (retrospective interest method) over the estimated cash flows of the securities. The contractual interest method recognizes the income effects of premiums and discounts over the contractual life of the securities based on the actual behavior of the underlying

assets, including adjustments for actual prepayment activities, and reflects the contractual terms of the securities without regard to changes in estimated prepayments based on assumptions about future borrower behavior. The retrospective interest method requires that an FHLBank estimate prepayments over the estimated life of the securities and make a retrospective adjustment of the effective yield each time that it changes the estimated life as if the new estimate had been known since the original acquisition date of the securities.

Gains and Losses on Sales. Each FHLBank computes gains and losses on sales of its investment securities using the specific identification method and includes these gains and losses in non-interest income (loss).

Investment Securities Other-than-Temporary Impairment

Each FHLBank evaluates its individual AFS and HTM securities in unrealized loss positions for OTTI on at least a quarterly basis. A security is considered impaired when its fair value is less than its amortized cost basis. An FHLBank considers an OTTI to have occurred under any of the following conditions:

- It has an intent to sell the impaired debt security;
- If, based on available evidence, it believes it is more likely than not that it will be required to sell the impaired debt security before the recovery of its amortized cost basis; or
- It does not expect to recover the entire amortized cost basis of the impaired debt security.

Recognition of OTTI. If either of these first two conditions is met, an FHLBank recognizes an OTTI charge in earnings equal to the entire difference between the security's amortized cost basis and its fair value as of the statement of condition date. For securities in an unrealized loss position that do not meet either of these conditions, the entire loss position, or total OTTI, is evaluated to determine the extent and amount of credit loss.

To determine whether a credit loss exists, each FHLBank performs an analysis, which includes a cash flow test for private-label MBS, to determine if it will recover the entire amortized cost basis of each of these securities. The present value of the cash flows expected to be collected is compared to the amortized cost basis of the debt security. If there is a credit loss (the difference between the present value of the cash flows expected to be collected and the amortized cost basis of the debt security), the carrying value of the debt security is adjusted to its fair value. However, rather than recognizing the entire difference between the amortized cost basis and fair value in earnings, only the amount of the impairment representing the credit loss (i.e., the credit component) is recognized in earnings, while the amount related to all other factors (i.e., the non-credit component) is recognized in AOCI, which is a component of capital. The credit loss on a debt security is limited to the amount of that security's unrealized losses.

The total OTTI is presented in the statement of income with an offset for the amount of the non-credit portion of OTTI that is recognized in AOCI. The remaining amount in the statement of income represents the credit loss for the period.

Accounting for OTTI Recognized in AOCI. For subsequent accounting of an other-than-temporarily impaired security, an FHLBank records an additional OTTI if the present value of cash flows expected to be collected is less than the amortized cost of the security. The total amount of this additional OTTI (both credit and non-credit component, if any) is determined as the difference between the security's amortized cost less the amount of OTTI recognized in AOCI prior to the determination of this additional OTTI and its fair value. Any additional credit loss is limited to that security's unrealized losses, or the difference between the security's amortized cost and its fair value as of the statement of condition date. This additional credit loss, up to the amount in AOCI related to the security, is reclassified out of AOCI and charged to earnings. Any credit loss in excess of the related AOCI is charged to earnings.

Subsequent related increases and decreases (if not an additional OTTI) in the fair value of AFS securities will be netted against the non-credit component of OTTI recognized previously in AOCI. For HTM securities, if the current carrying value is less than its current fair value, the carrying value of the security is not increased. However, the OTTI recognized in AOCI for HTM securities is accreted to the carrying value of each security on a prospective basis, based on the amount and timing of future estimated cash flows (with no effect on earnings unless the security is subsequently sold or there are additional decreases in cash flows expected to be collected). For debt securities classified as AFS, the FHLBanks do not accrete the OTTI recognized in AOCI to the carrying value because the subsequent measurement basis for these securities is fair value.

Interest Income Recognition. When a security has been other-than-temporarily impaired, a new accretable yield is calculated for that security at its impairment measurement date. This adjusted yield is used to calculate the interest income recognized over the remaining life of that security, matching the amount and timing of its estimated future collectible cash flows. Subsequent to that security's initial OTTI, an FHLBank re-evaluates estimated future collectible cash flows on a quarterly basis. If the security has no additional OTTI based on this evaluation, the accretable yield is reassessed for possible adjustment on a prospective basis. Depending on an FHLBank's accounting method, the accretable yield is adjusted if there is either: (1) a significant increase in the security's expected cash flows or (2) a favorable change in the timing and amount of the security's expected cash flows.

Change in Accounting Principle. The FHLBanks adopted the current accounting guidance for OTTI as of January 1, 2009, and recognized the effects of adoption as a change in accounting principle. The FHLBanks recognized the $1,883 million cumulative effect of initial application of the guidance as an adjustment to their retained earnings at January 1, 2009, with an offsetting adjustment to AOCI.

Variable Interest Entities

Certain FHLBanks have investments in variable interest entities (VIEs) that include, but are not limited to, senior interests in private-label mortgage-backed securities (MBS) and asset-backed securities (ABS). The carrying amounts and classification of the assets that relate to the FHLBanks' investments in VIEs are included in investment securities on the Combined Statement of Condition. The affected FHLBanks have no liabilities related to these VIEs. The maximum loss exposure for these VIEs is limited to the carrying value of the FHLBanks' investments in the VIEs.

If an FHLBank determines it is the primary beneficiary of a VIE, it would be required to consolidate that VIE. On an ongoing basis, each affected FHLBank performs a quarterly evaluation to determine whether it is the primary beneficiary in any VIE. To perform this evaluation, an FHLBank considers whether it possesses both of the following characteristics:

- the power to direct the VIE's activities that most significantly affect the VIE's economic performance; and
- the obligation to absorb the VIE's losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Based on an evaluation of these characteristics, each affected FHLBank has determined that consolidation is not required for its VIEs as of December 31, 2011. In addition, each of these FHLBanks has not provided financial or other support (explicitly or implicitly) for the year ended December 31, 2011. Furthermore, each affected FHLBank was not previously contractually required to provide, nor does it intend to provide, such support in the future.

Advances

The FHLBanks report advances (secured loans to members, former members or housing associates) either at amortized cost or fair value when the fair value option is elected. Advances carried at amortized cost are reported net of premiums, discounts (including discounts related to the Affordable Housing Program (AHP)), unearned commitment fees and hedging adjustments. The FHLBanks amortize/accrete premiums and discounts, and recognize unearned commitment fees and hedging adjustments, to interest income using a level-yield methodology. The FHLBanks record interest on advances to interest income as earned. For advances carried at fair value, interest income is recognized based on the contractual interest rate.

Advance Modifications. In cases in which the FHLBanks fund a new advance concurrent with or within a short period of time before or after the prepayment of an existing advance, the FHLBanks evaluate whether the new advance meets the accounting criteria to qualify as a modification of an existing advance or whether it constitutes a new advance. The FHLBanks compare the present value of cash flows on the new advance to the present value of cash flows remaining on the existing advance. If there is at least a 10 percent difference in the cash flows or if the FHLBanks conclude the difference between the advances is more than minor based on a qualitative assessment of the modifications made to the advance's original contractual terms, then the advance is accounted for as a new advance. In all other instances, the new advance is accounted for as a modification.

Prepayment Fees. The FHLBanks charge a borrower a prepayment fee when the borrower prepays certain advances before the original maturity. The FHLBanks record prepayment fees net of basis adjustments related to hedging activities included in the book basis of the advance as prepayment fees on advances, net in the interest income section of the Combined Statement of Income.

If a new advance does not qualify as a modification of an existing advance, it is treated as an advance termination and any prepayment fee, net of hedging adjustments, is recorded to prepayment fees on advances, net in the interest income section of the Combined Statement of Income.

If a new advance qualifies as a modification of an existing advance, any prepayment fee, net of hedging adjustments, is deferred, recorded in the basis of the modified advance, and amortized using a level-yield methodology over the life of the modified advance to advance interest income. If the modified advance is hedged and meets hedge accounting requirements, the modified advance is marked to benchmark or full fair value, depending on the risk being hedged, and subsequent fair value changes that are attributable to the hedged risk are recorded in non-interest income.

Mortgage Loans Held for Portfolio

Each FHLBank classifies mortgage loans that it has the intent and ability to hold for the foreseeable future or until maturity or payoff as held for portfolio. Accordingly, these mortgage loans are reported net of premiums, discounts, deferred loan fees or costs, hedging adjustments, and the allowance for credit losses.

Premiums and Discounts. The FHLBanks defer and amortize/accrete premiums and discounts paid to and received by an FHLBank's participating financial institution members (PFIs), deferred loan fees or costs, and hedging basis adjustments to interest income using either the contractual interest method or the retrospective interest method. In determining prepayment estimates for the retrospective interest method, mortgage loans are aggregated by similar characteristics (type, maturity, note rate and acquisition date).

Credit Enhancement Fees. For conventional mortgage loans, PFIs retain a portion of the credit risk on the loans they sell to the FHLBanks by providing credit enhancement either through a direct liability to pay credit losses up to a specified amount or through a contractual obligation to provide supplemental mortgage insurance (SMI). PFIs are paid a credit enhancement fee (CE Fee) for assuming credit risk and in some instances all or a portion of the CE Fee may be performance-based. CE Fees are paid monthly based on the remaining unpaid principal balance of the loans in a master commitment. CE Fees are recorded as an offset to mortgage loan interest income. To the extent the FHLBanks experience losses in a master commitment, they may be able to recapture CE fees paid to the PFIs to offset these losses.

Other Fees. The FHLBanks may receive other non-origination fees, such as delivery commitment extension fees, pair-off fees, and price adjustment fees. Delivery commitment extension fees are received when a PFI requests to extend the delivery commitment period beyond the original stated maturity. These fees compensate the FHLBanks for lost interest as a result of late funding and are recorded in non-interest income as received. Pair-off fees represent a make-whole provision and are received when the amount funded is less than a specific percentage of the delivery commitment amount and are recorded in non-interest income. Price adjustment fees are received when the amount funded is greater than a specified percentage of the delivery commitment amount and represent purchase price adjustments to the related loans acquired and are recorded as a part of the loan basis.

Allowance for Credit Losses

Establishing Allowance for Credit Loss. An allowance for credit losses is a valuation allowance separately established for each identified portfolio segment, if it is probable that impairment has occurred in an FHLBank's portfolio as of the statement of condition date and the amount of loss can be reasonably estimated. To the extent necessary, an allowance for credit losses for off-balance sheet credit exposures is recorded as a liability. (See *Note 11—Allowance for Credit Losses* for details on each allowance methodology.)

Portfolio Segments. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. Each of the FHLBanks has developed and documented a systematic methodology for determining an allowance for credit losses, where applicable, for:

- credit products (advances, letters of credit and other extensions of credit to borrowers);
- government-guaranteed or -insured mortgage loans held for portfolio;
- conventional MPF Loans held for portfolio, conventional MPP Loans held for portfolio, and other loans;
- term securities purchased under agreements to resell; and
- term Federal funds sold.

Classes of Financing Receivables. Classes of financing receivables generally are a disaggregation of a portfolio segment to the extent that it is needed to understand the exposure to credit risk arising from these financing receivables. The FHLBanks determined that no further disaggregation of the portfolio segments is needed as the credit risk arising from these financing receivables is assessed and measured by each FHLBank at the portfolio segment level.

Non-accrual Loans. The FHLBanks place a conventional mortgage loan on non-accrual status if it is determined that either (1) the collection of interest or principal is doubtful or (2) interest or principal is past due for 90 days or more, except when the loan is well-secured (e.g., through credit enhancements) and in the process of collection. As such, FHLBanks do not place conventional mortgage loans over 90 days delinquent on non-accrual status when losses are not expected to be incurred. The FHLBanks do not place government-guaranteed or -insured mortgage loans on non-accrual status due to the U.S. government guarantee or insurance on these loans and the contractual obligation of the loan servicer to repurchase the loans when certain criteria are met. For those mortgage loans placed on non-accrual status, accrued but uncollected interest is reversed against interest income. The FHLBanks record cash payments received first as interest income and then as a reduction of principal as specified in the contractual agreement, unless the collection of the remaining principal amount due is considered doubtful. If the collection of the remaining principal amount due is considered doubtful then cash payments received would be applied first solely to principal until the remaining principal amount due is expected to be collected and then as a recovery of any charge-off, if applicable, followed by recording interest income. A loan on non-accrual status may be restored to accrual when (1) none of its contractual principal and interest is due and unpaid, and an FHLBank expects repayment of the remaining contractual interest and principal or (2) it otherwise becomes well secured and in the process of collection.

Impairment Methodology. A loan is considered impaired when, based on current information and events, it is probable that an FHLBank will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Loans that are on non-accrual status and that are considered collateral-dependent are measured for impairment based on the fair value of the underlying property less estimated selling costs. Loans are considered collateral-dependent if repayment is expected to be provided solely by the sale of the underlying property; that is, there is no other available and reliable source of repayment. Collateral-dependent loans are impaired if the fair value of the underlying collateral is insufficient to recover the unpaid principal balance on the loan. Interest income on impaired loans is recognized in the same manner as non-accrual loans.

Charge-off Policy. The FHLBanks evaluate whether to record a charge-off on a conventional mortgage loan upon the occurrence of a confirming event. Confirming events include, but are not limited to, the occurrence of foreclosure or notification of a claim against any of the credit enhancements. A charge-off is recorded if it is estimated that the recorded investment in that loan will not be recovered.

Real Estate Owned

Real estate owned (REO) includes assets that have been received in satisfaction of debt through foreclosures. REO is initially recorded at fair value less estimated selling costs and is subsequently carried at the lower of that amount or current fair value less estimated selling costs. The FHLBanks recognize a charge-off to the allowance for credit losses if the fair value of the REO less estimated selling costs is less than the recorded investment in the loan at the date of transfer from loans to REO. Any subsequent realized gains, realized or unrealized losses and carrying costs are included in non-interest expense in the Combined Statement of Income. REO is recorded in other assets in the Combined Statement of Condition.

Derivatives

All derivatives are recognized on the Combined Statement of Condition at their fair values and are reported as either derivative assets or derivative liabilities, net of cash collateral and accrued interest from counterparties. Cash flows associated with derivatives are reflected as cash flows from operating activities in the Combined Statement of Cash Flows unless the derivative meets the criteria to be a financing derivative.

Derivative Designations. Each derivative is designated as one of the following:

1. a qualifying hedge of the change in fair value of a recognized asset or liability or an unrecognized firm commitment (a fair value hedge);

2. a qualifying hedge of a forecasted transaction or the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a cash flow hedge);

3. a non-qualifying hedge (economic hedge) for asset-liability management purposes; or

4. a non-qualifying hedge of another derivative (an intermediation hedge) that is offered as a product to members or used to offset other derivatives with non-member counterparties.

Accounting for Fair Value or Cash Flow Hedges. If hedging relationships meet certain criteria, including, but not limited to, formal documentation of the hedging relationship and an expectation to be highly effective, they qualify for fair value or cash flow hedge accounting and the offsetting changes in fair value of the hedged items may be recorded either in earnings (fair value hedges) or AOCI (cash flow hedges). Two approaches to hedge accounting include:

1. *Long-haul hedge accounting.* The application of long-haul hedge accounting requires an FHLBank to formally assess (both at the hedge's inception and at least quarterly) 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 or forecasted transactions and whether those derivatives may be expected to remain effective in future periods.

2. *Short-cut hedge accounting*. Transactions that meet certain criteria qualify for the short-cut method of hedge accounting in which an assumption can be made that the change in fair value of a hedged item, due to changes in the benchmark rate, exactly offsets the change in fair value of the related derivative. Under the short-cut method, the entire change in fair value of the interest-rate swap is considered to be effective at achieving offsetting changes in fair values or cash flows of the hedged asset or liability.

Derivatives are typically executed at the same time as the hedged item, and each FHLBank designates the hedged item in a qualifying hedge relationship at the trade date. In many hedging relationships, an FHLBank may designate the hedging relationship upon its commitment to disburse an advance or trade a consolidated obligation in which settlement occurs within the shortest period of time possible for the type of instrument based on market settlement conventions. An FHLBank then records the changes in fair value of the derivative and the hedged item beginning on the trade date.

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, are recorded in non-interest income as net gains (losses) on derivatives and hedging activities.

Changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in AOCI, a component of capital, until earnings are affected by the variability of the cash flows of the hedged transaction.

For both fair value and cash flow hedges, any hedge ineffectiveness (which represents the amount by which the change in the fair value of the derivative differs from the change in the fair value of the hedged item or the variability in the cash flows of the forecasted transaction) is recorded in non-interest income as net gains (losses) on derivatives and hedging activities.

Accounting for Economic Hedges or Intermediary Activities. An economic hedge is defined as a derivative hedging specific or non-specific underlying assets, liabilities, or firm commitments that does not qualify or was not designated for fair value or cash flow hedge accounting, but is an acceptable hedging strategy under an FHLBank's risk management program. These economic hedging strategies also comply with FHFA regulatory requirements prohibiting speculative hedge transactions. An economic hedge by definition introduces the potential for earnings variability caused by the changes in fair value of the derivatives that are recorded in an FHLBank's income but that are not offset by corresponding changes in the value of the economically hedged assets, liabilities, or firm commitments. As a result, an FHLBank recognizes only the net interest and the change in fair value of these derivatives in non-interest income as net gains (losses) on derivatives and hedging activities with no offsetting fair value adjustments for the assets, liabilities, or firm commitments.

The derivatives used in intermediary activities do not qualify for hedge accounting treatment and are separately marked-to-market through earnings. The net result of the accounting for these derivatives does not significantly affect the operating results of the FHLBanks. These amounts are recorded in non-interest income as net gains (losses) on derivatives and hedging activities.

Accrued Interest Receivables and Payables. The net settlements of interest receivables and payables related to derivatives designated in fair value or cash flow hedge relationships are recognized as adjustments to the income or expense of the designated hedged item. The net settlements of interest receivables and payables related to intermediated derivatives for members and other economic hedges are recognized in non-interest income as net gains (losses) on derivatives and hedging activities.

Discontinuance of Hedge Accounting. An FHLBank discontinues hedge accounting prospectively when:

- it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions);
- the derivative and/or the hedged item expires or is sold, terminated, or exercised;
- it is no longer probable that the forecasted transaction will occur in the originally expected period;
- a hedged firm commitment no longer meets the definition of a firm commitment; or
- management determines that designating the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued, an FHLBank either terminates the derivative or continues to carry the derivative on the statement of condition at its fair value, ceases to adjust the hedged asset or liability for changes in fair value, and amortizes the cumulative basis adjustment on the hedged item into earnings over the remaining life of the hedged item using a level-yield methodology.

When hedge accounting is discontinued because an FHLBank determines that the derivative no longer qualifies as an effective cash flow hedge of an existing hedged item, that FHLBank continues to carry the derivative on the statement of condition at its fair value and reclassifies the cumulative other comprehensive income adjustment into earnings when earnings are affected by the existing hedge item (i.e., the original forecasted transaction).

Under limited circumstances, when an FHLBank discontinues cash flow hedge accounting because it is no longer probable that the forecasted transaction will occur by the end of the originally specified time period, or within the following two months, but it is probable the transaction will still occur in the future, the gain or loss on the derivative remains in AOCI and is recognized as earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within the following two months, the gains and losses that were AOCI are recognized immediately in earnings.

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, an FHLBank continues to carry the derivative on the statement of condition at its fair value, removing from the statement of condition any asset or liability that was recorded to recognize the firm commitment and recording it as a gain or loss in current-period earnings.

Embedded Derivatives. The FHLBanks issue debt, make advances, or purchase financial instruments in which a derivative instrument is “embedded.” Upon execution of these transactions, an FHLBank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the advance, debt or purchased financial instrument (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. The embedded derivative is separated from the host contract, carried at fair value, and designated as a stand-alone derivative instrument pursuant to an economic hedge when an FHLBank determines that (1) the embedded derivative has economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument. However, if the entire contract (the host contract and the embedded derivative) is to be measured at fair value, with changes in fair value reported in current-period earnings (such as an investment security classified as “trading” as well as hybrid financial instruments that are eligible for the fair value option), or if the FHLBank cannot reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract is carried at fair value and no portion of the contract is designated as a hedging instrument.

Premises, Software and Equipment

The FHLBanks record premises, software and equipment at cost less accumulated depreciation and amortization and compute depreciation using the straight-line method over the estimated useful lives of assets, which range from one to 40 years. The FHLBanks amortize leasehold improvements using the straight-line method over the shorter of the estimated useful

life of the improvement or the remaining term of the lease. The FHLBanks may capitalize improvements and major renewals but expense ordinary maintenance and repairs when incurred. The FHLBanks include gains and losses on the disposal of premises, software and equipment in non-interest income (loss).

The cost of computer software developed or obtained for internal use is capitalized and amortized over future periods. At December 31, 2011 and 2010, the FHLBanks had $109 million and $110 million in unamortized computer software costs. Amortization of computer software costs charged to expense was $34 million, $36 million and $41 million for the years ended December 31, 2011, 2010 and 2009.

Accumulated Depreciation and Amortization. At December 31, 2011 and 2010, the accumulated depreciation and amortization related to premises, software and equipment was $469 million and $445 million.

Depreciation and Amortization Expense. For the years ended December 31, 2011, 2010 and 2009, the depreciation and amortization expense for premises, software and equipment was $62 million, $62 million and $60 million.

Consolidated Obligations

Consolidated obligations are recorded at amortized cost unless an FHLBank has elected the fair value option, in which case, the consolidated obligations are carried at fair value.

Discounts and Premiums. The FHLBanks accrete/amortize discounts and premiums as well as hedging basis adjustments on consolidated obligations to interest expense using the interest method over the term to maturity or the estimated life of the corresponding consolidated obligation.

Concessions. The FHLBanks pay concessions to dealers in connection with the issuance of certain consolidated obligations. The Office of Finance prorates the amount of the concession to each FHLBank based upon the percentage of the debt issued that is assumed by that FHLBank. Concessions paid on consolidated obligations designated under the fair value option are expensed as incurred in non-interest expense. Concessions paid on consolidated obligations not designated under the fair value option are deferred and amortized, using the interest method, over the term to maturity or the estimated life of the corresponding consolidated obligation. Unamortized concessions are included in other assets and the amortization of such concessions is included in consolidated obligation interest expense.

Mandatorily Redeemable Capital Stock

The FHLBanks reclassify stock subject to redemption from capital stock to a liability after a member provides written notice of redemption, gives notice of intention to withdraw from membership, or attains non-member status by merger or acquisition, charter termination, or other involuntary termination from membership, because the member's shares will then meet the definition of a mandatorily redeemable financial instrument. Shares meeting this definition are reclassified to a liability at fair value. Dividends declared on shares classified as a liability are accrued at the expected dividend rate and reflected as interest expense in the Combined Statement of Income. The repurchase or redemption of mandatorily redeemable capital stock is reflected as a financing cash outflow in the Combined Statement of Cash Flows.

If a member cancels its written notice of redemption or notice of withdrawal, the FHLBank will reclassify mandatorily redeemable capital stock from liabilities to capital. After the reclassification, dividends on the capital stock will no longer be classified as interest expense.

Restricted Retained Earnings

In 2011, the 12 FHLBanks entered into a Joint Capital Enhancement Agreement, as amended (Capital Agreement). Under the Capital Agreement, beginning in the third quarter of 2011, each FHLBank allocates 20% of its quarterly net income to a separate restricted retained earnings account at that FHLBank until the account balance equals at least one percent of that FHLBank's average balance of outstanding consolidated obligations for the previous quarter. The FHLBanks' restricted retained earnings are not available to pay dividends and are presented separately on the Combined Statement of Condition.

FHFA Expenses

The portion of the FHFA's expenses and working capital fund paid by the FHLBanks are allocated among the FHLBanks

based on the pro rata share of the annual assessments (which are based on the ratio between each FHLBank's minimum required regulatory capital and the aggregate minimum required regulatory capital of every FHLBank).

Office of Finance Expenses

As approved by the Office of Finance Board of Directors, effective January 1, 2011, each FHLBank's proportionate share of Office of Finance operating and capital expenditures is calculated using a formula that is based upon the following components: (1) two-thirds based upon each FHLBank's share of total consolidated obligations outstanding and (2) one-third based upon an equal pro-rata allocation.

Prior to January 1, 2011, the FHLBanks were assessed for Office of Finance operating and capital expenditures based equally on each FHLBank's percentage of the following components: (1) capital stock, (2) consolidated obligations issued and (3) consolidated obligations outstanding.

Assessments

Affordable Housing Program (AHP). The FHLBank Act requires each FHLBank to establish and fund an AHP, providing subsidies to members to assist in the purchase, construction, or rehabilitation of housing for very low-to-moderate-income households. Each of the FHLBanks charges the required funding for AHP to earnings and establishes a liability. An FHLBank issues AHP advances at interest rates below the customary interest rate for non-subsidized advances. A discount on the AHP advance and charge against AHP liability is recorded for the present value of the variation in the cash flow caused by the difference in the interest rate between the AHP advance rate and that FHLBank's related cost of funds for comparable maturity funding. As an alternative, that FHLBank has the authority to make the AHP subsidy available to members as a grant. The discount on AHP advances is accreted to interest income on advances using a level-yield methodology over the life of the advance.

Resolution Funding Corporation (REFCORP). Although the FHLBanks are exempt from ordinary federal, state, and local taxation, except for local real estate tax, they were required to make quarterly payments to REFCORP through the second quarter of 2011, after which the obligation expired. These payments represented a portion of the interest on bonds that were issued by REFCORP. REFCORP is a corporation established by Congress in 1989 to provide funding for the resolution and disposition of insolvent savings institutions. Officers, employees, and agents of the Office of Finance are authorized to act for and on behalf of REFCORP to carry out the functions of REFCORP.

Note 2—Recently Issued and Adopted Accounting Guidance

Disclosures about Offsetting Assets and Liabilities

On December 16, 2011, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued common disclosure requirements intended to help investors and other financial statement users better assess the effect or potential effect of offsetting arrangements on a company's financial position, whether a company's financial statements are prepared on the basis of GAAP or International Financial Reporting Standards (IFRS). This guidance will require the FHLBanks to disclose both gross and net information about financial instruments, including derivative instruments, which are either offset on their statement of condition or subject to an enforceable master netting arrangement or similar agreement. This guidance will be effective for the FHLBanks for interim and annual periods beginning on January 1, 2013 and will be applied retrospectively for all comparative periods presented. The adoption of this guidance will result in increased interim and annual financial statement disclosures, but will not affect the FHLBanks' combined financial condition, combined results of operations or combined cash flows.

Disclosures about an Employer's Participation in a Multiemployer Plan

On September 21, 2011, the FASB issued guidance to enhance disclosures about an employer's participation in a multiemployer pension plan. These disclosures will provide users with the following: (1) additional administrative information about an employer's participation in significant multiemployer plans; (2) an employer's participation level in these plans, including contributions made and whether contributions exceed five percent of total contributions made to a plan; (3) the financial health of these plans, including information about funded status and funding improvement plans, as applicable; and (4) the nature of employer commitments to the plan. Previously, disclosures were limited primarily to the historical contributions made to all multiemployer pension plans. This guidance became effective for the FHLBanks for annual periods

ending on December 31, 2011 and was applied retrospectively for all prior periods presented. Most FHLBanks participate in a multiple employer plan and follow certain disclosure requirements for multiemployer pension plans. The adoption of this guidance resulted in increased annual financial statement disclosures, but did not affect the FHLBanks' combined financial condition, combined results of operations or combined cash flows. (See *Note 20—Pension and Postretirement Benefit Plans* for the additional disclosures required under this amended guidance.)

Presentation of Comprehensive Income

On June 16, 2011, the FASB issued guidance to increase the prominence of other comprehensive income in financial statements. This guidance requires an entity that reports items of other comprehensive income to present comprehensive income in either a single financial statement or in two consecutive financial statements. In a single continuous statement, an entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, as well as a total for comprehensive income. In a two-statement approach, an entity is required to present the components of net income and total net income in its statement of net income. The statement of other comprehensive income should follow immediately and include the components of other comprehensive income as well as totals for both other comprehensive income and comprehensive income. This guidance eliminates the option to present other comprehensive income in the statement of changes in stockholders' equity. Each FHLBank intends to elect the two-statement approach for interim and annual periods beginning on January 1, 2012 and will apply this guidance retrospectively for all periods presented. The adoption of this guidance is limited to the presentation of information contained in the interim and annual financial statements, and therefore will not affect the FHLBanks' combined financial condition, combined results of operations or combined cash flows.

On December 23, 2011, the FASB issued guidance to defer the effective date of the new requirement to present reclassifications of items out of accumulated other comprehensive income in the statement of net income. This guidance is effective for the FHLBanks for interim and annual periods beginning on January 1, 2012. The FHLBanks will still be required to adopt the remaining guidance contained in the new accounting standard for the presentation of comprehensive income.

Fair Value Measurements and Disclosures

On January 21, 2010, the FASB issued amended guidance for fair value measurements and disclosures. The FHLBanks adopted this amended guidance as of January 1, 2010, except for required disclosures about purchases, sales, issuances, and settlements in the rollforward of activity for Level 3 fair value measurements; the related guidance on these required disclosures was adopted as of January 1, 2011. In the period of initial adoption, entities are not required to provide the amended disclosures for any previous periods presented for comparative purposes. The adoption of this amended guidance resulted in increased interim and annual financial statement disclosures, but did not affect the FHLBanks' combined financial condition, combined results of operations or combined cash flows. (See *Note 21—Fair Value* for additional disclosures required under this amended guidance.)

On May 12, 2011, the FASB and the IASB issued substantially converged guidance on fair value measurement and disclosure requirements. This guidance clarifies how fair value accounting should be applied where its use is already required or permitted by other guidance within GAAP or IFRS; these amendments do not require additional fair value measurements. This guidance generally represents clarifications to the application of existing fair value measurement and disclosure requirements, as well as some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This guidance is effective for the FHLBanks for interim and annual periods beginning on January 1, 2012 and will be applied prospectively. The adoption of this guidance will result in increased interim and annual financial statement disclosures, but will not have a material effect on the FHLBanks' combined financial condition, combined results of operations or combined cash flows.

Reconsideration of Effective Control for Repurchase Agreements

On April 29, 2011, the FASB issued guidance to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This guidance amends the existing criteria for determining whether or not a transferor has retained effective control over financial assets transferred under a repurchase agreement. A secured borrowing is recorded when effective control over the transferred financial assets is maintained, while a sale is recorded when effective control over the transferred financial assets has not been maintained. The new guidance removes from the assessment of effective control: (1) the criterion requiring the transferor to have the ability to repurchase or redeem financial assets before their maturity on substantially the agreed terms, even in the

event of the transferee's default, and (2) the collateral maintenance implementation guidance related to that criterion. This guidance became effective for the FHLBanks for interim and annual periods beginning on January 1, 2012 and will be applied prospectively to transactions or modifications of existing transactions that occurred on or after the effective date. The adoption of this guidance will not have a material effect on the FHLBanks' combined financial condition, combined results of operations or combined cash flows.

A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring

On January 19, 2011, the FASB issued guidance to defer temporarily the effective date of disclosures about troubled debt restructurings required by the amended guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses. The effective date for these new disclosures was deferred in order to be coordinated with the effective date of the guidance for determining what constitutes a troubled debt restructuring.

On April 5, 2011, the FASB issued guidance to clarify which debt modifications constitute troubled debt restructurings. It is intended to help creditors determine whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for presenting previously deferred disclosures related to troubled debt restructurings. This guidance became effective for the FHLBanks for interim and annual periods beginning on July 1, 2011. As required, the FHLBanks applied the new guidance to troubled debt restructurings which occurred on or after January 1, 2011. The adoption of this amended guidance resulted in increased interim and annual financial statement disclosures, but did not have a material effect on the FHLBanks' combined financial condition, combined results of operations or combined cash flows. (See *Note 11—Allowance for Credit Losses* for the additional disclosures required under this amended guidance.)

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses

On July 21, 2010, the FASB issued amended guidance to enhance disclosures about an entity's allowance for credit losses and the credit quality of its financing receivables. The required disclosures as of the end of a reporting period became effective for interim and annual reporting periods as of December 31, 2010. The required disclosures about activity that occurs during a reporting period became effective for interim and annual reporting periods as of January 1, 2011. The adoption of this amended guidance resulted in increased interim and annual financial statement disclosures, but did not affect the FHLBanks' combined financial condition, combined results of operations or combined cash flows.

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 on the withdrawal of funds. The average collected cash balances were $475 million and $184 million for the years ended December 31, 2011 and 2010.

In addition, the majority of the FHLBanks maintained average required balances with various Federal Reserve Banks of $118 million and $64 million for the years ended December 31, 2011 and 2010. These represent average balances required to be maintained over each 14-day reporting cycle; however, the FHLBanks may use earnings credits on these balances to pay for services received from the Federal Reserve Banks.

Pass-through Deposit Reserves

Certain of 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 the Federal Reserve Banks of $120 million and $99 million at December 31, 2011 and 2010.

Note 4—Securities Purchased Under Agreements to Resell

The FHLBanks periodically hold securities purchased under agreements to resell those securities. These amounts represent short-term loans and are classified as assets in the Combined Statement of Condition. Securities purchased under agreements to resell are held in safekeeping in the name of the relevant FHLBank by third-party custodians approved by the FHLBank. Should the market value of the underlying securities decrease below the market value required as collateral, the counterparty has the option to (1) place an equivalent amount of additional securities in safekeeping in the name of the FHLBank or (2) remit an equivalent amount of cash; otherwise, the dollar value of the resale agreement will be decreased accordingly.

Note 5—Trading Securities

Table 5.1 - Trading Securities by Major Security Type

(dollars in millions)

	December 31, 2011	December 31, 2010
	Fair Value	Fair Value
Non-mortgage-backed securities		
U.S. Treasury obligations	$ 1,061	$ 3,068
Commercial paper	599	2,349
Certificates of deposit	1,020	7,075
Other U.S. obligations	9	—
Government-sponsored enterprise obligations	9,697	12,355
State or local housing agency obligations	3	3
Temporary Liquidity Guarantee Program debentures and promissory notes	5,179	2,126
Other(1)	296	271
Total non-mortgage-backed securities	17,864	27,247
Mortgage-backed securities		
Other U.S. obligations residential MBS(2)	43	49
Government-sponsored enterprise residential MBS	549	765
Government-sponsored enterprise commercial MBS	249	230
Total mortgage-backed securities	841	1,044
Total	$ 18,705	$ 28,291

(1) Primarily consists of taxable municipal bonds.
(2) Primarily consists of MBS issued or guaranteed by Government National Mortgage Association (Ginnie Mae).

At December 31, 2011 and December 31, 2010, 57.9% and 27.1% of the FHLBanks' fixed-rate trading securities were swapped to a variable rate and 43.9% and 46.0% of the FHLBanks' variable-rate trading securities were swapped to a different variable-rate index.

Table 5.2 - Net Gains (Losses) on Trading Securities

(dollars in millions)

	Year Ended December 31,		
	2011	2010	2009
Net unrealized gains (losses) on trading securities held at period-end	$ 20	$ 38	$ (136)
Net unrealized and realized gains (losses) on trading securities sold/matured during the year	(31)	31	(4)
Net gains (losses) on trading securities	$ (11)	$ 69	$ (140)

Note 6—Available-for-Sale Securities

Table 6.1 - Available-for-Sale (AFS) Securities by Major Security Type

(dollars in millions)

	December 31, 2011				
	Amortized Cost(1)	OTTI Recognized in AOCI(2)	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
Non-mortgage-backed securities					
Certificates of deposit	$ 3,955	$ —	$ —	$ (1)	$ 3,954
Other U.S. obligations(4)	1,177	—	63	—	1,240
Government-sponsored enterprise and Tennessee Valley Authority obligations	14,935	—	126	(80)	14,981
Temporary Liquidity Guarantee Program debentures and promissory notes	9,532	—	14	—	9,546
Federal Family Education Loan Program ABS	7,796	—	398	(35)	8,159
Other(5)	974	—	3	(37)	940
Total non-mortgage-backed securities	38,369	—	604	(153)	38,820
Mortgage-backed securities					
Other U.S. obligations residential MBS(6)	2,988	—	130	—	3,118
Government-sponsored enterprise residential MBS	21,084	—	773	(96)	21,761
Government-sponsored enterprise commercial MBS	154	—	—	(1)	153
Private-label residential MBS	17,351	(2,969)	17	(204)	14,195
Home equity loan ABS	18	(3)	—	—	15
Total mortgage-backed securities	41,595	(2,972)	920	(301)	39,242
Total	$ 79,964	$ (2,972)	$ 1,524	$ (454)	$ 78,062

	December 31, 2010				
	Amortized Cost(1)	OTTI Recognized in AOCI(2)	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
Non-mortgage-backed securities					
Certificates of deposit	$ 5,790	$ —	$ —	$ —	$ 5,790
Other U.S. obligations(4)	955	—	31	(2)	984
Government-sponsored enterprise and Tennessee Valley Authority obligations	11,152	—	83	(58)	11,177
Temporary Liquidity Guarantee Program debentures and promissory notes	10,571	—	9	(4)	10,576
Federal Family Education Loan Program ABS	8,310	—	505	(16)	8,799
Other(5)	615	—	1	(39)	577
Total non-mortgage-backed securities	37,393	—	629	(119)	37,903
Mortgage-backed securities					
Other U.S. obligations residential MBS(6)	3,101	—	83	(5)	3,179
Government-sponsored enterprise residential MBS	21,761	—	316	(65)	22,012
Government-sponsored enterprise commercial MBS	304	—	—	(1)	303
Private-label residential MBS	9,347	(1,311)	14	(3)	8,047
Home equity loan ABS	22	(7)	—	—	15
Total mortgage-backed securities	34,535	(1,318)	413	(74)	33,556
Total	$ 71,928	$ (1,318)	$ 1,042	$ (193)	$ 71,459

(1) Amortized cost of AFS securities includes adjustments made to the cost basis of an investment for accretion, amortization, previous other-than-temporary impairment (OTTI) recognized in earnings, and/or fair value hedge accounting adjustments.

(2) OTTI recognized in AOCI does not include $(185) million and $12 million in subsequent unrealized gains (losses) in fair value of previously other-than-temporarily impaired AFS securities at December 31, 2011 and 2010, which is included in net non-credit portion of OTTI losses on AFS securities in the Combined Statement of Condition.

(3) Gross unrealized gains and gross unrealized losses on AFS securities include $(185) million and $12 million in subsequent unrealized gains (losses) in fair value of previously other-than-temporarily impaired AFS securities at December 31, 2011 and 2010, which is not included in net unrealized gains (losses) on AFS securities recognized in AOCI in the Combined Statement of Condition.

(4) Primarily consists of debt securities issued or guaranteed by Small Business Administration (SBA) and Export-Import Bank of the U.S. (Ex-Im Bank).

(5) Primarily consists of taxable municipal bonds, debentures issued by Inter-American Development Bank (IDB) and debt securities issued by International Bank for Reconstruction and Development (IBRD).
(6) Primarily consists of MBS issued or guaranteed by Ginnie Mae.

At December 31, 2011 and 2010, the amortized cost of the FHLBanks' MBS classified as AFS included credit losses, OTTI-related accretion adjustments, and purchased premiums and discounts totaling $2,890 million and $1,244 million.

Table 6.2 presents the AFS securities with unrealized losses by major security type and length of time that individual securities have been in a continuous unrealized loss position.

Table 6.2 - AFS Securities in a Continuous Unrealized Loss Position

(dollars in millions)

	December 31, 2011					
	Less than 12 Months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses(1)
Non-mortgage-backed securities						
Certificates of deposit	$ 3,524	$ (1)	$ —	$ —	$ 3,524	$ (1)
Government-sponsored enterprise and Tennessee Valley Authority obligations	2,487	(6)	1,042	(74)	3,529	(80)
Federal Family Education Loan Program ABS	223	(3)	1,203	(32)	1,426	(35)
Other(2)	322	(1)	469	(36)	791	(37)
Total non-mortgage-backed securities	6,556	(11)	2,714	(142)	9,270	(153)
Mortgage-backed securities						
Government-sponsored enterprise residential MBS	5,273	(92)	937	(4)	6,210	(96)
Government-sponsored enterprise commercial MBS	50	—	103	(1)	153	(1)
Private-label residential MBS(3)	1,292	(61)	12,490	(3,112)	13,782	(3,173)
Home equity loan ABS(3)	2	—	13	(3)	15	(3)
Total mortgage-backed securities	6,617	(153)	13,543	(3,120)	20,160	(3,273)
Total	$ 13,173	$ (164)	$ 16,257	$ (3,262)	$ 29,430	$ (3,426)

	December 31, 2010					
	Less than 12 Months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses(1)
Non-mortgage-backed securities						
Other U.S. Obligations(4)	$ 161	$ (2)	$ —	$ —	$ 161	$ (2)
Government-sponsored enterprise and Tennessee Valley Authority obligations	4,025	(13)	855	(45)	4,880	(58)
Temporary Liquidity Guarantee Program debentures and promissory notes	5,630	(4)	—	—	5,630	(4)
Federal Family Education Loan Program ABS	1,332	(16)	10	—	1,342	(16)
Other(2)	72	(1)	401	(37)	473	(38) [a]
Total non-mortgage-backed securities	11,220	(36)	1,266	(82)	12,486	(118)
Mortgage-backed securities						
Other U.S. Obligations residential MBS(5)	1,126	(5)	—	—	1,126	(5)
Government-sponsored enterprise residential MBS	3,792	(62)	506	(3)	4,298	(65)
Government-sponsored enterprise commercial MBS	50	—	227	(1)	277	(1)
Private-label residential MBS(3)	17	(1)	7,321	(1,313)	7,338	(1,314)
Home equity loan ABS(3)	—	—	15	(7)	15	(7)
Total mortgage-backed securities	4,985	(68)	8,069	(1,324)	13,054	(1,392)
Total	$ 16,205	$ (104)	$ 9,335	$ (1,406)	$ 25,540	$ (1,510)

(a) Does not include $1 million of unrealized losses in mutual funds in two grantor trusts designated as AFS securities at December 31, 2010.
(1) Total unrealized losses in Table 6.2 will not agree to total gross unrealized losses in Table 6.1. Total unrealized losses in Table 6.2 include non-credit-related OTTI losses recorded in AOCI.
(2) Primarily consists of taxable municipal bonds, debentures issued by IDB and debt securities issued by IBRD.
(3) Includes investments for which a portion of OTTI has been recognized in AOCI.
(4) Primarily consists of debt securities issued or guaranteed by SBA and Ex-Im Bank.
(5) Primarily consists of mortgage-backed securities issued or guaranteed by Ginnie Mae.

Table 6.3 - AFS Securities by Contractual Maturity

(dollars in millions)

	December 31, 2011		December 31, 2010	
Year of Maturity	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Non-mortgage-backed securities				
Due in one year or less	$ 17,123	$ 17,138	$ 8,385	$ 8,393
Due after one year through five years	5,425	5,501	16,175	16,220
Due after five years through ten years	5,987	6,052	2,811	2,840
Due after ten years	2,038	1,970	1,712	1,651
Federal Family Education Loan Program ABS(1)	7,796	8,159	8,310	8,799
Total non-mortgage-backed securities	38,369	38,820	37,393	37,903
Mortgage-backed securities(1)	41,595	39,242	34,535	33,556
Total	$ 79,964	$ 78,062	$ 71,928	$ 71,459

(1) Federal Family Education Loan Program ABS and MBS are not presented by contractual maturity because their expected maturities will likely differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

Table 6.4 - Interest-Rate Payment Terms of AFS Securities

(dollars in millions)

	December 31,	
	2011	**2010**
Amortized cost of non-mortgage-backed securities		
Fixed-rate	$ 23,816	$ 19,784
Variable-rate	14,553	17,609
Total amortized cost of non-mortgage-backed securities	38,369	37,393
Amortized cost of mortgage-backed securities		
Fixed-rate	20,675	16,787
Variable-rate	20,920	17,748
Total amortized cost of mortgage-backed securities	41,595	34,535
Total	$ 79,964	$ 71,928

At December 31, 2011 and 2010, 39.8% and 29.6% of the FHLBanks' fixed-rate AFS securities were swapped to a variable rate. At December 31, 2011, 0.1% of the FHLBanks' variable-rate AFS securities were swapped to a different variable-rate index and at December 31, 2010, none of the FHLBanks' variable-rate AFS securities were swapped to a different variable-rate index.

Table 6.5 - Proceeds from Sale and Gross Gains and Losses on AFS Securities

(dollars in millions)

	Year Ended December 31,		
	2011	2010	2009
Proceeds from sale of AFS securities	$ 2,426	$ 1,494	$ 3,400
Gross gains on sale of AFS securities	$ 28	$ 20	$ 52
Gross losses on sale of AFS securities	(4)	—	(45)
Net realized gains (losses) from sale of AFS securities	$ 24 [(a)]	$ 20 [(b)]	$ 7

(a) Includes $11 million of net realized gains relating to sales of previously other-than-temporarily impaired securities.
(b) Includes $10 million of net realized gains relating to sales of previously other-than-temporarily impaired securities.

See *Note 8—Other-than-Temporary Impairment Analysis* for information on the transfers of securities between the AFS portfolio and the held-to-maturity (HTM) portfolio.

Note 7—Held-to-Maturity Securities

Table 7.1 - HTM Securities by Major Security Type

(dollars in millions)

	December 31, 2011					
	Amortized Cost(1)	OTTI Recognized in AOCI(2)	Carrying Value(2)	Gross Unrecognized Holding Gains(3)	Gross Unrecognized Holding Losses(3)	Fair Value
Non-mortgage-backed securities						
Commercial paper	$ 1,800	$ —	$ 1,800	$ —	$ —	$ 1,800
Certificates of deposit	7,209	—	7,209	—	—	7,209
Other U.S. obligations(4)	2,259	—	2,259	94	—	2,353
Government-sponsored enterprise and Tennessee Valley Authority obligations	2,616	—	2,616	115	—	2,731
State or local housing agency obligations	2,225	—	2,225	14	(295)	1,944
Temporary Liquidity Guarantee Program debentures and promissory notes	3,295	—	3,295	3	—	3,298
Other	2	—	2	—	—	2
Total non-mortgage-backed securities	19,406	—	19,406	226	(295)	19,337
Mortgage-backed securities						
Other U.S. obligations residential MBS(5)	9,444	—	9,444	115	(16)	9,543
Other U.S. obligations commercial MBS(5)	521	—	521	6	—	527
Government-sponsored enterprise residential MBS	71,305	—	71,305	2,189	(39)	73,455
Government-sponsored enterprise commercial MBS	3,510	—	3,510	233	—	3,743
Private-label residential MBS	15,760	(1,048)	14,712	223	(1,238)	13,697
Private-label commercial MBS	48	—	48	1	—	49
Manufactured housing loan ABS	171	—	171	—	(12)	159
Home equity loan ABS	437	(77)	360	50	(34)	376
Total mortgage-backed securities	101,196	(1,125)	100,071	2,817	(1,339)	101,549
Total	$ 120,602	$ (1,125)	$ 119,477	$ 3,043	$ (1,634)	$ 120,886

	December 31, 2010					
	Amortized Cost(1)	OTTI Recognized in AOCI(2)	Carrying Value(2)	Gross Unrecognized Holding Gains(3)	Gross Unrecognized Holding Losses(3)	Fair Value
Non-mortgage-backed securities						
Commercial paper	$ 2,500	$ —	$ 2,500	$ —	$ —	$ 2,500
Certificates of deposit	13,176	—	13,176	—	—	13,176
Other U.S. obligations(4)	1,468	—	1,468	6	(13)	1,461
Government-sponsored enterprise and Tennessee Valley Authority obligations	3,171	—	3,171	94	(5)	3,260
State or local housing agency obligations	2,477	—	2,477	7	(297)	2,187
Temporary Liquidity Guarantee Program debentures and promissory notes	3,379	—	3,379	5	—	3,384
Other	4	—	4	—	—	4
Total non-mortgage-backed securities	26,175	—	26,175	112	(315)	25,972
Mortgage-backed securities						
Other U.S. obligations residential MBS(5)	8,547	—	8,547	64	(29)	8,582
Other U.S. obligations commercial MBS(5)	53	—	53	2	—	55
Government-sponsored enterprise residential MBS	72,361	—	72,361	2,050	(195)	74,216
Government-sponsored enterprise commercial MBS	1,780	—	1,780	77	(17)	1,840
Private-label residential MBS	33,124	(4,348)	28,776	1,476	(1,410)	28,842
Private-label commercial MBS	160	—	160	4	—	164
Manufactured housing loan ABS	196	—	196	—	(23)	173
Home equity loan ABS	501	(93)	408	54	(40)	422
Total mortgage-backed securities	116,722	(4,441)	112,281	3,727	(1,714)	114,294
Total	$ 142,897	$ (4,441)	$ 138,456	$ 3,839	$ (2,029)	$ 140,266

(1) Amortized cost of HTM securities includes adjustments made to the cost basis of an investment for accretion, amortization, and/or previous OTTI recognized in earnings.
(2) Carrying value of HTM securities represents amortized cost after adjustment for the non-credit-related impairment recognized in AOCI.
(3) Gross unrecognized holding gains (losses) represent the difference between fair value and carrying value.
(4) Primarily consists of debt securities issued or guaranteed by SBA and National Credit Union Administration (NCUA).
(5) Primarily consists of mortgage-backed securities issued or guaranteed by Ginnie Mae, NCUA, and SBA.

At December 31, 2011 and 2010, the amortized cost of the FHLBanks' MBS classified as HTM included credit losses, OTTI-related accretion adjustments, and purchased premiums and discounts totaling $1,130 million and $2,171 million.

Table 7.2 presents the HTM securities with unrealized losses, which are aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position.

Table 7.2 - HTM Securities in a Continuous Unrealized Loss Position

(dollars in millions)

	December 31, 2011					
	Less than 12 Months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses(1)
Non-mortgage-backed securities						
State or local housing agency obligations	$ 31	$ (3)	$ 1,174	$ (292)	$ 1,205	$ (295)
Total non-mortgage-backed securities	31	(3)	1,174	(292)	1,205	(295)
Mortgage-backed securities						
Other U.S. obligations residential MBS(2)	1,657	(8)	762	(8)	2,419	(16)
Government-sponsored enterprise residential MBS	6,581	(16)	3,790	(23)	10,371	(39)
Private-label residential MBS(3)	1,229	(25)	9,843	(2,238)	11,072	(2,263)
Manufactured housing loan ABS	—	—	159	(12)	159	(12)
Home equity loan ABS(3)	1	—	373	(65)	374	(65)
Total mortgage-backed securities	9,468	(49)	14,927	(2,346)	24,395	(2,395)
Total	$ 9,499	$ (52)	$ 16,101	$ (2,638)	$ 25,600	$ (2,690)

	December 31, 2010					
	Less than 12 Months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses(1)
Non-mortgage-backed securities						
Other U.S. Obligations(4)	$ 555	$ (13)	$ —	$ —	$ 555	$ (13)
Government-sponsored enterprise and Tennessee Valley Authority obligations	1,809	(5)	—	—	1,809	(5)
State or local housing agency obligations	150	(16)	1,295	(281)	1,445	(297)
Total non-mortgage-backed securities	2,514	(34)	1,295	(281)	3,809	(315)
Mortgage-backed securities						
Other U.S. obligations residential MBS(2)	4,075	(29)	5	—	4,080	(29)
Government-sponsored enterprise residential MBS	10,603	(184)	2,133	(11)	12,736	(195)
Government-sponsored enterprise commercial MBS	468	(17)	—	—	468	(17)
Private-label residential MBS(3)	913	(8)	23,158	(5,625)	24,071	(5,633)
Manufactured housing loan ABS	—	—	173	(23)	173	(23)
Home equity loan ABS(3)	2	—	418	(78)	420	(78)
Total mortgage-backed securities	16,061	(238)	25,887	(5,737)	41,948	(5,975)
Total	$ 18,575	$ (272)	$ 27,182	$ (6,018)	$ 45,757	$ (6,290)

(1) Total unrealized losses in Table 7.2 will not agree to total gross unrecognized holding losses in Table 7.1. Total unrealized losses in Table 7.2 include non-credit-related OTTI losses recorded in AOCI and gross unrecognized holdings gains on previously other-than-temporarily impaired securities.
(2) Primarily consists of mortgage-backed securities issued or guaranteed by Ginnie Mae, NCUA, and SBA.
(3) Includes investments for which a portion of an OTTI has been recognized in AOCI.
(4) Primarily consists of debt securities issued or guaranteed by SBA and NCUA.

Table 7.3 - HTM Securities by Contractual Maturity

(dollars in millions)

	December 31, 2011			December 31, 2010		
Year of Maturity	Amortized Cost	Carrying Value(1)	Fair Value	Amortized Cost	Carrying Value(1)	Fair Value
Non-mortgage-backed securities						
Due in one year or less	$ 13,234	$ 13,234	$ 13,250	$ 17,930	$ 17,930	$ 17,932
Due after one year through five years	1,893	1,893	1,921	4,745	4,745	4,813
Due after five years through ten years	696	696	710	545	545	539
Due after ten years	3,583	3,583	3,456	2,955	2,955	2,688
Total non-mortgage-backed securities	19,406	19,406	19,337	26,175	26,175	25,972
Mortgage-backed securities(2)	101,196	100,071	101,549	116,722	112,281	114,294
Total	$ 120,602	$ 119,477	$ 120,886	$ 142,897	$ 138,456	$ 140,266

(1) In accordance with the amended OTTI guidance, carrying value of HTM securities represents amortized cost after adjustment for non-credit-related impairment recognized in AOCI.

(2) MBS are not presented by contractual maturity because their expected maturities will likely differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

Table 7.4 - Interest Rate Payment Terms of HTM Securities

(dollars in millions)

	December 31,	
	2011	2010
Amortized cost of non-mortgage-backed securities		
Fixed-rate	$ 14,425	$ 21,393
Variable-rate	4,981	4,782
Total amortized cost of non-mortgage-backed securities	19,406	26,175
Amortized cost of mortgage-backed securities		
Fixed-rate	46,357	56,179
Variable-rate	54,839	60,543
Total amortized cost of mortgage-backed securities	101,196	116,722
Total	$ 120,602	$ 142,897

Realized Gains and Losses

Certain FHLBanks sold securities out of their respective HTM portfolio that were either within three months of maturity or had less than 15% of the acquired principal outstanding at the time of the sale. These sales are considered maturities for purposes of security classification.

Table 7.5 - Proceeds and Gains (Losses) from Sale of HTM Securities

(dollars in millions)

	Year Ended December 31,		
	2011	2010	2009
Proceeds from sale of HTM securities	$ 1,401	$ 351	$ 742
Net realized gains (losses) from sale of HTM securities	35	8	17

See Note 8—Other-than-Temporary Impairment Analysis for information on the transfers of securities between the AFS portfolio and the HTM portfolio.

Note 8—Other-than-Temporary Impairment Analysis

Each FHLBank evaluates its individual AFS and HTM investment securities holdings in an unrealized loss position for OTTI on at least a quarterly basis. As part of its evaluation of securities for OTTI, an FHLBank considers its intent to sell each debt security and whether it is more likely than not that it will be required to sell the security before its anticipated recovery. If either of these conditions is met, an FHLBank recognizes an OTTI charge to earnings equal to the entire difference between the security's amortized cost basis and its fair value at the statement of condition date. For securities in an unrealized loss position that meet neither of these conditions, each FHLBank performs a cash flow analysis to determine whether the entire amortized cost basis of these impaired securities, including all previously other-than-temporarily impaired securities, will be recovered. If the FHLBank does not expect to recover the entire amount, the unrealized loss position is considered to be other-than-temporarily impaired. The FHLBank evaluates the security's OTTI to determine the amount of credit loss recognized in earnings, which is limited to the amount of that security's unrealized loss.

To ensure consistency in determination of the OTTI for private-label MBS among all FHLBanks, the FHLBanks enhanced their overall OTTI process by implementing a system-wide governance committee and establishing a formal process to ensure consistency in key OTTI modeling assumptions used for purposes of their cash flow analyses for the majority of these securities. Most of the FHLBanks select all of their private-label MBS in an unrealized loss position to be evaluated using the FHLBanks' common framework and approved assumptions for purposes of OTTI cash flow analysis. For certain private-label MBS where underlying collateral data is not available, alternative procedures as determined by each FHLBank are used to assess these securities for OTTI.

Each FHLBank's evaluation includes estimating the projected cash flows that the FHLBank is likely to collect based on an assessment of all available information, including the structure of the applicable security and certain assumptions such as:

- the remaining payment terms for the security;
- prepayment speeds;
- default rates;
- loss severity on the collateral supporting each FHLBank's security based on underlying loan-level borrower and loan characteristics;
- expected housing price changes; and
- interest-rate assumptions.

Certain Private-label MBS

Each FHLBank performed a cash flow analysis using two third-party models to assess whether the entire amortized cost basis of its private-label MBS securities will be recovered.

The first third-party model considers borrower characteristics and the particular attributes of the loans underlying an FHLBank's securities, in conjunction with assumptions about future changes in home prices and interest rates, to project prepayments, defaults and loss severities. A significant input to the first model is the forecast of future housing price changes for the relevant states and core based statistical areas (CBSAs), which are based upon an assessment of the individual housing markets. CBSA refers collectively to metropolitan and micropolitan statistical areas as defined by the United States Office of Management and Budget; as currently defined, a CBSA must contain at least one urban area with a population of 10,000 or more people. The FHLBanks' housing price forecast as of December 31, 2011 assumed current-to-trough home price declines ranging from 0.0% (for those housing markets that are believed to have reached their trough) to 8.0%. For those markets where further home price declines are anticipated, the declines were projected to occur over the 3- to 9-month period beginning October 1, 2011. From the trough, home prices were projected to recover using one of five different recovery paths that vary by housing market. Table 8.1 presents projected home price recovery by year at December 31, 2011.

Table 8.1 - Recovery Ranges of Housing Price Change

	Recovery Range %		
Year 1	0.0	-	2.8
Year 2	0.0	-	3.0
Year 3	1.5	-	4.0
Year 4	2.0	-	5.0
Years 5 and 6	2.0	-	6.0
Thereafter	2.3	-	5.6

The month-by-month projections of future loan performance derived from the first model, which reflect projected prepayments, defaults and loss severities, are then input into a second model that allocates the projected loan level cash flows and losses to the various security classes in the securitization structure in accordance with its prescribed cash flow and loss allocation rules. In a securitization in which the credit enhancement for the senior securities is derived from the presence of subordinate securities, losses are generally allocated first to the subordinate securities until their principal balance is reduced to zero. The projected cash flows are based on a number of assumptions and expectations, and the results of these models can vary significantly with changes in assumptions and expectations. The scenario of cash flows determined based on the model approach reflects a best estimate scenario and includes a base case current-to-trough housing price forecast and a base case housing price recovery path.

OTTI - Credit Loss. In performing a detailed cash flow analysis, each FHLBank identifies the best estimate of the cash flows expected to be collected. If this estimate results in a present value of expected cash flows (discounted at the security's effective yield) that is less than the amortized cost basis of a security (that is, a credit loss exists), an OTTI loss is considered to have occurred. For variable-rate and hybrid private-label MBS, the applicable FHLBank uses the effective interest rate derived from a variable-rate index (e.g., one-month LIBOR) plus the contractual spread, plus or minus a fixed spread adjustment when there is an existing discount or premium on the security. As the implied forward curve of the index changes over time, the effective interest rates derived from that index will also change over time.

As a result of each FHLBank's evaluations, during the year ended December 31, 2011, the FHLBanks of Boston, New York, Indianapolis, Chicago, Dallas, Topeka and Seattle recognized OTTI credit losses related to an aggregate amount of $4,251 million of unpaid principal balance in HTM MBS investments. Additionally, each of the FHLBanks of Pittsburgh, Atlanta, Indianapolis, Chicago, San Francisco and Seattle determined that $19,340 million of unpaid principal balance in AFS securities, including those transferred from HTM securities, were other-than-temporarily impaired during the year ended December 31, 2011. Each of these FHLBanks determined that it was likely that it would not recover the entire amortized cost of each of these securities.

Each of these FHLBanks does not intend to sell these securities and it is not more likely than not that the FHLBank will be required to sell these securities before its anticipated recovery of each security's remaining amortized cost basis. The FHLBanks recognized total OTTI charges of $856 million, $1,071 million and $2,431 million for the years ended December 31, 2011, 2010 and 2009 related to the credit losses on MBS instruments, which are reported in the Combined Statement of Income as a part of the net other-than-temporary impairment losses. The net amount of impairment losses reclassified to/(from) accumulated other comprehensive losses of $(250) million, $54 million and $8,766 million are reflected in the Combined Statement of Condition as accumulated other comprehensive income (loss)-net non-credit portion of other-than-temporary impairment losses on held-to-maturity securities and accumulated other comprehensive income (loss)-net non-credit portion of other-than-temporary impairment losses on available-for-sale securities. Subsequent increases and decreases (if not an additional OTTI) in the fair value of AFS securities and transfers are included in accumulated other comprehensive income (loss). The OTTI recognized in AOCI related to HTM securities is accreted to the carrying value of each security on a prospective basis, over the remaining life of each security. That accretion increases the carrying value of each security and continues until this security is sold or matures, or there is an additional OTTI that is recognized in earnings. For the years ended December 31, 2011, 2010 and 2009, the FHLBanks accreted $581 million, $1,437 million and $1,293 million of non-credit impairment from AOCI to the carrying value of HTM securities. For certain other-than-temporarily impaired securities that were previously impaired and have subsequently incurred $584 million, $997 million and $1,710 million of additional credit losses during the years ended December 31, 2011, 2010 and 2009, the additional credit losses, up to the amount in AOCI, were reclassified out of non-credit losses in AOCI and charged to earnings.

OTTI - Significant Inputs. For those securities for which an OTTI was determined to have occurred during the year ended December 31, 2011 (that is, securities for which each FHLBank determined that it was more likely than not that the entire amortized cost basis would not be recovered), Table 8.2 presents the significant inputs used to measure the amount of credit loss recognized in earnings during this period as well as related current credit enhancement for each applicable FHLBank. Credit enhancement is defined as the percentage of credit subordination, excess spread and over-collateralization, if any, in a security structure that will generally absorb losses before each FHLBank will experience a loss on the security. The calculated averages represent the dollar-weighted averages of all the private-label residential MBS and home equity loan ABS in each category shown.

Table 8.2 - Significant Inputs for OTTI

	Significant Inputs for OTTI Private-label Residential MBS(1)(2)							
	Prepayment Rates		Default Rates		Loss Severities		Current Credit Enhancement	
Year of Securitization	Weighted-Average %	Range %	Weighted-Average %	Range %	Weighted-Average %	Range %	Weighted-Average %	Range %
Prime								
2008	7.8	7.5 - 8.1	54.0	48.8 - 60.2	47.8	43.8 - 53.4	28.7	27.7 - 29.7
2007	7.5	5.2 - 9.8	36.7	7.4 - 53.6	45.5	37.7 - 53.2	4.6	0.4 - 9.8
2006	7.0	4.8 - 24.7	26.9	4.3 - 53.1	49.1	33.0 - 58.8	5.5	0.0 - 20.3
2005	7.9	4.9 - 10.1	28.4	8.7 - 49.8	41.3	27.4 - 58.2	7.0	0.9 - 15.4
2004 and prior	9.3	7.0 - 22.0	20.2	0.0 - 30.7	38.2	0.0 - 43.2	9.0	4.0 - 41.3
Total prime	7.7	4.8 - 24.7	31.9	0.0 - 60.2	45.2	0.0 - 58.8	8.5	0.0 - 41.3
Alt-A								
2008	6.0	4.7 - 7.7	54.7	38.9 - 61.7	45.1	44.1 - 49.2	32.6	23.9 - 36.6
2007	6.1	1.5 - 15.1	68.5	31.6 - 91.2	53.1	44.2 - 66.1	21.8	0.0 - 46.9
2006	6.2	1.6 - 14.4	63.0	18.9 - 89.2	53.5	34.9 - 68.3	16.7	0.0 - 44.7
2005	7.7	2.1 - 14.9	42.6	15.8 - 80.6	48.2	28.5 - 65.3	14.1	(0.1) - 48.0 [a]
2004 and prior	10.3	3.2 - 15.1	31.8	1.9 - 67.4	41.3	23.4 - 51.5	14.8	3.9 - 36.4
Total Alt-A	6.8	1.5 - 15.1	57.4	1.9 - 91.2	51.3	23.4 - 68.3	17.8	(0.1) - 48.0 [a]
Subprime								
2007	5.0	5.0	81.2	81.2	70.7	70.7	40.0	40.0
2006	5.0	3.3 - 5.9	81.3	75.3 - 88.3	72.1	67.0 - 77.0	19.0	(17.9) - 42.9 [a]
2005	3.9	3.4 - 5.0	80.4	80.3 - 80.7	69.4	65.9 - 71.0	21.3	15.7 - 23.7
2004 and prior	10.2	9.1 - 13.2	35.8	23.5 - 42.6	70.9	63.2 - 97.4	20.2	11.9 - 76.3
Total subprime	5.0	3.3 - 13.2	81.0	23.5 - 88.3	72.0	63.2 - 97.4	19.4	(17.9) - 76.3 [a]
Total OTTI Private-label residential MBS	6.8	1.5 - 24.7	53.6	0.0 - 91.2	50.8	0.0 - 97.4	16.3	(17.9) - 76.3 [a]

	Significant Inputs for OTTI Home Equity Loan ABS(1)(2)							
	Prepayment Rates		Default Rates		Loss Severities		Current Credit Enhancement	
Year of Securitization	Weighted-Average %	Range %	Weighted-Average %	Range %	Weighted-Average %	Range %	Weighted-Average %	Range %
Alt-A								
2004 and prior	9.4	5.7 - 15.4	3.9	0.9 - 8.2	100.0	100.0	2.9	0.0 - 7.4
Total Alt-A	9.4	5.7 - 15.4	3.9	0.9 - 8.2	100.0	100.0	2.9	0.0 - 7.4
Subprime								
2004 and prior	5.4	0.0 - 12.3	13.1	0.0 - 52.4	98.0	0.0 - 127.5 [b]	(4.1) [c]	(21.4) - 100.0 [a]
Total subprime	5.4	0.0 - 12.3	13.1	0.0 - 52.4	98.0	0.0 - 127.5 [b]	(4.1) [c]	(21.4) - 100.0 [a]
Total OTTI Home equity loan ABS	7.2	0.0 - 15.4	9.1	0.0 - 52.4	98.9	0.0 - 127.5 [b]	(1.1) [c]	(21.4) - 100.0 [a]

(a) A negative current credit enhancement exists when the remaining principal balance on the supporting collateral is less than the remaining principal balance of the security.
(b) Although investment losses cannot exceed 100%, the loss severity of the underlying collateral can exceed 100% as a result of extended periods in foreclosure that result in an accumulation of taxes, insurance, maintenance and other fees.
(c) A negative weighted-average percentage exists as the servicer had to restate the principal balances insured by Ambac due to its inability to repay the cash payments on the factor paydowns, thereby creating a collateral shortfall.
(1) Represents significant inputs associated with the last OTTI in 2011.
(2) The classification (prime, Alt-A and subprime) is based on the model used to run the estimated cash flows for the CUSIP, which may not necessarily be the same as the classification at the time of origination.

Certain private-label MBS owned by the FHLBanks are insured by monoline bond insurers. The FHLBanks performed analyses to assess the financial strength of these monoline bond insurers to establish an expected case regarding the time horizon of the monoline bond insurers' ability to fulfill their financial obligations and provide credit support. The projected time horizon of credit protection provided by an insurer is a function of claims-paying resources and anticipated claims in the future. This assumption is referred to as the “burn-out period” and is expressed in months. Of the five monoline bond insurers, the financial guarantees from Assured Guaranty Municipal Corp. are considered sufficient to cover all future claims; this monoline bond insurer is, therefore, excluded from the burn-out analysis previously discussed. Conversely, the key burn-out period for three monoline bond insurers, Syncora Guarantee Inc. (Syncora), Financial Guaranty Insurance Corp. and Ambac Assurance Corp. (Ambac), are not considered applicable due to regulatory intervention that has suspended all claims payments to effectively zero. For the remaining monoline bond insurer, MBIA Insurance Corp. (MBIA), Table 8.3 summarizes the key burn-out period assumptions used by those FHLBanks that have relied on the projected time horizon of credit protection from this insurer during the three months ended December 31, 2011.

Table 8.3 - Other-than-Temporarily Impaired Securities Insured by MBIA

(dollars in millions)

Assumed burn-out period (months)	3
Coverage ignore date	March 31, 2012
Total unpaid principal balance of other-than-temporarily impaired securities	$14

Certain changes in circumstances may cause an FHLBank to change its intent to hold a certain security to maturity without calling into question its intent to hold other debt securities to maturity in the future. Thus, the sale or transfer of a HTM security due to certain changes in circumstances, such as evidence of significant deterioration in the issuers' creditworthiness, is not considered to be inconsistent with its original classification. Additionally, other events that are isolated, nonrecurring, and unusual for an FHLBank that could not have been reasonably anticipated may cause an FHLBank to sell or transfer a HTM security without necessarily calling into question its intent to hold other debt securities to maturity.

During 2011 and 2010, certain FHLBanks elected to transfer certain private-label residential MBS, which had credit-related other-than-temporary impairment recorded during the applicable period, from their respective HTM portfolio to their respective AFS portfolio. Each of these FHLBanks recognized an OTTI credit loss on these HTM private-label residential MBS , which each FHLBank believes is evidence of a significant deterioration in the issuers' creditworthiness. This deterioration is the basis for the transfers to the AFS portfolio. These transfers allow management the option to decide to sell these securities prior to maturity in response to changes in interest rates, changes in prepayment risk, or other factors. For the AFS securities in an unrealized loss position, each of these FHLBanks asserted as of December 31, 2011 that it has no intent to sell and believe it is not more likely than not that it will be required to sell any security before its anticipated recovery of the remaining amortized cost basis.

Table 8.4 presents information on private-label residential MBS transferred during 2011 and 2010. The amounts represent the values as of the transfer date.

Table 8.4 - HTM Securities Transferred to AFS Securities

(dollars in millions)

	2011				2010			
	Amortized Cost	OTTI Recognized in AOCI	Gross Unrecognized Holding Gains (Losses)	Fair Value	Amortized Cost	OTTI Recognized in AOCI	Gross Unrecognized Holding Gains (Losses)	Fair Value
Transferred at December 31,	$ 392	$ (84)	$ 1	$ 309	$ 142	$ (58)	$ 6	$ 90
Transferred at September 30,	762	(151)	30	641	282	(78)	10	214
Transferred at June 30,	2,679	(740)	168	2,107	1,436	(211)	5	1,230
Transferred at March 31,	7,518	(1,795)	690	6,413	626	(119)	—	507
Total	$ 11,351	$ (2,770)	$ 889	$ 9,470	$ 2,486	$ (466)	$ 21	$ 2,041

Table 8.5 presents the December 31, 2011 balance of the total HTM and AFS securities with OTTI charges during the year ended December 31, 2011, based on each individual FHLBank's impairment analyses of its investment portfolio during 2011.

Table 8.5 - Total Securities Other-than-Temporarily Impaired During 2011

(dollars in millions)

	December 31, 2011 (1)						
	Held-to-Maturity Securities				Available-for-Sale Securities		
	Unpaid Principal Balance	Amortized Cost	Carrying Value	Fair Value	Unpaid Principal Balance	Amortized Cost	Fair Value
Private-label residential MBS(2)							
Prime	$ 1,350	$ 1,061	$ 810	$ 903	$ 5,559	$ 4,739	$ 4,166
Alt-A	2,134	1,603	1,136	1,092	13,754	11,655	9,126
Subprime	683	421	328	306	3	2	1
Total OTTI Private-label residential MBS	4,167	3,085	2,274	2,301	19,316	16,396	13,293
Home equity loan ABS(2)							
Alt-A	—	—	—	—	24	18	15
Subprime	84	58	42	52	—	—	—
Total OTTI Home equity loan ABS	84	58	42	52	24	18	15
Total OTTI investments	$ 4,251	$ 3,143	$ 2,316	$ 2,353	$ 19,340	$ 16,414	$ 13,308

(1) Table 8.5 does not include all HTM and AFS securities that are in an unrealized loss position as of December 31, 2011. This table includes only those HTM and AFS securities with OTTI charges during the year ended December 31, 2011.

(2) The FHLBanks classify securities as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by a nationally recognized statistical rating organization upon issuance of the securities.

Table 8.6 presents the December 31, 2011 balance of the total HTM and AFS securities with OTTI charges during the life of the security (which represent securities impaired prior to 2011 as well as during 2011), based on each individual FHLBank's impairment analyses of its investment portfolio.

Table 8.6 - Total Securities Other-than-Temporarily Impaired during the Life of the Security

(dollars in millions)

	December 31, 2011 (1)						
	Held-to-Maturity Securities				Available-for-Sale Securities		
	Unpaid Principal Balance	Amortized Cost	Carrying Value	Fair Value	Unpaid Principal Balance	Amortized Cost	Fair Value
Private-label residential MBS(2)							
Prime	$ 1,928	$ 1,574	$ 1,180	$ 1,314	$ 6,549	$ 5,637	$ 5,019
Alt-A	2,380	1,840	1,319	1,278	13,820	11,707	9,167
Subprime	892	586	450	432	3	2	1
Total OTTI Private-label residential MBS	5,200	4,000	2,949	3,024	20,372	17,346	14,187
Home equity loan ABS(2)							
Alt-A	—	—	—	—	24	18	15
Subprime	264	227	151	201	—	—	—
Total OTTI Home equity loan ABS	264	227	151	201	24	18	15
Total OTTI investments	$ 5,464	$ 4,227	$ 3,100	$ 3,225	$ 20,396	$ 17,364	$ 14,202

(1) Table 8.6 does not include all HTM and AFS securities that are in an unrealized loss position as of December 31, 2011. This table includes only those HTM and AFS securities with OTTI charges during the life of the security.

(2) The FHLBanks classify securities as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by a nationally recognized statistical rating organization upon issuance of the securities.

Table 8.7 presents the credit losses and net amount of impairment losses reclassified to/(from) accumulated other comprehensive income (loss) for the years ended December 31, 2011, 2010 and 2009.

Table 8.7 - Credit Losses and Net Amount of Impairment Losses

(dollars in millions)

	Year Ended December 31, 2011		
	Total OTTI Losses	AOCI(1)	OTTI Related to Credit Loss
Private-label residential MBS(2)			
Prime	$ (108)	$ (126)	$ (234)
Alt-A	(479)	(119)	(598)
Subprime	(17)	—	(17)
Total OTTI Private-label residential MBS	(604)	(245)	(849)
Home equity loan ABS(2)			
Alt-A	—	(1)	(1)
Subprime	(2)	(4)	(6)
Total OTTI Home equity loan ABS	(2)	(5)	(7)
Total	$ (606)	$ (250)	$ (856)

	Year Ended December 31, 2010		
	Total OTTI Losses	AOCI(1)	OTTI Related to Credit Loss
Private-label residential MBS(2)			
Prime	$ (328)	$ (96)	$ (424)
Alt-A	(755)	209	(546)
Subprime	(37)	(53)	(90)
Total OTTI Private-label residential MBS	(1,120)	60	(1,060)
Home equity loan ABS(2)			
Alt-A	—	(1)	(1)
Subprime	(5)	(5)	(10)
Total OTTI Home equity loan ABS	(5)	(6)	(11)
Total	$ (1,125)	$ 54	$ (1,071)

	Year Ended December 31, 2009		
	Total OTTI Losses	AOCI(1)	OTTI Related to Credit Loss
Private-label residential MBS(2)			
Prime	$ (3,602)	$ 2,884	$ (718)
Alt-A	(7,042)	5,533	(1,509)
Subprime	(2)	1	(1)
Total OTTI Private-label residential MBS	(10,646)	8,418	(2,228)
Home equity loan ABS(2)			
Alt-A	(17)	10	(7)
Subprime	(534)	338	(196)
Total OTTI Home equity loan ABS	(551)	348	(203)
Total	$ (11,197)	$ 8,766	$ (2,431)

(1) Represents the net amount of impairment losses reclassified to/(from) AOCI.
(2) The FHLBanks classify securities as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by a nationally recognized statistical rating organization upon issuance of the securities.

Table 8.8 presents a rollforward of the amounts related to credit losses recognized in earnings. The rollforward relates to the amount of credit losses on investment securities held by the FHLBanks for which a portion of other-than-temporary impairment losses were recognized in accumulated other comprehensive income (loss).

Table 8.8 - Rollforward of the Amounts Related to Credit Losses Recognized into Earnings

(dollars in millions)

	2011	2010	2009
Balance, at beginning of period	$ 3,487	$ 2,555	$ 131 [(a)]
Additions:			
Credit losses for which OTTI was not previously recognized	29	82	1,705
Additional OTTI credit losses for securities upon which an OTTI charge was previously recognized(1)	827	989	726
Reductions:			
Securities sold, matured, paid down or prepaid during the period	(115)	(123)	(6)
Increases in cash flows expected to be collected that are recognized over the remaining life of the securities	(27)	(16)	(1)
Balance, at end of period	$ 4,201	$ 3,487	$ 2,555

(a) The FHLBanks adopted the amended OTTI guidance as of January 1, 2009 and recognized the cumulative effect of initially applying this guidance, totaling $1,883 million, as an adjustment to the retained earnings balance at January 1, 2009, with an offsetting adjustment to AOCI; this amount represents non-credit losses reported in AOCI related to the adoption of this guidance.
(1) For the years ended December 31, 2011, 2010 and 2009, additional OTTI credit losses for securities upon which an OTTI charge was previously recognized relates to all securities that were also previously impaired prior to January 1, 2011, 2010 and 2009.

All other AFS and HTM Investments

At December 31, 2011, the FHLBanks held certain AFS and HTM securities in unrealized loss positions. These unrealized losses are primarily due to illiquidity and interest rate volatility. These losses are considered temporary as each of the FHLBanks expects to recover the entire amortized cost basis on its remaining AFS and HTM securities in unrealized loss positions and neither intends to sell these securities nor considers it more likely than not that it will be required to sell these securities before its anticipated recovery of each security's remaining amortized cost basis. As a result, each FHLBank does not consider any of the following investments to be other-than-temporarily impaired at December 31, 2011:

- State and local housing agency obligations. Certain FHLBanks invest in state or local government bonds. Each of these FHLBanks has determined that, as of December 31, 2011, all of the gross unrealized losses on these bonds are temporary because the strength of the underlying collateral and credit enhancements was sufficient to protect an FHLBank from losses based on current expectations.

- Certificates of deposit. Each affected FHLBank has determined that, as of December 31, 2011, all of the gross unrealized losses on these investments are considered temporary based on the creditworthiness of the issuers.

- Debentures issued by a supranational entity. Debentures issued by a supranational entity that were in an unrealized loss position as of December 31, 2011 are expected to return contractual principal and interest, and such supranational entity is rated triple-A by each of three nationally recognized statistical rating organizations used by the affected FHLBank. The decline in market value of these securities is largely attributable to illiquidity in the credit markets and not to deterioration in the fundamental credit quality of these securities.

- Other U.S. obligations, Government-sponsored enterprise (GSE) obligations, Tennessee Valley Authority (TVA) obligations, Manufactured housing loan ABS and Federal Family Education Loan Program (FFELP) ABS. Each affected FHLBank determined that the strength of the issuers' guarantees through direct obligations or support from the U.S. government is sufficient to protect that FHLBank from losses based on current expectations. As a result, each of these FHLBanks has determined that, as of December 31, 2011, all of its gross unrealized losses on these securities are temporary.

Note 9—Advances

The FHLBanks offer a wide range of fixed- and variable-rate advance products with different maturities, interest rates, payment characteristics and optionality. Fixed-rate advances generally have maturities ranging from one day to 30 years. Variable-rate advances generally have maturities ranging from less than 30 days to 15 years, where the interest rates reset periodically at a fixed spread to the London Interbank Offered Rate (LIBOR) or other specified index. At December 31, 2011 and 2010, the FHLBanks had advances outstanding, including AHP advances (see *Note 16—Affordable Housing Program*), with interest rates ranging from 0.0% to 9.2%. Advances with interest rates of 0.0% include AHP-subsidized advances and certain structured advances.

Table 9.1 - Advances Redemption Terms

(dollars in millions)

	December 31, 2011		December 31, 2010	
Redemption Term	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Overdrawn demand and overnight deposit accounts	$ 21	0.98%	$ 7	1.48%
Due in 1 year or less	145,413	1.27%	158,293	1.60%
Due after 1 year through 2 years	66,221	2.05%	64,723	2.88%
Due after 2 years through 3 years	37,375	2.38%	65,617	2.28%
Due after 3 years through 4 years	32,524	2.76%	27,273	2.88%
Due after 4 years through 5 years	42,335	2.96%	31,141	2.96%
Thereafter	76,880	3.25%	114,219	3.29%
Index-amortizing advances(1)	2,517	4.20%	2,713	4.40%
Total par value	403,286	2.20%	463,986	2.47%
Commitment fees	(8)		(8)	
Discount on AHP advances	(55)		(61)	
Premiums	259		214	
Discounts	(107)		(130)	
Hedging adjustments	14,356		14,261	
Fair value option valuation adjustments	426		327	
Total	$ 418,157		$ 478,589	

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

Table 9.2 - Advances by Year of Contractual Maturity or Next Call Date and Next Put or Convert Date

(dollars in millions)

	Year of Contractual Maturity or Next Call Date		Year of Contractual Maturity or Next Put or Convert Date	
Redemption Term	**December 31, 2011**	**December 31, 2010**	**December 31, 2011**	**December 31, 2010**
Overdrawn demand and overnight deposit accounts	$ 21	$ 7	$ 21	$ 7
Due in 1 year or less	167,489	181,195	192,317	235,562
Due after 1 year through 2 years	63,039	63,788	65,352	56,119
Due after 2 years through 3 years	35,707	61,793	35,847	63,330
Due after 3 years through 4 years	30,490	25,762	29,330	25,149
Due after 4 years through 5 years	37,820	29,281	33,635	24,705
Thereafter	66,203	99,447	44,267	56,401
Index-amortizing advances	2,517	2,713	2,517	2,713
Total par value	$ 403,286	$ 463,986	$ 403,286	$ 463,986

The FHLBanks offer advances to members that provide a member the right, based upon predetermined option exercise dates, to call the advance prior to maturity without incurring prepayment or termination fees (callable advances). In exchange for receiving the right to call the advance on a predetermined call schedule, the member pays a higher fixed rate for the advance relative to an equivalent maturity, non-callable, fixed-rate advance. If the call option is exercised, replacement funding may be available. Other advances may only be prepaid by paying a fee to the FHLBank (prepayment fee) that makes the FHLBank financially indifferent to the prepayment of the advance. At December 31, 2011 and 2010, the FHLBanks had callable advances of $27.7 billion and $27.8 billion.

Some of the FHLBanks' advances contain embedded options allowing the FHLBanks to offer putable and convertible advances. A member can either sell an embedded option to an FHLBank or it can purchase an embedded option from an FHLBank.

With a putable advance to a member, an FHLBank effectively purchases a put option from the member that allows that FHLBank to put or extinguish the fixed-rate advance to the member on predetermined exercise dates, and offer, subject to certain conditions, replacement funding at prevailing market rates. Generally, such put options are exercised when interest rates increase. At December 31, 2011 and 2010, the FHLBanks had putable advances outstanding totaling $44.0 billion and $67.4 billion.

Convertible advances allow an FHLBank to convert an advance from one interest-payment term structure to another. When issuing convertible advances, an FHLBank may purchase put options from a member that allow that FHLBank to convert the fixed-rate advance to a variable-rate advance at the current market rate or another structure after an agreed-upon lockout period. A convertible advance carries a lower interest rate than a comparable-maturity fixed-rate advance without the conversion feature. Variable- to fixed-rate convertible advances have a defined lockout period during which the interest rates adjust based on a spread to LIBOR. At the end of the lockout period, these advances may convert to fixed-rate advances. The fixed rates on the converted advances are determined at origination. At December 31, 2011 and 2010, the FHLBanks had convertible advances outstanding totaling $16.1 billion and $22.8 billion.

Table 9.3 - Advances by Current Interest Rate Terms

(dollars in millions)

	December 31, 2011	**December 31, 2010**
Fixed-rate		
Due in one year or less	$ 116,397	$ 106,991
Due after one year	192,148	234,493
Total fixed-rate	308,545	341,484
Variable-rate		
Due in one year or less	28,662	51,324
Due after one year	66,079	71,178
Total variable-rate	94,741	122,502
Total par value	$ 403,286	$ 463,986

At December 31, 2011 and 2010, 63.1% and 71.3% of the FHLBanks' fixed-rate advances were swapped to a variable-rate and 2.5% and 2.8% of the FHLBanks' variable-rate advances were swapped to a different variable-rate index.

Credit Risk Exposure and Security Terms

The FHLBanks' potential credit risk from advances is concentrated in commercial banks, savings institutions and insurance companies. The FHLBanks' advances outstanding that were greater than or equal to $1.0 billion per borrower were $254.7 billion and $291.8 billion at December 31, 2011 and 2010. These advances were made to 70 and 68 borrowers (members and non-members), which represented 63.2% and 62.9% of total advances outstanding at December 31, 2011 and 2010.

The FHLBanks lend to financial institutions within their districts according to Federal statutes, including the FHLBank Act. The FHLBank Act requires each FHLBank to hold, or have access to, collateral to secure their advances, and the FHLBanks do not expect to incur any credit losses on advances. The management of each FHLBank believes that it has policies and procedures in place to manage its credit risk, including requirements for physical possession or control of pledged collateral, restrictions on borrowing, verifications of collateral and continuous monitoring of borrowings and the member's creditworthiness and financial condition. Based on the collateral pledged as security for advances and each FHLBank management's credit analyses of its members' financial condition and its credit extension and collateral policies, each FHLBank expects to collect all amounts due according to the contractual terms of its advances. (See *Note 11—Allowance for Credit Losses* for information related to FHLBanks' credit risk on advances and allowance methodology for credit losses.)

Note 10—Mortgage Loans

Mortgage Loans Held for Portfolio

Mortgage loans held for portfolio consist of loans obtained through the MPP and MPF Program and are either conventional or government-guaranteed or -insured loans. The MPP and MPF Program involve the purchase by the FHLBanks of single-family mortgage loans that are originated or acquired by participating financial institutions. These mortgage loans are credit-enhanced by participating financial institutions or are guaranteed or insured by Federal agencies. FHLBanks are authorized to hold acquired member assets, such as assets acquired under the MPP and MPF Program.

Currently, the FHLBanks of Atlanta, Chicago, Dallas, San Francisco, and Seattle are not accepting additional Master Commitments to acquire loans for their own portfolio or purchasing additional mortgage loans under either the MPP or MPF Program, except for certain FHLBanks' purchases of MPF Loans to support affordable housing. The remaining FHLBanks participating in the MPP and MPF Program continue to have the ability to purchase and fund both conventional and government-guaranteed or -insured loans.

Table 10.1 - Mortgage Loans Held for Portfolio

(dollars in millions)

	December 31, 2011	December 31, 2010
Fixed-rate, medium-term(1) single-family mortgages	$ 12,010	$ 13,873
Fixed-rate, long-term single-family mortgages	40,919	46,858
Multifamily mortgages	21	25
Total unpaid principal balance	52,950	60,756
Premiums	470	471
Discounts	(117)	(198)
Deferred loan costs, net	10	15
Hedging adjustments	202	233
Total mortgage loans held for portfolio	$ 53,515	$ 61,277

(1) Medium-term is defined as a term of 15 years or less.

At December 31, 2011 and 2010, 42.2% and 19.0% of the FHLBanks' fixed-rate mortgage loans were swapped to a variable rate.

Table 10.2 - Mortgage Loans Held for Portfolio by Collateral/Guarantee Type

(dollars in millions)

	December 31, 2011	December 31, 2010
Conventional loans	$ 46,099	$ 53,449
Government-guaranteed or -insured loans	6,830	7,282
Multifamily mortgages	21	25
Total unpaid principal balance	$ 52,950	$ 60,756

See *Note 11—Allowance for Credit Losses* for information related to FHLBanks' credit risk on mortgage loans and allowance methodology for credit losses.

Mortgage Loans Held for Sale

On June 30, 2011, the FHLBank of Seattle entered into an agreement to sell $1.3 billion of mortgage loans previously held for portfolio. The transaction settled on July 26, 2011, resulting in a gain of approximately $74 million in the third quarter of 2011, reported in non-interest income - other, net on the Combined Statement of Income.

On December 31, 2010, $121 million of mortgage loans were classified as held for sale by the FHLBank of Topeka. On May 6, 2011, the FHLBank of Topeka sold all of its mortgage loans held for sale, resulting in a gain of approximately $4 million in the second quarter of 2011, reported in non-interest income - other, net on the Combined Statement of Income.

Note 11—Allowance for Credit Losses

The FHLBanks have established an allowance methodology for each of the FHLBanks' portfolio segments:

- credit products (advances, letters of credit and other extensions of credit to borrowers);
- government-guaranteed or -insured mortgage loans held for portfolio;
- conventional MPF Loans held for portfolio, conventional MPP Loans held for portfolio, and other loans;
- term securities purchased under agreements to resell; and
- term Federal funds sold.

Credit Products

Each FHLBank manages its credit exposure to credit products through an integrated approach that provides for a credit limit to be established for each borrower, includes an ongoing review of each borrower's financial condition and is coupled with collateral and lending policies to limit risk of loss while balancing borrowers' needs for a reliable source of funding. In addition, the FHLBanks lend to their members in accordance with federal statutes and FHFA regulations. Specifically, the FHLBanks comply with the FHLBank Act, which requires the FHLBanks to obtain sufficient collateral to fully secure credit products. The estimated value of the collateral required to secure each member's credit products is calculated by applying collateral discounts, or haircuts, to the value of the collateral. The FHLBanks accept certain investment securities, residential mortgage loans, deposits, and other real estate related assets as collateral. In addition, community financial institutions (CFIs) are eligible to use expanded statutory collateral provisions for small business, agriculture loans and community development loans. Each FHLBank's capital stock owned is also pledged as collateral. Collateral arrangements may vary depending upon borrower credit quality, financial condition and performance; borrowing capacity; and overall credit exposure to the borrower. Each FHLBank can call for additional or substitute collateral to protect its security interest. Management of each FHLBank believes that these policies effectively manage the FHLBank's respective credit risk from credit products.

Based upon the financial condition of the borrower, the FHLBanks either allow a borrower to retain physical possession of the collateral assigned to it, or require the borrower to specifically assign or place physical possession of the collateral with the FHLBank or its safekeeping agent. The FHLBanks perfect their security interest in all pledged collateral. The FHLBank Act states that any security interest granted to an FHLBank by a borrower will have priority over the claims or rights of any other party except for claims or rights of a third party that would be entitled to priority under otherwise applicable law and are held by a *bona fide* purchaser for value or by a secured party holding a prior perfected security interest.

Using a risk-based approach and taking into consideration each borrower's financial strength, the FHLBanks consider the types and level of collateral to be the primary indicator of credit quality on their credit products. At December 31, 2011 and 2010, each of the FHLBanks had rights to collateral on a borrower-by-borrower basis with an estimated value in excess of its outstanding extensions of credit.

Each FHLBank continues to evaluate and make changes to their collateral guidelines, as necessary, based on current market conditions. At December 31, 2011 and 2010, none of the FHLBanks had any credit products that were past due, on non-accrual status, or considered impaired. In addition, there were no troubled debt restructurings related to credit products at any of the FHLBanks during 2011 and 2010.

The FHLBanks have not recorded any allowance for credit losses on credit products based on the collateral held as security, each FHLBank management's collateral policies, credit analysis and repayment history on credit products. At December 31, 2011 and 2010, no liability to reflect an allowance for credit losses for off-balance sheet credit exposures was recorded. (See *Note 22—Commitments and Contingencies* for additional information on the FHLBanks' off-balance sheet credit exposure.)

Government-Guaranteed or -Insured Mortgage Loans

The FHLBanks invest in fixed-rate government mortgage loans that are insured or guaranteed by the Federal Housing Administration, the Department of Veterans Affairs, the Rural Housing Service of the Department of Agriculture, and/or by the Department of Housing and Urban Development. The servicer provides and maintains insurance or a guaranty from the applicable government agency. The servicer is responsible for compliance with all government agency requirements and for obtaining the benefit of the applicable guarantee or insurance with respect to defaulted government-guaranteed or -insured mortgage loans. Any losses incurred on such loans that are not recovered from the issuer or the guarantor are absorbed by the servicer. Therefore, the FHLBanks only have credit risk for these loans if the servicer fails to pay for losses not covered by the guarantee or insurance. Based on the FHLBanks' assessment of their servicers, the FHLBanks did not establish an allowance for credit losses for their government-guaranteed or -insured mortgage loan portfolio at December 31, 2011 and 2010. Furthermore, due to the government guarantee or insurance, none of these mortgage loans have been placed on non-accrual status.

Mortgage Loans Held for Portfolio - Conventional MPF, Conventional MPP and Other Loans

Each FHLBank determines its allowances for conventional loans through analyses that include consideration of various data observations such as past performance, current performance, loan portfolio characteristics, collateral-related characteristics, industry data, and prevailing economic conditions. The measurement of the allowance for loan losses may consist of: (1) mortgage loans evaluated at the individual master commitment level; (2) individually evaluated mortgage loans; (3) collectively evaluated mortgage loans; or (4) estimating additional credit loss in conventional mortgage loans.

Mortgage Loans Evaluated at the Individual Master Commitment Level. The credit risk analysis of all conventional MPF Loans is performed at the individual master commitment level to determine the credit enhancements available to recover losses on MPF Loans under each individual master commitment.

Individually Evaluated Mortgage Loans. Certain conventional mortgage loans, primarily impaired mortgage loans that are considered collateral dependent, may be specifically identified for purposes of calculating the allowance for credit losses. A mortgage loan is considered collateral dependent if repayment is only expected to be provided by the sale of the underlying property - that is, if it is considered likely that the borrower will default and there is no credit enhancement from a participating financial institution to offset losses under the master commitment. The estimated credit losses on impaired collateral-dependent loans may be separately determined because sufficient information exists to make a reasonable estimate of the inherent loss for such loans on an individual loan basis. Each FHLBank applies an appropriate loss severity rate, which is used to estimate the fair value of its collateral. The resulting incurred loss is equal to the difference between the carrying value of the loan and the estimated fair value of the collateral less estimated selling costs.

Collectively Evaluated Mortgage Loans. The credit risk analysis of conventional loans evaluated collectively for impairment by an FHLBank considers loan pool specific attribute data, applies estimated loss severities and incorporates the credit enhancements of the mortgage loan programs in order to determine the FHLBank's best estimate of probable incurred losses. Migration analysis is a methodology for determining, through an FHLBank's experience over a historical period, the rate of default on pools of similar loans. Certain FHLBanks apply migration analysis to loans based on payment status categories such as current, 30, 60, and 90 days past due as well as to loans 60 days past due following receipt of notice of filing from the

bankruptcy court. Each of the FHLBanks then estimates how many loans in these categories may migrate to a realized loss position and applies a loss severity factor to estimate losses incurred at the statement of condition date.

Estimating a Margin of Imprecision. Certain FHLBanks also assess a factor for the margin of imprecision to the estimation of loan losses for their respective homogeneous loan population. The margin of imprecision is a factor in the allowance for credit losses that recognizes the imprecise nature of the measurement process and is included as part of the mortgage loan allowance for credit loss. This amount represents a subjective management judgment based on facts and circumstances that exist as of the reporting date that is unallocated to any specific measurable economic or credit event and is intended to cover other inherent losses that may not be captured in the methodology. Therefore, the allowance for credit losses that includes this margin of imprecision represents management's best estimate of probable loan losses. However, the actual loss that may occur on homogeneous pools of mortgage loans may be more or less than the estimated loss.

Rollforward of Allowance for Credit Losses on Mortgage Loans. Each FHLBank established an allowance for credit losses on its conventional mortgage loans held for portfolio. Tables 11.1 and 11.2 present a rollforward of the allowance for credit losses on mortgage loans for the years ended December 31, 2011, 2010 and 2009 and the recorded investment in mortgage loans by impairment methodology at December 31, 2011 and 2010. The recorded investment in a loan is the unpaid principal balance of the loan, adjusted for accrued interest, net deferred loan fees or costs, unamortized premiums or discounts, fair value hedge adjustments and direct write-downs. The recorded investment is not net of any valuation allowance.

Table 11.1 - Rollforward of Allowance for Credit Losses on Mortgage Loans

(dollars in millions)

	Year Ended December 31,					
	2011				2010	2009
	Conventional MPP	Conventional MPF	Other	Total	Total	Total
Balance, at beginning of period	$ 15	$ 70	$ 1	$ 86	$ 32	$ 15
Charge-offs	(6)	(14)	—	(20)	(6)	(1)
Provision (reversal) for credit losses(1)	21	51	—	72	60	18
Balance, at end of period	$ 30	$ 107	$ 1	$ 138	$ 86	$ 32

(1) The provision for credit losses includes only the provision related specifically to mortgage loans and does not include the reversal for credit losses related to Banking on Business loans specific to the FHLBank of Pittsburgh of $1 million and $2 million for the years ended December 31, 2011 and 2010.

Table 11.2 - Allowance for Credit Losses and Recorded Investment by Impairment Methodology

(dollars in millions)

	December 31,				
	2011				2010
	Conventional MPP	Conventional MPF	Other	Total	Total
Allowances for credit losses, end of period					
Individually evaluated for impairment	$ —	$ 50	$ —	$ 50	$ 17
Collectively evaluated for impairment	$ 30	$ 57	$ 1	$ 88	$ 69
Recorded investment, end of period(1)					
Individually evaluated for impairment					
Impaired, with or without a related allowance	$ 5	$ 352	$ —	$ 357	$ 173
Not impaired, no related allowance	—	1,369	—	1,369	1,246
Total individually evaluated for impairment	5	1,721	—	1,726	1,419
Collectively evaluated for impairment	13,010	32,072	22	45,104	52,761
Total recorded investment	$ 13,015	$ 33,793	$ 22	$ 46,830	$ 54,180

(1) Excludes government-guaranteed or -insured loans at December 31, 2011 and 2010.

Credit Quality Indicators. Key credit quality indicators for mortgage loans include the migration of past due loans, non-accrual loans, loans in process of foreclosure and impaired loans. Table 11.3 presents the FHLBanks' key credit quality indicators for mortgage loans at December 31, 2011 and 2010.

Table 11.3 - Recorded Investment in Delinquent Mortgage Loans

(dollars in millions)

	December 31, 2011				
	Conventional MPP	Conventional MPF	Government	Other	Total
Past due 30-59 days delinquent	$ 169	$ 522	$ 395	$ —	$ 1,086
Past due 60-89 days delinquent	69	170	128	—	367
Past due 90 days or more delinquent	276	702	396	—	1,374
Total past due mortgage loans	514	1,394	919	—	2,827
Total current mortgage loans	12,501	32,399	6,029	22	50,951
Total mortgage loans	$ 13,015	$ 33,793	$ 6,948	$ 22	$ 53,778
Other delinquency statistics					
In process of foreclosure, included above(1)	$ 210	$ 467	$ 114	$ —	$ 791
Serious delinquency rate(2)	2.13%	2.09%	5.70%	—	1.47%
Past due 90 days or more and still accruing interest	$ 217	$ 128	$ 396	$ —	$ 741
Loans on non-accrual status(3)	$ 63	$ 618	$ —	$ —	$ 681

	December 31, 2010				
	Conventional MPP	Conventional MPF	Government	Other	Total
Past due 30-59 days delinquent	$ 197	$ 584	$ 423	$ —	$ 1,204
Past due 60-89 days delinquent	69	204	154	—	427
Past due 90 days or more delinquent	255	698	386	—	1,339
Total past due mortgage loans	521	1,486	963	—	2,970
Total current mortgage loans	14,868	37,277	6,437	28	58,610
Total mortgage loans	$ 15,389	$ 38,763	$ 7,400	$ 28	$ 61,580
Other delinquency statistics					
In process of foreclosure, included above(1)	$ 178	$ 447	$ 133	$ —	$ 758
Serious delinquency rate(2)	1.66%	1.82%	5.23%	—	2.19%
Past due 90 days or more and still accruing interest	$ 240	$ 219	$ 386	$ —	$ 845
Loans on non-accrual status(3)	$ 15	$ 502	$ —	$ —	$ 517

(1) Includes loans where the decision of foreclosure or a similar alternative such as pursuit of deed-in-lieu has been reported. Loans in process of foreclosure are included in past due or current loans depending on their delinquency status.

(2) Serious delinquency rate represents loans that are 90 days or more past due or in process of foreclosure divided by the recorded investment of the total mortgage loan portfolio amount by that class.

(3) Generally represents mortgage loans with contractual principal or interest payments 90 days or more past due and not accruing interest.

Individually Evaluated Impaired Loans. Table 11.4 and 11.5 present the recorded investment, unpaid principal balance and related allowance of impaired loans individually assessed for impairment at December 31, 2011 and 2010, and the average recorded investment and related interest income recognized on these loans during 2011 and 2010.

Table 11.4 - Individually Evaluated Impaired Loan Statistics by Product Class Level

(dollars in millions)

	December 31, 2011			December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance						
Conventional MPP Loans	$ 3	$ 3	$ —	$ —	$ —	$ —
Conventional MPF Loans	30	30	—	30	30	—
With an allowance						
Conventional MPP Loans	2	2	—	—	—	—
Conventional MPF Loans	322	320	50	143	142	19
Total						
Conventional MPP Loans	$ 5	$ 5	$ —	$ —	$ —	$ —
Conventional MPF Loans	$ 352	$ 350	$ 50	$ 173	$ 172	$ 19

Table 11.5 - Average Recorded Investment of Individually Impaired Loans and Related Interest Income Recognized

(dollars in millions)

	Year Ended December 31,			
	2011		2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance				
Conventional MPP Loans	$ 3	$ —	$ —	$ —
Conventional MPF Loans	29	—	25	—
With an allowance				
Conventional MPP Loans	1	—	—	—
Conventional MPF Loans	196	6	117	3
Total				
Conventional MPP Loans	$ 4	$ —	$ —	$ —
Conventional MPF Loans	$ 225	$ 6	$ 142	$ 3

Credit Enhancements. The FHLBanks' allowance for credit losses considers the credit enhancements associated with conventional mortgage loans under the MPF and MPP Programs. These credit enhancements apply after a homeowner's equity is exhausted. Credit enhancements considered may include primary mortgage insurance, supplemental mortgage insurance, the credit enhancement amount plus any performance-based credit enhancement fees (for MPF Loans) and Lender Risk Account (for MPP Loans). Any incurred losses that would be recovered from the credit enhancements are not reserved as part of the FHLBanks' allowance for credit losses on mortgage loans.

Each MPF FHLBank and its participating financial institution share the risk of credit losses on conventional MPF Loan products, other than the MPF Xtra product, by structuring potential losses on conventional MPF Loans into layers with respect to each Master Commitment. Each MPF FHLBank is obligated to incur the first layer or portion of credit losses (which is called First Loss Account) that is not absorbed by the borrower's equity after any primary mortgage insurance. The First Loss Account functions as a tracking mechanism for determining the point after which the participating financial institution is required to cover the next layer of losses up to an agreed-upon credit enhancement amount. The credit enhancement amount may consist of a direct liability of the participating financial institution to pay credit losses up to a specified amount, a contractual obligation of a participating financial institution to provide supplemental mortgage insurance or a combination of both. Any remaining unallocated losses are absorbed by an MPF FHLBank. An MPF FHLBank's losses incurred under the First Loss Account may be recovered by withholding future performance credit enhancement fees otherwise paid to the participating financial institutions. At December 31, 2011 and 2010, the amounts of First Loss Account remaining to cover the losses under the MPF program were $502 million and $517 million, which exclude amounts that may be recovered through performance-based credit enhancement fees. The FHLBanks record credit enhancement fees paid to the participating financial institutions as a reduction to mortgage interest income. Credit enhancement fees totaled $33 million, $44 million, and $59 million for the years ended December 31, 2011, 2010 and 2009.

The conventional mortgage loans under the MPP are supported by a combination of primary mortgage insurance, supplemental mortgage insurance and Lender Risk Account, in addition to the associated property as collateral. The Lender Risk Account is funded by an FHLBank either up-front as a portion of the purchase proceeds or through a portion of the net interest remitted monthly by the borrower. The Lender Risk Account is a lender-specific account funded by an FHLBank in an amount approximately sufficient to cover expected losses on the pool of mortgages. The Lender Risk Account is recorded in other liabilities in the Combined Statement of Condition. To the extent available, Lender Risk Account funds are used to offset any losses that occur. Typically after five years, excess funds over required balances are distributed to the member in accordance with a step-down schedule that is established at the time of a master commitment contract. The Lender Risk Account is released in accordance with the terms of the Master Commitment.

Table 11.6 - Changes in the MPP Lender Risk Account

(dollars in millions)

	Year Ended December 31,	
	2011	2010
Lender Risk Account, at beginning of period	$ 80	$ 97
Additions	42	10
Claims	(19)	(22)
Scheduled distributions	(3)	(5)
Lender Risk Account, at end of period	$ 100	$ 80

Troubled debt restructurings. A troubled debt restructuring is considered to have occurred when a concession is granted to a borrower for economic or legal reasons related to the borrower's financial difficulties and that concession would not have been considered otherwise.

The FHLBanks' MPF Loan troubled debt restructurings primarily involve modifying the borrower's monthly payment for a period of up to 36 months to no more than a housing expense ratio of 38% of their monthly income. The outstanding principal balance is re-amortized to reflect a principal and interest payment for a term not to exceed 40 years. This would result in a balloon payment at the original maturity date of the loan as the maturity date and number of remaining monthly payments is unchanged. If the 38% housing expense ratio is still not met, the interest rate is reduced for up to 36 months in 0.125% increments below the original note rate, to a floor rate of 3.00%, resulting in reduced principal and interest payments, until the target 38% housing expense ratio is met.

The MPP troubled debt restructurings primarily involve loans where an agreement permits the recapitalization of past due amounts up to the original loan amount. Under this type of modification, no other terms of the original loan are modified, including the borrower's original interest rate and contractual maturity.

An MPF or MPP Loan considered to be a troubled debt restructuring is individually evaluated for impairment when determining its related allowance for credit losses. Credit loss is measured by factoring in expected cash shortfalls (i.e., loss severity rate) incurred as of the reporting date as well as the economic loss attributable to delaying the original contractual principal and interest due dates, if applicable.

Table 11.7 - Performing and Non-performing Troubled Debt Restructurings

(dollars in millions)

	December 31, 2011			December 31, 2010		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Conventional MPP Loans	$ 4	$ 2	$ 6	$ 1	$ —	$ 1
Conventional MPF Loans	17	9	26	5	1	6
Total	$ 21	$ 11	$ 32	$ 6	$ 1	$ 7

During 2011 and 2010, the FHLBanks had a limited number of troubled debt restructurings of mortgage loans. Table 11.8 presents the financial effect of the modifications during 2011.

Table 11.8 - Troubled Debt Restructurings - Recorded Investment Balance at Modification Date

(dollars in millions)

	Year Ended December 31, 2011	
	Pre-Modification	Post-Modification
Conventional MPP Loans	$ 5	$ 5
Conventional MPF Loans	21	21
Total	$ 26	$ 26

During 2011, certain conventional MPF and MPP Loans modified as troubled debt restructurings within the previous twelve months experienced a payment default. Table 11.9 presents the amount of such MPF and MPP Loans that defaulted.

Table 11.9 - Recorded Investment of Troubled Debt Restructurings During 2011 that Subsequently Defaulted

(dollars in millions)

	December 31, 2011
Conventional MPP Loans	$ 1
Conventional MPF Loans	8
Total	$ 9

As a result of adopting the new accounting guidance for a creditor's determination of whether a restructuring is a troubled debt restructuring as discussed in *Note 2—Recently Issued and Adopted Accounting Guidance*, the FHLBanks reassessed all restructurings that occurred on or after January 1, 2011 for identification as troubled debt restructurings. The FHLBanks identified as troubled debt restructurings certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology. Upon identifying those receivables as troubled debt restructurings, the FHLBanks identified them as impaired and applied the impairment measurement guidance for those receivables prospectively. As of December 31, 2011, $4 million of conventional MPP Loans and $5 million of conventional MPF Loans were identified as newly impaired and an allowance for credit losses of $1 million was recorded on these loans.

Real Estate Owned. The FHLBanks had $107 million and $119 million of real estate owned recorded in other assets on the Combined Statement of Condition at December 31, 2011 and 2010.

Term Securities Purchased Under Agreements to Resell and Term Federal Funds Sold

These investments are generally short-term and their recorded balance approximates fair value. The FHLBanks invest in Federal funds with investment-grade counterparties which are only evaluated for purposes of an allowance for credit losses if the investment is not paid when due. All investments in Federal funds as of December 31, 2011 and 2010 were repaid or expected to repay according to the contractual terms. Securities purchased under agreements to resell are considered collateralized financing arrangements and effectively represent short-term loans with investment-grade counterparties. As discussed in *Note 4—Securities Purchased Under Agreements to Resell*, the terms of these loans are structured such that if 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 as collateral or remit an equivalent amount of cash, or the dollar value of the resale agreement will be decreased accordingly. If an agreement to resell is deemed to be impaired, the difference between the fair value of the collateral and the amortized cost of the agreement is charged to earnings. Based upon the collateral held as security, the FHLBanks determined that no allowance for credit losses was needed for the securities purchased under agreements to resell at December 31, 2011 and 2010.

Note 12—Derivatives and Hedging Activities

Nature of Business Activity

The FHLBanks are exposed to interest-rate risk primarily from the effect of interest rate changes on their interest-earning assets and their funding sources that finance these assets. The goal of each FHLBank's interest-rate risk management strategies is not to eliminate interest-rate risk, but to manage it within appropriate limits. To mitigate the risk of loss, each FHLBank has established policies and procedures, which include guidelines on the amount of exposure to interest rate changes it is willing to accept. In addition, each FHLBank monitors the risk to its interest income, net interest margin and average maturity of interest-earning assets and funding sources.

Consistent with FHFA regulation, an FHLBank enters into derivatives to (1) manage the interest-rate risk exposures inherent in its otherwise unhedged assets and funding positions, (2) to achieve the FHLBank's risk management objectives, and (3) to act as an intermediary between its members and counterparties. FHFA regulation and each FHLBank's risk management policy prohibit trading in or the speculative use of these derivative instruments and limit credit risk arising from these instruments. The use of derivatives is an integral part of each FHLBank's financial management strategy.

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

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

Application of Derivatives

Derivative financial instruments may be used by an FHLBank as follows:

- As a fair value or cash flow hedge of an associated financial instrument, a firm commitment or an anticipated transaction.
- As an economic hedge to manage certain defined risks in its statement of condition. These hedges are primarily used to manage mismatches between the coupon features of its assets and liabilities and offset prepayment risks in certain assets. For example, an FHLBank may use derivatives in its overall interest rate risk management activities to adjust the interest rate sensitivity of consolidated obligations to approximate more closely the interest rate sensitivity of its assets (both advances and investments), and to adjust the interest-rate sensitivity of advances or investments to approximate more closely the interest rate sensitivity of its liabilities. In addition, to reduce its exposure to reset risk, an FHLBank may occasionally enter into forward-rate agreements, which are also treated as economic hedges.
- As an intermediary hedge to meet the asset or liability management needs of its members. An FHLBank acts as an intermediary by entering into derivatives with its members and offsetting derivatives with other counterparties. This intermediation grants smaller members indirect access to the derivatives market. The derivatives used in intermediary activities do not receive hedge accounting treatment and are separately marked-to-market through earnings. The net result of the accounting for these derivatives does not significantly affect the operating results of the FHLBanks.

Derivative financial instruments are used by an FHLBank when they are considered to be the most cost-effective alternative to achieve the FHLBank's financial and risk management objectives. Each FHLBank reevaluates its hedging strategies from time to time and may change the hedging techniques it uses or may adopt new strategies.

Each FHLBank transacts most of its derivatives with large banks and major broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell, and distribute consolidated obligations. FHLBanks are not derivative dealers and thus do not trade derivatives for short-term profit.

Types of Derivatives

An FHLBank may use the following instruments to reduce funding costs and to manage its exposure to interest-rate risks inherent in the normal course of business.

Interest-Rate Swaps. An interest-rate swap is an agreement between two entities to exchange cash flows in the future. The agreement sets the dates on which the cash flows will be paid and the manner in which the cash flows will be calculated. One of the simplest forms of an interest-rate swap involves the promise by one party to pay cash flows equivalent to the interest on a notional amount at a predetermined fixed rate for a given period of time. In return for this promise, this party receives cash flows equivalent to the interest on the same notional amount at a variable-rate index for the same period of time. The variable rate received by the FHLBanks in most derivatives is the London Interbank Offered Rate (LIBOR).

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

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

Options. An option is an agreement between two entities that conveys the right, but not the obligation, to engage in a future transaction on some underlying security or other financial asset at an agreed-upon price during a certain period of time or on a specific date. Premiums paid to acquire options in fair value hedging relationships are considered the fair value of the derivative at inception of the hedge and are reported in derivative assets or derivative liabilities.

Futures and Forwards Contracts. An FHLBank may use futures and forward contracts in order to hedge interest-rate risk. For example, certain mortgage purchase commitments entered into by an FHLBank are considered derivatives. An FHLBank may hedge these commitments by selling to-be-announced (TBA) mortgage-backed securities for forward settlement. A TBA represents a forward contract for the sale of mortgage-backed securities at a future agreed upon date for an established price.

Types of Hedged Items

Each FHLBank documents at inception all relationships between derivatives designated as hedging instruments and hedged items, its risk management objectives and strategies for undertaking various hedge transactions, and its method of assessing effectiveness. This process includes linking all derivatives that are designated as fair value or cash flow hedges to: (1) assets and liabilities on the statement of condition, (2) firm commitments or (3) forecasted transactions. An FHLBank also formally assesses (both at the hedge's inception and at least quarterly) whether the derivatives that it uses in hedging transactions have been effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain effective in future periods. An FHLBank typically uses regression analyses or other statistical analyses to assess the effectiveness of its hedges.

Consolidated Obligations. An FHLBank enters into derivatives to hedge the interest-rate risk associated with its specific debt issuances. An FHLBank manages the risk arising from changing market prices and volatility of a consolidated obligation by matching the cash inflow on the derivative with the cash outflow on the consolidated obligation.

For example, fixed-rate consolidated obligations may be issued for one or more FHLBanks, and each of those FHLBanks may simultaneously enter into a matching derivative in which the counterparty pays fixed cash flows to the FHLBank, which are designed to match in timing and amount the cash outflows the FHLBank pays on the consolidated obligation. The FHLBank pays a variable cash flow that closely matches the interest payments it receives on short-term or variable-rate advances (typically one- or three-month LIBOR). These transactions are typically treated as fair value hedges. The FHLBanks may issue variable-rate consolidated bonds indexed to LIBOR, the U.S. Prime rate, or federal funds rate and simultaneously execute interest-rate swaps to hedge the basis risk of the variable-rate debt.

This strategy of issuing bonds while simultaneously entering into derivatives enables an FHLBank to offer a wider range of attractively priced advances to its members and may allow an FHLBank to reduce its funding costs. The continued attractiveness of such debt depends on yield relationships between the bond and derivative markets. If conditions in these markets change, an FHLBank may alter the types or terms of the bonds that it issues. By acting in both the capital and the swap markets, the FHLBanks can raise funds at lower costs than through the issuance of simple fixed- or variable-rate consolidated obligations in the capital markets alone.

Advances. The FHLBanks offer a wide array of advance structures to meet members' funding needs. These advances may have maturities up to 30 years with variable or fixed rates and may include early termination features or options. An FHLBank may use derivatives to adjust the repricing and/or options characteristics of advances in order to match more closely the characteristics of that FHLBank's funding liabilities. In general, whenever a member executes a fixed-rate advance or a variable-rate advance with embedded options, the FHLBank will simultaneously execute a derivative with terms that offset the terms and embedded options, if any, in the advance. For example, the FHLBank may hedge a fixed-rate advance with an interest-rate swap where the FHLBank pays a fixed-rate coupon and receives a variable-rate coupon, effectively converting the fixed-rate advance to a variable-rate advance. This type of hedge is typically treated as a fair value hedge.

When issuing convertible advances, an FHLBank has the right to convert to/from a fixed-rate advance from/to a variable-rate advance if interest rates increase/decrease. A convertible advance carries an interest rate lower than a comparable-maturity fixed-rate advance that does not have the conversion feature. With a putable advance, an FHLBank effectively purchases a put option from the member that allows the FHLBank to put or extinguish the fixed-rate advance, which the FHLBank normally would exercise when interest rates increase. An FHLBank may hedge these advances by entering into a cancelable interest-rate exchange agreement.

Mortgage Loans. The FHLBanks invest in fixed-rate mortgage loans. The prepayment options embedded in these mortgage loans can result in extensions or contractions in the expected repayment of these investments, depending on changes in estimated prepayment speeds. The FHLBanks manage the interest-rate and prepayment risks associated with mortgages through a combination of debt issuance and derivatives. The FHLBanks issue both callable and noncallable debt and prepayment-linked consolidated obligations to achieve cash flow patterns and liability durations similar to those expected on the mortgage loans. 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.

A combination of swaps and options, including futures, may be used as a portfolio of derivatives linked to a portfolio of mortgage loans. The portfolio of mortgage loans consists of one or more pools of similar assets, as determined by factors such as product type and coupon. As the portfolio of loans changes due to new loans, liquidations and payments, the derivative portfolio is modified accordingly to hedge the interest-rate and prepayment risks effectively. A new hedging relationship is created and is treated as a fair value hedge.

Options may also be used to hedge prepayment risk on the mortgages, many of which are not identified to specific mortgages, and therefore do not receive fair value or cash flow hedge accounting treatment. The FHLBanks may also purchase interest-rate caps and floors, swaptions, callable swaps, calls and puts to minimize the prepayment risk embedded in the mortgage loans. Although these derivatives are valid economic hedges against the prepayment risk of the loans, they are not specifically linked to individual loans; and therefore do not receive either fair value or cash flow hedge accounting. These derivatives are marked-to-market through earnings.

Anticipated Streams of Future Cash Flows. An FHLBank may enter into an option to hedge a specified future variable cash stream as a result of rolling over short-term, fixed-rate financial instruments such as LIBOR advances and consolidated discount notes. The option will effectively cap the variable cash stream at a predetermined target rate.

Firm Commitments. Certain mortgage purchase commitments are considered derivatives. An FHLBank normally hedges these commitments by selling TBA mortgage-backed securities or other derivatives for forward settlement. The mortgage purchase commitment and the TBA used in the firm commitment hedging strategy (economic hedge) are recorded as a derivative asset or derivative liability at fair value, with changes in fair value recognized in current-period earnings. When the mortgage purchase commitment derivative settles, the current market value of the commitment is included with the basis of the mortgage loan and amortized accordingly.

An FHLBank 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. In addition, if a hedged firm commitment no longer qualifies as a fair value hedge, the hedge would be terminated and net gains and losses would be recognized in current-period earnings. There were no material amounts of gains and losses recognized due to disqualification of firm commitment hedges during the years ended December 31, 2011, 2010 and 2009.

Investments. The FHLBanks primarily invest in mortgage-backed securities, U.S. agency obligations, certificates of deposit and the taxable portion of state or local housing finance agency obligations, which may be classified as held-to-maturity, available-for-sale or trading securities. The interest-rate and prepayment risks associated with these investment securities are managed through a combination of debt issuance and derivatives. An FHLBank may manage the prepayment and interest-rate risks by funding investment securities with consolidated obligations that have call features or by hedging the prepayment risk with caps or floors, callable swaps or swaptions. An FHLBank may manage prepayment and duration risk by funding investment securities with consolidated obligations that contain call features. An FHLBank may also manage the risk arising from changing market prices and volatility of investment securities by matching the cash outflow on the derivatives with the cash inflow on the investment securities. The derivatives held by the FHLBank that are currently associated with trading securities (carried at fair value) and held-to-maturity securities (carried at amortized cost) are designated as economic hedges. Available-for-sale securities that have been hedged may qualify as either a fair value hedge or a cash flow hedge.

Anticipated Debt Issuance. Certain FHLBanks use derivatives to lock in the cost of funding prior to an anticipated debt issuance and designate them as cash flow hedges. The derivative is terminated upon issuance of the debt instrument.

Variable Cash Streams. Certain FHLBanks use derivatives to hedge the variability of cash flows over a specified period of time as a result of the issuances and maturities of short-term, fixed-rate instruments such as discount notes, and designate them as cash flow hedges. The maturity dates of the cash flow streams are matched to the maturity dates of the derivatives. If the derivatives are terminated prior to their maturity dates, the amount in AOCI is recognized over the remaining lives of the specified cash streams as unrealized gains or losses on hedging activities.

Financial Statement Effect and Additional Financial Information

Derivative Notional Amounts. The notional amount of derivatives serves as a factor in determining periodic interest payments or cash flows received and paid. However, the notional amount of derivatives represents neither the actual amounts exchanged nor the overall exposure of the FHLBanks to credit and market risk. The risks of derivatives can be measured meaningfully on a portfolio basis that takes into account the derivatives, the item being hedged and any offsets between the two.

Table 12.1 presents the fair value of derivative instruments. For purposes of this disclosure, the derivative values include the fair value of derivatives and the related accrued interest.

Table 12.1 - Fair Value of Derivative Instruments

(dollars in millions)

	December 31, 2011		
	Notional Amount of Derivatives	Derivative Assets	Derivative Liabilities
Derivatives Designated as Hedging Instruments			
Interest-rate swaps	$ 485,443	$ 5,685	$ 18,286
Interest-rate swaptions	370	32	—
Interest-rate caps or floors	285	—	5
Interest-rate futures or forwards	745	—	33
Total derivatives in hedging relationships	486,843	5,717	18,324
Derivatives Not Designated as Hedging Instruments			
Interest-rate swaps	178,324	1,357	2,210
Interest-rate swaptions	5,020	181	—
Interest-rate caps or floors	33,753	418	64
Interest-rate futures or forwards	445	—	4
Mortgage delivery commitments	1,274	8	4
Other	641	9	9
Total derivatives not designated as hedging instruments	219,457	1,973	2,291
Total derivatives before netting and collateral adjustments	$ 706,300	7,690	20,615
Netting adjustments		(6,287)	(6,287)
Cash collateral and related accrued interest		(767)	(10,758)
Total netting adjustments and cash collateral(1)		(7,054)	(17,045)
Derivative assets and derivative liabilities as reported on the combined statement of condition		$ 636	$ 3,570

	December 31, 2010		
	Notional Amount of Derivatives	Derivative Assets	Derivative Liabilities
Derivatives Designated as Hedging Instruments			
Interest-rate swaps	$ 548,259	$ 6,562	$ 17,379
Interest-rate swaptions	870	29	—
Interest-rate caps or floors	292	1	2
Total derivatives in hedging relationships	549,421	6,592	17,381
Derivatives Not Designated as Hedging Instruments			
Interest-rate swaps	192,019	1,031	1,592
Interest-rate swaptions	9,570	227	—
Interest-rate caps or floors	34,592	610	63
Interest-rate futures or forwards	166	—	1
Mortgage delivery commitments	750	2	4
Other	646	7	6
Total derivatives not designated as hedging instruments	237,743	1,877	1,666
Total derivatives before netting and collateral adjustments	$ 787,164	8,469	19,047
Netting adjustments		(6,402)	(6,402)
Cash collateral and related accrued interest		(1,170)	(7,178)
Total netting adjustments and cash collateral(1)		(7,572)	(13,580)
Derivative assets and derivative liabilities as reported on the combined statement of condition		$ 897	$ 5,467

(1) Amounts represent the effect of legally enforceable master netting agreements that allow an FHLBank to settle positive and negative positions and also cash collateral held or placed with the same counterparties.

Table 12.2 presents the components of net gains (losses) on derivatives and hedging activities as presented in the Combined Statement of Income.

Table 12.2 - Net Gains (Losses) on Derivatives and Hedging Activities

(dollars in millions)

	Year Ended December 31,		
	2011	2010	2009
Derivatives and Hedged Items in Fair Value Hedging Relationships			
Interest-rate swaps	$ 293	$ 278	$ 784
Interest-rate caps or floors	(1)	(1)	—
Other(1)	(5)	3	(10)
Total net gains related to fair value hedge ineffectiveness	287	274	774
Total net gains related to cash flow hedge ineffectiveness	41	5	7
Derivatives Not Designated as Hedging Instruments			
Economic hedges			
Interest-rate swaps	(469)	117	1,881
Interest-rate swaptions	130	(261)	(917)
Interest-rate caps or floors	(195)	(190)	144
Interest-rate futures or forwards	(24)	(1)	3
Net interest settlements	(121)	(256)	(685)
Other	(10)	(6)	1
Mortgage delivery commitments	45	14	(2)
Intermediary transactions			
Interest-rate swaps	—	1	—
Other	—	1	1
Total net gains (losses) related to derivatives not designated as hedging instruments	(644)	(581)	426
Net gains (losses) on derivatives and hedging activities	$ (316)	$ (302)	$ 1,207

(1) Includes derivatives designated by the FHLBank of Chicago as fair value hedging instruments of MPF loan pools.

Table 12.3 presents, by type of hedged item, the gains (losses) on derivatives and the related hedged items in fair-value hedging relationships and the effect of those derivatives on the FHLBanks' net interest income.

Table 12.3 - Effect of Fair Value Hedge-Related Derivative Instruments

(dollars in millions)

	Year Ended December 31, 2011			
Hedged Item Type	Gains (Losses) on Derivatives	Gains (Losses) on Hedged Items	Net Fair Value Hedge Ineffectiveness	Net Effect of Derivatives on Net Interest Income(1)
Advances	$ (1,499)	$ 1,769	$ 270	$ (6,416)
Consolidated bonds	575	(584)	(9)	4,191
Consolidated discount notes	(4)	5	1	5
Available-for-sale securities	(765)	795	30	(393)
Mortgage loans held for portfolio	(1)	(4)	(5)	(8)
Deposits	(1)	1	—	2
Total	$ (1,695)	$ 1,982	$ 287	$ (2,619)

Hedged Item Type	Year Ended December 31, 2010			
	Gains (Losses) on Derivatives	Gains (Losses) on Hedged Items	Net Fair Value Hedge Ineffectiveness	Net Effect of Derivatives on Net Interest Income(1)
Advances	$ (33)	$ 304	$ 271	$ (9,069)
Consolidated bonds	(101)	98	(3)	6,046
Consolidated discount notes	(8)	5	(3)	15
Available-for-sale securities	(268)	280	12	(265)
Mortgage loans held for portfolio	(34)	31	(3)	(47)
Deposits	-	-	-	2
Total	$ (444)	$ 718	$ 274	$ (3,318)

Hedged Item Type	Year Ended December 31, 2009			
	Gains (Losses) on Derivatives	Gains (Losses) on Hedged Items	Net Fair Value Hedge Ineffectiveness	Net Effect of Derivatives on Net Interest Income(1)
Advances	$ 11,237	$ (10,792)	$ 445	$ (10,232)
Consolidated bonds	(5,870)	6,140	270	6,678
Consolidated discount notes	(59)	53	(6)	149
Available-for-sale securities	438	(352)	86	(150)
Mortgage loans held for portfolio	71	(92)	(21)	(79)
Deposits	(2)	2	—	1
Total	$ 5,815	$ (5,041)	$ 774	$ (3,633)

(1) The net effect of derivatives on interest income in fair value hedge relationships is included in the interest income or interest expense line item of the respective hedged item type. These amounts include the effect of net interest settlements attributable to designated fair value hedges but does not include $(327) million, $(373) million and $(620) million of amortization/accretion related to fair value hedging activities for the years ended December 31, 2011, 2010 and 2009.

Table 12.4 presents by type of hedged item in cash flow hedging relationships, the gains (losses) recognized in AOCI, reclassified from AOCI into income, and the effect of those hedging activities on the FHLBanks' net gains (losses) on derivatives and hedging activities on the Combined Statement of Income. (See the *Combined Statement of Capital* for more details on the effect of cash flow hedges on AOCI.)

Table 12.4 - Effect of Cash Flow Hedge-Related Derivative Instruments

(dollars in millions)

Derivatives and Hedged Items in Cash Flow Hedging Relationships(1)	Year Ended December 31, 2011			
	Amount of Gains (Losses) Recognized in AOCI on Derivative (Effective Portion)	Location of Gains (Losses) Reclassified from AOCI into Income (Effective Portion)	Amount of Gains (Losses) Reclassified from AOCI into Income (Effective Portion)	Amount of Gains Recognized in Net Gains (Losses) on Derivatives and Hedging Activities (Ineffective Portion)
Interest-rate swaps				
Consolidated bonds	$ (2)	Interest expense	$ (9)	$ —
Consolidated discount notes	(534)	Interest expense	(5)	4
Interest-rate caps or floors				
Advances	37	Interest income	31	37
Consolidated discount notes	—	Interest expense	(13)	—
Interest-rate futures or forwards				
Consolidated bonds	(32)	Interest expense	—	—
Total	$ (531)		$ 4	$ 41

Derivatives and Hedged Items in Cash Flow Hedging Relationships(1)	Year Ended December 31, 2010			
	Amount of Gains (Losses) Recognized in AOCI on Derivative (Effective Portion)	Location of Gains (Losses) Reclassified from AOCI into Income (Effective Portion)	Amount of Gains (Losses) Reclassified from AOCI into Income (Effective Portion)	Amount of Gains Recognized in Net Gains (Losses) on Derivatives and Hedging Activities (Ineffective Portion)
Interest-rate swaps				
Consolidated bonds	$ —	Interest expense	$ (13)	$ —
Consolidated discount notes	(304)	Interest expense	(5)	5
Interest-rate caps or floors				
Advances	8	Interest income	38	—
Consolidated discount notes	—	Interest expense	(14)	—
Total	$ (296)		$ 6	$ 5

Derivatives and Hedged Items in Cash Flow Hedging Relationships(1)	Year Ended December 31, 2009			
	Amount of Gains (Losses) Recognized in AOCI on Derivative (Effective Portion)	Location of Gains (Losses) Reclassified from AOCI into Income (Effective Portion)	Amount of Gains (Losses) Reclassified from AOCI into Income (Effective Portion)	Amount of Gains Recognized in Net Gains (Losses) on Derivatives and Hedging Activities (Ineffective Portion)
Interest-rate swaps				
Consolidated bonds	$ —	Interest expense	$ (16)	$ —
Consolidated discount notes	405	Interest expense	(4)	7
Interest-rate caps or floors				
Advances	(109)	Interest income	(14)	—
Consolidated discount notes	—	Interest expense	(15)	—
Total	$ 296		$ (49)	$ 7

(1) Table 12.4 does not include $(325) million, $(352) million and $(340) million for the effect of net interest settlements attributable to open cash flow hedges on net interest income for the years ended December 31, 2011, 2010 and 2009.

There were no material amounts for the years ended December 31, 2011, 2010 and 2009 that were reclassified from AOCI into earnings as a result of discontinued cash flow hedges because the original forecasted transactions occurred by the end of the originally specified time period or within a two-month period thereafter. At December 31, 2011, no material amount of deferred net gains on derivative instruments in AOCI is expected to be reclassified to earnings during the next twelve months. The maximum length of time over which the FHLBanks are hedging their exposure to the variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, is generally no more than six months. However, certain FHLBanks hedge the risk of variability of cash flows associated with forecasted future consolidated obligation issuances generally up to a maximum of nine years.

Managing Credit Risk on Derivatives

Each FHLBank is subject to credit risk due to nonperformance by counterparties to interest-rate exchange agreements. The degree of counterparty risk depends on the extent to which master netting arrangements are included in such contracts to mitigate the risk. Each FHLBank manages counterparty credit risk through credit analysis, collateral requirements and adherence to the requirements set forth in its policies and FHFA regulations. Each FHLBank requires collateral agreements with collateral delivery thresholds on all derivatives. Additionally, collateral related to derivatives with member institutions includes collateral assigned to an FHLBank, as evidenced by a written security agreement and held by the member institution for the benefit of the FHLBank. Based on credit analyses and collateral requirements, the management of each FHLBank does not anticipate any credit losses on its derivative agreements. (See *Note 21—Fair Value* for discussion regarding the FHLBanks' fair value methodology for derivative assets and liabilities, including an evaluation of the potential for the fair value of these instruments to be affected by counterparty credit risk.)

Table 12.5 presents credit risk exposure on derivative instruments, excluding the amount of excess cash collateral received from counterparties in instances where a counterparty's pledged collateral to an FHLBank exceeds the FHLBank's net position.

Table 12.5 - Credit Risk Exposure

(dollars in millions)

	December 31,	
	2011	2010
Total net exposure at fair value(1)	$ 1,403	$ 2,061
Cash collateral held	767	1,170
Net exposure after cash collateral	636	891
Other collateral held	479	721
Net exposure after collateral	$ 157	$ 170

(1) Includes net accrued interest receivable of $139 million and $376 million at December 31, 2011 and 2010.

Certain of the FHLBanks' derivative instruments contain provisions that require an FHLBank to post additional collateral with its counterparties if there is deterioration in that FHLBank's credit rating. If an FHLBank's credit rating is lowered by a major credit rating agency, that FHLBank would be required to deliver additional collateral on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position (before cash collateral and related accrued interest) at December 31, 2011 was $12.2 billion, for which the FHLBanks have posted collateral of $10.6 billion in the normal course of business. If each FHLBank's credit rating had been lowered from its current rating to the next lower rating that would have triggered additional collateral to be delivered, the FHLBanks would have been required to deliver up to an additional $0.9 billion of collateral to their derivatives counterparties at December 31, 2011.

On August 2, 2011, Moody's confirmed the long-term Aaa rating on the senior unsecured debt issues of the FHLBank System and the 12 FHLBanks. In conjunction with the revision of the U.S. government outlook to negative, Moody's rating outlook for the FHLBank System and the 12 FHLBanks was also revised to negative.

On August 5, 2011, S&P lowered its long-term credit rating on the United States from AAA to AA+ with a negative outlook. S&P has indicated that its ratings of the FHLBanks and the FHLBank System are constrained by the long-term credit rating of the United States. On August 8, 2011, S&P downgraded the long-term credit ratings on the senior unsecured debt issues of the FHLBank System and 10 of the 12 FHLBanks from AAA to AA+. The FHLBanks of Chicago and Seattle were already rated AA+ prior to the United States downgrade. S&P's outlook for the FHLBank System's senior unsecured debt and all 12 FHLBanks is negative. However, S&P's actions did not affect either the short-term A-1+ ratings of the FHLBanks or the FHLBank System's short-term debt issues.

Note 13—Deposits

The FHLBanks offer demand and overnight deposits to members and qualifying non-members. In addition, the FHLBanks offer short-term interest-bearing deposit programs to members. A member that services mortgage loans may deposit in its FHLBank funds collected in connection with the mortgage loans, pending disbursement of these funds to the owners of the mortgage loans; the FHLBanks classify these items as other deposits.

Deposits classified as demand, overnight and other pay interest based on a daily interest rate. Term deposits pay interest based on a fixed rate determined at the issuance of the deposit. The weighted-average interest rates paid on average deposits were 0.05%, 0.08% and 0.11% during the years ended December 31, 2011, 2010 and 2009.

Table 13.1 - Deposits

(dollars in millions)

	December 31, 2011	December 31, 2010
Interest-bearing		
Demand and overnight	$ 11,795	$ 12,776
Term	293	1,129
Other	115	75
Total interest-bearing	12,203	13,980
Non-interest-bearing		
Demand and overnight	157	160
Other	204	261
Total non-interest-bearing	361	421
Total deposits	$ 12,564	$ 14,401

The aggregate amount of time deposits with a denomination of $100 thousand or more was $291 million and $1,125 million as of December 31, 2011 and 2010.

Note 14—Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are carried at amortized cost. The FHLBank of Chicago has delivered securities sold under agreements to repurchase to a primary dealer, with $400 million maturing in 2012. If the fair value of the underlying securities falls below the fair value required as collateral, then the affected FHLBank must deliver additional securities to the dealer. Investment securities having a carrying value of $414 million were pledged as collateral for repurchase agreements as of December 31, 2011, all of which was permitted to be sold or repledged by the secured party.

Note 15—Consolidated Obligations

Consolidated obligations consist of consolidated bonds and consolidated discount notes. The FHLBanks issue consolidated obligations through the Office of Finance as their agent. In connection with each debt issuance, an FHLBank specifies the amount of debt it wants issued on its behalf. The Office of Finance tracks the amount of debt issued on behalf of each FHLBank. In addition, each FHLBank separately tracks and records as a liability its specific portion of consolidated obligations for which it is the primary obligor.

The FHFA and the U.S. Secretary of the Treasury have oversight over the issuance of FHLBank debt through the Office of Finance. Consolidated bonds are issued primarily to raise intermediate- and long-term funds for the FHLBanks and are not subject to any statutory or regulatory limits on their maturity. Consolidated discount notes are issued primarily to raise short-term funds and have original maturities of up to one year. These notes sell at less than their face amount and are redeemed at par value when they mature.

Although each FHLBank is primarily liable for its portion of consolidated obligations (i.e., those issued on its behalf), each FHLBank is also jointly and severally liable with the other FHLBanks for the payment of principal and interest on all consolidated obligations of each of the FHLBanks. The FHFA, at its discretion, may require any FHLBank to make principal or interest payments due on any consolidated obligation whether or not the consolidated obligation represents a primary liability of that FHLBank. Although it has never occurred, to the extent that an FHLBank makes any payment on a consolidated obligation on behalf of another FHLBank that is primarily liable for such consolidated obligation, FHFA regulations provide that the paying FHLBank is entitled to reimbursement from the non-complying FHLBank for any payments made on its behalf and other associated costs (including interest to be determined by the FHFA). If, however, the FHFA determines that the non-complying FHLBank is unable to satisfy its repayment obligations, then the FHFA may allocate the outstanding liabilities of the non-complying FHLBank among the remaining FHLBanks on a pro-rata basis in proportion to each FHLBank's participation in all consolidated obligations outstanding. The FHFA reserves the right to allocate the outstanding liabilities for the consolidated obligations between the FHLBanks in any other manner it may determine to ensure that the FHLBanks operate in a safe and sound manner.

The par values of the 12 FHLBanks' outstanding consolidated obligations, including consolidated obligations held by other FHLBanks, were $691.9 billion and $796.4 billion at December 31, 2011 and 2010. Regulations require each FHLBank to maintain unpledged qualifying assets equal to its participation in the consolidated obligations outstanding. Qualifying assets are defined as cash; secured advances; assets with an assessment or rating at least equivalent to the current assessment or rating of the consolidated obligations; obligations of or fully guaranteed by the United States, obligations, participations or other instruments of or issued by Fannie Mae or Ginnie Mae; mortgages, obligations or other securities which are or have ever been sold by Freddie Mac under the FHLBank Act; and such securities as fiduciary and trust funds may invest in under the laws of the state in which the FHLBank is located. Any assets subject to a lien or pledge for the benefit of holders of any issue of consolidated obligations are treated as if they were free from lien or pledge for purposes of compliance with these regulations.

Table 15.1 - Consolidated Bonds Outstanding by Contractual Maturity

(dollars in millions)

	December 31,			
	2011		2010	
Year of Contractual Maturity	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Due in 1 year or less	$ 228,480	0.86%	$ 264,479	1.21%
Due after 1 year through 2 years	106,338	1.92%	102,481	1.74%
Due after 2 years through 3 years	41,722	2.56%	80,387	2.60%
Due after 3 years through 4 years	26,353	2.67%	34,203	3.04%
Due after 4 years through 5 years	30,791	3.11%	38,750	2.40%
Thereafter	64,419	3.65%	76,864	4.01%
Index-amortizing notes	3,381	4.81%	4,539	4.82%
Total par value	501,484	1.85%	601,703	2.05%
Premiums	766		761	
Discounts	(192)		(278)	
Hedging adjustments	4,850		4,489	
Fair value option valuation adjustments	67		(108)	
Total	$ 506,975		$ 606,567	

Table 15.2 - Consolidated Discount Notes Outstanding

(dollars in millions)

	Book Value	Par Value	Weighted-Average Interest Rate(1)
December 31, 2011	$ 190,149	$ 190,175	0.05%
December 31, 2010	$ 194,431	$ 194,478	0.15%

(1) Represents yield to maturity excluding concession fees.

Consolidated obligations are issued with either fixed-rate coupon payment terms or variable-rate coupon payment terms that use a variety of indices for interest-rate resets including LIBOR, Treasury Bills, Prime rate, and others. To meet the specific needs of certain investors in consolidated obligations, both fixed-rate consolidated bonds and variable-rate consolidated bonds may contain features that result in complex coupon payment terms and call options. When such consolidated obligations are issued, the FHLBanks typically enter into derivatives containing offsetting features that effectively convert the terms of the consolidated bond to those of a simple variable-rate consolidated bond or a fixed-rate consolidated bond. At December 31, 2011 and 2010, 65.8% and 67.2% of the FHLBanks' fixed-rate consolidated bonds were swapped to a variable rate and 78.1% and 43.5% of the FHLBanks' variable-rate consolidated bonds were swapped to a different variable-rate index. At December 31, 2011 and 2010, 26.6% and 11.5% of the FHLBanks' fixed-rate consolidated discount notes were swapped to a variable rate.

Table 15.3 - Consolidated Bonds Outstanding by Call Features

(dollars in millions)

Par Values of Consolidated Bonds	December 31, 2011	December 31, 2010
Noncallable/nonputable	$ 383,182	$ 455,512
Callable	118,302	146,191
Total par value	$ 501,484	$ 601,703

Table 15.4 - Consolidated Bonds Outstanding by Contractual Maturity or Next Call Date

(dollars in millions)

Year of Contractual Maturity or Next Call Date	December 31, 2011	December 31, 2010
Due in 1 year or less	$ 305,101	$ 369,833
Due after 1 year through 2 years	99,344	92,154
Due after 2 years through 3 years	27,767	59,638
Due after 3 years through 4 years	19,294	20,423
Due after 4 years through 5 years	18,910	17,173
Thereafter	27,687	37,943
Index-amortizing notes	3,381	4,539
Total par value	$ 501,484	$ 601,703

These consolidated bonds, beyond having fixed-rate or simple variable-rate coupon payment terms, may also have the following broad terms regarding principal repayment:

- *Indexed principal redemption consolidated bonds* (index-amortizing notes) repay principal according to a predetermined amortization schedule or prepay principal based on a calculation linked to the level of a certain index. Index-amortizing notes have a stated maturity. As of December 31, 2011 and 2010, the FHLBanks' index-amortizing notes had fixed-rate coupon payment terms. Usually, as market interest rates change, the portion of the monthly payment allocated to the repayment of principal also changes, resulting in a balloon payment on the maturity date if rates rise or causing the note to mature before the stated maturity date if rates fall.

- *Optional principal redemption consolidated bonds* (callable bonds) that an FHLBank may redeem in whole or in part at its discretion on predetermined call dates according to the terms of the consolidated bond offerings.

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

- *Step-up consolidated bonds* pay interest at increasing fixed rates for specified intervals over the life of the consolidated bond. These consolidated bonds generally contain provisions enabling the FHLBanks to call consolidated bonds at their option on the step-up dates.

- *Conversion consolidated bonds* have interest rates that convert from fixed to variable, or variable to fixed, or from one index to another, on predetermined dates according to the terms of the consolidated bond offerings.

- *Range consolidated bonds* pay interest based on the number of days a specified index is within/outside of a specified range. The computation of the variable interest rate differs for each consolidated bond issue, but the consolidated bond generally pays zero interest or a minimal rate if the specified index is outside of the specified range.

- *Step-down consolidated bonds* pay interest at decreasing fixed rates for specified intervals over the life of the consolidated bond. These consolidated bonds generally contain provisions enabling the FHLBanks to call consolidated bonds at their option on the step-down dates.

- *Inverse floating consolidated bonds* have coupons that increase as an index declines and decrease as an index rises.

- *Zero-coupon consolidated bonds* are 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 redeemed prior to maturity.

- *Comparative index consolidated bonds* have coupon rates determined by the difference between two or more market indices, typically Constant Maturity Treasury and LIBOR.

Table 15.5 - Consolidated Bonds by Interest-Rate Payment Type

(dollars in millions)

	December 31,	
Par Value of Consolidated Bonds	**2011**	**2010**
Fixed-rate	$ 423,451	$ 468,161
Simple variable-rate	51,851	95,511
Step-up	24,143	36,265
Fixed-rate that converts to variable-rate	881	857
Step-down	445	230
Range bonds	268	306
Variable-rate that converts to fixed-rate	70	118
Inverse floating	50	50
Other	325	205
Total par value	$ 501,484	$ 601,703

Consolidated Bonds Denominated in Foreign Currencies. Consolidated bonds issued can be denominated in foreign currencies. Concurrent with these issuances, the FHLBanks exchange the interest and principal payment obligations related to the issues for equivalent amounts denominated in U.S. dollars. There were no consolidated bonds denominated in foreign currencies outstanding at December 31, 2011 and 2010.

Concessions on Consolidated Obligations. Unamortized concessions included in other assets were $116 million and $162 million at December 31, 2011 and 2010. The amortization of such concessions is included in consolidated obligation interest expense and totaled $164 million, $211 million and $238 million during the years ended December 31, 2011, 2010, and 2009.

Note 16—Affordable Housing Program (AHP)

The FHLBank Act requires each FHLBank to establish an AHP. Each FHLBank provides subsidies in the form of direct grants and below-market interest rate advances to members who use the funds to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. Annually, the FHLBanks must set aside for the AHP the greater of the aggregate of $100 million or 10% of net earnings, after any assessment for REFCORP. For purposes of the AHP calculation, net earnings is defined as net income before assessments, plus interest expense related to mandatorily redeemable capital stock, less the assessment for REFCORP until the FHLBanks' REFCORP obligation was satisfied. The AHP and REFCORP assessments were calculated simultaneously because of their interdependence on each other. Each FHLBank accrues this expense monthly based on its net earnings. An FHLBank reduces its AHP liability as members use subsidies. (See *Note 17—Resolution Funding Corporation (REFCORP)* for a discussion of the REFCORP calculation.)

On August 5, 2011, the FHFA certified that the FHLBanks had fully satisfied their REFCORP obligation with their payments made on July 15, 2011, which were accrued as applicable in each FHLBank's June 30, 2011 financial statements. The FHLBanks entered into a Joint Capital Enhancement Agreement, as amended, which requires each FHLBank to allocate 20% of its net income to a separate restricted retained earnings account, beginning in the third quarter of 2011. Because the REFCORP assessment reduced the amount of net earnings used to calculate the AHP assessment, it had the effect of reducing the total amount of funds allocated to the AHP. However, the amounts allocated to the new restricted retained earnings account will not be treated as an assessment and will not reduce each FHLBank's net income. As a result, each FHLBank's AHP contributions as a percentage of pre-assessment earnings will increase because the REFCORP obligation has been fully satisfied.

If an FHLBank experienced a net loss during a quarter, but still had net earnings for the year, the FHLBank's obligation to the AHP would be calculated based on the FHLBank's year-to-date net earnings. If the FHLBank had net earnings in subsequent quarters, it would be required to contribute additional amounts to meet its calculated annual obligation. If the FHLBank experienced a net loss for a full year, the FHLBank would have no obligation to the AHP for the year, because each FHLBank's required annual AHP contribution is limited to its annual net earnings. If the aggregate 10% calculation previously discussed was less than $100 million for all 12 FHLBanks, each FHLBank would be required to assure that the aggregate contribution of the FHLBanks equals $100 million. The pro ration would be made on the basis of an FHLBank's income in relation to the income of all FHLBanks for the previous year, subject to the annual earnings limitation as previously discussed.

There was no shortfall in the years ended December 31, 2011, 2010 or 2009. If an FHLBank finds that its required contributions are contributing to the financial instability of that FHLBank, it may apply to the FHFA for a temporary suspension of its contributions. The FHLBanks did not make any such applications in the years ended December 31, 2011, 2010 or 2009. The FHLBanks had outstanding principal of $317 million and $334 million at December 31, 2011 and 2010 related to AHP advances.

Table 16.1 - Analysis of AHP Liability

(dollars in millions)

	Year Ended December 31,		
	2011	2010	2009
Balance, at beginning of year	$ 773	$ 791	$ 808
Expense	188	229	258
Subsidy usage, net(1)	(243)	(247)	(275)
Balance, at end of year	$ 718	$ 773	$ 791

(1) Amounts may not agree to the AHP payments, net amounts per the Combined Statement of Cash Flows for each applicable period due to rounding.

Note 17—Resolution Funding Corporation (REFCORP)

On August 5, 2011, the FHFA certified that the FHLBanks had fully satisfied their REFCORP obligation with their payments which were made on July 15, 2011. The FHLBanks entered into a Joint Capital Enhancement Agreement, as amended, which requires each FHLBank to allocate 20% of its net income to a separate restricted retained earnings account, beginning in the third quarter of 2011. (See *Note 19—Capital* for further discussion.) As a result of fully satisfying their REFCORP obligation, the FHLBanks did not record a REFCORP assessment for each of the last two quarters of 2011.

Prior to the satisfaction of the FHLBanks' REFCORP obligation, each FHLBank was required to make payments to REFCORP (20% of annual GAAP net income before REFCORP assessments and after payment of AHP assessments) until the total amount of payments actually made was equivalent to a $300 million annual annuity whose final maturity date was April 15, 2030. The FHFA and its predecessors shortened or lengthened the period during which the FHLBanks made payments to REFCORP based on actual payments made relative to the referenced annuity. The FHFA and its predecessors, in consultation with the U.S. Secretary of the Treasury, selected the appropriate discounting factors used in calculating the annuity. (See *Note 16—Affordable Housing Program (AHP)* for a discussion of the AHP calculation.)

Table 17.1 - Analysis of REFCORP (Asset)/Liability

(dollars in millions)

	December 31,		
	2011	2010	2009
Net balance at beginning of year	$ 92	$ 5	$ (161)
Expense	160	498	572
Cash payment	(252)	(411)	(406)
Net balance at end of year	$ —	$ 92	$ 5
Deferred REFCORP asset	$ —	$ (67)	$ (116)
REFCORP liability	—	159	121
Net balance at end of year	$ —	$ 92	$ 5

Note 18—Subordinated Notes

The FHLBank of Chicago has $1.0 billion of subordinated notes outstanding that mature on June 13, 2016. The subordinated notes are not obligations of, and are not guaranteed by, the United States government or any FHLBanks other than the FHLBank of Chicago. The subordinated notes are unsecured obligations and rank junior in priority of payment to the FHLBank of Chicago's senior liabilities. Senior liabilities include all of the existing and future liabilities, such as deposits, consolidated obligations for which the FHLBank of Chicago is the primary obligor and consolidated obligations of the other FHLBanks for which the FHLBank of Chicago is jointly and severally liable.

Senior liabilities do not include the FHLBank of Chicago's existing and future liabilities related to payments of junior equity claims (all such payments to, and redemptions of shares from, holders of its capital stock being referred to as junior equity claims) and payments to, or redemption of shares from, any holder of its capital stock that is barred or required to be deferred for any reason, such as noncompliance with any minimum regulatory capital requirement applicable to the FHLBank of Chicago. Also, senior liabilities do not include any liability that, by its terms, expressly ranks equal with or junior to the subordinated notes. The FHLBank of Chicago's regulatory approval to issue subordinated debt prohibits it from making any payment to, or redeeming shares from, any holder of capital stock which it is obligated to make, on or after any applicable interest payment date or the maturity date of the subordinated notes unless the FHLBank of Chicago has paid, in full, all interest and principal due in respect of the subordinated notes on a particular date.

Also pursuant to the regulatory order approving the issuance of subordinated notes, in the event of the FHLBank of Chicago's liquidation or reorganization, the FHFA shall cause the FHLBank of Chicago, its receiver, conservator, or other successor, as applicable, to pay or make provision for the payment of all of its liabilities, including those evidenced by the subordinated notes, before making payment to, or redeeming any shares of, capital stock issued by the FHLBank of Chicago, including shares as to which a claim for mandatory redemption has arisen.

The subordinated notes may not be redeemed, in whole or in part, prior to maturity. These notes do not contain any provisions permitting holders to accelerate the maturity thereof on the occurrence of any default or other event. The subordinated notes were issued at par, and accrue interest at a rate of 5.625% per annum. Interest is payable semi-annually in arrears on each June 13 and December 13. The FHLBank of Chicago will defer interest payments if five business days prior to any interest payment date it does not satisfy any minimum regulatory leverage ratio then applicable to it.

The FHLBank of Chicago may not defer interest on the subordinated notes for more than five consecutive years and in no event beyond their maturity date. If the FHLBank of Chicago defers interest payments on the subordinated notes, interest will continue to accrue and will compound at a rate of 5.625% per annum. Any interest deferral period ends when the FHLBank of Chicago satisfies all minimum regulatory leverage ratios to which it is subject, after taking into account all deferred interest and interest on such deferred interest. During the periods when interest payments are deferred, the FHLBank of Chicago may not declare or pay dividends on, or redeem, repurchase or acquire its capital stock (including mandatorily redeemable capital stock). As of December 31, 2011, the FHLBank of Chicago satisfied the minimum regulatory leverage ratios applicable to the FHLBank of Chicago, and it had not deferred any interest payments.

Prior to conversion of the FHLBank of Chicago's capital structure, it was allowed to include a percentage of the outstanding principal amount of the subordinated notes (the Designated Amount) in determining compliance with its regulatory capital and minimum regulatory leverage requirements, maximum permissible holdings of mortgage-backed securities and unsecured credit, subject to 20% annual phase-outs as presented in Table 18.1. As of June 14, 2011, the Designated Amount of subordinated notes was reduced to $800 million.

Table 18.1 - Designated Amount Phase-Out

(dollars in millions)

Time Period	Percentage of Outstanding Amount	Designated Amount
Issuance through June 13, 2011	100%	$ 1,000
June 14, 2011 through December 31, 2011	80%	800

After the FHLBank of Chicago converted its capital stock as of January 1, 2012, it no longer includes the Designated Amount of subordinated notes in calculating its maximum permissible holdings of mortgage-backed securities and unsecured credit or

in determining compliance with its minimum regulatory capital requirements now that the FHLBank of Chicago is subject to the post-conversion capital requirements. (See *Note 19—Capital* - *FHLBank of Chicago Regulatory Actions* for more information about the FHLBank of Chicago's conversion to the new capital structure.)

Note 19—Capital

The Gramm-Leach-Bliley Act of 1999 (GLB Act) required each FHLBank to adopt a capital plan and convert to a new capital structure. As of December 31, 2011, all of the FHLBanks, except for the FHLBank of Chicago, had implemented their respective capital plans. (See *FHLBank of Chicago Regulatory Actions* for information on the FHLBank of Chicago's capital stock conversion implemented on January 1, 2012.) Each conversion was considered a capital transaction and was accounted for at par value. Each FHLBank that has converted to a new capital structure is subject to three capital requirements under its capital plan and the FHFA rules and regulations:

1. Risk-based capital. Each FHLBank must maintain at all times permanent capital, defined as Class B stock and retained earnings, in an amount at least equal to the sum of its credit risk, market risk, and operations risk capital requirements, all of which are calculated in accordance with the rules and regulations of the FHFA. The FHFA may require an FHLBank to maintain a greater amount of permanent capital than is required by the risk-based capital requirements as defined. Mandatorily redeemable capital stock is considered capital for determining an FHLBank's compliance with its regulatory requirements.

2. Total regulatory capital. Each FHLBank is required to maintain at all times a total capital-to-assets ratio of at least four percent. Total regulatory capital is the sum of permanent capital, Class A stock, any general loss allowance, if consistent with GAAP and not established for specific assets, and other amounts from sources determined by the FHFA as available to absorb losses.

3. Leverage capital. Each FHLBank is required to maintain at all times a leverage capital-to-assets ratio of at least five percent. Leverage capital is defined as the sum of permanent capital weighted 1.5 times and all other capital without a weighting factor.

The pre-GLB Act capital rules remained in effect for the FHLBank of Chicago through December 31, 2011. The pre-GLB Act rules required members to purchase capital stock equal to the greater of $500, one percent of its mortgage-related assets or five percent of its outstanding FHLBank advances. However, the FHLBank of Chicago completed its capital stock conversion to a GLB Act capital structure and implemented its new capital plan as of January 1, 2012. The FHLBank of Chicago was in compliance with the capital requirements at the effective date of its capital conversion.

At December 31, 2011, all of the FHLBanks that have implemented their respective capital plans under the GLB Act were in compliance with their regulatory capital rules. (See *FHLBank of Seattle Capital Classification and Consent Arrangement* within this note for a description of this FHLBank's agreement with the FHFA.)

Table 19.1 - Risk-Based Capital Requirements as of December 31, 2011

(dollars in millions)

FHLBank(1)	Risk-Based Capital Requirement	Actual Risk-Based Capital
Boston	$ 876	$ 4,251
New York	495	5,292
Pittsburgh	1,062	3,871
Atlanta	1,951	7,258
Cincinnati	387	3,845
Indianapolis	624	2,515
Des Moines	541	2,684
Dallas	344	1,765
Topeka	227	1,193
San Francisco	4,915	12,176
Seattle	1,933	2,799

Table 19.2 - Regulatory Capital Requirements as of December 31, 2011

(dollars in millions)

FHLBank(1)	Minimum Regulatory Capital Ratio Requirement	Minimum Regulatory Capital Requirement	Actual Regulatory Capital Ratio	Actual Regulatory Capital
Boston	4.0%	$ 1,999	8.5%	$ 4,251
New York	4.0%	3,906	5.4%	5,292
Pittsburgh	4.0%	2,080	7.4%	3,871
Atlanta	4.0%	5,011	5.8%	7,258
Cincinnati	4.0%	2,416	6.4%	3,845
Indianapolis	4.0%	1,615	6.2%	2,515
Des Moines	4.0%	1,949	5.5%	2,684
Dallas	4.0%	1,351	5.2%	1,765
Topeka	4.0%	1,328	5.2%	1,738
San Francisco	4.0%	4,542	10.7%	12,176
Seattle	4.0%	1,607	7.4%	2,958

Table 19.3 - Leverage Capital Requirements as of December 31, 2011

(dollars in millions)

FHLBank(1)	Minimum Leverage Capital Ratio Requirement	Minimum Leverage Capital Requirement	Actual Leverage Capital Ratio	Actual Leverage Capital
Boston	5.0%	$ 2,498	12.8%	$ 6,376
New York	5.0%	4,883	8.1%	7,937
Pittsburgh	5.0%	2,600	11.2%	5,806
Atlanta	5.0%	6,264	8.7%	10,887
Cincinnati	5.0%	3,020	9.6%	5,767
Indianapolis	5.0%	2,019	9.3%	3,772
Des Moines	5.0%	2,437	8.3%	4,026
Dallas	5.0%	1,688	7.8%	2,648
Topeka	5.0%	1,660	7.0%	2,334
San Francisco	5.0%	5,678	16.1%	18,264
Seattle	5.0%	2,009	10.8%	4,357

(1) Excludes the FHLBank of Chicago, which had not implemented a new capital plan as of December 31, 2011, but was in compliance with all of its minimum regulatory capital requirements. (See *FHLBank of Chicago Regulatory Actions* within this note for a description of its regulatory capital requirements in effect as of December 31, 2011 and its new capital plan in effect as of January 1, 2012.)

The GLB Act made membership voluntary for all members. Members can redeem Class A stock by giving six months written notice, and members can redeem Class B stock by giving five years written notice, subject to certain restrictions. Any member that withdraws from membership may not be readmitted to membership in any FHLBank until five years from the divestiture date for all capital stock that is held as a condition of membership, as that requirement is set out in an FHLBank's capital plan, unless the institution has canceled its notice of withdrawal prior to that date, before being readmitted to membership in any FHLBank. This restriction does not apply if the member is transferring its membership from one FHLBank to another on an uninterrupted basis.

An FHLBank's board of directors may declare and pay dividends in either cash or capital stock, assuming the FHLBank is in compliance with FHFA rules. Dividends declared by the board of directors of the FHLBank of Chicago are subject to the prior written approval of the Deputy Director, Division of FHLBank Regulation of the FHFA (Deputy Director). The FHLBank of Seattle will not pay dividends except upon compliance with capital restoration and retained earnings plans approved by the FHFA and prior written approval of the FHFA.

At December 31, 2011, combined regulatory capital was $52.9 billion, compared to $57.4 billion at December 31, 2010. Combined regulatory capital does not include AOCI, but does include mandatorily redeemable capital stock. These amounts also include a percentage of the outstanding principal amount of the FHLBank of Chicago's subordinated notes (the Designated Amount) of $800 million at December 31, 2011 and $1.0 billion at December 31, 2010, which the FHLBank of Chicago was allowed to include in determining compliance with its regulatory capital requirements. After the FHLBank of Chicago converted its capital stock as of January 1, 2012, it no longer includes the Designated Amount of subordinated notes in determining compliance with its minimum regulatory capital requirements now that the FHLBank of Chicago is subject to the post-conversion capital requirements.

Restricted Retained Earnings

The Joint Capital Enhancement Agreement, as amended (Capital Agreement) is intended to enhance the capital position of each FHLBank. The intent of the Capital Agreement is to allocate that portion of each FHLBank's earnings historically paid to satisfy its REFCORP obligation to a separate retained earnings account at that FHLBank.

Each FHLBank had been required to contribute 20% of its earnings toward payment of the interest on REFCORP bonds until satisfaction of its REFCORP obligation, as certified by the FHFA on August 5, 2011. The Capital Agreement provides that, upon full satisfaction of the REFCORP obligation, each FHLBank will allocate 20% of its net income each quarter to a separate restricted retained earnings account until the balance of that account equals at least one percent of that FHLBank's average balance of outstanding consolidated obligations for the previous quarter. These restricted retained earnings are not available to pay dividends.

Each FHLBank subsequently amended its capital plan or capital plan submission, as applicable, to implement the provisions of the Capital Agreement, and the FHFA approved the capital plan amendments on August 5, 2011. In accordance with the Capital Agreement, starting in the third quarter of 2011, each FHLBank allocates 20% of its net income to a separate restricted retained earnings account.

The FHLBank of San Francisco's retained earnings and dividend policy establishes amounts to be retained in restricted retained earnings, which are not made available for dividends in the current dividend period. These amounts are not related to the Capital Agreement; however they are also classified as restricted retained earnings on the Combined Statement of Condition. These amounts relate to:

- Retained Earnings Related to Valuation Adjustments. The FHLBank of San Francisco retains in restricted retained earnings any cumulative net gains in earnings (net of applicable assessments) resulting from valuation adjustments. In general, the FHLBank of San Francisco's derivatives and hedged instruments, as well as certain assets and liabilities that are carried at fair value, are held to the maturity, call, or put date. For these financial instruments, net valuation gains or losses are primarily a matter of timing and will generally reverse through changes in future valuations and settlements of contractual interest cash flows over the remaining contractual terms to maturity, or by the exercised call or put dates. As the cumulative net valuation gains are reversed by periodic net losses and settlements of contractual interest cash flows, the amount of cumulative net gains decreases. The amount of retained earnings under this provision of the policy is therefore decreased, and that portion of the previously restricted retained earnings becomes unrestricted and may be made available for dividends.

- Other Retained Earnings - Targeted Buildup. In addition to any cumulative net gains resulting from valuation adjustments, the FHLBank of San Francisco holds an additional amount in restricted retained earnings intended to protect members' paid-in capital from the effects of an extremely adverse credit event, an extremely adverse operations risk event, an extremely high level of quarterly valuation losses related to the FHLBank of San Francisco's derivatives and associated hedged items and financial instruments carried at fair value, the risk of an extremely adverse change in the market value of the FHLBank of San Francisco's capital, and the risk of a significant amount of additional credit-related other-than-temporary impairment charges on private-label residential mortgage-backed securities, especially in periods of extremely low net income resulting from an adverse interest-rate environment.

Table 19.4 presents the components of restricted retained earnings, including the amounts related to the Capital Agreement and the amounts related to the FHLBank of San Francisco's retained earnings and dividend policy.

Table 19.4 - Restricted Retained Earnings

(dollars in millions)

	Unrestricted Retained Earnings	Capital Agreement Restricted Retained Earnings	Other Restricted Retained Earnings(1)	Total Restricted Retained Earnings	Total Retained Earnings
Balance, December 31, 2010	$ 5,943	$ —	$ 1,609	$ 1,609	$ 7,552
Net income	1,228	200	165	365	1,593
Dividends on capital stock					
Cash	(536)	—	—	—	(536)
Stock	(32)	—	—	—	(32)
Balance, December 31, 2011	$ 6,603	$ 200	$ 1,774	$ 1,974	$ 8,577

(1) Represents retained earnings restricted by the FHLBank of San Francisco's retained earnings and dividend policy related to valuation adjustments and the retained earnings targeted buildup.

Mandatorily Redeemable Capital Stock

Each FHLBank is a cooperative whose member financial institutions and former members own all of the FHLBank's capital stock. Shares of capital stock cannot be purchased or sold except between an FHLBank and its members at its $100 per share par value, as mandated by each FHLBank's capital plan or by regulation.

An FHLBank generally reclassifies capital stock subject to redemption from capital to the mandatorily redeemable capital stock liability upon expiration of a grace period, if applicable, after a member exercises a written redemption right, or gives notice of intent to withdraw from membership, or attains non-member status by merger or acquisition, charter termination, or involuntary termination from membership. Shares of capital stock meeting these definitions are reclassified to mandatorily redeemable capital stock at fair value. Dividends related to capital stock classified as mandatorily redeemable capital stock are accrued at the expected dividend rate and reported as interest expense in the Combined Statement of Income. For the years ended December 31, 2011, 2010 and 2009, dividends on mandatorily redeemable capital stock in the amount of $48 million, $54 million and $40 million were recorded as interest expense.

A member may cancel or revoke its written notice of redemption or its notice of withdrawal from membership prior to the end of the five-year redemption period. Each FHLBank's capital plan provides the terms for cancellation fees that may be incurred by the member upon such cancellation.

Table 19.5 presents capital stock subject to mandatory redemption. Payment is contingent on each FHLBank's waiting period and the FHLBank's ability to meet its minimum regulatory capital requirements. These amounts have been classified as a liability in the Combined Statement of Condition.

Table 19.5 - Mandatorily Redeemable Capital Stock Rollforward

(dollars in millions)

	Year Ended December 31,		
	2011	2010	2009
Balance, beginning of year	$ 7,066	$ 8,138	$ 6,136
Capital stock subject to mandatory redemption reclassified from capital			
Withdrawals	3,541	213	2,477
Other redemptions	426	1,146	4,206
Capital stock previously subject to mandatory redemption reclassified to capital			
Withdrawals	(29)	(48)	(2,922)
Other redemptions	(508)	(902)	(1)
Net redemption of mandatorily redeemable capital stock			
Withdrawals	(2,013)	(897)	(146)
Other redemptions	(470)	(584)	(1,612)
Balance, end of year	$ 8,013	$ 7,066	$ 8,138

The number of stockholders holding mandatorily redeemable capital stock was 300, 345 and 286 at December 31, 2011, 2010 and 2009.

At December 31, 2011 and 2010, certain members had requested redemptions of capital stock that have not been reclassified as mandatorily redeemable capital stock. These excess capital stock amounts were not classified as mandatorily redeemable capital stock for the FHLBanks of Indianapolis and Seattle because the requesting member may revoke its request, without substantive penalty, throughout the five-year waiting period, based on the capital plan of each of these FHLBanks.

Table 19.6 - Excess Capital Stock not Reclassified as Mandatorily Redeemable Capital Stock

(dollars in millions)

	December 31, 2011		December 31, 2010	
	Number of Stockholders	Amount	Number of Stockholders	Amount
FHLBank of Indianapolis	9	$ 104	11	$ 133
FHLBank of Seattle	14	158	43	169
Total	23	$ 262	54	$ 302

In addition, certain FHLBanks have a grace period for capital stock redemption requests. Capital stock not reclassified as mandatorily redeemable capital stock at December 31, 2011 (excluding the amount presented in Table 19.6) represents requests where the grace period had not yet expired.

Table 19.7 presents the amount of mandatorily redeemable capital stock by contractual year of redemption. The year of redemption in the table is the end of the appropriate redemption period applicable to each FHLBank's capital plan. An FHLBank is not required to redeem membership stock until either five years or six months, depending on the type of capital stock issuable under its capital plan, after the membership is terminated or the FHLBank receives notice of withdrawal. However, if membership is terminated due to merger or consolidation, the FHLBank may recalculate the former member's stock requirement following such termination and the stock may be deemed excess stock subject to repurchase at the FHLBank's discretion. An FHLBank is not required to redeem activity-based stock until the later of the expiration of the notice of redemption or until the activity to which the capital stock relates no longer remains outstanding. If activity-based stock becomes excess stock as a result of an activity no longer remaining outstanding, an FHLBank may repurchase such shares, in its sole discretion, subject to the statutory and regulatory restrictions on excess capital stock redemption discussed below.

Table 19.7 - Mandatorily Redeemable Capital Stock by Contractual Year of Redemption

(dollars in millions)

	Amount
Year 1	$ 110
Year 2	2,160
Year 3	1,761
Year 4	461
Year 5	3,275
Past contractual redemption date due to remaining activity(1)	24
Past contractual redemption date due to regulatory action(2)	222
Total	$ 8,013

(1) Represents mandatorily redeemable capital stock that is past the end of the contractual redemption period because there is activity outstanding to which the mandatorily redeemable capital stock relates.

(2) See *FHLBank of Seattle Capital Classification and Consent Arrangement* within this note for discussions on this FHLBank's mandatorily redeemable capital stock.

Excess Capital Stock Regulation. Excess capital stock is defined as the amount of stock held by a member (or former member) in excess of that institution's minimum investment requirement. FHFA rules limit the ability of an FHLBank to create member excess capital stock under certain circumstances. An FHLBank may not pay dividends in the form of capital stock or issue new excess capital stock to members if that FHLBank's excess capital stock exceeds one percent of its total assets or if the issuance of excess capital stock would cause that FHLBank's excess capital stock to exceed one percent of its total assets. At December 31, 2011, each of the FHLBanks of Boston, Pittsburgh, Cincinnati, Indianapolis, Chicago, San Francisco and Seattle had excess capital stock outstanding totaling more than one percent of its total assets. At December 31, 2011, each of these FHLBanks was in compliance with the FHFA's excess capital stock rules.

Statutory and Regulatory Restrictions on Capital Stock Redemptions and Repurchases

In accordance with the FHLBank Act, each class of FHLBank stock is considered putable by the member and the GLB Act states that an FHLBank may repurchase, in its sole discretion, any member's stock investments that exceed the required minimum amount. However, there are significant statutory and regulatory restrictions on the obligation to redeem, or right to repurchase, the outstanding stock. As a result, whether or not a member may have its capital stock in an FHLBank repurchased (at an FHLBank's discretion at any time before the end of the redemption period) or redeemed (at a member's request, completed at the end of a redemption period) will depend on whether the FHLBank is in compliance with the following restrictions.

- An FHLBank may not redeem or repurchase any capital stock if, following such redemption or repurchase, the FHLBank would fail to satisfy any of its minimum capital requirements. By law, no FHLBank stock may be redeemed or repurchased if the FHLBank becomes undercapitalized, so only a minimal portion of outstanding stock qualifies for redemption or repurchase consideration.

- An FHLBank may not redeem or repurchase any capital stock without approval of the FHFA if either its board of directors, or the FHFA, determines that it has incurred, or is likely to incur, losses resulting, or expected to result, in a charge against capital while such charges are continuing or expected to continue.

Additionally, an FHLBank may not redeem or repurchase shares of capital stock from any member of the FHLBank if:

- the principal or interest due on any consolidated obligation has not been paid in full when due;

- the FHLBank fails to certify in writing to the FHFA that it will remain in compliance with its liquidity requirements and will remain capable of making full and timely payment of all of its current obligations;

- the FHLBank notifies the FHFA that it cannot provide the foregoing certification, projects it will fail to comply with statutory or regulatory liquidity requirements or will be unable to timely and fully meet all of its obligations; or

- the FHLBank actually fails to comply with statutory or regulatory liquidity requirements or to timely and fully meet all of its current obligations, or enters or negotiates to enter into an agreement with one or more FHLBanks to obtain financial assistance to meet its current obligations.

If an FHLBank is liquidated, after payment in full to the FHLBank's creditors, the FHLBank's stockholders will be entitled to receive the par value of their capital stock. In addition, the FHLBank's Class B stockholders will be entitled to any retained earnings in an amount proportional to the stockholder's share of the total shares of capital stock. In the event of a merger or consolidation, the board of directors shall determine the rights and preferences of the FHLBank's stockholders, subject to any terms and conditions imposed by the FHFA.

In addition to possessing the authority to prohibit stock redemptions, an FHLBank's board of directors has the right to call for the FHLBank's members, as a condition of membership, to make additional capital stock purchases as needed to satisfy statutory and regulatory capital requirements under the GLB Act.

Each FHLBank's board of directors has a statutory obligation to review and adjust member capital stock requirements in order to comply with the FHLBank's minimum capital requirements, and each member must comply promptly with any such requirement. However, a member could reduce its outstanding business with the FHLBank as an alternative to purchasing stock.

If, during the period between receipt of a stock redemption notification from a member and the actual redemption (which may last indefinitely if an FHLBank is undercapitalized, does not have the required credit rating, etc.), an FHLBank is either liquidated or forced to merge with another FHLBank, the redemption value of the stock will be established after the settlement of all senior claims. Generally, no claims would be subordinated to the rights of FHLBank stockholders.

Capital Classification Determination

The FHFA has implemented the prompt corrective action provisions of the Housing Act. The rule established four capital classifications for the FHLBanks: adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, and implemented the prompt corrective action provisions that apply to FHLBanks that are not deemed to be adequately capitalized. The FHFA determines each FHLBank's capital classification on at least a quarterly basis. If an FHLBank is determined to be other than adequately capitalized, that FHLBank becomes subject to additional supervisory authority by the FHFA. Before implementing a reclassification, the Director of the FHFA is required to provide that FHLBank with written notice of the proposed action and an opportunity to submit a response. For a discussion of an individual FHLBank's capital classification, see that FHLBank's periodic report filed with the SEC.

FHLBank of Chicago Regulatory Actions

At the request of the Federal Housing Finance Board, on October 10, 2007, the FHLBank of Chicago entered into a Consent Cease and Desist Order with the Federal Housing Finance Board, which was subsequently amended on July 24, 2008 (the Consent Cease and Desist Order, as amended, is hereinafter referred to as the C&D Order). The C&D Order requirements outlined below remain in effect. The FHLBank of Chicago is in compliance with these C&D Order requirements.

- Capital stock repurchases and redemptions, including redemptions upon membership withdrawal or other membership termination, except for excess capital stock above a member's capital stock floor (the amount of capital stock held by a member as of the close of business at July 23, 2008, plus any required increases related to annual membership stock recalculations), require prior approval of the Deputy Director. The C&D Order provides that the Deputy Director may approve a written request by the FHLBank of Chicago for proposed redemptions or repurchases if the Deputy Director determines that allowing the redemption or repurchase would be consistent with maintaining the capital adequacy of the FHLBank of Chicago and its continued safe and sound operation.

- The C&D Order amendment permits the FHLBank of Chicago to repurchase or redeem excess capital stock above a member's capital stock floor in connection with the repayment of advances subject to the following conditions: (1) subsequent to the redemption or repurchase of stock, the FHLBank of Chicago remains in compliance with any applicable minimum capital requirements and (2) the redemption or repurchase does not otherwise cause the FHLBank of Chicago to violate a provision of the FHLBank Act. The Deputy Director may, however, direct the FHLBank of Chicago not to redeem or repurchase stock if, in its sole discretion, the continuation of such transactions would be inconsistent with maintaining the capital adequacy of the FHLBank of Chicago and its continued safe and sound operation.

- Dividend declarations are subject to the prior written approval of the Deputy Director.

The C&D Order placed several requirements on the FHLBank of Chicago, including the following, which have now been satisfied or terminated.

- The C&D Order required the FHLBank of Chicago to submit a revised capital plan to the Federal Housing Finance Board, which included implementation strategies for the plan, and revised market risk, management and hedging policies, procedures and practices. The FHLBank of Chicago has taken the actions necessary to fulfill these requirements and implemented its new capital plan effective January 1, 2012.

- The FHLBank of Chicago was required to maintain a ratio of at least 4.5% of regulatory capital stock, plus retained earnings, plus a Designated Amount of subordinated notes to total assets. In connection with the approval of the FHLBank of Chicago's capital plan, the FHFA terminated Article I of the C&D Order as of the effective date of the FHLBank of Chicago's capital plan, which means that as of January 1, 2012, it is no longer required to comply with this 4.5% regulatory capital plus the Designated Amount of subordinated notes to total assets ratio.

- The FHLBank of Chicago was required to maintain an aggregate amount of regulatory capital stock plus a Designated Amount of subordinated notes of $3.600 billion. Effective December 28, 2011, the FHFA terminated this requirement.

Capital Rules After Conversion to New Capital Structure. On September 30, 2011, the FHLBank of Chicago received approval from the FHFA to implement its new capital plan. Under the new capital plan, which became effective on January 1, 2012, the FHLBank of Chicago's stock consists of two sub-classes of stock, Class B-1 stock and Class B-2 stock (together, Class B stock), both with a par value of $100 and redeemable on five years written notice, subject to certain conditions.

On January 1, 2012, most of the outstanding shares of the FHLBank of Chicago's existing stock were automatically exchanged for Class B-2 stock. Activity-based stock purchased since July 23, 2008, was converted to Class B-1 stock to the extent it exceeded a member's capital stock floor.

The FHLBank of Chicago's capital plan provides that any member could opt out of the conversion and have its existing capital stock redeemed. The FHLBank of Chicago did not receive any requests from current members to opt out of the conversion process. However, with the approval of the FHFA, the FHLBank of Chicago repurchased capital stock held by former members that was not required to support outstanding obligations prior to its conversion to a new capital structure.

Minimum Capital Requirements Prior to Conversion to New Capital Structure. The FHLBank of Chicago remained subject to the following minimum regulatory leverage and other regulatory capital requirements pursuant to the FHFA regulations and the C&D Order until it completed its capital stock conversion as of January 1, 2012.

Regulatory capital was defined as the sum of the paid-in value of capital stock and mandatorily redeemable capital stock (together defined as regulatory capital stock) plus retained earnings. Under FHFA regulations, the FHLBank of Chicago was subject to a leverage limit that provides that its total assets may not exceed 25 times its total regulatory capital stock, retained earnings, and reserves, provided that non-mortgage assets (after deducting the amounts of deposits and capital) do not exceed 11.0% of total assets.

For purposes of this regulation, non-mortgage assets means total assets less advances, acquired member assets, standby letters of credit, derivative contracts with members, certain mortgage-backed securities and other investments specified by the FHFA. This requirement may also be viewed as a percentage regulatory capital ratio where the FHLBank of Chicago's total regulatory capital stock, retained earnings and reserves must be at least 4.0% of total assets. Prior to conversion to the new capital plan on January 1, 2012, this 4.0% leverage limit was superseded by the 4.5% minimum regulatory capital ratio required by the C&D Order.

If the FHLBank of Chicago was unable to meet the 4.0% leverage limit based on its asset composition, it would still be able to remain in compliance with the leverage requirement so long as total assets did not exceed 21 times total regulatory capital stock, retained earnings and reserves (that is, total regulatory capital stock, retained earnings and reserves must be at least 4.76% of total assets). The FHLBank of Chicago did not factor in any reserves when calculating its regulatory leverage limits. The FHLBank of Chicago's non-mortgage asset ratio on an average monthly basis was above 11.0% at December 31, 2011, thus it was subject to the 4.76% ratio.

Through December 31, 2011, the FHFA allowed the FHLBank of Chicago to include the Designated Amount of subordinated notes in determining compliance with its regulatory capital and minimum regulatory leverage ratio requirements, subject to 20% annual phase-outs. As of June 14, 2011, the Designated Amount of subordinated notes was reduced to $800 million.

Table 19.8 presents the FHLBank of Chicago's regulatory capital requirements at December 31, 2011 as a percentage of its total assets.

Table 19.8 - FHLBank of Chicago Regulatory Capital Requirements

(dollars in millions)

	Regulatory Capital plus Designated Amount of Subordinated Notes			
	Requirement in Effect		Actual	
Non-Mortgage Asset Ratio	Ratio	Amount	Ratio	Amount
19.19%	4.76%	$ 3,392	6.35%	$ 4,527

Minimum Capital Requirements After Conversion to New Capital Structure. After the FHLBank of Chicago implemented its new capital plan, the regulatory capital ratios previously discussed and presented in Table 19.8 no longer apply and instead the FHLBank of Chicago is subject by regulation to maintain the risk-based capital, total regulatory capital and leverage capital requirements under the GLB Act.

Mandatorily Redeemable Capital Stock and Excess Capital Stock. Pursuant to the C&D Order, the FHLBank of Chicago cannot redeem or repurchase capital stock without the approval of the Deputy Director, except for Class B-1 excess capital stock above a member's capital stock floor and repurchases under the previously approved repurchase plan. The FHLBank of Chicago does not believe this requirement affects the reclassification of mandatorily redeemable capital stock as a liability. Rather, this requirement may delay the timing of a mandatory redemption.

Under the FHLBank of Chicago's new capital plan, it is not required to redeem capital stock until five years after it receives a member's notice of withdrawal or membership is otherwise terminated, subject to the member satisfying all outstanding obligations to the FHLBank of Chicago.

The member may cancel its withdrawal notice subject to payment of a cancellation fee equal to a percentage of the par value of the capital stock subject to the cancellation notice. Although FHLBank of Chicago would allow a member to cancel its withdrawal notice, the FHLBank of Chicago reclassifies the member's equity to a liability because it views membership withdrawal notices as substantive when made. Redemption may be made after the expiration of the five-year period if the terminating member does not have outstanding obligations with the FHLBank of Chicago, it meets its minimum regulatory capital and liquidity requirements, and the Deputy Director has approved the redemption.

Pursuant to the terms of the approved capital plan and as required by the C&D Order, the FHLBank of Chicago requested permission from the FHFA to redeem the excess capital stock of its former members prior to conversion to the new capital structure. The FHFA approved the FHLBank of Chicago's request, so on December 28, 2011, it redeemed $527 million of mandatorily redeemable capital stock for excess capital stock owned by all former members that was not required to support outstanding obligations. The FHLBank of Chicago also redeemed mandatorily redeemable capital stock for excess capital stock exceeding a member's capital stock floor as permitted under the C&D Order.

In connection with its new capital plan, the FHLBank of Chicago also submitted a plan for repurchasing the excess capital stock of current members over a period of time (Repurchase Plan). The FHLBank of Chicago received approval from the FHFA on December 22, 2011 to implement the Repurchase Plan. The Repurchase Plan provides that the FHLBank of Chicago will assess its capacity to repurchase excess capital stock of current members within 15 days of each financial quarter-end.

On January 13, 2012, following the assessment that the FHLBank of Chicago met certain conditions based on financial results for the fourth quarter of 2011, the FHLBank of Chicago notified its members of the first repurchase opportunity and the process for requesting repurchase. In accordance with that process, on February 15, 2012, the FHLBank of Chicago repurchased excess capital stock of $500 million, which was 47% of excess capital stock outstanding on that date. The Repurchase Plan is scheduled to terminate on December 31, 2013 or such earlier date as set forth in the Repurchase Plan.

FHLBank of Seattle Capital Classification and Consent Arrangement

In August 2009, under the FHFA's prompt corrective action regulations, the FHLBank of Seattle received a capital classification of undercapitalized from the FHFA and has subsequently remained so classified, due to, among other things, the FHLBank of Seattle's risk-based capital deficiencies as of March 31, 2009 and June 30, 2009, the deterioration in the value of its private-label mortgage-backed securities and the amount of accumulated other comprehensive loss stemming from that deterioration, the level of its retained earnings in comparison to accumulated other comprehensive loss and its market value of equity compared to the par value of capital stock. This classification subjects the FHLBank of Seattle to a range of mandatory and discretionary restrictions, including limitations on asset growth and new business activities. In accordance with the prompt corrective action regulations, the FHLBank of Seattle submitted a proposed capital restoration plan to the FHFA in August 2009 and in subsequent months worked with the FHFA on the plan, including among other things, submitting a proposed business plan to the FHFA on August 16, 2010.

On October 25, 2010, the FHLBank of Seattle entered into a Stipulation and Consent to the Issuance of a Consent Order (Stipulation and Consent) with the FHFA relating to the Consent Order, effective as of the same date, issued by the FHFA to the FHLBank of Seattle. The Stipulation and Consent, the Consent Order, and the related understandings with the FHFA are collectively referred to as the Consent Arrangement. The Consent Arrangement sets forth requirements for capital management, asset composition and other operational and risk management improvements and the FHLBank of Seattle has agreed to address, and is in the process of addressing, among other things, the areas identified below:

- risk management and asset improvement;
- capital adequacy and retained earnings;
- remediation of examination findings;
- information technology; and
- senior management and compensation practices.

Although remediation of the requirements of the Consent Arrangement may take some time, the FHLBank of Seattle has made substantial progress in a number of areas, in particular enhancing its credit and collateral risk management, remediating or developing plans for remediating 2010 examination findings and developing improved executive compensation plans (on which the FHLBank of Seattle received a non-objection from the FHFA). The FHLBank of Seattle continues to develop and refine plans, policies and procedures to address the remaining Consent Arrangement requirements. For example, in late 2011, the FHLBank of Seattle began implementing plans to increase advances as a percentage of total assets, as required by the Consent Arrangement. The FHLBank of Seattle is in the process of revising a plan previously submitted to the FHFA to more gradually increase advances as a percentage of total assets. The FHFA is aware that the FHLBank of Seattle is working on a revised plan.

The Consent Arrangement also provided for a Stabilization Period (which commenced as of the date of the Consent Order and continued through August 12, 2011). The Consent Arrangement required the FHLBank of Seattle to meet certain minimum financial metrics during the Stabilization Period and then requires the FHLBank of Seattle to maintain them for each quarter-end thereafter. These financial metrics relate to retained earnings, accumulated other comprehensive loss and the market value of equity to the par value of capital stock ratio.

With the exception of the retained earnings requirement under the Consent Arrangement as of June 30, 2011, the FHLBank of Seattle has met all minimum financial metrics at each quarter-end during the Stabilization Period and as of the quarters ended September 30, and December 31, 2011. In addition, the FHLBank of Seattle is continuing to take the specified actions noted in the Consent Arrangement and is working towards meeting the agreed-upon milestones and timelines for completing its plans to address the requirements relating to asset composition, capital management and operational and risk management.

The Consent Arrangement clarifies, among other things, the steps the FHLBank of Seattle must take to stabilize its business, improve its capital classification and return to normal operations, including the repurchase, redemption and payment of dividends on capital stock. The FHLBank of Seattle has coordinated, and will continue coordinating, with the FHFA so that its plans and actions are aligned with the FHFA's expectations. However, there is a risk that the quality or timeliness of the FHLBank of Seattle's implementation of approved plans, policies and procedures designed to enhance the FHLBank of Seattle's safety and soundness may, to varying degrees, reduce its flexibility in managing the FHLBank of Seattle, negatively affecting advance volumes, its cost of funds and its net income, which may have a material adverse consequence to its business, including its financial condition and results of operations.

In addition, the FHLBank of Seattle cannot predict whether it will be able to finalize and execute plans acceptable to the FHFA, meet and maintain the minimum financial metrics, or meet the requirements for asset composition, capital management and other operational and risk management objectives pursuant to the Consent Arrangement. Failure to successfully finalize and execute such plans, meet and maintain such metrics, or meet such requirements could result in additional actions under the prompt corrective action regulations or imposition of additional requirements or conditions by the FHFA, which could also have a material adverse consequence to the FHLBank of Seattle's business, including its financial condition and results of operations.

The Consent Arrangement will remain in effect until modified or terminated by the FHFA and does not prevent the FHFA from taking any other action affecting the FHLBank of Seattle that, at the sole discretion of the FHFA, it deems appropriate in fulfilling its supervisory responsibilities. Until the FHFA determines that the FHLBank of Seattle has meet the requirements of the Consent Arrangement, the FHLBank of Seattle expects that it will remain classified as undercapitalized and, as such, restricted from redeeming, repurchasing or paying dividends on capital stock without FHFA approval.

Note 20—Pension and Postretirement Benefit Plans

Qualified Defined Benefit Multiemployer Plan. The FHLBanks participate in the Pentegra Defined Benefit Plan for Financial Institutions (Pentegra DB Plan), a tax-qualified, defined-benefit pension plan. The Pentegra DB Plan is treated as a multiemployer plan for accounting purposes, but operates as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code. As a result, certain multiemployer plan disclosures, including the certified zone status, are not applicable to the Pentegra DB Plan. Under the Pentegra DB Plan, contributions made by a participating employer may be used to provide benefits to employees of other participating employers because assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. Also, in the event a participating employer is unable to meet its contribution requirements, the required contributions for the other participating employers could increase proportionately.

All of the FHLBanks participate in the Pentegra DB Plan, except for the FHLBank of San Francisco, which provides a Cash Balance Plan to eligible employees. The Pentegra DB Plan covers substantially all officers and employees of the FHLBanks that meet certain eligibility requirements, except that:

- FHLBank of Atlanta employees are eligible to participate only if hired before March 1, 2011;
- FHLBank of Indianapolis employees are eligible to participate only if hired before February 1, 2010;
- FHLBank of Des Moines employees are eligible to participate only if hired before December 31, 2010;
- FHLBank of Dallas employees are eligible to participate only if hired before January 1, 2007 or hired on or after January 1, 2007, provided that the new employee had prior service with a financial services institution that participated in the Pentegra DB Plan, during which service the employee was covered by that plan;
- FHLBank of Topeka employees are eligible to participate only if hired before January 1, 2009; and
- FHLBank of Seattle employees are eligible to participate only if hired before January 1, 2004.

The Pentegra DB Plan operates on a fiscal year from July 1 through June 30. The Pentegra DB Plan files one Form 5500 on behalf of all employers who participate in the plan. The Employer Identification Number is 13-5645888 and the three-digit plan number is 333. There are no collective bargaining agreements in place at any of the FHLBanks.

The Pentegra DB Plan's annual valuation process includes calculating the plan's funded status and separately calculating the funded status of each participating employer. The funded status is defined as the market value of assets divided by the funding target (100% of the present value of all benefit liabilities accrued at that date). As permitted by ERISA, the Pentegra DB Plan accepts contributions for the prior plan year up to eight and a half months after the asset valuation date. As a result, the market value of assets at the valuation date (July 1) will increase by any subsequent contributions designated for the immediately preceding plan year ended June 30.

The most recent Form 5500 available for the Pentegra DB Plan is for the plan year ended June 30, 2010. For the Pentegra DB Plan year ended June 30, 2010, none of the individual FHLBank's contributions represented more than 5% of the total contributions to the Pentegra DB Plan, except for the FHLBanks of New York, Cincinnati and Des Moines. For the Pentegra DB Plan year ended June 30, 2009, none of the individual FHLBank's contributions represented more than 5% of the total contributions to the Pentegra DB Plan.

Table 20.1 - Pentegra DB Plan Net Pension Cost and Funded Status

(dollars in millions)

	2011	2010	2009
Net pension cost charged to compensation and benefit expense for the year ended December 31	$ 88	$ 88	$ 64
Pentegra DB Plan funded status as of July 1	90.01% [(a)]	85.81% [(b)]	93.74%
Range of the FHLBanks' funded status as of July 1	82.44%-106.10%	82.85%-100.00%	90.00%-104.24%

(a) The Pentegra DB Plan's funded status as of July 1, 2011 is preliminary and may increase because the plan's participants were permitted to make contributions for the plan year ended June 30, 2011 through March 15, 2012. Contributions made on or before March 15, 2012, and designated for the plan year ended June 30, 2011, will be included in the final valuation as of July 1, 2011. The final funded status as of July 1, 2011 will not be available until the Form 5500 for the plan year July 1, 2011 through June 30, 2012 is filed (this Form 5500 is due to be filed no later than April 2013).

(b) The Pentegra DB Plan's funded status as of July 1, 2010 is preliminary and may increase because the plan's participants were permitted to make contributions for the plan year ended June 30, 2010 through March 15, 2011. Contributions made on or before March 15, 2011, and designated for the plan year ended June 30, 2010, will be included in the final valuation as of July 1, 2010. The final funded status as of July 1, 2010 will not be available until the Form 5500 for the plan year July 1, 2010 through June 30, 2011 is filed (this Form 5500 is due to be filed no later than April 2012).

Qualified Defined Contribution Plans. Each FHLBank, except for the FHLBanks of Atlanta, San Francisco and Seattle, also participates in the Pentegra Defined Contribution Plan for Financial Institutions, a tax-qualified, defined-contribution plan. The FHLBanks of Atlanta, San Francisco and Seattle have similar defined-contribution plans. Under these plans, each FHLBank contributes a percentage of the participants' compensation by making a matching contribution equal to a percentage of the employee's voluntary contributions, subject to certain limitations.

Nonqualified Supplemental Defined Contribution Retirement Plans. Certain FHLBanks maintain at least one or more nonqualified, unfunded supplemental defined contribution plans. These plans restore all or a portion of defined contributions to those employees who have had their qualified defined contribution benefits limited by IRS regulations. The unfunded liability associated with these nonqualified supplemental defined contribution retirement plans was $58 million and $41 million at December 31, 2011 and 2010. However, certain of these FHLBanks have established a grantor/rabbi trust to meet future benefit obligations and current payments to the beneficiaries.

Costs expensed for all qualified and nonqualified defined contribution plans were $16 million in each of the three years ended December 31, 2011, 2010 and 2009.

Nonqualified Supplemental Defined Benefit Retirement Plans. Certain FHLBanks maintain one or more nonqualified, unfunded supplemental defined benefit plans. These plans ensure that participants receive the full amount of benefits to which they would have been entitled under the qualified defined benefit plan in the absence of limits on benefit levels imposed by the IRS. Certain of these FHLBanks have established a grantor/rabbi trust to meet future benefit obligations and current payments to the beneficiaries. There are no funded plan assets that have been designated to provide supplemental retirement benefits.

FHLBank of San Francisco Cash Balance Plan. The FHLBank of San Francisco provides retirement benefits through its Cash Balance Plan, a tax-qualified defined benefit plan. The Cash Balance Plan covers all employees who have completed six months of FHLBank of San Francisco service. Under the plan, each eligible FHLBank of San Francisco employee accrues benefits annually equal to six percent of the employee's total annual compensation, plus six percent interest on the employee's account balance accrued through the prior year end. The Cash Balance Plan is funded through a trust established by the FHLBank of San Francisco.

Postretirement Benefit Plans. Certain FHLBanks offer a postretirement benefit plan that may include health care and/or life insurance benefits for eligible retirees. There are no funded plan assets that have been designated to provide postretirement benefits.

Table 20.2 presents the obligations and funding status of the FHLBanks' nonqualified supplemental defined benefit retirement plans and the FHLBank of San Francisco's Cash Balance Plan (collectively referred to as “defined benefit retirement plans” in the tables below); and the FHLBanks' postretirement benefit plans.

Table 20.2 - Benefit Obligation, Fair Value of Plan Assets and Funded Status

(dollars in millions)

	Defined Benefit Retirement Plans		Postretirement Benefit Plans	
	2011	2010	2011	2010
Change in benefit obligation				
Benefit obligation at beginning of year	$ 151	$ 131	$ 42	$ 38
Service cost	8	7	2	2
Interest cost	7	7	2	2
Amendments—changes in assumptions	4	1	3	—
Actuarial loss (gain)	16	14	1	1
Benefits paid	(6)	(10)	(1)	(1)
Settlements and curtailments	(3)	1	—	—
Benefit obligation at end of year	177	151	49	42
Change in plan assets				
Fair value of plan assets at beginning of year	23	18	—	—
Actual return on plan assets	—	2	—	—
Employer contributions	7	13	1	1
Benefits paid	(6)	(10)	(1)	(1)
Fair value of plan assets at end of year	24	23	—	—
Funded status	$ (153)	$ (128)	$ (49)	$ (42)

Amounts recognized in other liabilities on the Combined Statement of Condition for the FHLBanks' defined benefit retirement plans and postretirement benefit plans at December 31, 2011 and 2010 were $202 million and $170 million.

Table 20.3 - Amounts Recognized in AOCI

(dollars in millions)

	Defined Benefit Retirement Plans		Postretirement Benefit Plans	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Net actuarial loss	$ 68	$ 51	$ 9	$ 5
Prior service cost (benefit)	—	—	(7)	(8)
Transition obligation	—	—	—	1
	$ 68	$ 51	$ 2	$ (2)

The accumulated benefit obligation for the defined benefit retirement plans was $150 million and $126 million at December 31, 2011 and 2010.

Table 20.4 - Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income (Loss)

(dollars in millions)

	Year Ended December 31,					
	Defined Benefit Retirement Plans			Postretirement Benefit Plans		
	2011	2010	2009	2011	2010	2009
Net Periodic Benefit Cost						
Service cost	$ 8	$ 7	$ 7	$ 2	$ 2	$ 2
Interest cost	7	7	7	2	2	2
Expected return on plan assets	(2)	(1)	(1)	—	—	—
Amortization of prior service cost	—	—	—	(1)	(2)	(2)
Amortization of net loss (gain)	5	4	4	—	—	—
Settlement loss	2	3	3	—	—	—
Net periodic benefit cost	20	20	20	3	2	2
Other Changes in Benefit Obligations Recognized in Other Comprehensive Income						
Net loss (gain)	23	14	6	3	—	(1)
Prior service cost (benefit)	—	—	—	—	—	(3)
Amortization of net (loss) gain	(5)	(4)	(4)	—	—	—
Amortization of prior service (cost) benefit	—	—	—	1	2	2
Prior service cost recognized due to curtailment/settlement loss	(1)	(2)	—	—	—	—
Total recognized in other comprehensive income	17	8	2	4	2	(2)
Total recognized in net periodic benefit cost and other comprehensive income	$ 37	$ 28	$ 22	$ 7	$ 4	$ —

Table 20.5 presents the estimated net actuarial loss and prior service benefit that will be amortized from AOCI into net periodic benefit cost over the next fiscal year.

Table 20.5 - Amortization for Next Fiscal Year

(dollars in millions)

	Defined Benefit Retirement Plans	Postretirement Benefit Plans
Net actuarial loss	$ 7	$ 1
Prior service benefit	—	(2)
Total	$ 7	$ (1)

Table 20.6 presents the key assumptions used for the actuarial calculations to determine benefit obligations for the FHLBanks' defined benefit retirement plans and postretirement benefit plans (displayed as a range from low to high).

Table 20.6 - Benefit Obligation Key Assumptions

	Defined Benefit Retirement Plans		Postretirement Benefit Plans	
	2011	2010	2011	2010
Discount rate	3.7% - 4.5%	4.5% - 5.6%	4.2% - 4.8%	5.3% - 6.0%
Salary increases	4.0% - 5.5%	4.0% - 5.5%	N/A	N/A

N/A—These assumptions are not applicable to the postretirement benefit plans.

Table 20.7 presents the key assumptions used for the actuarial calculations to determine net periodic benefit cost for the FHLBanks' defined benefit retirement plans and postretirement benefit plans (displayed as a range from low to high).

Table 20.7 - Net Periodic Benefit Cost Key Assumptions

	Defined Benefit Retirement Plans			Postretirement Benefit Plans		
	2011	2010	2009	2011	2010	2009
Discount rate	4.0% - 6.0%	5.0% - 6.1%	5.6% - 6.5%	5.3% - 7.5%	5.5% - 6.2%	5.8% - 7.0%
Salary increases	4.0% - 5.5%	4.5% - 5.5%	4.3% - 5.5%	N/A	N/A	N/A
Expected return on plan assets	8.0%	8.0%	8.0%	N/A	N/A	N/A

N/A—These assumptions are not applicable to the postretirement benefit plans.

Table 20.8 - Postretirement Benefit Plans Assumed Health Care Cost Trend Rates(1)

	2011	2010
Assumed for next year	5.0% - 8.4%	5.0% - 9.0%
Ultimate rate	5.0% - 5.3%	5.0% - 5.3%
Year that ultimate rate is reached	2011 - 2023	2010 - 2023

(1) Table 20.8 excludes certain postretirement health benefit plan assumptions for the FHLBank of San Francisco because this plan's costs are capped at 1998 levels. As a result, changes in the health care cost trend rates will have no effect on the FHLBank of San Francisco's accumulated postretirement benefit obligation, or service or interest costs.

The effect of a percentage point increase in the assumed health care cost trend rate would be an increase in postretirement benefit expense of less than $1 million and an increase in accumulated postretirement benefit obligation (APBO) of $6 million. The effect of a percentage point decrease in the assumed health care cost trend rate would be a decrease in postretirement benefit expense of less than $1 million and a decrease in APBO of $6 million.

The discount rates for the disclosures as of December 31, 2011 were determined by using a discounted cash flow approach, which incorporates the timing of each expected future benefit payment. Estimated future benefit payments are based on each plan's census data, benefit formulas and provisions, and valuation assumptions reflecting the probability of decrement and survival. The present value of the future benefit payments is determined by using weighted-average duration-based interest rate yields from a variety of highly rated relevant corporate bond indices as of December 31, 2011, and solving for the single discount rate that produces the same present value.

The nonqualified supplemental retirement plans and postretirement benefit plans are not funded; therefore, no contributions will be made in 2012 other than for the payment of benefits. The FHLBank of San Francisco contributed $2 million in 2011 and expects to contribute $3 million in 2012 to the Cash Balance Plan. Immaterial contribution amounts were made to the FHLBank of San Francisco's nonqualified defined benefit plans and its postretirement health plan in 2011. The FHLBank of San Francisco expects to contribute $5 million to its nonqualified defined benefit plans and its postretirement health plan in 2012.

Table 20.9 - Estimated Future Benefit Payments

(dollars in millions)

Years	Payments
2012	$ 17
2013	11
2014	10
2015	12
2016	14
2017-2021	77

FHLBank of San Francisco's Plan Assets

Table 20.10 presents the fair values of the FHLBank of San Francisco's Cash Balance Plan's assets as of December 31, 2011 and 2010, by asset category. (See *Note 21—Fair Value* for further information regarding the three levels of fair value measurement.)

Table 20.10 - FHLBank of San Francisco's Cash Balance Plan's Fair Value of Plan Assets

(dollars in millions)

	December 31, 2011				December 31, 2010			
	Fair Value Measurement Using				Fair Value Measurement Using			
Asset Category	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ —	$ —	$ —	$ —	$ 1	$ —	$ —	$ 1
Equity mutual funds	14	—	—	14	14	—	—	14
Fixed income mutual funds	9	—	—	9	7	—	—	7
Other	1	—	—	1	1	—	—	1
Total	$ 24	$ —	$ —	$ 24	$ 23	$ —	$ —	$ 23

The Cash Balance Plan is administered by the FHLBank of San Francisco's Retirement Committee, which establishes the plan's Statement of Investment Policy and Objectives. The Retirement Committee has adopted a strategic asset allocation that envisions a reasonably stable distribution of assets among major asset classes. These asset classes include domestic large-, mid-, and small-capitalization equity; international equity investments; and fixed income investments. The Retirement Committee has set the Cash Balance Plan's target allocation percentages for a mix range of 50-70% equity and 30-50% fixed income. The Retirement Committee reviews the performance of the Cash Balance Plan on a quarterly basis.

Table 20.11- FHLBank of San Francisco's Cash Balance Plan's Weighted-Average Asset Allocation by Asset Category

	December 31,	
Asset Category	2011	2010
Cash and cash equivalents	2%	4%
Equity mutual funds	56%	59%
Fixed income mutual funds	38%	33%
Real estate mutual funds	2%	2%
Other mutual funds	2%	2%
Total	100%	100%

Note 21—Fair Value

The fair value amounts recorded on the Combined Statement of Condition and presented in the note disclosures have been determined by the FHLBanks using available market information and each FHLBank's best judgment of appropriate valuation methods. These estimates are based on pertinent information available to the FHLBanks at December 31, 2011 and 2010. Although each FHLBank uses its best judgment in estimating the fair value of its financial instruments, there are inherent limitations in any valuation technique. Therefore, these fair values may not be indicative of the amounts that would have been realized in market transactions at December 31, 2011 and 2010.

Table 21.1 presents the carrying value and estimated fair value of financial assets and liabilities of the FHLBanks. These values do not represent an estimate of the overall market value of the FHLBanks as going concerns, which would take into account future business opportunities and the net profitability of assets and liabilities.

Table 21.1 - Fair Value Summary

(dollars in millions)

Financial Instruments	December 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and due from banks	$ 20,182	$ 20,182	$ 3,801	$ 3,801
Interest-bearing deposits	1,207	1,207	9	9
Securities purchased under agreements to resell	12,675	12,675	16,400	16,400
Federal funds sold	41,139	41,140	75,855	75,855
Trading securities	18,705	18,705	28,291	28,291
Available-for-sale securities	78,062	78,062	71,459	71,459
Held-to-maturity securities	119,477	120,886	138,456	140,266
Advances(1)	418,157	421,889	478,589	480,420
Mortgage loans held for portfolio, net	53,377	57,001	61,191	64,289
Accrued interest receivable	1,613	1,613	1,921	1,921
Derivative assets, net	636	636	897	897
Other assets(2)	15	15	134	143
Liabilities				
Deposits	12,564	12,564	14,401	14,401
Securities sold under repurchase agreements	400	400	1,200	1,213
Consolidated obligations				
Discount notes(3)	190,149	190,157	194,431	194,435
Bonds(4)	506,975	516,888	606,567	613,573
Total consolidated obligations	697,124	707,045	800,998	808,008
Mandatorily redeemable capital stock	8,013	8,013	7,066	7,066
Accrued interest payable	1,763	1,763	2,471	2,471
Derivative liabilities, net	3,570	3,570	5,467	5,467
Optional advance commitments, included in other liabilities	2	2	11	11
Subordinated notes	1,000	1,127	1,000	1,065

(1) Includes $8,693 million and $10,494 million of advances recorded under the fair value option and $45 million and $807 million of hedged advances recorded at fair value at December 31, 2011 and 2010.
(2) Other assets primarily includes mortgage loans held for sale.
(3) Includes $19,862 million and $5,820 million of consolidated obligation discount notes recorded under the fair value option at December 31, 2011 and 2010.
(4) Includes $38,981 million and $47,395 million of consolidated obligation bonds recorded under the fair value option and $87 million and $591 million of hedged consolidated bonds recorded at fair value at December 31, 2011 and 2010.

Fair Value Hierarchy

The FHLBanks record trading securities, available-for-sale securities, derivative assets, derivative liabilities, certain advances, certain consolidated obligations and certain other liabilities at fair value on a recurring basis and on occasion, certain private-label MBS and certain other assets on a non-recurring basis. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The inputs are evaluated and an overall level for the fair value measurement is determined. This overall level is an indication of market observability of the fair value measurement for the asset or liability. An entity must disclose the level within the fair value hierarchy in which the measurements are classified for all assets and liabilities measured on a recurring and non-recurring basis.

The fair value hierarchy prioritizes the inputs used to measure fair value into three broad levels:

- Level 1 Inputs. Quoted prices for identical assets or liabilities in an active market that the reporting entity can access on the measurement date.

- Level 2 Inputs. Inputs other than quoted prices within Level 1 that are observable inputs for the asset or liability, either directly or indirectly. If the asset or liability has a specified or contractual term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following: (1) quoted prices for similar

assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in markets that are not active or in which little information is released publicly; (3) inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves that are observable at commonly quoted intervals, volatilities and prepayment speeds); and (4) inputs that are derived principally from or corroborated by observable market data (e.g., implied spreads).

- Level 3 Inputs. Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value measurement of the asset or liability.

Each FHLBank reviews its fair value hierarchy classifications on a quarterly basis. Changes in the observability of the valuation inputs may result in a reclassification of certain assets or liabilities. These reclassifications are reported as transfers in/out at fair value as of the beginning of the quarter in which the changes occur. There were no such transfers during the years ended December 31, 2011 and 2010.

Valuation Techniques and Significant Inputs

Cash and due from banks. The fair values equal the carrying values.

Interest-bearing deposits. The fair values are determined based on each security's quoted price or prices obtained from a pricing service for instruments with more than three months to maturity. When quoted prices are not available, the fair values are determined by calculating the present value of the expected future cash flows and reducing the amount for accrued interest receivable. For certain FHLBanks, the fair values approximate the carrying values for interest-bearing deposits with variable rates and fixed rates with three months or less to maturity or repricing.

Securities purchased under agreements to resell. The fair values are determined by calculating the present value of the future cash flows for instruments with more than three months to maturity. The discount rates used in these calculations are the rates for securities with similar terms. For certain FHLBanks, the fair values approximate the carrying values for securities purchased under agreements to resell with variable rates and fixed rates with three months or less to maturity or repricing.

Federal funds sold. The fair values of overnight Federal funds sold approximate the carrying values. The fair values of term Federal funds sold are 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.

Investment securities-MBS. The FHLBanks' valuation technique incorporates prices from up to four designated third-party pricing services, when available. The third-party pricing services use various proprietary models to price MBS. The inputs to those models are derived from various sources including, but not limited to: benchmark yields, reported trades, dealer estimates, issuer spreads, benchmark securities, bids, offers and other market-related data. Since many MBS do not trade on a daily basis, the pricing vendors use available information as applicable such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to determine the prices for individual securities. Each pricing vendor has an established challenge process in place for all MBS valuations, which facilitates resolution of potentially erroneous prices identified by the FHLBanks.

Recently, the FHLBanks conducted reviews of the pricing vendors used to confirm and further augment their understanding of the vendors' pricing processes, methodologies and control procedures for specific instruments.

Prior to December 31, 2011, the FHLBanks established a price for each MBS using a formula that was based upon the number of third-party valuation services' prices received. If four prices were received, the average of the middle two prices was used; if three prices were received, the middle price was used; if two prices were received, the average of the two prices was used; and if one price was received, it was used subject to some type of validation.

Effective December 31, 2011, the FHLBanks refined their method for estimating the fair values of MBS. The FHLBanks' refined valuation technique first requires the establishment of a median price for each security using the same formula-driven price described above. All prices that are within a specified tolerance threshold of the median price are included in the cluster of prices that are averaged to compute a default price. Prices that are outside the threshold (outliers) are subject to further analysis, including but not limited to, comparison to prices provided by an additional third-party valuation service, prices for similar securities, and non-binding dealer estimates, to determine if an outlier is a better estimate of fair value. If an outlier or

some other price identified in the analysis is determined to be a better estimate of fair value, then the outlier or the other price as appropriate is used as the final price rather than the default price. If the analysis confirms that an outlier is in fact not representative of fair value and the default price is the best estimate, then the default price is used as the final price. In all cases, the final price is used to determine the fair value of the security.

As an additional step for certain securities, each FHLBank reviewed the final fair value estimates of its private-label residential MBS holdings as of December 31, 2011 for reasonableness using an implied yield test. Each FHLBank calculated an implied yield for certain of its private-label residential MBS using the estimated fair value derived from the process previously described and the security's projected cash flows from the FHLBank's OTTI process and compared such yield to the market yield for comparable securities according to dealers and other third-party sources to the extent comparable market yield data was available. Significant variances were evaluated in conjunction with all of the other available pricing information to determine whether an adjustment to the fair value estimate was appropriate.

As of December 31, 2011, four vendor prices were received for substantially all of the FHLBanks' MBS holdings and the final prices for substantially all of those securities were computed by averaging the four prices. Based on the FHLBanks' reviews of the pricing methods employed by the third-party pricing vendors and the relative lack of dispersion among the vendor prices (or, in those instances in which there were outliers or significant yield variances, the FHLBanks' additional analyses), the FHLBanks believe their final prices result in reasonable estimates of fair value and that the fair value measurements are classified appropriately in the fair value hierarchy. Based on the current lack of significant market activity for private-label residential MBS and home equity loan ABS, the recurring and non-recurring fair value measurements for those securities were classified as Level 3 within the fair value hierarchy as of December 31, 2011 and 2010.

Investment securities-Non-MBS. To determine the estimated fair values of non-MBS investment securities, the FHLBanks use either a market approach using prices from third-party pricing services, generally consistent with the methodology for MBS, or an income approach based on a market-observable interest rate curve that may be adjusted for a spread. Differing spreads may be applied to distinct term points along the discount curve in determining the fair values of instruments with varying maturities. Each FHLBank believes that its methodologies result in fair values that are reasonable and similar in all material respects based on the nature of the financial instruments being measured.

Table 21.2 presents the significant inputs for non-MBS financial assets and liabilities carried at Levels 2 and 3 within the fair value hierarchy at December 31, 2011.

Table 21.2 - Significant Inputs for Non-MBS

(dollars in millions)

	Interest Rate Curve/ Pricing Services	Spread Range to the Interest Rate Curve (basis points)	Fair Value Hierarchy Levels 2 and 3
U.S. Treasury obligations	Treasury	—	$ 1,061
Commercial paper	LIBOR Swap Curve	(9) to (10)	599
Certificates of deposit	LIBOR Swap Curve	(2) to (5)	1,020
	Pricing Services	N/A	3,954
	Total		4,974
Other U.S. obligations	Pricing Services	N/A	1,249
Government-sponsored enterprise and Tennessee Valley Authority obligations	LIBOR Swap Curve	55	82
	Agency Discount Note Curve	—	2,529
	CO Curve	—	901
	Pricing Services	N/A	21,166
	Total		24,678
State or local housing agency obligations	Pricing Services	N/A	3
Temporary Liquidity Guarantee Program debentures and promissory notes	LIBOR Swap Curve	(5)	250
	Pricing Services	N/A	14,475
	Total		14,725
Federal Family Education Loan Program ABS	LIBOR Swap Curve	100	1,105
	Pricing Services	N/A	7,054
	Total		8,159
Other	Pricing Services	N/A	1,215

Advances. The FHLBanks generally determine the fair values of advances by calculating the present value of expected future cash flows from the advances, excluding the amount of the accrued interest receivable. The discount rates used in these calculations are equivalent to the replacement advance rates for advances with similar terms. In accordance with the FHFA's advances regulations, an advance with a maturity or repricing period greater than six months requires a prepayment fee sufficient to make the FHLBank financially indifferent to the borrower's decision to prepay the advances. Therefore, the fair value of advances does not assume prepayment risk.

The significant inputs used to determine fair value of advances are as follows:

- *CO Curve.* The FHLBanks use the CO Curve, which represents the FHLBanks' cost of funds, as an input to estimate the fair value of advances based on the FHLBanks' use of the CO Curve to determine advance rates. (See *Valuation Techniques and Significant Inputs* within this note for a discussion of the CO Curve.)

- *Volatility assumption.* To estimate the fair value of advances with optionality the FHLBanks use market-based expectations of future interest-rate volatility implied from current market prices for similar options.

- *Spread* assumption. As of December 31, 2011, the spread adjustment to the CO Curve was 12 to 20 basis points for advances carried at fair value.

Mortgage loans held for portfolio. The fair values of mortgage loans are determined based on quoted market prices for similar mortgage loans, if available, or model prices. The modeled prices start with prices for newly issued mortgage-backed securities issued by U.S. government-sponsored enterprises or similar new mortgage loans, adjusted for underlying assumptions or characteristics. Prices are then adjusted for differences in coupon, average loan rate, seasoning and cash flow remittance between the FHLBank's mortgage loans and the referenced mortgage-backed securities or mortgage loans. The prices of the referenced mortgage-backed securities and the mortgage loans are highly dependent upon the underlying prepayment and other assumptions. Changes in the prepayment rates often have a material effect on the fair value estimates.

Accrued interest receivable and payable. The fair values approximate the carrying values.

Derivative assets/liabilities. The FHLBanks base the fair values of derivatives with similar terms on available market prices, when available. However, active markets do not exist for many of the FHLBanks' derivatives. Consequently, fair values for these instruments are generally estimated using standard valuation 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, volatility of interest rates and the selection of discount rates that appropriately reflect market and credit risks. The use of different assumptions could have a material effect on the fair value estimates. Because these estimates are made at a specific point in time, they are susceptible to material near-term changes. The FHLBanks are subject to credit risk in derivatives transactions due to the potential nonperformance of their derivatives counterparties, which are generally highly rated institutions. To mitigate this risk, each FHLBank has entered into master netting agreements for interest-rate exchange agreements with its derivative counterparties. To further limit the FHLBank's net unsecured credit exposure to those counterparties, each FHLBank has entered into bilateral security agreements with all of its active derivatives counterparties that provide for the delivery of collateral at specified levels. Each FHLBank has evaluated the potential for the fair value of the instruments to be affected by counterparty risk and its own credit risk and has determined that no adjustments were significant to the overall fair value measurements.

The fair values of the FHLBank's derivative assets and liabilities include accrued interest receivable/payable and cash collateral remitted to/received from counterparties. The estimated fair values of the accrued interest receivable/payable; and cash collateral approximate their carrying values due to their short-term nature. The fair values of derivatives are netted by counterparty pursuant to the provisions of each FHLBank's master netting agreements. If these netted amounts are positive, they are classified as an asset and, if negative, they are classified as a liability.

A discounted cash flow analysis uses market-observable inputs (inputs that are actively quoted and can be validated to external sources). Inputs by class of derivative are as follows:

Interest-rate related:

- *LIBOR Swap Curve*.
- *Volatility assumption.* Market-based expectations of future interest rate volatility implied from current market prices for similar options.

- *Prepayment assumption* (if applicable).
- In limited instances, fair value estimates for interest-rate related derivatives are obtained from dealers and are corroborated by the FHLBanks using a pricing model and observable market data (e.g., the LIBOR Swap Curve).

TBAs:

- *TBA securities prices.* Market-based prices of TBAs are determined by coupon class and expected term until settlement.
- *TBA "drops."* TBA price "drops" are used to adjust base TBA prices and are a function of current short-term interest rates, prepayment estimates, and the supply and demand for pass-throughs in the current delivery month. TBA drops are obtained from a market-observable source.

Mortgage delivery commitments:

- *TBA securities prices.* TBA security prices are adjusted for differences in coupon, average loan rate and seasoning.

Deposits. The fair values of deposits are generally equal to their carrying values because the deposits are primarily overnight or due on demand. The FHLBanks determine the fair values of term deposits by calculating the present value of expected future cash flows from the deposits. The discount rates used in these calculations are the cost of deposits with similar terms.

Securities sold under agreements to repurchase. The FHLBanks determine the fair values of securities sold under agreements to repurchase using the income approach, which converts the expected future cash flows to a single present value using market-based inputs. The fair value also takes into consideration any derivative features, as applicable.

Consolidated obligations. The FHLBanks estimate the fair values of consolidated obligations based on prices received from a third-party pricing service, consistent with the methodology for MBS previously discussed, or by using internal valuation models and inputs based on the cost of raising comparable term debt. The FHLBanks' internal valuation models use standard valuation techniques and estimate fair values based on the following significant inputs for those consolidated obligations carried at fair value on the Combined Statement of Condition.

- *CO Curve and LIBOR Swap Curve.* The Office of Finance constructs a market-observable curve referred to as the CO Curve. This curve is constructed using the U.S. Treasury Curve as a base curve, which is then adjusted by adding indicative spreads obtained largely from market observable sources. These market indications are generally derived from pricing indications from dealers, historical pricing relationships, recent GSE trades and secondary market activity. The LIBOR Swap Curve is used for certain callable consolidated obligations.

- *Volatility assumption.* To estimate the fair values of consolidated obligations with optionality the FHLBanks use market-based expectations of future interest rate volatility implied from current market prices for similar options.

- *Spread assumption.* As of December 31, 2011, the spread adjustment to the LIBOR Swap Curve was (61) to (31) basis points for certain callable consolidated obligations carried at fair value. There was no spread adjustment to the CO Curve used to value the non-callable consolidated obligations carried at fair value and certain callable consolidated obligations carried at fair value for those FHLBanks not using the LIBOR Swap Curve.

Mandatorily redeemable capital stock. The fair value of capital stock subject to mandatory redemption is generally equal to its par value as indicated by contemporaneous member purchases and sales at par value. Fair value also includes an estimated dividend earned at the time of reclassification from capital to liabilities, until such amount is paid, and any subsequently declared dividend. FHLBank stock can only be acquired and redeemed at par value. FHLBank stock is not traded and no market mechanism exists for the exchange of stock outside the FHLBank System's cooperative structure.

Commitments. The fair value of the FHLBanks' commitments to extend credit for advances, letters of credit and standby bond-purchase agreements was immaterial at December 31, 2011 and 2010.

Subordinated notes. The FHLBank of Chicago determines the fair values based on internal valuation models that use market-based yield curve inputs obtained from a third party.

Subjectivity of estimates. Estimates of the fair value of advances with options, mortgage instruments, derivatives with embedded options and consolidated obligations with options using the techniques described above are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows, prepayment speed

assumptions, expected interest rate volatility, possible distributions of future interest rates used to value options, and the selection of discount rates that appropriately reflect market and credit risks. The use of different assumptions could have a material effect on the fair value estimates.

Fair Value on a Recurring Basis

Table 21.3 presents the fair value of assets and liabilities by level within the fair value hierarchy, which are recorded on a recurring basis at December 31, 2011 and 2010.

Table 21.3 - Hierarchy Level for Financial Assets and Liabilities - Recurring

(dollars in millions)

	December 31, 2011				
	Total	Level 1	Level 2	Level 3	Netting Adjustment and Cash Collateral(1)
Assets					
Trading securities					
U.S. Treasury obligations	$ 1,061	$ —	$ 1,061	$ —	$ —
Commercial paper	599	—	599	—	—
Certificates of deposit	1,020	—	1,020	—	—
Other U.S. obligations	9	—	9	—	—
Government-sponsored enterprise obligations	9,697	—	9,697	—	—
State or local housing agency obligations	3	—	3	—	—
Temporary Liquidity Guarantee Program debentures and promissory notes	5,179	—	5,179	—	—
Other non-MBS	296	10	286	—	—
Other U.S. obligations residential MBS	43	—	43	—	—
Government-sponsored enterprise residential MBS	549	—	549	—	—
Government-sponsored enterprise commercial MBS	249	—	249	—	—
Total trading securities	18,705	10	18,695	—	—
Available-for-sale securities					
Certificates of deposit	3,954	—	3,954	—	—
Other U.S. obligations	1,240	—	1,240	—	—
Government-sponsored enterprise and Tennessee Valley Authority obligations	14,981	—	14,981	—	—
Temporary Liquidity Guarantee Program debentures and promissory notes	9,546	—	9,546	—	—
Federal Family Education Loan Program ABS	8,159	—	8,159	—	—
Other non-MBS	940	11	929	—	—
Other U.S. obligations residential MBS	3,118	—	3,118	—	—
Government-sponsored enterprise residential MBS	21,761	—	21,761	—	—
Government-sponsored enterprise commercial MBS	153	—	153	—	—
Private-label residential MBS	14,195	—	—	14,195	—
Home equity loan ABS	15	—	—	15	—
Total available-for-sale securities	78,062	11	63,841	14,210	—
Advances(2)	8,738	—	8,738	—	—
Derivative assets, net					
Interest-rate related	628	—	7,645	37	(7,054)
TBAs	—	—	—	—	—
Mortgage delivery commitments	8	—	8	—	—
Total derivative assets, net	636	—	7,653	37	(7,054)
Other assets	15	15	—	—	—
Total assets at fair value	$ 106,156	$ 36	$ 98,927	$ 14,247	$ (7,054)

	December 31, 2011				
	Total	Level 1	Level 2	Level 3	Netting Adjustment and Cash Collateral(1)
Liabilities					
Consolidated Obligations					
Discount notes(3)	$ 19,862	$ —	$ 19,862	$ —	$ —
Bonds(4)	39,068	—	38,981	87	—
Total consolidated obligations	58,930	—	58,843	87	—
Derivative liabilities, net					
Interest-rate related	3,562	—	20,607	—	(17,045)
TBAs	4	—	4	—	—
Mortgage delivery commitments	4	—	4	—	—
Total derivative liabilities, net	3,570	—	20,615	—	(17,045)
Option advance commitments, included in other liabilities	2	—	2	—	—
Total liabilities at fair value	$ 62,502	$ —	$ 79,460	$ 87	$ (17,045)

	December 31, 2010				
	Total	Level 1	Level 2	Level 3	Netting Adjustment and Cash Collateral(1)
Assets					
Trading securities					
U.S. Treasury obligations	$ 3,068	$ —	$ 3,068	$ —	$ —
Commercial paper	2,349	—	2,349	—	—
Certificates of deposit	7,075	—	7,075	—	—
Government-sponsored enterprise obligations	12,355	—	12,355	—	—
State or local housing agency obligations	3	—	3	—	—
Temporary Liquidity Guarantee Program debentures and promissory notes	2,126	—	2,126	—	—
Other non-MBS	271	11	260	—	—
Other U.S. obligations residential MBS	49	—	49	—	—
Government-sponsored enterprise residential MBS	765	—	765	—	—
Government-sponsored enterprise commercial MBS	230	—	230	—	—
Total trading securities	28,291	11	28,280	—	—
Available-for-sale securities					
Certificates of deposit	5,790	—	5,790	—	—
Other U.S. obligations	984	—	984	—	—
Government-sponsored enterprise and Tennessee Valley Authority obligations	11,177	—	11,177	—	—
Temporary Liquidity Guarantee Program debentures and promissory notes	10,576	—	10,576	—	—
Federal Family Education Loan Program ABS	8,799	—	8,799	—	—
Other non-MBS	577	12	565	—	—
Other U.S. obligations residential MBS	3,179	—	3,179	—	—
Government-sponsored enterprise residential MBS	22,012	—	22,012	—	—
Government-sponsored enterprise commercial MBS	303	—	303	—	—
Private-label residential MBS	8,047	—	—	8,047	—
Home equity loan ABS	15	—	—	15	—
Total available-for-sale securities	71,459	12	63,385	8,062	—
Advances(2)	11,301	—	11,301	—	—
Derivative assets, net					
Interest-rate related	894	—	8,437	29	(7,572)
TBAs	1	1	—	—	—
Mortgage delivery commitments	2	—	2	—	—
Total derivative assets, net	897	1	8,439	29	(7,572)
Other assets	13	13	—	—	—
Total assets at fair value	$ 111,961	$ 37	$ 111,405	$ 8,091	$ (7,572)

	December 31, 2010				
	Total	Level 1	Level 2	Level 3	Netting Adjustment and Cash Collateral(1)
Liabilities					
Consolidated Obligations					
Discount notes(3)	$ 5,820	$ —	$ 5,820	$ —	$ —
Bonds(4)	47,986	—	47,908	78	—
Total consolidated obligations	53,806	—	53,728	78	—
Derivative liabilities, net					
Interest-rate related	5,462	—	19,042	—	(13,580)
TBAs	1	—	1	—	—
Mortgage delivery commitments	4	—	4	—	—
Total derivative liabilities, net	5,467	—	19,047	—	(13,580)
Optional advance commitments, included in other liabilities	11	—	11	—	—
Total liabilities at fair value	$ 59,284	$ —	$ 72,786	$ 78	$ (13,580)

(1) Amounts represent the effect of legally enforceable master netting agreements that allow an FHLBank to net settle positive and negative positions and also cash collateral and related accrued interest held or placed with the same counterparties.
(2) Includes $8,693 million and $10,494 million of advances recorded under the fair value option and $45 million and $807 million of hedged advances recorded at fair value at December 31, 2011 and 2010.
(3) Represents $19,862 million and $5,820 million of consolidated obligation discount notes recorded under the fair value option at December 31, 2011 and 2010.
(4) Includes $38,981 million and $47,395 million of consolidated obligation bonds recorded under the fair value option and $87 million and $591 million of hedged consolidated bonds recorded at fair value at December 31, 2011 and 2010.

Level 3 Disclosures for All Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

Table 21.4 presents a reconciliation of assets and liabilities measured at fair value on a recurring basis and classified as Level 3 during the years ended December 31, 2011 and 2010.

Table 21.4 - Reconciliation of Level 3 Assets and Liabilities

(dollars in millions)

	Year Ended December 31, 2011			
	Available-for-Sale Securities		Derivatives, Net(1)	
	Private-Label Residential MBS	Home Equity Loan ABS	Interest-Rate Related	Consolidated Bonds
Balance, at beginning of period	$ 8,047	$ 15	$ 29	$ (78)
Total gains or losses (realized/unrealized)				
Included in net gains (losses) on sale of available-for-sale securities	11	—	—	—
Included in net gains (losses) on changes in fair value included in earnings	(519) [a]	(1)	8	(9)
Included in AOCI	899	5	—	—
Purchases, issuances, sales and settlements				
Sales	(293)	—	—	—
Settlements	(2,533)	(4)	—	—
Transfers from held-to-maturity to available-for-sale securities(2)	8,583	—	—	—
Balance, at end of period	$ 14,195	$ 15	$ 37	$ (87)
Total amount of gains (losses) for the period included in earnings attributable to the change in unrealized gains/losses relating to assets and liabilities still held at December 31, 2011	$ (518)	$ (1)	$ 8	$ (9)

	Year Ended December 31, 2010			
	Available-for-Sale Securities		Derivatives, Net(1)	
	Private-Label Residential MBS	Home Equity Loan ABS	Interest-Rate Related	Consolidated Bonds
Balance, at beginning of period	$ 5,695	$ 14	$ 23	$ (71)
Total gains or losses (realized/unrealized)				
Included in net gains (losses) on sale of available-for-sale securities	10	—	—	—
Included in net gains (losses) on changes in fair value included in earnings	(362) [(a)]	(1)	6	(7)
Included in AOCI	1,353	8	—	—
Purchases, issuances and settlements	(1,717)	(6)	—	—
Transfers from held-to-maturity to available-for-sale securities(2)	3,068	—	—	—
Balance, at end of period	$ 8,047	$ 15	$ 29	$ (78)
Total amount of gains (losses) for the period included in earnings attributable to the change in unrealized gains/losses relating to assets and liabilities still held at December 31, 2010	$ (331)	$ (1)	$ 6	$ (7)

(a) Represents OTTI related to the credit loss recognized in earnings for available-for-sale securities previously transferred from held-to-maturity securities.
(1) Balances exclude netting adjustments and cash collateral.
(2) During 2011 and 2010, certain FHLBanks elected to transfer certain private-label residential MBS from their respective HTM portfolio to their respective AFS portfolio that had credit-related OTTI. (See *Note 8—Other-Than-Temporary Impairment Analysis* for additional information on these transfers.) As of December 31, 2011 and 2010, the fair value of these securities continued to be determined using significant unobservable inputs (Level 3).

Fair Value on a Non-Recurring Basis

The FHLBanks measure certain held-to-maturity securities, mortgage loans and real estate owned at fair value on a non-recurring basis. These assets are not measured at fair value on an ongoing basis, but are subject to fair value adjustments only in certain circumstances (i.e., when there is evidence of OTTI).

Table 21.5 presents the fair value of assets and liabilities by level within the fair value hierarchy that are recorded on a non-recurring basis at December 31, 2011 and 2010.

Table 21.5 - Hierarchy Level for Assets and Liabilities - Non-Recurring

(dollars in millions)

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Held-to-maturity securities				
Private-label residential MBS	$ 234	$ —	$ —	$ 234
Home equity loan ABS	6	—	—	6
Total held-to-maturity securities	240	—	—	240
Mortgage loans held for portfolio	249	—	—	249
Real estate owned	25	—	3	22
Total non-recurring assets at fair value	$ 514	$ —	$ 3	$ 511

	December 31, 2010			
	Total	Level 1	Level 2	Level 3
Held-to-maturity securities				
Private-label residential MBS	$ 738	$ —	$ —	$ 738
Total held-to-maturity securities	738	—	—	738
Mortgage loans held for portfolio	96	—	—	96
Real estate owned	22	—	2	20
Total non-recurring assets at fair value	$ 856	$ —	$ 2	$ 854

Fair Value Option

The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments not previously carried at fair value. It requires entities to display the fair value of those assets and liabilities for which the entity has chosen to use fair value on the face of the Combined Statement of Condition. Fair value is used for both the initial and subsequent measurement of the designated assets, liabilities and commitments, with the changes in fair value recognized in net income. Interest income and interest expense on advances and consolidated obligations at fair value are recognized solely on the contractual amount of interest due or unpaid. Any transaction fees or costs are immediately recognized into non-interest income or non-interest expense.

The FHLBanks of New York, Cincinnati, Chicago, Des Moines, Dallas, San Francisco and Seattle (Electing FHLBanks) have each elected the fair value option for certain advances, certain optional advance commitments and/or certain consolidated obligations which either do not qualify for hedge accounting or may be at risk for not meeting hedge effectiveness requirements, primarily in an effort to mitigate the potential income statement volatility that can arise from economic hedging relationships in which the carrying value of the hedged item is not adjusted for changes in fair value.

Table 21.6 - Fair Value Option - Financial Assets and Liabilities

(dollars in millions)

	Year Ended December 31, 2011			
	Advances	Consolidated Discount Notes	Consolidated Bonds	Other Liabilities
Balance, at beginning of period	$ 10,494	$ (5,820)	$ (47,395)	$ (11)
New transactions elected for fair value option	2,049	(20,134)	(65,098)	(3)
Maturities and terminations	(4,023)	6,107	73,687	—
Net gains (losses) on financial instruments held under fair value option	184	(2)	(188)	12
Change in accrued interest and other	(11)	(13)	13	—
Balance, at end of period	$ 8,693	$ (19,862)	$ (38,981)	$ (2)

	Year Ended December 31, 2010			
	Advances	Consolidated Discount Notes	Consolidated Bonds	Other Liabilities
Balance, at beginning of period	$ 21,620	$ —	$ (53,805)	$ —
New transactions elected for fair value option	3,593	(8,607)	(79,469)	(7)
Maturities and terminations	(14,505)	2,799	85,816	—
Net gains (losses) on financial instruments held under fair value option	(163)	(2)	63	(4)
Change in accrued interest and other	(51)	(10)	—	—
Balance, at end of period	$ 10,494	$ (5,820)	$ (47,395)	$ (11)

	Year Ended December 31, 2009			
	Advances	Consolidated Discount Notes	Consolidated Bonds	Other Liabilities
Balance, at beginning of period	$ 38,774	$ —	$ (31,285)	$ —
New transactions elected for fair value option	516	—	(54,410)	—
Maturities and terminations	(17,023)	—	31,778	—
Net gains (losses) on financial instruments held under fair value option	(573)	—	116	—
Change in accrued interest and other	(74)	—	(4)	—
Balance, at end of period	$ 21,620	$ —	$ (53,805)	$ —

For instruments for which the fair value option has been elected, the related contractual interest income, contractual interest expense and the discount amortization on fair value option discount notes are recorded as part of net interest income on the Combined Statement of Income. The remaining changes in fair value for instruments for which the fair value option has been elected are recorded as net gains (losses) on financial instruments held under fair value option in the Combined Statement of Income. The change in fair value does not include changes in instrument-specific credit risk. Each of the Electing

FHLBanks determined that no adjustments to the fair values of its instruments recorded under the fair value option for instrument-specific credit risk were necessary as of December 31, 2011 and 2010.

Table 21.7 presents the difference between the aggregate unpaid balance outstanding and the aggregate fair value for advances and consolidated obligations for which the fair value option has been elected as of December 31, 2011 and 2010.

Table 21.7 - Aggregate Unpaid Balance and Aggregate Fair Value

(dollars in millions)

	December 31, 2011			December 31, 2010		
	Aggregate Unpaid Principal Balance	Aggregate Fair Value	Fair Value Over/ (Under) Aggregate Unpaid Principal Balance	Aggregate Unpaid Principal Balance	Aggregate Fair Value	Fair Value Over/ (Under) Aggregate Unpaid Principal Balance
Advances(1)	$ 8,267	$ 8,693	$ 426	$ 10,167	$ 10,494	$ 327
Consolidated discount notes	19,859	19,862	3	5,816	5,820	4
Consolidated bonds	38,914	38,981	67	47,503	47,395	(108)

(1) At December 31, 2011 and December 31, 2010, none of the advances were 90 days or more past due or had been placed on non-accrual status.

Note 22—Commitments and Contingencies

Off-Balance Sheet Commitments

Table 22.1 - Off-Balance Sheet Commitments

(dollars in millions)

	December 31, 2011			December 31, 2010
Notional amount	Expire Within One Year	Expire After One Year	Total	Total
Standby letters of credit outstanding(1)	$ 33,234	$ 20,429	$ 53,663	$ 63,098
Commitments for standby bond purchases	178	2,947	3,125	3,475
Unused lines of credit - advances	2,067	—	2,067	2,098
Commitments to fund or purchase mortgage loans	1,024	—	1,024	615
Commitments to fund additional advances	858	109	967	2,182
Unsettled consolidated bonds, at par(2)	5,236	—	5,236	2,619
Unsettled consolidated discount notes, at par	58	—	58	42

(1) Excludes unconditional commitments to issue standby letters of credit of $170 million and $503 million at December 31, 2011 and 2010.
(2) Unsettled consolidated bonds of $4,715 million and $1,758 million were hedged with associated interest-rate swaps at December 31, 2011 and 2010.

Standby Letters of Credit. A standby letter of credit is a financing arrangement between an FHLBank and its member. Standby letters of credit are executed for members for a fee. If an FHLBank is required to make payment for a beneficiary's draw, the payment amount is converted into a collateralized advance to the member. The original terms of these standby letters of credit range from less than one month to 20 years, with a final expiration in 2030. The carrying value of guarantees related to standby letters of credit are recorded in other liabilities and were $102 million and $138 million at December 31, 2011 and 2010.

Each FHLBank monitors the creditworthiness of its members that have standby letters of credit. In addition, standby letters of credit are fully collateralized at the time of issuance. As a result, each FHLBank has deemed it unnecessary to record any additional liability on these commitments.

Standby Bond-Purchase Agreements. Certain FHLBanks have entered into standby bond-purchase agreements with state housing authorities within their district whereby these FHLBanks agree to provide liquidity for a fee. If required, these FHLBanks will purchase and hold the state housing authority's bonds until the designated marketing agent can find a suitable investor or the state housing authority repurchases the bond according to a schedule established by the standby bond-purchase agreement. Each standby bond-purchase agreement dictates the specific terms that would require the affected

FHLBank to purchase the bond. The standby bond-purchase commitments entered into by these FHLBanks have original expiration periods of up to seven years, currently expiring no later than 2016, although some are renewable at the option of the affected FHLBank. At December 31, 2011 and 2010, the FHLBanks had standby bond-purchase commitments with 10 and 12 state housing authorities. During 2011 and 2010, the FHLBanks were not required to purchase any bonds under these agreements.

Commitments to Fund or Purchase Mortgage Loans. An FHLBank may enter into commitments that unconditionally obligate it to fund or purchase mortgage loans. Commitments are generally for periods not to exceed 365 days. These outstanding commitments represented obligations of the FHLBanks to purchase closed mortgage loans from their members and net delivery commitments related to the MPF Xtra product. In addition, $5 million of commitments that obligate the FHLBanks to table fund mortgage loans that are not considered derivatives were outstanding at December 31, 2010. There were no commitments that obligate the FHLBanks to table fund mortgage loans at December 31, 2011.

Delivery commitments are recorded at fair value as derivative assets or derivative liabilities in the Combined Statement of Condition. Under the MPF Xtra product, the FHLBank of Chicago enters into delivery commitments to purchase MPF Xtra mortgage loans from the participating financial institutions and simultaneously enters into delivery commitments to resell these loans to Fannie Mae. The outstanding delivery commitments issued by the FHLBank of Chicago were $250 million and $140 million at December 31, 2011 and 2010. For derivative and hedging activities disclosure purposes, the delivery commitments issued by the FHLBank of Chicago and by Fannie Mae are considered separate derivatives.

Pledged Collateral

The FHLBanks generally execute derivatives with large banks and major broker-dealers and generally enter into bilateral pledge (collateral) agreements. At December 31, 2011 and 2010, the FHLBanks had pledged, as collateral, securities with a carrying value of $965 million and $964 million that cannot be sold or repledged, and securities with a carrying value of $792 million and $688 million that can be sold or repledged to counterparties that have market risk exposure from the FHLBanks related to derivatives.

Lease Commitments

The FHLBanks charged to operating expenses net rental and related costs of approximately $24 million, $24 million and $30 million for the years ended December 31, 2011, 2010, and 2009.

Table 22.2 - Future Minimum Lease Payments

(dollars in millions)

Year	Premises	Equipment(1)	Total
2012	$ 27	$ 8	$ 35
2013	20	8	28
2014	16	7	23
2015	14	2	16
2016	14	—	14
Thereafter	88	—	88
Total	$ 179	$ 25	$ 204

(1) Includes minimum lease payments for both operating and capital leases.

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

Lehman Bankruptcy

On September 15, 2008, Lehman Brothers Holdings, Inc. (LBHI), the parent company of Lehman Brothers Special Financing (LBSF) and a guarantor of LBSF's obligations, announced it had filed a petition for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. This filing precipitated the termination of the FHLBanks' derivatives transactions with LBSF. Each

affected FHLBank calculated its resulting settlement amount, including in that calculation any unreturned collateral pledged in connection with those transactions.

Additionally, a number of FHLBanks, including the FHLBanks of Boston, New York, Cincinnati, Indianapolis, Dallas and Topeka, received a derivatives alternative dispute resolution (ADR) notice from the LBHI bankruptcy estate relating to the unwinding of derivatives transactions between LBSF and individual FHLBanks in 2008. Under the derivatives ADR notice, an FHLBank may agree to the demand, deny the demand or make a counteroffer and ultimately arrive at a settlement of the demand.

During the third quarter of 2011, the FHLBank of Pittsburgh and the management of the Lehman bankruptcy estate entered into a termination agreement concluding on the stipulated amount of the FHLBank of Pittsburgh's claim on the Lehman bankruptcy estate. The FHLBank of Pittsburgh sold the stipulated claim resulting in a gain of $2 million, which was recognized in the third quarter of 2011. During the fourth quarter of 2011, the FHLBank of Dallas settled its dispute with LBSF resulting in a loss of $7 million. These amounts are recorded in provision (reversal) of derivative counterparty credit losses in the Combined Statement of Income. During 2011, each of the FHLBanks of Boston, Indianapolis and Topeka settled its dispute with LBSF, which did not have a material effect on its financial condition and results of operations. Each of the FHLBanks of Boston, New York, Pittsburgh, Cincinnati, Indianapolis, Dallas and Topeka has disclosed information regarding certain legal proceedings in connection with LBHI's insolvency in its individual 2011 SEC Form 10-K.

Other Legal Proceedings

The FHLBanks are subject to other 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, results of operations or cash flows.

Note 23—Subsequent Events

Subsequent events have been evaluated from January 1, 2012 through the time of publication of this Combined Financial Report. No significant subsequent events were identified, except for the declaration of dividends or repurchase of excess capital stock, which generally occur in the normal course of business unless there are regulatory or self-imposed restrictions.

FEDERAL HOME LOAN BANKS
CONDENSED COMBINING SCHEDULES—STATEMENTS OF CONDITION
DECEMBER 31, 2011 and 2010

(dollars in millions)	Combined	Combining Adjustments	Boston	New York
December 31, 2011				
Assets				
Cash and due from banks	$ 20,182	$ —	$ 112	$ 10,878
Investments	271,265	(228)	21,379	14,237
Advances	418,157	—	25,195	70,864
Mortgage loans held for portfolio, net	53,377	—	3,109	1,408
Other assets	3,105	(36)	173	275
Total assets	$ 766,086	$ (264)	$ 49,968	$ 97,662
Liabilities				
Deposits	$ 12,564	$ (19)	$ 654	$ 2,102
Consolidated obligations				
Discount notes	190,149	—	14,652	22,123
Bonds	506,975	(261)	29,879	67,441
Total consolidated obligations	697,124	(261)	44,531	89,564
Mandatorily redeemable capital stock	8,013	—	228	54
Other liabilities	8,564	(38)	1,066	896
Total liabilities	726,265	(318)	46,479	92,616
Capital				
Capital stock				
Class B putable ($100 par value) issued and outstanding	32,485	—	3,626	4,491
Class A putable ($100 par value) issued and outstanding	655	—	—	—
Pre-conversion putable ($100 par value) issued and outstanding	2,402	—	—	—
Total capital stock	35,542	—	3,626	4,491
Retained earnings				
Unrestricted	6,603	56	375	722
Restricted	1,974	—	23	24
Total retained earnings	8,577	56	398	746
Accumulated other comprehensive income (loss)	(4,298)	(2)	(535)	(191)
Total capital	39,821	54	3,489	5,046
Total liabilities and capital	$ 766,086	$ (264)	$ 49,968	$ 97,662
December 31, 2010				
Assets				
Cash and due from banks	$ 3,801	$ —	$ 6	$ 661
Investments	330,470	(208)	27,134	16,739
Advances	478,589	—	28,035	81,200
Mortgage loans held for portfolio, net	61,191	—	3,246	1,266
Other assets	4,058	—	226	346
Total assets	$ 878,109	$ (208)	$ 58,647	$ 100,212
Liabilities				
Deposits	$ 14,401	$ (13)	$ 745	$ 2,455
Consolidated obligations				
Discount notes	194,431	—	18,525	19,391
Bonds	606,567	(254)	35,103	71,743
Total consolidated obligations	800,998	(254)	53,628	91,134
Mandatorily redeemable capital stock	7,066	—	90	63
Other liabilities	11,903	(3)	908	1,416
Total liabilities	834,368	(270)	55,371	95,068
Capital				
Capital stock				
Class B putable ($100 par value) issued and outstanding	38,683	—	3,665	4,529
Class A putable ($100 par value) issued and outstanding	719	—	—	—
Pre-conversion putable ($100 par value) issued and outstanding	2,333	—	—	—
Total capital stock	41,735	—	3,665	4,529
Retained earnings				
Unrestricted	5,943	64	249	712
Restricted	1,609	—	—	—
Total retained earnings	7,552	64	249	712
Accumulated other comprehensive income (loss)	(5,546)	(2)	(638)	(97)
Total capital	43,741	62	3,276	5,144
Total liabilities and capital	$ 878,109	$ (208)	$ 58,647	$ 100,212

Pittsburgh	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 634	$ 6	$ 2,034	$ 513	$ 1,002	$ 240	$ 1,152	$ 116	$ 3,494	$ 1
16,639	36,138	21,941	15,203	40,503	14,637	13,503	10,576	39,368	27,369
30,605	86,971	28,424	18,568	15,291	26,591	18,798	17,394	68,164	11,292
3,883	1,633	7,850	5,955	14,118	7,138	163	4,934	1,829	1,357
233	522	148	136	341	127	154	170	697	165
$ 51,994	$ 125,270	$ 60,397	$ 40,375	$ 71,255	$ 48,733	$ 33,770	$ 33,190	$ 113,552	$ 40,184
$ 1,099	$ 2,655	$ 1,083	$ 629	$ 648	$ 750	$ 1,522	$ 998	$ 156	$ 287
10,922	24,330	26,136	6,536	25,404	6,810	9,799	10,251	19,152	14,034
35,613	90,662	28,855	30,358	39,880	38,012	20,070	19,895	83,350	23,221
46,535	114,992	54,991	36,894	65,284	44,822	29,869	30,146	102,502	37,255
45	286	275	453	4	6	15	8	5,578	1,061
652	776	489	451	2,027	343	659	337	611	295
48,331	118,709	56,838	38,427	67,963	45,921	32,065	31,489	108,847	38,898
3,389	5,718	3,126	1,563	—	2,109	1,256	791	4,795	1,621
—	—	—	—	—	—	—	536	—	119
—	—	—	—	2,402	—	—	—	—	—
3,389	5,718	3,126	1,563	2,402	2,109	1,256	1,327	4,795	1,740
431	1,235	432	484	1,289	562	489	396	—	132
4	19	12	13	32	7	6	6	1,803	25
435	1,254	444	497	1,321	569	495	402	1,803	157
(161)	(411)	(11)	(112)	(431)	134	(46)	(28)	(1,893)	(611)
3,663	6,561	3,559	1,948	3,292	2,812	1,705	1,701	4,705	1,286
$ 51,994	$ 125,270	$ 60,397	$ 40,375	$ 71,255	$ 48,733	$ 33,770	$ 33,190	$ 113,552	$ 40,184
$ 143	$ 5	$ 198	$ 12	$ 282	$ 106	$ 1,632	$ —	$ 755	$ 1
18,752	39,879	33,314	19,785	46,239	18,640	12,269	14,846	52,582	30,499
29,708	89,258	30,181	18,275	18,901	29,253	25,456	19,368	95,599	13,355
4,483	2,039	7,770	6,702	18,294	7,421	207	4,173	2,381	3,209
301	617	168	156	400	149	126	319	1,106	144
$ 53,387	$ 131,798	$ 71,631	$ 44,930	$ 84,116	$ 55,569	$ 39,690	$ 38,706	$ 152,423	$ 47,208
$ 1,167	$ 3,093	$ 1,452	$ 585	$ 819	$ 1,181	$ 1,070	$ 1,210	$ 134	$ 503
13,082	23,915	35,003	8,925	18,421	7,208	5,132	13,705	19,527	11,597
34,129	95,198	30,697	31,875	57,849	43,791	31,316	21,521	121,120	32,479
47,211	119,113	65,700	40,800	76,270	50,999	36,448	35,226	140,647	44,076
34	529	357	658	530	7	8	19	3,749	1,022
814	1,117	599	940	3,548	552	174	468	945	425
49,226	123,852	68,108	42,983	81,167	52,739	37,700	36,923	145,475	46,026
3,986	7,224	3,092	1,610	—	2,183	1,601	861	8,282	1,650
—	—	—	—	—	—	—	593	—	126
—	—	—	—	2,333	—	—	—	—	—
3,986	7,224	3,092	1,610	2,333	2,183	1,601	1,454	8,282	1,776
397	1,124	438	427	1,099	556	452	352	—	73
—	—	—	—	—	—	—	—	1,609	—
397	1,124	438	427	1,099	556	452	352	1,609	73
(222)	(402)	(7)	(90)	(483)	91	(63)	(23)	(2,943)	(667)
4,161	7,946	3,523	1,947	2,949	2,830	1,990	1,783	6,948	1,182
$ 53,387	$ 131,798	$ 71,631	$ 44,930	$ 84,116	$ 55,569	$ 39,690	$ 38,706	$ 152,423	$ 47,208

FEDERAL HOME LOAN BANKS
CONDENSED COMBINING SCHEDULES—STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2011 and 2010

(dollars in millions)	Combined	Combining Adjustments	Boston	New York
December 31, 2011				
Interest income				
Advances	$ 3,530	$ —	$ 356	$ 504
Investments	5,237	(14)	260	319
Mortgage loans	2,639	—	149	63
Other interest income	2	—	—	—
Total interest income	11,408	(14)	765	886
Interest expense				
Consolidated obligations — Discount notes	529	—	9	35
Consolidated obligations — Bonds	6,645	11	449	406
Other interest expense	130	—	1	4
Total interest expense	7,304	11	459	445
Net interest income	4,104	(25)	306	441
Provision (reversal) for credit losses	71	—	(1)	3
Net interest income after provision (reversal) for credit losses	4,033	(25)	307	438
Non-interest income (loss)				
Net other-than-temporary impairment losses	(856)	—	(77)	(6)
Other	(179)	11	24	(7)
Total non-interest income (loss)	(1,035)	11	(53)	(13)
Non-interest expense	1,057	(6)	65	123
Assessments	348	—	29	58
Net income (loss)	$ 1,593	$ (8)	$ 160	$ 244
December 31, 2010				
Interest income				
Advances	$ 5,125	$ —	$ 427	$ 615
Investments	6,180	(17)	278	399
Mortgage loans	3,187	—	166	65
Other interest income	4	—	—	—
Total interest income	14,496	(17)	871	1,079
Interest expense				
Consolidated obligations — Discount notes	667	—	30	42
Consolidated obligations — Bonds	8,462	(13)	542	572
Other interest expense	147	—	1	8
Total interest expense	9,276	(13)	573	622
Net interest income	5,220	(4)	298	457
Provision (reversal) for credit losses	58	—	7	1
Net interest income after provision (reversal) for credit losses	5,162	(4)	291	456
Non-interest income (loss)				
Net other-than-temporary impairment losses	(1,071)	—	(84)	(9)
Other	(351)	77	(2)	27
Total non-interest income (loss)	(1,422)	77	(86)	18
Non-interest expense	932	(6)	60	98
Assessments	727	—	38	100
Net income (loss)	$ 2,081	$ 79	$ 107	$ 276

Pittsburgh	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 255	$ 258	$ 236	$ 169	$ 259	$ 271	$ 222	$ 166	$ 709	$ 125
320	754	440	234	1,248	307	91	183	964	131
201	97	335	300	737	325	10	196	113	113
—	—	—	—	—	—	—	2	—	—
776	1,109	1,011	703	2,244	903	323	547	1,786	369
11	17	28	8	357	6	4	10	34	10
610	628	720	449	1,276	660	167	303	707	259
1	5	14	15	74	1	—	3	12	—
622	650	762	472	1,707	667	171	316	753	269
154	459	249	231	537	236	152	231	1,033	100
10	5	12	5	19	9	—	1	4	4
144	454	237	226	518	227	152	230	1,029	96
(45)	(118)	—	(27)	(68)	—	(6)	(5)	(413)	(91)
12	14	(5)	(6)	5	(72)	(4)	(74)	(232)	155
(33)	(104)	(5)	(33)	(63)	(72)	(10)	(79)	(645)	64
65	123	57	58	184	57	84	54	126	67
8	43	37	25	47	20	10	20	42	9
$ 38	$ 184	$ 138	$ 110	$ 224	$ 78	$ 48	$ 77	$ 216	$ 84
$ 328	$ 320	$ 294	$ 214	$ 516	$ 562	$ 326	$ 210	$ 1,123	$ 190
405	960	547	276	1,296	368	141	243	1,087	197
242	121	413	349	962	357	13	174	138	187
—	—	—	1	—	—	—	3	—	—
975	1,401	1,254	840	2,774	1,287	480	630	2,348	574
19	29	41	15	387	10	11	21	40	22
721	823	919	544	1,534	861	234	355	995	375
1	5	19	14	76	1	1	4	17	—
741	857	979	573	1,997	872	246	380	1,052	397
234	544	275	267	777	415	234	250	1,296	177
(2)	—	13	1	21	12	—	2	2	1
236	544	262	266	756	403	234	248	1,294	176
(159)	(143)	—	(70)	(163)	—	(2)	(4)	(331)	(106)
2	56	20	11	36	(162)	(12)	(151)	(273)	20
(157)	(87)	20	(59)	(127)	(162)	(14)	(155)	(604)	(86)
68	79	56	55	131	60	77	47	145	62
3	100	62	41	132	48	38	12	146	7
$ 8	$ 278	$ 164	$ 111	$ 366	$ 133	$ 105	$ 34	$ 399	$ 21

FEDERAL HOME LOAN BANKS
CONDENSED COMBINING SCHEDULES—STATEMENTS OF INCOME
YEAR ENDED DECEMBER 31, 2009

(dollars in millions)	Combined	Combining Adjustments	Boston	New York
Interest income				
Advances	$ 9,922	$ —	$ 678	$ 1,271
Investments	7,104	(26)	276	515
Mortgage loans	3,873	—	194	72
Other interest income	3	—	—	—
Total interest income	20,902	(26)	1,148	1,858
Interest expense				
Consolidated obligations — Discount notes	2,174	—	153	193
Consolidated obligations — Bonds	13,156	(7)	682	954
Other interest expense	147	—	1	10
Total interest expense	15,477	(7)	836	1,157
Net interest income	5,425	(19)	312	701
Provision (reversal) for credit losses	18	—	2	3
Net interest income after provision (reversal) for credit losses	5,407	(19)	310	698
Non-interest income (loss)				
Net other-than-temporary impairment losses	(2,431)	—	(444)	(21)
Other	652	31	7	185
Total non-interest income (loss)	(1,779)	31	(437)	164
Non-interest expense	943	(6)	60	84
Assessments	830	—	—	207
Net income (loss)	$ 1,855	$ 18	$ (187)	$ 571

Pittsburgh	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 612	$ 881	$ 578	$ 399	$ 601	$ 668	$ 665	$ 348	$ 2,800	$ 421
555	1,232	620	314	1,091	322	156	323	1,504	222
281	152	484	414	1,264	444	16	160	157	235
—	—	—	—	—	—	—	3	—	—
1,448	2,265	1,682	1,127	2,956	1,434	837	834	4,461	878
42	260	112	85	376	132	207	74	472	68
1,141	1,602	1,172	755	1,916	1,101	553	494	2,199	594
1	6	11	14	84	3	1	7	8	1
1,184	1,868	1,295	854	2,376	1,236	761	575	2,679	663
264	397	387	273	580	198	76	259	1,782	215
(2)	—	—	—	10	2	—	1	1	1
266	397	387	273	570	196	76	258	1,781	214
(229)	(316)	—	(60)	(437)	—	(4)	(1)	(608)	(311)
24	418	38	2	(70)	56	204	109	(340)	(12)
(205)	102	38	(58)	(507)	56	200	108	(948)	(323)
98	113	59	50	128	53	75	44	132	53
—	103	98	45	—	53	53	85	186	—
$ (37)	$ 283	$ 268	$ 120	$ (65)	$ 146	$ 148	$ 237	$ 515	$ (162)

FEDERAL HOME LOAN BANKS
CONDENSED COMBINING SCHEDULES—STATEMENTS OF CAPITAL
YEAR ENDED DECEMBER 31, 2009

(dollars in millions)	Combined	Combining Adjustments	Boston	New York
Balance, December 31, 2008	$ 51,350	$ (36)	$ 3,430	$ 5,867
Retained earnings cumulative effect of adjustment relating to amended other-than-temporary impairment guidance	1,883	—	349	—
Accumulated other comprehensive income cumulative effect of adjustment relating to amended other-than-temporary impairment guidance	(1,883)	—	(349)	—
Proceeds from issuance of capital stock	5,818	—	58	3,210
Repurchase/redemption of capital stock	(6,677)	—	(2)	(3,686)
Net shares reclassified to mandatorily redeemable capital stock	(3,760)	—	2	(50)
Dividends of capital stock	50	—	—	—
Comprehensive income (loss)				
Net income (loss)	1,855	18	(187)	571
Other comprehensive income (loss)				
Net unrealized gains/losses on available-for-sale securities				
Unrealized gains (losses)	946	—	41	61
Reclassification of realized net (gains) losses included in net income (loss)	(83)	—	—	—
Net unrealized gains/losses on held-to-maturity securities transferred from available-for-sale securities				
Reclassification of (gains) losses included in net income (loss)	54	—	—	—
Net non-credit portion of other-than-temporary impairment losses on available-for-sale securities				
Non-credit portion OTTI loss	(254)	—	—	—
Reclassification of non-credit portion from held-to-maturity securities to available-for-sale securities	(3,250)	—	—	—
Net change in fair value of OTTI securities	1,023	—	—	—
Reclassification of non-credit portion included in net income (loss)	358	—	—	—
Net non-credit portion of other-than-temporary impairment losses on held-to-maturity securities				
Non-credit portion OTTI loss	(10,220)	—	(1,133)	(118)
Reclassification of non-credit portion included in net income (loss)	1,352	—	248	—
Accretion of non-credit portion	1,293	—	305	7
Reclassification of non-credit portion from held-to-maturity securities to available-for-sale securities	3,250	—	—	—
Net unrealized gains/losses relating to hedging activities				
Unrealized gains (losses)	302	—	—	—
Reclassification of (gains) losses included in net income (loss)	42	1	—	7
Pension and postretirement benefits	1	—	2	(1)
Total other comprehensive income (loss)	(5,186)	1	(537)	(44)
Total comprehensive income (loss)	(3,331)	19	(724)	527
Dividends				
Cash	(591)	—	—	(265)
Stock	(50)	—	—	—
Balance, December 31, 2009	$ 42,809	$ (17)	$ 2,764	$ 5,603

Pittsburgh	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 4,135	$ 8,893	$ 4,282	$ 2,091	$ 2,287	$ 3,017	$ 3,438	$ 2,395	$ 9,785	$ 1,766
256	179	—	—	233	—	—	3	570	293
(256)	(179)	—	—	(233)	—	—	(3)	(570)	(293)
40	926	92	72	102	269	578	369	71	31
—	(1,111)	—	(5)	—	(570)	(1,171)	(132)	—	—
(4)	(154)	(991)	(220)	(160)	(19)	(107)	(916)	(1,112)	(29)
—	—	—	—	—	—	8	42	—	—
(37)	283	268	120	(65)	146	148	237	515	(162)
10	—	—	69	587	176	3	—	(1)	—
2	—	—	—	(19)	(65)	(1)	—	—	—
—	—	—	—	54	—	—	—	—	—
(11)	(200)	—	—	(43)	—	—	—	—	—
(1,159)	(1,131)	—	—	—	—	—	—	—	(960)
349	430	—	—	12	—	—	—	—	232
133	162	—	—	32	—	—	—	—	31
(961)	(952)	—	(375)	(1,292)	—	(78)	(8)	(4,034)	(1,269)
24	—	—	22	336	—	2	—	521	199
31	—	—	28	210	—	9	1	508	194
1,159	1,131	—	—	—	—	—	—	—	960
—	—	—	—	302	—	—	—	—	—
1	—	—	—	33	—	—	—	—	—
1	—	(2)	(2)	2	1	1	—	(1)	—
(421)	(560)	(2)	(258)	214	112	(64)	(7)	(3,007)	(613)
(458)	(277)	266	(138)	149	258	84	230	(2,492)	(775)
—	(24)	(182)	(54)	—	(44)	—	—	(22)	—
—	—	—	—	—	—	(8)	(42)	—	—
$ 3,713	$ 8,253	$ 3,467	$ 1,746	$ 2,378	$ 2,911	$ 2,822	$ 1,946	$ 6,230	$ 993

FEDERAL HOME LOAN BANKS
CONDENSED COMBINING SCHEDULES—STATEMENTS OF CAPITAL
YEAR ENDED DECEMBER 31, 2010

(dollars in millions)	Combined	Combining Adjustments	Boston	New York
Balance, December 31, 2009	$ 42,809	$ (17)	$ 2,764	$ 5,603
Adjustment for cumulative effect of accounting change — fair value guidance for scope exception related to embedded credit derivative	25	—	—	—
Proceeds from issuance of capital stock	3,627	—	25	1,875
Repurchase/redemption of capital stock	(6,511)	—	—	(2,357)
Net shares reclassified to mandatorily redeemable capital stock	(409)	—	(3)	(48)
Dividends of capital stock	46	—	—	—
Comprehensive income (loss)				
Net income (loss)	2,081	79	107	276
Other comprehensive income (loss)				
Net unrealized gains/losses on available-for-sale securities				
Unrealized gains (losses)	394	—	75	26
Reclassification of realized net (gains) losses included in net income (loss)	(10)	—	—	—
Net unrealized gains/losses on held-to-maturity securities transferred from available-for-sale securities				
Reclassification of (gains) losses included in net income (loss)	14	—	—	—
Net non-credit portion of other-than-temporary impairment losses on available-for-sale securities				
Reclassification of non-credit portion from held-to-maturity securities to available-for-sale securities	(683)	—	—	—
Net change in fair value of OTTI securities	1,190	—	—	—
Unrealized gains (losses)	21	—	—	—
Reclassification of (gains) losses included in net income (loss)	(10)	—	—	—
Reclassification of non-credit portion included in net income (loss)	358	—	—	—
Net non-credit portion of other-than-temporary impairment losses on held-to-maturity securities				
Non-credit portion OTTI loss	(1,051)	—	(35)	(2)
Reclassification of non-credit portion included in net income (loss)	639	—	70	6
Accretion of non-credit portion	1,437	—	272	14
Reclassification of non-credit portion from held-to-maturity securities to available-for-sale securities	683	—	—	—
Net unrealized gains/losses relating to hedging activities				
Unrealized gains (losses)	(301)	—	—	—
Reclassification of (gains) losses included in net income (loss)	(11)	—	—	8
Pension and postretirement benefits	(10)	—	1	(4)
Total other comprehensive income (loss)	2,660	—	383	48
Total comprehensive income (loss)	4,741	79	490	324
Dividends				
Cash	(541)	—	—	(253)
Stock	(46)	—	—	—
Balance, December 31, 2010	$ 43,741	$ 62	$ 3,276	$ 5,144

Pittsburgh	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 3,713	$ 8,253	$ 3,467	$ 1,746	$ 2,378	$ 2,911	$ 2,822	$ 1,946	$ 6,230	$ 993
—	—	—	—	25	—	—	—	—	—
195	252	70	40	70	481	450	107	60	2
(195)	(754)	—	(126)	—	(737)	(1,387)	(14)	(941)	—
(32)	(398)	(41)	(30)	(65)	(22)	(3)	(279)	588	(76)
—	—	—	—	—	—	9	37	—	—
8	278	164	111	366	133	105	34	399	21
1	—	—	(6)	178	125	—	—	—	(5)
—	—	—	—	(10)	—	—	—	—	—
—	—	—	—	14	—	—	—	—	—
(20)	(161)	—	(216)	—	—	—	—	—	(286)
330	400	—	143	14	—	—	—	—	303
11	4	—	6	—	—	—	—	—	—
(8)	—	—	(2)	—	—	—	—	—	—
157	104	—	—	7	—	—	—	—	90
(20)	(161)	—	(22)	(36)	—	(17)	(16)	(537)	(205)
—	—	—	68	150	—	2	2	328	13
—	—	—	56	179	—	18	4	850	44
20	161	—	216	—	—	—	—	—	286
—	—	—	—	(301)	—	—	—	—	—
—	—	—	—	(19)	—	—	—	—	—
1	(5)	1	(4)	(1)	—	—	(1)	—	2
472	342	1	239	175	125	3	(11)	641	242
480	620	165	350	541	258	108	23	1,040	263
—	(27)	(138)	(33)	—	(61)	—	—	(29)	—
—	—	—	—	—	—	(9)	(37)	—	—
$ 4,161	$ 7,946	$ 3,523	$ 1,947	$ 2,949	$ 2,830	$ 1,990	$ 1,783	$ 6,948	$ 1,182

FEDERAL HOME LOAN BANKS
CONDENSED COMBINING SCHEDULES—STATEMENTS OF CAPITAL
YEAR ENDED DECEMBER 31, 2011

(dollars in millions)	Combined	Combining Adjustments	Boston	New York
Balance, December 31, 2010	$ 43,741	$ 62	$ 3,276	$ 5,144
Proceeds from issuance of capital stock	4,867	—	102	2,396
Repurchase/redemption of capital stock	(7,662)	—	—	(2,430)
Net shares reclassified to mandatorily redeemable capital stock	(3,430)	—	(141)	(4)
Dividends of capital stock	32	—	—	—
Comprehensive income (loss)				
Net income (loss)	1,593	(8)	160	244
Other comprehensive income (loss)				
Net unrealized gains/losses on available-for-sale securities				
Unrealized gains (losses)	431	—	(21)	(7)
Reclassification of realized net (gains) losses included in net income (loss)	(13)	—	(13)	—
Net unrealized gains/losses on held-to-maturity securities transferred from available-for-sale securities				
Reclassification of (gains) losses included in net income (loss)	3	—	—	—
Net non-credit portion of other-than-temporary impairment losses on available-for-sale securities				
Non-credit portion OTTI loss	(4)	—	—	—
Reclassification of non-credit portion from held-to-maturity securities to available-for-sale securities	(2,772)	—	—	—
Net change in fair value of OTTI securities	829	—	—	—
Unrealized gains (losses)	(184)	—	—	—
Reclassification of (gains) losses included in net income (loss)	(11)		—	—
Reclassification of non-credit portion included in net income (loss)	291	—	—	—
Net non-credit portion of other-than-temporary impairment losses on held-to-maturity securities				
Non-credit portion OTTI loss	(330)	—	(36)	—
Reclassification of non-credit portion included in net income (loss)	293	—	60	5
Accretion of non-credit portion	581	—	147	12
Reclassification of non-credit portion from held-to-maturity securities to available-for-sale securities	2,772	—	—	—
Net unrealized gains/losses relating to hedging activities				
Unrealized gains (losses)	(572)	—	(32)	(100)
Reclassification of (gains) losses included in net income (loss)	(45)	—	—	3
Pension and postretirement benefits	(21)	—	(2)	(7)
Total other comprehensive income (loss)	1,248	—	103	(94)
Total comprehensive income (loss)	2,841	(8)	263	150
Dividends				
Cash	(536)	—	(11)	(210)
Stock	(32)	—	—	—
Balance, December 31, 2011	$ 39,821	$ 54	$ 3,489	$ 5,046

Pittsburgh	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 4,161	$ 7,946	$ 3,523	$ 1,947	$ 2,949	$ 2,830	$ 1,990	$ 1,783	$ 6,948	$ 1,182
130	672	48	122	75	415	473	187	244	3
(707)	(2,052)	—	(155)	—	(483)	(753)	(39)	(1,043)	—
(20)	(126)	(14)	(14)	(6)	(6)	(70)	(302)	(2,688)	(39)
—	—	—	—	—	—	5	27	—	—
38	184	138	110	224	78	48	77	216	84
7	—	(1)	20	365	45	5	—	2	16
—	—	—	—	—	—	—	—	—	—
—	—	—	—	3	—	—	—	—	—
—	—	—	(4)	—	—	—	—	—	—
(3)	(37)	—	(4)	—	—	—	—	(2,672)	(56)
14	(60)	—	(60)	2	—	—	—	987	(54)
5	(9)	—	(3)	—	—	—	—	(177)	—
(7)	—	—	(4)	—	—	—	—	—	—
45	100	—	25	6	—	—	—	26	89
(3)	(37)	—	—	(17)	—	(9)	(12)	(207)	(9)
—	—	—	—	62	—	5	3	157	1
—	—	—	3	119	—	16	5	266	13
3	37	—	4	—	—	—	—	2,672	56
—	—	—	—	(440)	—	—	—	—	—
—	—	—	—	(48)	—	—	—	—	—
—	(3)	(3)	1	—	(2)	—	(1)	(4)	—
61	(9)	(4)	(22)	52	43	17	(5)	1,050	56
99	175	134	88	276	121	65	72	1,266	140
—	(54)	(132)	(40)	(2)	(65)	—	—	(22)	—
—	—	—	—	—	—	(5)	(27)	—	—
$ 3,663	$ 6,561	$ 3,559	$ 1,948	$ 3,292	$ 2,812	$ 1,705	$ 1,701	$ 4,705	$ 1,286

FEDERAL HOME LOAN BANKS
CONDENSED COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

(dollars in millions)	Combined	Combining Adjustments	Boston	New York
Operating activities				
Net cash provided by (used in) operating activities	$ 3,116	$ —	$ 293	$ 702
Investing activities				
Net change/net proceeds and payments in				
Loans to FHLBanks	—	35	—	—
Premises, software and equipment	(54)	—	(2)	(4)
Investments	58,739	6	5,990	2,618
Advances	60,745	—	2,807	9,951
Mortgage loans held for portfolio	6,293	—	122	(147)
Mortgage loans held for sale	1,468	—	—	—
Proceeds from sales of foreclosed assets	140	—	11	2
Principal collected on other loans	2	—	—	—
Net cash provided by (used in) investing activities	127,333	41	8,928	12,420
Financing activities				
Net change in				
Deposits	(2,248)	(6)	(77)	(334)
Borrowings	(773)	—	—	32
Loans from FHLBanks	—	(35)	—	—
Net proceeds (payments) on derivative contracts with financing element	(936)	—	(39)	(375)
Net proceeds from issuance of consolidated obligations				
Discount notes	4,142,368	—	465,308	148,527
Bonds	409,216	—	12,816	54,660
Bonds transferred from other FHLBanks	—	(182)	—	—
Payments for maturing and retiring consolidated obligations				
Discount notes	(4,146,626)	—	(469,179)	(145,794)
Bonds	(509,255)	—	(18,032)	(59,197)
Bonds transferred to other FHLBanks	—	182	—	(167)
Proceeds from issuance of capital stock	4,867	—	102	2,396
Payments for repurchase/redemption of mandatorily redeemable capital stock	(2,483)	—	(3)	(13)
Payments for repurchase/redemption of capital stock	(7,662)	—	—	(2,430)
Cash dividends paid	(536)	—	(11)	(210)
Net cash provided by (used in) financing activities	(114,068)	(41)	(9,115)	(2,905)
Net increase (decrease) in cash and due from banks	16,381	—	106	10,217
Cash and due from banks at beginning of the period	3,801	—	6	661
Cash and due from banks at end of the period	$ 20,182	$ —	$ 112	$ 10,878

Pittsburgh	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 400	$ 723	$ 356	$ 208	$ (752)	$ 251	$ 67	$ 149	$ 582	$ 137
—	—	—	—	—	—	(35)	—	—	—
(2)	(6)	(1)	(4)	(8)	(5)	(4)	(2)	(12)	(4)
1,858	3,245	11,328	3,927	6,616	3,569	(1,479)	4,044	13,920	3,097
(913)	2,499	1,677	(131)	3,580	2,839	6,781	2,074	27,474	2,107
585	385	(114)	734	4,089	237	44	(755)	555	558
—	—	—	—	—	—	—	111	—	1,357
—	17	—	—	68	35	—	7	—	—
—	—	—	—	—	—	—	2	—	—
1,528	6,140	12,890	4,526	14,345	6,675	5,307	5,481	41,937	7,115
(66)	(477)	(371)	39	(171)	(439)	397	(232)	(312)	(199)
—	—	—	—	(800)	—	—	(5)	—	—
—	—	—	—	—	—	—	35	—	—
(102)	(502)	(171)	(101)	(112)	(10)	555	(71)	60	(68)
87,088	833,339	413,489	289,603	646,974	325,051	135,286	61,943	56,361	679,399
19,624	85,905	18,026	30,570	36,067	35,593	11,697	13,011	56,156	35,091
—	—	—	—	—	—	167	—	15	—
(89,245)	(832,931)	(422,357)	(291,990)	(639,985)	(325,452)	(130,618)	(65,392)	(56,735)	(676,948)
(18,150)	(90,393)	(19,846)	(32,062)	(54,387)	(41,395)	(22,980)	(14,638)	(93,645)	(44,530)
—	—	—	—	—	—	(15)	—	—	—
130	672	48	122	75	415	473	187	244	3
(9)	(369)	(96)	(219)	(532)	(7)	(63)	(313)	(859)	—
(707)	(2,052)	—	(155)	—	(483)	(753)	(39)	(1,043)	—
—	(54)	(132)	(40)	(2)	(65)	—	—	(22)	—
(1,437)	(6,862)	(11,410)	(4,233)	(12,873)	(6,792)	(5,854)	(5,514)	(39,780)	(7,252)
491	1	1,836	501	720	134	(480)	116	2,739	—
143	5	198	12	282	106	1,632	—	755	1
$ 634	$ 6	$ 2,034	$ 513	$ 1,002	$ 240	$ 1,152	$ 116	$ 3,494	$ 1

FEDERAL HOME LOAN BANKS
CONDENSED COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010

(dollars in millions)	Combined	Combining Adjustments	Boston	New York
Operating activities				
Net cash provided by (used in) operating activities	$ 4,553	$ —	$ 243	$ 760
Investing activities				
Net change/net proceeds and payment in				
Premises, software and equipment	(54)	—	(1)	(6)
Investments	(44,480)	(152)	(6,064)	(968)
Advances	152,021	—	9,529	13,798
Mortgage loans held for portfolio	9,913	—	237	50
Proceeds from sales of foreclosed assets	154	—	10	—
Principal collected on other loans	2	—	—	—
Net cash provided by (used in) investing activities	117,556	(152)	3,711	12,874
Financing activities				
Net change in				
Deposits	(2,573)	(2)	(30)	(156)
Borrowings	4	—	—	9
Net proceeds (payments) on derivative contracts with financing element	(1,742)	—	(39)	(440)
Net proceeds from issuance of consolidated obligations				
Discount notes	6,754,406	—	1,250,316	121,979
Bonds	533,165	—	30,042	68,041
Bonds transferred from other FHLBanks	—	(1,408)	653	225
Payments for maturing and retiring consolidated obligations				
Discount notes	(6,758,372)	—	(1,254,064)	(133,402)
Bonds	(662,620)	154	(31,038)	(70,572)
Bonds transferred to other FHLBanks	—	1,408	—	—
Proceeds from issuance of capital stock	3,627	—	25	1,875
Payments for repurchase/redemption of mandatorily redeemable capital stock	(1,481)	—	(4)	(111)
Payments for repurchase/redemption of capital stock	(6,511)	—	—	(2,357)
Cash dividends paid	(541)	—	—	(253)
Net cash provided by (used in) financing activities	(142,638)	152	(4,139)	(15,162)
Net increase (decrease) in cash and due from banks	(20,529)	—	(185)	(1,528)
Cash and due from banks at beginning of the period	24,330	—	191	2,189
Cash and due from banks at end of the period	$ 3,801	$ —	$ 6	$ 661

Pittsburgh	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 323	$ 1,118	$ 275	$ 91	$ 444	$ 197	$ 117	$ 86	$ 798	$ 101
(3)	(10)	(3)	(1)	(5)	(3)	(6)	(2)	(11)	(3)
(1,263)	(6,241)	(9,103)	(4,486)	(9,305)	2,262	1,202	1,504	(5,278)	(6,588)
11,426	24,802	5,620	4,072	5,207	6,530	21,847	2,932	37,397	8,861
670	484	1,564	565	5,464	250	52	(968)	656	889
—	—	—	—	112	24	—	8	—	—
—	—	—	—	—	—	—	2	—	—
10,830	19,035	(1,922)	150	1,473	9,063	23,095	3,476	32,764	3,159
(110)	79	(660)	(234)	(182)	(39)	(814)	140	(734)	169
—	—	—	—	—	—	—	(5)	—	—
(149)	(735)	(174)	(143)	(118)	19	(19)	(93)	65	84
78,071	1,077,317	675,426	695,302	1,237,058	338,200	112,253	96,901	90,552	981,031
14,452	91,425	19,347	35,780	53,548	43,834	25,234	18,400	89,170	43,892
—	162	162	—	206	—	—	—	—	—
(75,200)	(1,070,502)	(663,615)	(692,628)	(1,240,774)	(340,405)	(115,874)	(94,786)	(89,239)	(987,883)
(28,743)	(117,773)	(30,021)	(39,782)	(54,103)	(50,220)	(45,327)	(24,425)	(129,485)	(41,285)
(744)	—	—	—	(162)	(502)	—	—	—	—
195	252	70	40	70	481	450	107	60	2
(6)	(57)	(360)	(127)	(1)	(23)	(4)	(282)	(506)	—
(195)	(754)	—	(126)	—	(737)	(1,387)	(14)	(941)	—
—	(27)	(138)	(33)	—	(61)	—	—	(29)	—
(12,429)	(20,613)	37	(1,951)	(4,458)	(9,453)	(25,488)	(4,057)	(41,087)	(3,990)
(1,276)	(460)	(1,610)	(1,710)	(2,541)	(193)	(2,276)	(495)	(7,525)	(730)
1,419	465	1,808	1,722	2,823	299	3,908	495	8,280	731
$ 143	$ 5	$ 198	$ 12	$ 282	$ 106	$ 1,632	$ —	$ 755	$ 1

FEDERAL HOME LOAN BANKS
CONDENSED COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009

(dollars in millions)	Combined	Combining Adjustments	Boston	New York
Operating activities				
Net cash provided by (used in) operating activities	$ 2,713	$ —	$ 159	$ 692
Investing activities				
Net change/net proceeds and payments in				
Premises, software and equipment	(70)	—	(2)	(6)
Investments	21,479	(29)	(3,079)	11,682
Advances	284,566	—	18,915	12,643
Mortgage loans held for portfolio	13,419	—	631	136
Mortgage loans held for sale	2,252	—	—	—
Proceeds from sales of foreclosed assets	75	—	8	—
Principal collected on other loans	2	—	—	—
Net cash provided by (used in) investing activities	321,723	(29)	16,473	24,455
Financing activities				
Net change in				
Deposits	(137)	(2)	127	1,177
Borrowings	(409)	—	—	(404)
Net proceeds (payments) on derivative contracts with financing element	(1,607)	—	(29)	—
Net proceeds from issuance of consolidated obligations				
Discount notes	7,200,128	(25)	1,261,975	862,168
Bonds	506,688	—	26,770	54,502
Bonds transferred from other FHLBanks	—	(518)	—	—
Payments for maturing and retiring consolidated obligations				
Discount notes	(7,440,075)	25	(1,282,007)	(877,587)
Bonds	(582,306)	34	(23,339)	(62,025)
Bonds transferred to other FHLBanks	—	518	—	—
Proceeds from issuance of capital stock	5,818	—	58	3,210
Payments for repurchase/redemption of mandatorily redeemable capital stock	(1,758)	—	—	(67)
Payments for repurchase/redemption of capital stock	(6,677)	—	(2)	(3,686)
Cash dividends paid	(591)	—	—	(265)
Net cash provided by (used in) financing activities	(320,926)	32	(16,447)	(22,977)
Net increase (decrease) in cash and due from banks	3,510	3	185	2,170
Cash and due from banks at beginning of the period	20,820	(3)	6	19
Cash and due from banks at end of the period	$ 24,330	$ —	$ 191	$ 2,189

Pittsburgh	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ (408)	$ 1,170	$ 385	$ 226	$ 10	$ (6)	$ (228)	$ 87	$ 638	$ (12)
(5)	(15)	(3)	(2)	(10)	(2)	(10)	(2)	(9)	(4)
5,722	7,198	11,461	651	(15,547)	(5,082)	3,961	3,229	10,028	(8,716)
19,809	46,468	17,679	8,265	13,652	5,630	13,337	13,194	100,555	14,419
987	730	(735)	1,504	8,087	688	67	(317)	666	975
—	—	—	—	—	2,252	—	—	—	—
—	—	—	—	51	16	—	—	—	—
—	—	—	—	—	—	—	2	—	—
26,513	54,381	28,402	10,418	6,233	3,502	17,355	16,106	111,240	6,674
(212)	(561)	880	203	245	(268)	136	(648)	(980)	(234)
—	—	—	—	—	—	—	(5)	—	—
(209)	(1,025)	(155)	(153)	(99)	(11)	55	(90)	109	—
139,009	280,893	636,871	461,354	1,127,269	719,301	260,438	310,265	143,823	996,787
26,224	95,580	33,069	31,985	29,445	32,407	43,587	19,026	87,201	26,892
—	518	—	—	—	—	—	—	—	—
(151,629)	(318,693)	(662,946)	(478,494)	(1,134,591)	(729,868)	(268,298)	(324,865)	(217,086)	(994,036)
(37,977)	(111,607)	(34,185)	(24,697)	(25,715)	(24,028)	(48,377)	(18,689)	(136,330)	(35,371)
—	—	—	—	(111)	(407)	—	—	—	—
40	926	92	72	102	269	578	369	71	31
—	(10)	(426)	(4)	(95)	(22)	(188)	(929)	(16)	(1)
—	(1,111)	—	(5)	—	(570)	(1,171)	(132)	—	—
—	(24)	(182)	(54)	—	(44)	—	—	(22)	—
(24,754)	(55,114)	(26,982)	(9,793)	(3,550)	(3,241)	(13,240)	(15,698)	(123,230)	(5,932)
1,351	437	1,805	851	2,693	255	3,887	495	(11,352)	730
68	28	3	871	130	44	21	—	19,632	1
$ 1,419	$ 465	$ 1,808	$ 1,722	$ 2,823	$ 299	$ 3,908	$ 495	$ 8,280	$ 731

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SUPPLEMENTAL INFORMATION

FHLBank Management and Compensation

FHLBank Directors

A board of at least 13 directors, or such other number as the FHFA determines appropriate, governs each FHLBank. The members of each FHLBank elect all of the FHLBank's directors, each of whom is elected for a four-year term, unless otherwise adjusted by the Director of the FHFA in order to achieve an appropriate staggering of terms (with approximately one-fourth of the directors' terms expiring each year). Directors may not serve more than three consecutive full terms. An FHLBank's board of directors must be comprised of a majority of member directors, who are directors or officers of members, and a minority of non-member independent directors. Non-member independent directors must comprise not less than two-fifths of the members of the board of directors and two of these directors must hold public interest director positions.

To be eligible to serve as a member director, a candidate must be a citizen of the United States and be an officer or director of a member institution that is located in the state to which the Director of the FHFA has allocated the directorship and that meets all of the minimum capital requirements established by its appropriate regulator. For member directors, each eligible institution may nominate representatives from member institutions in its respective state to serve on the board of the directors. After the slate of nominees is finalized, each eligible institution may vote for the number of open member director seats in the state in which its principal place of business is located.

To be eligible to serve as a non-member independent director, an individual must be a citizen of the United States and a *bona fide* resident of that FHLBank's district. A non-member independent director may not be an officer of any FHLBank, or an officer, director or employee of an FHLBank member on whose board the individual sits or of any recipient of advances from an FHLBank. Under the Housing and Economic Recovery Act of 2008 (Housing Act), there are two types of non-member independent directors:

- *Public interest director.* Each FHLBank is required to have at least two public interest directors. Before names are placed on the ballot, nominee eligibility will be verified through application and eligibility certification forms prescribed by the FHFA. Public interest directors must have more than four years' experience in representing consumer or community interests in banking services, credit needs, housing, or consumer financial protections. The FHFA deemed existing public interest directors who qualified and were designated under previous FHLBank Act provisions to be public interest directors for the remainder of their current terms.

- *Other non-member independent directors.* Non-member independent directors must have demonstrated knowledge or experience in auditing or accounting, derivatives, financial management, organizational management, project development or risk management practices, or other expertise established by FHFA regulations. In order for a non-member independent director candidate to be elected, a candidate must receive at least 20% of the votes that are eligible to be cast unless there are multiple nominees. The FHFA will impose the Housing Act's requirements on newly elected non-member independent directors.

The FHFA's regulation includes the following provisions:

- requires each FHLBank's board of directors to annually determine how many of its non-member independent directors should be designated public interest directors (provided that each FHLBank at all times has at least two public interest directors);

- states that where an FHLBank's board of directors acts to fill a member director vacancy that occurs mid-term, the eligible candidates for that position must be officers or directors of a member institution at the time the FHLBank board of directors acts, not as of the prior year-end; and

- permits an FHLBank that nominates more than one nominee for each open non-member independent director position to declare elected the nominee who receives the highest number of votes, even if the total votes received is less than 20% of the eligible votes.

Eligible members nominate representatives from members in their state to serve as member directors and non-member independent directors are nominated by each FHLBank's board of directors. For the election of both member directors and non-member independent directors, each eligible institution is entitled to cast one vote for each share of stock that it was

required to hold as of December 31 of the calendar year immediately preceding the election year (the record date). The number of votes that any member may cast for any one directorship shall not exceed the average number of shares of stock required to be held as of the record date by all member institutions located in the member's state as of the record date.

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 FHFA regulations.

The following persons are currently serving as chair or vice chair of an FHLBank:

Jan A. Miller, 61, is serving as Chair of the board of directors of the FHLBank of Boston. Mr. Miller has served as President and Trustee of Eastern Bank Corporation and Executive Vice President of Eastern Bank since November 2010. Both Eastern Bank Corporation and Eastern Bank are located in Boston, Massachusetts. Prior to serving in those positions, Mr. Miller served as President, Chief Executive Officer and Director of Wainwright Bank & Trust Company, located in Boston, Massachusetts, since 1997. Prior to joining Wainwright Bank in 1994, Mr. Miller spent 19 years in various senior management positions at Shawmut Bank, N.A. Mr. Miller is a director of Legal Sea Foods, LLC. Mr. Miller is a past chairman of the Massachusetts Bankers Association, a member of the American Bankers Association Government Relations Council, and a member of the FDIC Advisory Committee on Community Banking and has served in various other leadership positions in banking and community organizations throughout his career. Mr. Miller has served as a director of the FHLBank of Boston since January 1, 2004, and his current term as a director will conclude on December 31, 2013.

Jay F. Malcynsky, 58, is serving as Vice Chair of the board of directors of the FHLBank of Boston. Mr. Malcynsky has served as President and Managing Partner of Gaffney, Bennett and Associates, Inc., a Connecticut-based corporation specializing in government relations and political consulting since 1984. Mr. Malcynsky is also a practicing lawyer in Connecticut and Washington D.C., specializing in administrative law and regulatory compliance. Mr. Malcynsky previously served as a director of the FHLBank of Boston from 2002 to 2004. Mr. Malcynsky was reappointed as a director of the FHLBank of Boston on March 30, 2007, and his current term as director will conclude on December 31, 2012.

Michael M. Horn, 72, is serving as Chair of the board of directors of the FHLBank of New York. Mr. Horn has been a partner in the law firm of McCarter & English, LLP since 1990. He has served as the Commissioner of Banking for the State of New Jersey and as the New Jersey State Treasurer. He was also a member of the New Jersey State Assembly and served as a member of the Assembly Banking Committee. In addition, Mr. Horn served on New Jersey's Executive Commission on Ethical Standards both as its Vice Chair and Chairman, was appointed as a State Advisory Member of the Federal Financial Institutions Examination Council, and was a member of the Municipal Securities Rulemaking Board. Mr. Horn is counsel to the New Jersey Bankers Association, Chairman of the Bank Regulatory Committee of the Banking Law Section of the New Jersey State Bar Association, and a Fellow of the American Bar Foundation. He served as a director of Ryan Beck & Co. through February 27, 2007. Mr. Horn's legal and regulatory experience, as indicated by his background, support his qualifications to serve on the FHLBank of New York's board of directors as an independent director.

José Ramon González, 57, is serving as Vice Chair of the board of directors of the FHLBank of New York and has been Senior Executive Vice President, Banking and Corporate Development, of Oriental Financial Group, Inc. and FHLBank of New York member Oriental Bank & Trust since August 2010. He was President and Chief Executive Officer of Santander BanCorp and Banco Santander Puerto Rico from October 2002 until August 2008, and served as a director of both entities until August 2010. Mr. González joined the Santander Group in August 1996 as President and Chief Executive Officer of Santander Securities Corporation. He later served as Executive Vice President and Chief Financial Officer of Santander BanCorp and Banco Santander Puerto Rico and in April 2002 was named President and Chief Operating Officer of both entities. Mr. González is a past president of the Puerto Rico Bankers Association and a past president of the Securities Industry Association of Puerto Rico. Mr. González was at Credit Suisse First Boston from 1983 to 1986 as Vice President of Investment Banking, and from 1989 to 1995 as President and Chief Executive Officer of the firm's Puerto Rico subsidiary. From 1986 to 1989, Mr. González was President and Chief Executive Officer of the Government Development Bank for Puerto Rico. From 1980 to 1983, he was in the private practice of law in San Juan, Puerto Rico with the law firm of O'Neill & Borges.

Dennis S. Marlo, 69, has served on the board of directors of the FHLBank of Pittsburgh since November 2002 and is currently serving as its Chair. Mr. Marlo is currently Managing Director of Sanctuary Group LTD, a financial and executive advisory firm located in Malvern, Pennsylvania. Formerly he served as the Chief Financial Officer, Treasurer and Chief Risk

Management Officer of Sovereign Bank. Prior to Sovereign, he was the Chief Executive Officer of Main Line Bank. Previously, he was employed for 25 years at KPMG, LLP and its predecessor organizations, where he retired as a partner in the firm. A graduate of LaSalle University and a Certified Public Accountant, Mr. Marlo also completed studies at the Graduate School of Community Bank Management, University of Texas/Austin. He is currently the Chairman of the Board of Trustees of Harcum College in Bryn Mawr, Pennsylvania; a member of the board of directors of EnerSys in Reading, Pennsylvania; the board of directors of Main Line Health Real Estate, LP; the board of trustees of The Lankenau Medical Center Foundation in Wynnewood, Pennsylvania; and the Council of President's Associates of LaSalle University in Philadelphia. He is also a member of both the American and Pennsylvania Institutes of Certified Public Accountants and the Financial Managers Society, having served as the chairman of its national board of directors.

John K. Darr, 67, originally joined the board of directors of the FHLBank of Pittsburgh in January 2008 and is currently serving as its Vice Chair. Mr. Darr retired from the FHLBanks Office of Finance at the end of 2007, where he served as CEO and Managing Director for 15 years. He was responsible for issuing debt in the global capital markets on behalf of the FHLBanks, consistent with their mission of providing low-cost liquidity for member-owner financial institutions. He also was responsible for issuing the FHLBank System's Combined Financial Report and was intimately involved in the FHLBank System's SEC registration process. Mr. Darr has a total of 41 years of business experience, including several years as Treasurer of the FHLBank of San Francisco, serving as a control officer of three member institutions, and as CFO of Sallie Mae, CEO of a registered investment management company, and Managing Director of Mortgage Finance at a securities dealer. In addition to his service on the board of the FHLBank of Pittsburgh, Mr. Darr is a trustee of a mutual fund complex serving as a Trustee of Advisors Inner Circle Fund I, Advisors Inner Circle Fund II, and Bishop Street Funds. Mr. Darr also serves as a director of two non-profit entities, including Manna, Inc., a very low-income home builder, homeownership counseling, and mortgage lending entity located in the District of Columbia. During his 17 years of service to this faith-based organization, Mr. Darr served as Chair of the Board's Audit and Finance Committee, as co-chair of its Leadership Committee and as a fund-raiser. Manna, Inc. is credited with having provided more than 1,000 units of affordable housing over the past 25 years as well as counseling hundreds of home buyers.

Scott C. Harvard, 57, is Chair of the board of directors of the FHLBank of Atlanta. He has served as President and Chief Executive Officer of First National Corp. and First Bank since May 2011, and as a director of both since August 2011. Mr. Harvard has served as Vice President of Virginia Savings Bank, F.S.B. since June 2009. Previously, he served as President and Chief Executive Officer and as a director of Shore Bank from 1985 to June 2009. He served as President and Chief Executive Officer of its parent, Shore Financial Corporation, from 1997 to 2008. Mr. Harvard served as a director and an executive vice president of Hampton Roads Bankshares from June 2008 to June 2009. Mr. Harvard has served as Chairman of the board of the FHLBank of Atlanta since 2007. Mr. Harvard has expertise in community banking and corporate governance.

William C. Handorf, Ph.D., 67, is Vice Chairman of the board of directors of the FHLBank of Atlanta. He has served as a professor of finance and real estate at The George Washington University's School of Business in Washington, D.C. since 1975. From 2001 to 2006, Mr. Handorf served as a director of the Federal Reserve Bank of Richmond's Baltimore Branch, including two years as chair. From 1992 to 1995, Mr. Handorf served as the private citizen director of the FHLBanks Office of Finance. Mr. Handorf has expertise in financial markets, banking, real estate investment, accounting, and derivatives.

Carl F. Wick, 72, has served as Chair of the FHLBank of Cincinnati since January 2007. Mr. Wick was previously Vice Chair of the FHLBank of Cincinnati board of directors since March 2005. He was employed by NCR Corporation (one of the two largest manufacturers and suppliers of computer banking systems in the world at the time) from 1966 to 1994 when he retired. He continued with NCR into 1997 on a contractual basis. Mr. Wick's work at NCR over the years included training and support for many NCR computer banking system installations; management of NCR customer support and education centers, including its central location in the U.S. for customer banking systems training; and serving as a director in NCR's R&D division, where he was responsible for NCR's worldwide engineering human resources function. Mr. Wick is currently the owner of Wick and Associates, a business consulting firm. He also served as a member of the Ohio Board of Education for 8 ½ years, chairing several key policy committees and serving as a member of the executive committee. He retired from the State Board in 2009. Mr. Wick's qualifications and insight provide valuable skills to the board, particularly in the important areas of technology, personnel matters and organizational development.

B. Proctor Caudill, Jr., 62, was elected Vice Chair of the FHLBank of Cincinnati effective January 1, 2009. Mr. Caudill has served on the FHLBank of Cincinnati board of directors since January 2004. He has been involved in banking for over 40 years. He served as President and Chief Executive Officer of Peoples Bank, Morehead and Sandy Hook, Kentucky, from 1981 until July 2006. Since August 2006, Mr. Caudill has served as a director of Kentucky Bancshares, Inc. and its subsidiary, Kentucky Bank, of Paris, Kentucky.

Paul C. Clabuesch, 63, is Chair of the FHLBank of Indianapolis and is the past Chairman, President and Chief Executive Officer of Thumb Bancorp, Inc., a bank holding company, and Thumb National Bank and Trust, in Pigeon, Michigan, a position in which he served from 1985 through 2009, when he was named Chairman emeritus of Thumb National Bank and Trust. Mr. Clabuesch's career with that bank began in 1973. During his career, Mr. Clabuesch held numerous leadership positions with the Michigan Bankers Association, including service as Chairman of its board, Treasurer, and membership on its executive council. Mr. Clabuesch was also named the Michigan Bankers Association's Banker of the Year in 2008. Mr. Clabuesch has served as a member of the Board of Trustees of Scheurer Hospital, Pigeon, Michigan, from 1975 to 2010. Mr. Clabuesch was recently selected by the Department of the Treasury to serve on the board of directors for Rogers Bancshares, Inc., parent of Metropolitan National Bank of Little Rock, Arkansas, and Citizens Bancshares, Inc., parent of Citizens Bank & Trust of Kansas City, Missouri.

Jeffrey A. Poxon, 65, serves as Vice Chairman of the FHLBank of Indianapolis' board of directors. He is the Vice President-Investment Research of The Lafayette Life Insurance Company in Cincinnati, Ohio, having previously served as its Senior Vice President-Investments and Chief Investment Officer until his retirement in 2010. Mr. Poxon has been with that company since 1979. He is also a director of LSB Financial Corporation, Lafayette, Indiana and a director of its banking subsidiary, Lafayette Savings Bank, FSB in Lafayette, Indiana, having served in those capacities since 1992.

Thomas L. Herlache, 69, has been Chairman of the FHLBank of Chicago since January 1, 2011. Mr. Herlache serves as a director of the board for Baylake Bank and Baylake Corp., a one-bank holding company, in Sturgeon Bay, Wisconsin. From 1983 to 2007, Mr. Herlache served as President, CEO, and Chairman of the Board for Baylake Bank and Baylake Corp. Mr. Herlache currently serves as a director on the Door County Memorial Hospital Board and as a president of the Sturgeon Bay Waterfront Redevelopment Authority. He has previously served on the Door County Board of Supervisors, Door County Chamber of Commerce Board, as well as on the Sturgeon Bay Utility Commission from 1981 to 1986. Mr. Herlache served as President for part of his tenure at the Sturgeon Bay Utility Commission.

Steven F. Rosenbaum, 55, is Vice Chair of the FHLBank of Chicago and has served in that capacity since January 1, 2011. Mr. Rosenbaum has been employed by Prospect Federal Savings Bank since 1987. He has served as President and CEO since 1998 and, in 2006, was named Chairman of the Board. Prior to his service with Prospect Federal Savings Bank, he was a lobbyist with the Illinois State Chamber of Commerce. In addition, he serves on the board of the Illinois League of Financial Institutions (chairman from 2002 to 2003), is a member of the Mutual Institutions Committee for the American Bankers Association, and a member of the Illinois Board of Savings Institutions. He is a member of the board of directors of Brother Rice High School (Chicago, Illinois).

Michael K. Guttau, 65, the Chair of the FHLBank of Des Moines, has been with Treynor State Bank in Treynor, Iowa, since 1972, where he has served as President, Chairman, and Chief Executive Officer. He has been actively involved with the American Bankers Association, Iowa Bankers Association, Community Bankers of Iowa, and served as the Iowa Superintendent of Banking from 1995 through 1999. He is a board member and chair of the audit committee for the Southwest Iowa Renewable Energy ethanol plant. He also served as the 2008-2009 Chairman of the Council of Federal Home Loan Banks, which is the non-profit trade association for the twelve FHLBanks located in Washington, D.C. Mr. Guttau's position as an officer of a member institution and his involvement in and knowledge of banking regulation, organizational management, and financial management, as indicated by his background, support his qualifications to serve on the FHLBank of Des Moines' board of directors. Mr. Guttau also serves as chair of FHLBank of Des Moines' executive and governance committee.

Eric A. Hardmeyer, 52, the Vice Chair of the FHLBank of Des Moines, joined the Bank of North Dakota in 1985 as a loan officer and served as Senior Vice President of Lending before becoming President and CEO in 2001, a position he currently maintains. Mr. Hardmeyer is the past chairman of the North Dakota Bankers Association and also serves on the board of directors of the Bismarck-Mandan Chamber of Commerce Foundation and the Missouri Valley YMCA. Mr. Hardmeyer's position as an officer of a member institution and his involvement in and knowledge of economic development, accounting, auditing, and financial management, as indicated by his background, support Mr. Hardmeyer's qualifications to serve on the FHLBank of Des Moines' board of directors. Mr. Hardmeyer also serves as Vice Chair of the Executive and Governance Committee.

Lee R. Gibson, 55, is Chairman of the board of directors of the FHLBank of Dallas and has served in that capacity since January 1, 2007. Mr. Gibson serves as Senior Executive Vice President and Chief Financial Officer of Southside Bank (a member of the FHLBank of Dallas) and its publicly traded holding company, Southside Bancshares, Inc. (Tyler, Texas). He has served as Senior Executive Vice President of Southside Bank since February 2009. From 1990 to February 2009, he served as Executive Vice President of Southside Bank. Mr. Gibson has served as Senior Executive Vice President of Southside Bancshares, Inc. since

February 2010. From 1990 to February 2010, he served as Executive Vice President of Southside Bancshares, Inc. Mr. Gibson has served as Chief Financial Officer of both Southside Bank and Southside Bancshares, Inc. since 2000. He also serves as a director of Southside Bank. Before joining Southside Bank in 1984, Mr. Gibson served as an auditor for Ernst & Young. He currently serves as Chairman of the Chair and Vice Chair Committee of the Council of Federal Home Loan Banks and he is a current member and immediate past chairman of the Council of Federal Home Loan Banks. He also serves on the boards of directors of the TJC Foundation and the Foundation of the East Texas Boy Scouts. Mr. Gibson is the immediate past president of the Executive Board of the East Texas Area Council of Boy Scouts. Mr. Gibson is Chairman of the Executive Committee of the FHLBank of Dallas' board of directors. He is a Certified Public Accountant.

Mary E. Ceverha, 67, is Vice Chairman of the board of directors of the FHLBank of Dallas and has served in that capacity since December 2005. From January 2005 to December 2005, she served as Acting Vice Chairman of the board of directors of the FHLBank of Dallas. A civic volunteer who resides in Dallas, Texas, she has served as a director of the FHLBank of Dallas since 2004. Ms. Ceverha is also a current director and past president of Trinity Commons Foundation, Inc. Founded by Ms. Ceverha in 2001, this not-for-profit organization coordinates fundraising and other activities relating to the construction of the Trinity River Project, a public works redevelopment project in Dallas, Texas. Previously, she served on the steering committee of the President's Research Council for the University of Texas Southwestern Medical Center, which raises funds for medical research, and as a member of the Greater Dallas Planning Council. Ms. Ceverha is also a former board member and president of Friends of Fair Park, a non-profit citizens group dedicated to the preservation of Fair Park, a national historic landmark in Dallas, Texas, and she is a former Commissioner of the Dallas Housing Authority. From 1995 to 2004, she served on the Texas State Board of Health. Ms. Ceverha currently serves on the Council of Federal Home Loan Banks and is a member of the Chair and Vice Chair Committee of the Council of Federal Home Loan Banks. She also serves as Vice Chairman of the Executive Committee of the FHLBank of Dallas' board of directors.

Ronald K. Wente, 61, is Chairman of the board of directors of the FHLBank of Topeka and has been President and CEO of Golden Belt Bank, Ellis, Kansas, since 1974. Although as a member director the board of directors did not participate in Mr. Wente's nomination, Mr. Wente possesses 38 years of banking experience, experience with the products and services provided by the FHLBank of Topeka (including knowledge of operations, regulatory compliance and legislative issues), extensive experience with banking trade groups both on the regional and national level, and prior experience as an FHLBank director, that assist in his service as a director. Mr. Wente is an ex officio member of all FHLBank committees.

Robert E. Caldwell, II, 41, is Vice Chairman of the board of directors of the FHLBank of Topeka and has been President and CEO of Hampton Enterprises, Inc., a commercial real estate development, general contracting, construction management and property management firm, since 2006. He previously served as General Counsel for Linweld, Inc., a large independent manufacturer and distributor of industrial/medical gases and welding supplies. The board of directors of the FHLBank of Topeka considered Mr. Caldwell's qualifications, skills and attributes, including his B.S. in business administration, his J.D. and MBA, his experience as general counsel for Linweld, Inc., a subsidiary of a Japanese public company, his service as President and CEO of a commercial real estate and construction company, and his prior service as an FHLBank director, when making his nomination. Mr. Caldwell currently serves as Vice Chairman of the FHLBank of Topeka's board of directors where he previously served in that capacity from January 2004 through December 2006.

Timothy R. Chrisman, 65, has been the Chairman of the board of directors of the FHLBank of San Francisco since 2005 and was Vice Chairman of the board of directors of the FHLBank of San Francisco in 2004. Mr. Chrisman has been an officer of Pacific Western Bank, Los Angeles, California, since March 2005. Prior to that, he was a director of Commercial Capital Bank and Commercial Capital Bancorp, based in Irvine, California, from June 2004 to March 2005. In 2004, Commercial Capital Bancorp acquired Hawthorne Savings, Hawthorne, California, where Mr. Chrisman was Chairman of the board of directors from 1995 to 2004. Mr. Chrisman is also the Chief Executive Officer of Chrisman & Company, Inc., a retained executive search firm he founded in 1980. In February 2011, Mr. Chrisman became a director of First PacTrust Bancorp, Inc., the holding company for Pacific Trust Bank. In November 2011 he became Chairman of the holding company. From 2005 through February 2008, he served as Chairman of the Council of Federal Home Loan Banks. From 2007 through 2010, he served as Chairman of the Chair-Vice Chair Committee of the FHLBank System. Mr. Chrisman's position as an officer of an FHLBank of San Francisco member; his current and previous positions as a director with or chairman of FHLBank of San Francisco members or their holding companies; his involvement in and knowledge of corporate governance, human resources, and compensation practices and his management skills, as indicated by his background, support Mr. Chrisman's qualifications to serve on the FHLBank of San Francisco's board of directors.

John F. Luikart, 62, is the Vice Chairman of the board of directors of FHLBank of San Francisco, and he has been President of Bethany Advisors LLC, San Francisco, California, since February 2007 and Senior Advisor to the CEO of Red Capital Group since

July 2011. He is also a trustee of three asbestos trusts, including the Western Asbestos Settlement Trust, since 2004. He was Chairman of Wedbush Morgan Securities Inc., Los Angeles, California, from 2006 to 2010. Previously, he was President and Chief Operating Officer of Tucker Anthony Sutro from 2001 to 2002 and Chairman and Chief Executive Officer of Sutro & Co. from 1996 to 2002. He joined Sutro & Co. in 1988 as Executive Vice President of Capital Markets and became President in 1990. Mr. Luikart's current position as the Principal Executive Officer of an investment and financial advisory firm; his previous positions as director or principal executive officer of investment banking firms (or their affiliates); and his experience in investment management, capital markets, corporate finance, securitization, and mortgage finance and his involvement in and knowledge of corporate governance, finance, auditing, accounting, internal controls, risk management, financial reporting, and financial management, as indicated by his background, support Mr. Luikart's qualifications to serve on the FHLBank of San Francisco's board of directors.

William V. Humphreys, 64, has served as a director of the FHLBank of Seattle since 2006 and as Chair since 2010. Mr. Humphreys has served as President, Chief Executive Officer, and Director of Citizens Bank and Citizens Bancorp, in Corvallis, Oregon, a commercial banking services provider and a publicly traded bank holding company, since 1996. Mr. Humphreys currently serves as one of three FHLBank of Seattle representatives on the Council of Federal Home Loan Banks. Mr. Humphreys has served as Chair of the Oregon Bankers Association, board member of the American Bankers Association, and Director and Chairman of the State of Oregon Banking Board. He is currently a faculty member at Oregon Bankers Association Directors College. Mr. Humphreys' position as an officer and director of an FHLBank of Seattle member, his knowledge of community banking, and his experience in financial and balance sheet management, corporate governance, organizational leadership, risk assessment, and project development, as indicated by his background, support Mr. Humphreys' qualifications to serve as a member director on the FHLBank of Seattle's board of directors.

Craig E. Dahl, 62, has served as a director of the FHLBank of Seattle since 2004 and as Vice Chair since 2005. Since 1996, Mr. Dahl has served as President, Chief Executive Officer, and a director of Alaska Pacific Bancshares, Inc. and its wholly-owned subsidiary, Alaska Pacific Bank, a federally chartered savings bank. Mr. Dahl currently serves as one of the three FHLBank of Seattle representatives on the Council of Federal Home Loan Banks. Mr. Dahl has served on the Government Relations Council for the American Bankers Association, and served two terms as president of the Alaska Bankers Association. Mr. Dahl's position as an officer of a FHLBank of Seattle member, his experience in corporate governance, strategic planning, and his leadership and management skills, as indicated by his background, support Mr. Dahl's qualifications to serve as a member director on the FHLBank of Seattle's board of directors.

FHLBank Presidents

Each FHLBank president reports to the board of directors of the respective FHLBank. Each FHLBank president participates in regular meetings with the presidents of the other FHLBanks. The responsibilities of the president include:

- management of the FHLBank;
- administration of the programs of the FHLBank; and
- compliance with the regulations and policies of the FHFA.

The following persons are currently serving as president of an FHLBank:

Edward A. Hjerpe III, 53, has been President and Chief Executive Officer of the FHLBank of Boston since July 2009. Mr. Hjerpe came to the FHLBank of Boston from Strata Bank and Service Bancorp, Inc., where he was Interim Chief Executive Officer from September 2008 until joining the FHLBank of Boston. Mr. Hjerpe was a financial, strategy, and management consultant from August 2007 to September 2008, and both President and Chief Operating Officer of the New England Region of Webster Bank N.A. and Senior Vice President of Webster Financial Corporation from May 2004 to June 2007. Prior to those roles, Mr. Hjerpe served as Executive Vice President, Chief Operating Officer, and Chief Financial Officer at FIRSTFED AMERICA BANCORP, Inc. from July 1997 to May 2004. Mr. Hjerpe also worked at the FHLBank of Boston from 1988 to 1997, first as Senior Vice President and Director of Financial Analysis and Economic Research, and ultimately as Executive Vice President and Chief Financial Officer. Mr. Hjerpe has been involved in numerous community, civic, industry, and nonprofit organizations over the course of his career. He currently serves as a member of the board of the Pentegra Defined Benefit Plan for Financial Institutions as well as the chair of the board of Dental Services of Massachusetts. He is immediate past chair of the board of trustees of St. Anselm College in Manchester, New Hampshire and he also served on the board of the United Way of Fall River. Mr. Hjerpe earned a B.A. in Business and Economics from St. Anselm College, and an M.A. and Ph.D. in Economics from the University of Notre Dame.

Alfred A. DelliBovi, 66, was elected President of the FHLBank of New York in November 1992. As president, he serves as the Chief Executive Officer and directs the FHLBank of New York's overall operations to facilitate the extension of credit products and services to the FHLBank of New York's member-lenders. Since 2005, Mr. DelliBovi has been a member of the board of directors of the Pentegra Defined Contribution Plan for Financial Institutions; he previously served on this board from 1994 through 2000. Since October 2009, he has served on the board of directors of the Pentegra Defined Benefit Plan for Financial Institutions; he previously served on this board from 2001 through 2003. In addition, Mr. DelliBovi was appointed by the U.S. Department of the Treasury in September 2006 to serve as a member of the Directorate of the Resolution Funding Corporation, and he was appointed Chairman in September 2007; he served on this board until October 2009. In November 2009, Mr. DelliBovi was appointed to serve as Chair of the board of the Financing Corporation. Mr. DelliBovi previously served on the Financing Corporation board as Chair from November 2002 through November 2003, and he also served as Vice Chair of the Financing Corporation board from November 1996 to November 1997. Since July, 2010, Mr. DelliBovi, along with the eleven other FHLBank Presidents and five Independent Directors, has served as a director of the Office of Finance of the FHLBanks. In December 2011, Mr. DelliBovi was named to the Bipartisan Policy Center's Housing Commission. This 17 member national commission is in the process of developing a package of realistic and actionable policy recommendations to address the nation's troubled housing sector. Prior to joining the FHLBank of New York, Mr. DelliBovi served as Deputy Secretary of the U.S. Department of Housing and Urban Development, from 1989 until 1992. In May 1992, President Bush appointed Mr. DelliBovi Co-chairman of the Presidential Task Force on Recovery in Los Angeles. Mr. DelliBovi served as a senior official at the U.S. Department of Transportation in the Reagan Administration, was elected to four terms in the New York State Assembly and earned a Master of Public Administration degree from Bernard M. Baruch College, City University of New York.

Winthrop Watson, 57, was appointed as the FHLBank of Pittsburgh's President and Chief Executive Officer effective January 1, 2011. Mr. Watson originally joined the FHLBank of Pittsburgh on November 18, 2009 as Chief Operating Officer. Mr. Watson served as Managing Director at J.P. Morgan in Hong Kong from 2007-2009 after serving the company in various capacities in New York for 22 years. In Hong Kong, he served as a senior client executive for J.P. Morgan's Asia Pacific central banks and sovereign wealth funds, head of its Asia Pacific debt capital markets, and as chairman of its Asia Pacific investment banking business evaluation committee. Earlier, Mr. Watson was Managing Director of J.P. Morgan in New York, where he helped build the company's investment and commercial banking franchise for U.S. GSEs, including the FHLBanks. His background also includes several financial advisory assignments on behalf of FHLBanks. Mr. Watson holds an MBA from Stanford University and a BA from the University of Virginia.

W. Wesley McMullan, 48, was appointed as the FHLBank of Atlanta's President and Chief Executive Officer in December 2010. Prior to that, he served as Executive Vice President and Director of Financial Management, since 2004, with responsibility for sales, MPP sales, asset-liability management, liquidity management, other mission-related investments, customer systems and operations and member education. Mr. McMullan joined the FHLBank of Atlanta in 1988 as a credit analyst and later earned promotions to assistant vice president in 1993, vice president in 1995, group vice president in 1998, and senior vice president in 2001. He is a Chartered Financial Analyst and earned a BS in Finance from Clemson University.

David H. Hehman, 63, is President and Chief Executive Officer of the FHLBank of Cincinnati. He was named President and Chief Executive Officer in 2003, following a 25-year career at the FHLBank of Cincinnati during which he held positions including Chief Financial Officer and Executive Vice President. In addition to his duties at the FHLBank of Cincinnati, Mr. Hehman represents the FHLBank of Cincinnati on Pentegra's Retirement Fund, and serves on the board of directors of the Resolution Funding Corporation. Outside the FHLBank of Cincinnati, Mr. Hehman also serves on the board of directors of Brighton Properties, Inc., a nonprofit affordable housing and social services agency in Newport, Kentucky, and the Economic Advisory Committee for the Greater Cincinnati Chamber of Commerce. On January 19, 2012, Mr. Hehman announced his retirement from the FHLBank of Cincinnati effective June 1, 2012.

Milton J. Miller, II, 56, was selected by the FHLBank of Indianapolis' board of directors to serve as President and CEO of the FHLBank of Indianapolis effective July 16, 2007. Mr. Miller began his career at the FHLBank of Indianapolis in 1978 and held various positions, until his appointment as CFO in 1985, a position he held until he accepted early retirement from the FHLBank of Indianapolis in December 2006. Mr. Miller currently serves on the board of directors of the Office of Finance. In 2008, Mr. Miller was appointed to the board directors of Pentegra Defined Benefit Plan for Financial Institutions, which is part of Pentegra Retirement Services. Pentegra Retirement Services is a not-for-profit cooperative that provides full-service community bank retirement programs nationwide, including those provided to the employees of the FHLBank of Indianapolis. Mr. Miller received a BS in Management and Administration in 1977 and an MBA in Finance in 1981, both from Indiana University, Bloomington. He received his Chartered Financial Analyst designation in 1986.

Matthew R. Feldman, 58, became President and Chief Executive Officer of the FHLBank of Chicago in May 2008, after serving as Acting President from April 2008 until then. Mr. Feldman was Executive Vice President, Operations and Administration of the FHLBank of Chicago from 2006 to 2008, Senior Vice President, Risk Management from 2004 to 2006 and Senior Vice President, Manager of Operations Analysis from 2003 to 2004. Prior to his employment with the FHLBank of Chicago, Mr. Feldman was founder and Chief Executive Officer of Learning Insights, Inc. from 1996 to 2003. Mr. Feldman conceived, established, financed, and directed the operations of this privately held e-learning company of which he is still Non-Executive Chairman. Mr. Feldman was President of Continental Trust Company, a wholly-owned subsidiary of Continental Bank from 1992 to 1995 and Managing Director-Global Trading and Distribution of Continental Bank from 1988 to 1992. Mr. Feldman currently serves on the board of directors of the Office of Finance and is the Chairman of that board's Human Resources and Compensation Committee. He also serves as Vice Chair of the Council of Federal Home Loan Banks and on the board of the Pentegra Defined Benefit Plan for Financial Institutions.

Richard S. Swanson, 62, has been with the FHLBank of Des Moines since June 2006, and is currently serving as its President and CEO. In addition to his management responsibilities associated with being President and CEO, Mr. Swanson also serves on the Board of Directors of the Office of Finance. Prior to joining the FHLBank of Des Moines, Mr. Swanson was a principal of the Seattle law firm of Hillis, Clark, Martin and Peterson for two years where he provided counsel in the areas of finance, banking law, and SEC regulation. Previously, Mr. Swanson served as Chairman and CEO of HomeStreet Bank in Seattle, Washington, and had served as its CEO since 1990. As a member director from HomeStreet Bank, Mr. Swanson served on the board of directors of the FHLBank of Seattle from 1998 to 2003, and served as the board's vice chair from 2002 to 2003.

Terry Smith, 55, serves as President and Chief Executive Officer of the FHLBank of Dallas and has served in such capacity since August 2000. Prior to that, he served as Executive Vice President and Chief Operating Officer of the FHLBank of Dallas, responsible for the financial and risk management, credit and collateral, financial services, accounting, and information systems functions. Mr. Smith joined the FHLBank of Dallas in January 1986 to coordinate the hedging and asset/liability management functions, and was promoted to Chief Financial Officer in 1988. He served in that capacity until his appointment as Chief Operating Officer in 1991. Mr. Smith currently serves as Vice Chairman of the board of directors of the FHLBanks Office of Finance and is the Chairman of the Risk Committee of the board of directors of the FHLBanks Office of Finance. He also serves on the Council of Federal Home Loan Banks. Mr. Smith previously served on the board of directors of the Pentegra Defined Benefit Plan for Financial Institutions and on the investment committee for the Pentegra Defined Benefit Plan for Financial Institutions. Mr. Smith is a past member and former chairman of the audit committee of the FHLBanks Office of Finance.

Andrew J. Jetter, 56, became President and Chief Executive Officer of FHLBank of Topeka in September 2002. He also served as Executive Vice President and Chief Operating Officer from January 1998 to September 2002. Mr. Jetter joined the FHLBank of Topeka in 1987 as an attorney and was promoted to General Counsel in 1989, Vice President in 1993, and Senior Vice President in 1996.

Dean Schultz, 65, has been President and Chief Executive Officer of the FHLBank of San Francisco since April 1991. Mr. Schultz is a member of the board of directors of the Office of Finance, which facilitates the issuance and servicing of consolidated obligations for the FHLBanks. He is also a director of Social Compact, an organization dedicated to increasing business leadership for and investment in lower-income communities. Prior to joining the FHLBank of San Francisco, he was Executive Vice President of the FHLBank of New York, where he had also served as Senior Vice President and General Counsel. From 1980 to 1984, he was Senior Vice President and General Counsel with First Federal Savings and Loan Association of Rochester, New York. He previously was a partner in a Rochester law firm.

Michael L. Wilson, 54, has served as President and Chief Executive Officer of the FHLBank of Seattle since January 2012. Previously, Mr. Wilson served as Executive Vice President and Chief Business Officer of the FHLBank of Des Moines from 2006 to 2012. From 1994 to 2006, Mr. Wilson served in a number of leadership roles at the FHLBank of Boston, including Senior/ Executive Vice President and Chief Operating Officer from 1999 to 2006. Prior to joining the FHLBank of Boston, Mr. Wilson served as director of the Office of Policy and Research at the Federal Housing Finance Board in Washington, D.C. Mr. Wilson is one of the FHLBank of Seattle's representatives on the Council of Federal Home Loan Banks and also serves on the board of the Office of Finance. Mr. Wilson's tenure in the FHLBank System and his experience in economics and political science, as indicated by his background, support Mr. Wilson's qualifications to serve as an officer of the FHLBank of Seattle.

Chief Executive Officer, FHLBanks Office of Finance

John D. Fisk, 55, began serving as Chief Executive Officer of the Office of Finance on January 1, 2008. Mr. Fisk has more than 20 years of experience in the fixed-income and mortgage markets. Prior to joining the Office of Finance in 2004, he was Executive Vice-President for Strategic Planning at MGIC, the nation's largest private mortgage insurer. Previously, Mr. Fisk held a series of increasingly responsible capital market and mortgage positions in 17 years at Freddie Mac. These included leading the securities sales & trading group and the REMIC Program. By the time of his departure in 2000, he was Executive Vice-President, responsible for all single-family mortgage business. A 1978 graduate of Yale University, Mr. Fisk earned his MBA from the Wharton School at the University of Pennsylvania in 1982.

FHLBanks Office of Finance Board of Directors

The Office of Finance board of directors is comprised of the twelve FHLBank presidents and five independent directors. H Ronald Weissman is the chair and Terry Smith, chief executive officer and president of the FHLBank of Dallas, is the vice chair. The following persons are currently serving as an independent director:

H Ronald Weissman, 67, was appointed as an independent director for a five-year term ending in 2015 and was also appointed Chair of the Office of Finance's board of directors. Prior to the reconstitution of the Office of Finance's board of directors in 2010, Mr. Weissman served as the private citizen member of the Office of Finance's board of directors and its designated financial expert. Previously, Mr. Weissman was a senior partner at Ernst & Young since 2002, served as Global Managing Partner for several of the firm's most significant financial services clients and had assumed significant corporate and client responsibilities until his retirement. Prior to joining Ernst & Young, he was a partner with Arthur Andersen. Mr. Weissman, a Certified Public Accountant, also holds an MBA from the Columbia University Graduate School of Business and a Bachelor of Arts degree from Union College in Schenectady, New York.

J. Michael Davis, 72, was originally appointed as an independent director for a one-year term ending in 2011. In 2011, he was re-elected to a five-year term expiring in 2016. Mr. Davis has over 40 years of experience within the financial services industry. He served on the board of the FHLBank of Topeka, including as vice chair and as a member of the Audit Committee. Mr. Davis held senior executive positions with several farm credit institutions within the Farm Credit System. He also has non-profit board of director experience as chair and treasurer.

Jonathan A. Scott, Ph.D., 62, was appointed as an independent director for a three-year term ending in 2013. Dr. Scott is a full professor of Finance at Temple University's Fox School of Business and Management, where he has been since 1991. At Temple he is currently the Academic Director of the Fox School's honors program, co-director of Temple's Center for Economics Education, and Managing Director of the Owl Fund. He also has six years experience in academic administration at Temple University and managed initiatives related to information technology, program cost analysis and performance metrics. Prior to joining the university, Dr. Scott was an executive for seven years at the FHLBank of Dallas, including service as the Chief Financial Officer in 1987-1988. Dr. Scott received a Ph.D. in Economics from Purdue University.

Kathleen C. McKinney, 57, was appointed as an independent director for a two-year term ending in 2012. Ms. McKinney has over 32 years experience as bond counsel in the public finance, community facilities and economic development sector. She recently served as President of the National Association of Bond Lawyers and is a recognized speaker on public finance. She is immediate past chair of the Furman University Board of Trustees.

Walter H. Morris, Jr., 60, was appointed as an independent director for a four-year term ending in 2014. Mr. Morris has more than 30 years of financial services experience, retiring in 2010 from Ernst & Young after a 14-year career in advisory services working in real estate advisory, structured finance and fraud/dispute services. He directed or completed numerous advisory assignments for international banks, GSEs and U.S. government agencies while at Ernst & Young. In addition, Mr. Morris has 20 years experience in commercial and mortgage banking, including international and capital markets functions and foreign assignments in London, England and Paris, France. He also has extensive non-profit board of director experience. Mr. Morris received his MBA degree from the Harvard Graduate School of Business School and an undergraduate degree from Harvard College.

Regulations Governing the Selection and Compensation of FHLBank and Office of Finance Employees

As specified in the Gramm-Leach-Bliley Act of 1999 (GLB Act), and the Housing Act, the selection and compensation of FHLBank officers and employees are subject to the approval of the board of directors and management of each individual FHLBank. However, the Director of the FHFA has the authority to prohibit compensation that is not reasonable and comparable to compensation paid to executives at other financial institutions. The FHFA established several principles for the FHLBanks and the Office of Finance for setting executive compensation policies and practices to ensure sound incentive compensation practices:

1. executive compensation must be reasonable and comparable to that offered to executives in similar positions at other comparable financial institutions;
2. executive incentive compensation should be consistent with sound risk management and preservation of the par value of the FHLBank's capital stock;
3. a significant percentage of an executive's incentive-based compensation should be tied to longer-term performance and outcome-indicators;
4. a significant percentage of an executive's incentive-based compensation should be deferred and made contingent upon performance over several years; and
5. the board of directors of each FHLBank and the Office of Finance should promote accountability and transparency with respect to the process of setting compensation.

Each FHLBank is responsible for establishing that FHLBank's compensation philosophy and objectives, and each FHLBank includes a compensation discussion and analysis relating to all material elements of the compensation of its named executive officers in its annual report on Form 10-K filed with the SEC. (See *Explanatory Statement about Federal Home Loan Banks Combined Financial Report.*)

The FHFA 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. FHFA regulations require the Office of Finance board of directors to select, employ, determine the compensation for, and assign the duties of, the Office of Finance chief executive officer. (See *Office of Finance CEO 2011 Compensation Discussion and Analysis*.)

Overview and Objectives of FHLBank and Office of Finance Executive Compensation Programs

Each FHLBank strives to provide total compensation that promotes its mission. Compensation programs at each of the FHLBanks are generally intended to focus executives on achieving their individual FHLBank's mission and to associate executive pay with the FHLBank's corporate goals, performance targets, and strategic plan. Each FHLBank's board of directors determines total compensation for executives of that FHLBank, consisting of base salary, cash incentive compensation, and other benefits as described in Table S-1.

The Office of Finance is only responsible for the compensation policies for its employees. The Office of Finance seeks to provide a flexible and market-based approach to compensation that attracts, retains and motivates high performing, accomplished financial services executives who, by their individual and collective performance, achieve the Office of Finance's strategic business initiatives. The objectives of the program are to communicate goals and standards of performance for the successful achievement of the Office of Finance's mission. (See *Office of Finance CEO 2011 Compensation Discussion and Analysis-Compensation Program Overview Philosophy and Objectives.*)

The following information has been provided for each FHLBank primarily based on the presentation it used in its annual report on SEC Form 10-K for the year ended December 31, 2011, which in each case provides detail about the FHLBank's compensation philosophy and objectives. The presentations may not be consistent due to differing FHLBank practices and application and interpretation of the rules.

Table S-1 - FHLBank Presidents and Office of Finance CEO Summary Compensation Table

(whole dollars)

FHLBank	President/CEO Name	Year	Salary ($)	Bonus ($)	Non-Equity Incentive Plan Compensation ($)	Change In Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation * ($)	Total ($)
Boston	Edward A. Hjerpe III (1)	2011	$ 595,000	$ —	$ 213,242	$ 325,000	$ 62,666	$ 1,195,908
		2010	562,500	55,000	107,578	145,000	85,049	955,127
		2009	275,000	—	—	110,000	38,317	423,317
New York	Alfred A. DelliBovi	2011	709,263	—	523,180	1,444,000	120,417	2,796,860
		2010	678,721	—	526,090	1,434,998	69,177	2,708,986
		2009	649,494	—	503,592	1,010,379	72,917	2,236,382
Pittsburgh	Winthrop Watson (2)	2011	625,000	—	593,156	104,000	40,508	1,362,664
Atlanta	W. Wesley McMullan (3)	2011	650,000	148	599,362	1,089,000	58,710	2,397,220
		2010	474,492	140	354,457	478,000	30,660	1,337,749
Cincinnati	David H. Hehman	2011	621,150	—	512,671	2,217,000	25,932	3,376,753
		2010	645,506	—	547,269	1,382,000	14,700	2,589,475
		2009	613,124	—	531,068	1,757,000	62,086	2,963,278
Indianapolis	Milton J. Miller, II	2011	555,438	—	504,294	2,083,000	14,805	3,157,537
		2010	534,066	—	512,278	872,000	14,914	1,933,258
		2009	538,461	—	228,242	1,275,000	22,265	2,063,968
Chicago	Matthew R. Feldman	2011	695,000	—	1,081,420	409,000	14,700	2,200,120
		2010	650,000	—	—	248,000	14,700	912,700
		2009	650,000	—	—	169,000	14,700	833,700
Des Moines	Richard S. Swanson	2011	620,833	—	487,835	441,000	64,351	1,614,019
		2010	597,350	—	460,066	308,000	55,545	1,420,961
		2009	584,100	—	440,604	234,000	46,624	1,305,328
Dallas	Terry Smith	2011	745,000	—	334,557	373,000	600,458	2,053,015
		2010	730,000	—	322,291	175,000	477,986	1,705,277
		2009	715,000	—	279,279	288,000	470,690	1,752,969
Topeka	Andrew J. Jetter	2011	627,500	—	606,062	1,169,289	55,792	2,458,643
		2010	609,226	—	416,210	791,982	49,001	1,866,419
		2009	595,805	—	429,908	725,000	63,794	1,814,507
San Francisco	Dean Schultz (4)	2011	902,967	—	869,500	732,778	63,580	2,568,825
		2010	765,000	—	721,900	637,894	64,498	2,189,292
		2009	725,000	—	769,400	527,019	40,977	2,062,396
Seattle	Steven R. Horton (5)	2011	391,616	—	—	1,557,435	181,473	2,130,524
		2010	341,737	—	—	254,043	13,674	609,454
Office of Finance	John D. Fisk	2011	590,017	—	584,141	499,000	32,517	1,705,675
		2010	578,448	—	548,628	262,000	27,996	1,417,072
		2009	561,600	—	560,099	169,000	28,641	1,319,340

* Compensation in this column is further presented in Table S-2-All Other Compensation Table.

(1) Mr. Hjerpe has been president and chief executive officer of the FHLBank of Boston since July 2009.

(2) Mr. Watson, previously the FHLBank of Pittsburgh's Chief Operating Officer, became President and CEO of the FHLBank of Pittsburgh effective January 1, 2011.

(3) The 2010 amounts for Mr. McMullan reflect his separate service as Executive Vice President and Director of Financial Management from January 1, 2010 through December 15, 2010, and his service as President and Chief Executive Officer, effective December 16, 2010. The amount under Non-Equity Incentive Plan Compensation includes the dollar value of all earnings for services performed during the year pursuant to awards under the FHLBank of Atlanta incentive compensation plan, including the dollar value of all interest earned on deferred incentive related to incentive compensation awards for prior fiscal years (34% of the 2011 incentive compensation award is subject to mandatory deferral over three years and 25% of the 2010 incentive compensation award is subject to mandatory deferral over three years).

(4) Mr. Schultz's 2011 salary includes $122,667 for a vacation cash-out payment. Mr. Schultz's 2009 all other compensation was revised to reflect a reduction of $5,500 in excess FHLBank of San Francisco matching contributions to its Savings Plan.

(5) Mr. Horton retired from the FHLBank of Seattle in November 2011. The new President and Chief Executive Officer, Michael L. Wilson, began on January 30, 2012.

FHLBank President Employment Agreements

FHLBank of Boston. As an incentive to recruit Mr. Hjerpe to join the FHLBank of Boston in July 2009, and as a continuing tool to retain him, the FHLBank of Boston entered into a change in control agreement with Mr. Hjerpe. The FHLBank of Boston's board of directors had determined that having the change in control agreement in place would be an effective

recruitment and retention tool since the events under which it provides payment to Mr. Hjerpe would provide a measure of protection to Mr. Hjerpe in the instance of the FHLBank of Boston's relocation in excess of 50 miles or his termination of employment or material diminution in duties or base compensation resulting from merger, consolidation, reorganization, sale of all or substantially all of the FHLBank of Boston's assets, or the liquidation or dissolution of the FHLBank of Boston. Under the terms of the change in control agreement, in the event that either:

- Mr. Hjerpe terminates his employment with the FHLBank of Boston for a good reason (as defined in the change in control agreement) that is not remedied within certain cure periods by the FHLBank of Boston; or

- the FHLBank of Boston (or the FHLBank of Boston's successor in the event of reorganization) terminates Mr. Hjerpe's employment without cause (as defined by the change in control agreement).

The FHLBank of Boston has agreed to pay Mr. Hjerpe an amount equal to his annualized base salary at the time of such termination to be paid in equal installments over the following 12 months according to the FHLBank of Boston's regular payroll cycle during such period. Notwithstanding the foregoing, the FHLBank of Boston's obligation to pay Mr. Hjerpe such amount will be subject to Mr. Hjerpe's execution of the FHLBank of Boston's standard release of claims agreement and the FHLBank of Boston's compliance with applicable statutory and regulatory requirements at the time such payment would otherwise be made. Payments to Mr. Hjerpe under the change in control agreement are in lieu of any severance payments that would be otherwise payable to him by the FHLBank of Boston.

FHLBank of New York. The FHLBank of New York is an “at will” employer and does not provide written employment agreements to any of its employees. However, employees, including the president, receive:

- cash compensation (i.e., base salary, and, for exempt employees, “variable” or “at risk” short-term incentive compensation);

- retirement-related benefits (i.e., qualified defined benefit plan; qualified defined contribution plan; and nonqualified defined benefit portion of the benefit equalization plan); and

- health and welfare programs and other benefits.

Other benefits, which are available to all regular employees, include medical, dental, vision care, life, business travel accident insurance, and short- and long-term disability insurance, flexible spending accounts, an employee assistance program, educational development assistance, voluntary life insurance, long-term care insurance, fitness club reimbursement and severance pay. An additional benefit offered to all officers, age 40 or greater, or who are at vice-president rank or above, is a physical examination every 18 months.

FHLBank of Pittsburgh. In the event of a merger of the FHLBank of Pittsburgh with another FHLBank, where the merger results in the termination of employment (including resignation for good reason as defined under the change in control agreement) for the CEO, he is eligible for severance payments under his change in control agreement as follows:

- two years base salary;

- two times the incentive compensation award payout eligibility at target in the year of separation from service;

- FHLBank of Pittsburgh contributions for medical insurance for the benefits continuation period of 18 months at the same level that it contributes to medical insurance for its then-active employees; and

- individualized outplacement for up to 12 months.

With the appointment of Winthrop Watson as President and CEO effective January 1, 2011, the FHLBank of Pittsburgh executed an Amended and Restated Change in Control Agreement, effective January 1, 2011. Accordingly, during 2011, Mr. Watson would also have been eligible for a payment equal to: (1) 12% of his compensation (as defined in the FHLBank of Pittsburgh's supplemental thrift plan) and (2) the retirement benefit amount that would have been provided under the qualified and nonqualified defined benefit plans if the President and CEO's qualified and nonqualified retirement plan benefits had vested as of December 31, 2011.

FHLBank of Atlanta. The FHLBank of Atlanta entered into an employment agreement with Mr. McMullan in connection with his appointment as president and chief executive officer (McMullan Agreement), effective as of December 16, 2010. The McMullan Agreement may be terminated at any time by the FHLBank of Atlanta, with or without “cause,” or by Mr. McMullan, with or without “good reason,” each as defined in the McMullan Agreement. Unless earlier terminated by either party as provided therein, the McMullan Agreement has a three-year term and will extend automatically for subsequent one-year periods unless either party elects not to renew. If during the term of his employment Mr. McMullan is terminated without cause or resigns for good reason, the McMullan Agreement provides for severance pay in an amount equal to: (1) his then-current annual base salary, payable in a lump sum within 30 days, and (2) the short-term incentive award that he would have earned for the year in which the termination or resignation occurs had he remained employed, payable at the same time that such awards are paid to the FHLBank of Atlanta's senior executives. The McMullan Agreement does not provide for any severance pay in the event of a termination with cause, a termination on account of his death or disability, or his resignation without good reason.

FHLBank of Cincinnati. Other than normal pension benefits and eligibility to participate in the FHLBank of Cincinnati's retiree supplemental benefits program, no perquisites or other special benefits are provided to the president in the event of a change in control, resignation, retirement or other termination of employment.

FHLBank of Indianapolis. The FHLBank of Indianapolis maintains a key employee severance agreement for Mr. Miller. If a termination occurs under certain circumstances, Mr. Miller is entitled to 2.0 times the average of the three prior calendar years' base salary, bonus, and other cash compensation, salary deferrals and employer matching contributions to the qualified and non-qualified plans, compensation for the loss of the use of a company vehicle (if any), continued medical and dental insurance coverage for 36 months (subject to Mr. Miller paying the employee portion of the cost of such coverage), a gross-up amount to cover the increased tax liability, an additional three years credit to age and years of service for the supplemental executive retirement plan, and reimbursement for reasonable legal, accounting, financial advisory, and actuarial services. If the FHLBank of Indianapolis is not in compliance with any applicable regulatory capital or regulatory leverage requirement at the time payment under the agreement becomes due, or if the payment would cause the FHLBank of Indianapolis to fall below applicable regulatory requirements, the payment would be deferred until such time as the FHLBank of Indianapolis achieves compliance with its regulatory requirements.

FHLBank of Chicago. Mr. Feldman entered into an employment agreement with the FHLBank of Chicago effective as of May 5, 2008 that provided for an employment term ending on May 31, 2011, unless terminated earlier as provided for in the agreement. The agreement was replaced with a new employment agreement effective January 1, 2011. Mr. Feldman's base salary for 2010 was $650,000, which had been established as his base salary for the three-year term of his 2008 employment agreement.

The FHLBank of Chicago entered into a new employment agreement with Mr. Feldman effective January 1, 2011, which replaced his prior agreement that was effective May 5, 2008. The new agreement provides for a four-year employment term ending December 31, 2014, unless terminated earlier as provided for in the agreement. The agreement provides for automatic one-year extensions until such date as the FHLBank of Chicago's board of directors or Mr. Feldman gives notice and terminates the automatic extension provision. Under this agreement, the FHLBank of Chicago's board of directors set Mr. Feldman's 2011 base salary at $695,000 after considering the improvement in the FHLBank of Chicago's financial condition, the fact that Mr. Feldman had not received salary increases or incentive compensation payments in over two years and the overall competitive market data from the 2011 FHLBank System Key Position Survey. The FHLBank of Chicago's board of directors decided upon a base salary that would place Mr. Feldman near the 75th percentile of the base salaries paid to other FHLBank presidents based upon the complex nature and operations of the FHLBank of Chicago relative to the other FHLBanks and the importance of his retention. The personnel and compensation committee reviews Mr. Feldman's performance annually and in its discretion may recommend an increase in salary to the FHLBank of Chicago's board of directors for approval.

Mr. Feldman is entitled to participate in the president's incentive compensation plan and the key employee long-term incentive compensation plan and the FHLBank of Chicago's board of directors may award a discretionary bonus to Mr. Feldman separate from any incentive compensation earned under these plans. Mr. Feldman is also entitled to participate in the FHLBank of Chicago's health insurance, life insurance, retirement and other benefit plans that are generally applicable to its other senior executives. Under the agreement, the FHLBank of Chicago has agreed to indemnify Mr. Feldman with respect to any tax liabilities and penalties and interest under Section 409A of the Internal Revenue Code of 1986.

Under Mr. Feldman's employment agreement, in the event his employment with the FHLBank of Chicago is terminated either by him with good reason (as defined in the agreement), by the FHLBank of Chicago other than for cause (as defined in

the agreement), by non-renewal by the FHLBank of Chicago of the agreement, or as a result of the death or disability of Mr. Feldman, Mr. Feldman is entitled to receive the following payments:

- all accrued and unpaid salary for time worked as of the date of termination;
- all accrued but unutilized vacation time as of the date of termination;
- salary continuation (at the base salary in effect at the time of termination) for a one-year period beginning on the date of termination;
- payment in a lump sum of an amount equal to the minimum total incentive compensation that Mr. Feldman would otherwise have been entitled to receive if all performance targets for the current calendar year had been met at a 100% level;
- continued participation in the FHLBank of Chicago's employee health care benefit plans in accordance with the terms of its then-current severance plan that would be applicable to him if his employment had been terminated pursuant to such plan, provided that the FHLBank of Chicago will continue paying the employer's portion of medical and/or dental insurance premiums for one year from the date of termination, and
- an additional amount under the FHLBank of Chicago's post-December 31, 2004 benefit equalization plan equal to the additional annual benefit as if such benefit had been calculated as though (i) Mr. Feldman were 3 years older than his actual age and (ii) Mr. Feldman had 3 additional years of service at the same rate of annual compensation in effect for the 12-month period ending on the December 31 immediately preceding the termination of Mr. Feldman's employment.

If Mr. Feldman's employment with the FHLBank of Chicago is terminated by the FHLBank of Chicago for cause or by Mr. Feldman other than for good reason, Mr. Feldman is entitled only to all accrued and unpaid salary for time worked as of the date of termination and all accrued but unutilized vacation time as of the date of termination.

The employment agreement provides that Mr. Feldman will not be entitled to any other compensation, bonus or severance pay from the FHLBank of Chicago other than as specified above and any vested rights which he has under any pension, thrift, or other benefit plan, excluding the severance plan. The right to receive termination payments as outlined above is contingent upon, among other things, Mr. Feldman signing a general release of all claims against the FHLBank of Chicago in such form as the FHLBank of Chicago requires.

FHLBank of Des Moines. If Mr. Swanson's employment is terminated by the FHLBank of Des Moines for cause, his death or disability, or by him without good reason, he is entitled to base salary, accrued but unpaid annual incentive for the year prior to the year of termination, accrued but unpaid long-term incentive in an amount equal to that which he would have received in the year of termination, accrued and earned vacation through the date of termination and all other vested benefits under the terms of the FHLBank of Des Moines's employee benefit plans. If Mr. Swanson's employment is terminated by the FHLBank of Des Moines without cause, by him for good reason, or as a result of a merger or change in control, he is entitled to the following:

- severance payments equal to two times his base salary;
- one times his target annual incentive plan award in effect for the calendar year in which the date of termination occurs;
- the annual incentive plan and long-term incentive plan award for the calendar year in which the date of termination occurs and pro-rated for the portion of the calendar year in which he was employed;
- the unpaid long-term incentive plan award for which the performance period has not ended as of the date of termination and calculated in accordance with the terms of the long-term incentive plan as if termination was due to death, disability or retirement; and
- State of Iowa benefits continuation, provided that the FHLBank of Des Moines will continue to pay its portion of the medical and/or dental insurance premiums for him for the one-year period following the date of termination.

Assuming one or more of the above events for the receipt of termination payments occurred as of December 31, 2011, the total amounts payable to Mr. Swanson would have been $2.2 million.

FHLBank of Dallas. On November 20, 2007 (effective date), the FHLBank of Dallas entered into an employment agreement with Mr. Smith. The employment agreement provides that Mr. Smith's employment will continue for three years from the effective date unless terminated earlier for any of the following reasons: (1) death; (2) disability; (3) termination by the FHLBank of Dallas for cause; (4) termination by the FHLBank of Dallas for other than cause; or (5) termination by Mr. Smith with good reason. As of each anniversary of the effective date, an additional year is automatically added to the unexpired term of the employment agreement unless either the FHLBank of Dallas or Mr. Smith gives a notice of non-renewal.

In the event that Mr. Smith's employment with the FHLBank of Dallas is terminated either by him for good reason or by the FHLBank of Dallas other than for cause, or in the event that either the FHLBank of Dallas or Mr. Smith gives notice of non-renewal and the FHLBank of Dallas relieves him of his duties under the employment agreement, Mr. Smith shall be entitled to receive:

- all accrued and unpaid base salary for time worked through the date of termination of Mr. Smith’s employment;
- all accrued but unutilized vacation time as of the termination date;
- base salary continuation (at the base salary in effect at the time of termination) from the termination date through the end of the remaining term of the employment agreement;
- continued participation in any incentive compensation plan in existence as of the termination date, provided that all other eligibility and performance objectives are met, as if Mr. Smith had continued employment through December 31 of the year in which the termination occurs (Mr. Smith will not be eligible for incentive compensation with respect to any year following the year of termination);
- continuation of any elective health care benefits that are being provided to Mr. Smith as of his termination date for one year; and
- a lump sum payment equal to the cost of COBRA continuation coverage under the health care benefits plan of the kind Mr. Smith then subscribes to for the number of months for which base salary is payable in excess of one year.

In addition to the amounts above, Mr. Smith will be entitled to receive the amounts in his supplemental executive retirement plan accounts in a lump sum distribution provided he is vested in such benefits at the time of a triggering event.

FHLBank of Topeka. The FHLBank Topeka does not have a separate employment agreement with its president. The FHLBank Topeka provides severance benefits to its executive officers pursuant to the FHLBank of Topeka's officer severance policy. The policy's primary objective is to provide a level of protection to officers, including the president, from loss of income during a period of unemployment. An officer of the FHLBank of Topeka is eligible to receive severance pay under the policy if the FHLBank of Topeka terminates the officer's employment with or without cause, subject to certain limitations. Provided the requirements of the policy are met and the president provides the FHLBank of Topeka an enforceable release, the president will receive severance pay equal to 52 weeks of the president's final annual base salary. Upon termination or change in control, the president would be entitled to receive:

- the severance payment,
- any earned but unpaid incentive awards,
- the respective aggregate balance that would be payable under the nonqualified deferred compensation plans within ninety days of termination of employment due to death, disability or retirement, and
- the payment that may be due under the benefit equalization plan upon a change in control.

FHLBank of San Francisco. The FHLBank of San Francisco's president is employed on an at-will basis. The president may resign at any time, and the FHLBank of San Francisco may terminate his employment at any time, for any reason or no reason, with or without cause and with or without notice. The FHLBank of San Francisco's board of directors approved a change in

control severance agreement for Mr. Schultz, which became effective as of June 1, 2011. The agreement provides for a severance payment and continued benefits if Mr. Schultz's employment terminates under certain circumstances in connection with a change in control (as defined in the agreement) of the FHLBank of San Francisco. In particular, under the terms of Mr. Schultz's agreement, if he terminates his employment for good reason (as defined in the agreement), he shall be entitled to receive, in lieu of any severance benefits to which Mr. Schultz may otherwise be entitled under any severance plan or program of the FHLBank of San Francisco, the following:

- his fully earned but unpaid base salary through the date of termination (together with all other amounts and benefits to which Mr. Schultz is entitled under any benefit plan or practice of the FHLBank of San Francisco other than the FHLBank of San Francisco's corporate senior officer severance policy);

- severance pay in an amount equal to the sum of two times Mr. Schultz's annual base salary plus two times his annual incentive amounts (as defined in the agreement);

- continued health and life insurance coverage for up to 180 days after the first anniversary of the date of termination of Mr. Schultz's employment (or if earlier, the date he accepts employment from an employer with comparable benefits); and

- executive-level outplacement services at the FHLBank of San Francisco's expense, not to exceed $25,000.

If the FHLBank of San Francisco is not in compliance with any applicable regulatory capital or regulatory leverage requirement, or if any of the payments required to be made pursuant to the severance pay and executive outplacement services described above would cause the FHLBank of San Francisco to fall below such applicable regulatory requirements, such payment shall be delayed until such time as the FHLBank of San Francisco achieves compliance with its regulatory capital requirements.

FHLBank of Seattle. Although not required under an employment or severance agreement or the FHLBank of Seattle's board of director-approved severance policy, Mr. Horton was approved to receive severance pay in the form of salary continuation from the date of his November 2011 retirement through the end of 2011, and FHLBank of Seattle-paid premiums for group health insurance through the end of 2011. In approving these severance benefits, the FHLBank of Seattle's board of directors considered Mr. Horton's long tenure and service to the FHLBank of Seattle. In consideration of the foregoing, Mr. Horton signed a general release of claims against the FHLBank of Seattle. A non-objection was received from the FHFA in March 2012.

Table S-2 - All Other Compensation Table

(whole dollars)

FHLBank*	President/CEO Name		Year	Termination of Employment or Change of Control if Triggered ($)	Contribution or Other Allocations Made by the FHLBank to Vested and/or Unvested Defined Contribution Plans ($)	Dollar Value of any Insurance Premiums Paid by the FHLBank with Respect to Life Insurance for the Benefit of the President/ CEO ($)	Gross-ups or Other Amounts Reimbursed for the Payment of Taxes ($)	Perquisites and Other Personal Benefits * ($)	Other ($)	Total ($)
Boston	Edward A. Hjerpe III	(1)	2011	$ —	$ 42,155	$ —	$ —	$ 20,511	$ —	$ 62,666
			2010	—	33,750	—	—	51,299	—	85,049
			2009	—	16,500	—	—	21,817	—	38,317
New York	Alfred A. DelliBovi	(2)	2011	—	14,700	12,000	—	25,165	68,552	120,417
			2010	—	14,700	13,200	—	36,331	4,946	69,177
			2009	—	35,421	13,188	—	24,308	—	72,917
Pittsburgh	Winthrop Watson		2011	—	40,484	—	—	—	24	40,508
Atlanta	W. Wesley McMullan	(3)	2011	—	39,510	—	—	19,200	—	58,710
			2010	—	27,960	—	—	2,700	—	30,660
Cincinnati	David H. Hehman	(4)	2011	—	14,700	—	—	11,232	—	25,932
			2010	—	14,700	—	—	—	—	14,700
			2009	—	62,086	—	—	—	—	62,086
Indianapolis	Milton J. Miller, II		2011	—	14,700	105	—	—	—	14,805
			2010	—	14,700	214	—	—	—	14,914
			2009	—	22,050	215	—	—	—	22,265
Chicago	Matthew R. Feldman		2011	—	14,700	—	—	—	—	14,700
			2010	—	14,700	—	—	—	—	14,700
			2009	—	14,700	—	—	—	—	14,700
Des Moines	Richard S. Swanson	(5)	2011	—	51,851	—	—	12,500	—	64,351
			2010	—	43,045	—	—	12,500	—	55,545
			2009	—	34,124	—	—	12,500	—	46,624
Dallas	Terry Smith	(6)	2011	—	492,458	—	14,340	22,081	71,579	600,458
			2010	—	369,289	—	16,156	31,161	61,380	477,986
			2009	—	357,069	—	14,486	30,357	68,778	470,690
Topeka	Andrew J. Jetter		2011	—	47,747	1,487	—	—	6,558	55,792
			2010	—	45,296	2,100	—	—	1,605	49,001
			2009	—	47,469	1,971	—	13,048	1,306	63,794
San Francisco	Dean Schultz	(7)	2011	—	46,818	2,880	—	9,847	4,035	63,580
			2010	—	45,900	4,080	—	13,447	1,071	64,498
			2009	—	14,700	4,080	—	21,126	1,071	40,977
Seattle	Steven R. Horton		2011	52,310	13,252	—	—	—	115,911	181,473
			2010	—	13,674	—	—	—	—	13,674
Office of Finance	John D. Fisk	(8)	2011	—	14,700	—	—	13,506	4,311	32,517
			2010	—	14,700	—	—	13,296	—	27,996
			2009	—	14,700	—	—	13,941	—	28,641

* Only individual amounts greater than $25,000 are required to be disclosed in the footnotes.

(1) Perquisites and other benefits amount for Mr. Hjerpe includes the following: personal use of an FHLBank of Boston-owned vehicle, reimbursement for apartment expenses, parking, reimbursement for mass transportation, spousal travel expenses and airline program memberships.

(2) Perquisites and other benefits amount for 2011 for Mr. DelliBovi includes the following: personal use of an FHLBank of New York-provided vehicle, payment of vision insurance premium, payments for dollar amount of funds matched in connection with the Pentegra Defined Contribution Plan for Financial Institutions, payment of group term life insurance premium and supplemental individual term life insurance premium, payment of long term disability insurance premium, payment of health insurance premium, payment of dental insurance premium, payment of employee assistance program premium, reimbursement for financial counseling costs for participants in terminated plans.

(3) Perquisites for Mr. McMullan include a $1,500 per month automobile allowance. Perquisites are valued at the actual amounts paid by the FHLBank of Atlanta and the value of each perquisite was less than $25,000.

(4) Perquisites and other benefits amount for 2011 for Mr. Hehman includes the following: personal use of an FHLBank of Cincinnati-owned vehicle, spousal travel and a membership in a waiting area designated for frequent airline travelers.

(5) Perquisites and other benefits amount for Mr. Swanson includes the following: personal use of an FHLBank of Des Moines-provided vehicle and financial planning allowance.

(6) Perquisites and other benefits amount for Mr. Smith includes the following: personal use of a FHLBank of Dallas-leased vehicle and spousal travel and meal cost reimbursements in connection with some of the FHLBank of Dallas' board functions. Other includes payouts for unused vacation and unused flex leave.

(7) Perquisites and other benefit amounts for Mr. Schultz include the following: personal use of an FHLBank of San Francisco-provided vehicle, financial planning, health club membership dues and parking expenses.

(8) Perquisites and other benefits amount for Mr. Fisk includes the personal use of an Office of Finance-provided vehicle.

Table S-3 - Grants of Plan-Based Awards for Year 2011

(whole dollars)

FHLBank	President/CEO Name		Grant Date	Estimated Future Payouts under Non-Equity Incentive Plan Awards		
				Threshold ($)	Target ($)	Maximum ($)
Boston	Edward A. Hjerpe III	(1)	—	$ 80,325	$ 160,650	$ 240,975
New York	Alfred A. DelliBovi		3/16/2011	156,038	283,705	539,040
Pittsburgh	Winthrop Watson	(2)	—	—	—	137,500
		(3)	—	—	—	500,000
Atlanta	W. Wesley McMullan		1/27/2011	208,000	416,000	624,000
Cincinnati	David H. Hehman		2/17/2011	155,288	341,633	465,863
			2/17/2011	83,835	186,300	307,395
Indianapolis	Milton J. Miller, II	(2)	1/20/2011	1,666	277,719	388,807
		(4)	1/20/2011	83,316	166,631	249,947
Chicago	Matthew R. Feldman	(5)	1/25/2011	—	417,000	695,000
		(6)	1/25/2011	—	417,000	695,000
Des Moines	Richard S. Swanson		6/23/2011	109,375	218,750	328,125
			6/23/2011	125,000	250,000	375,000
Dallas	Terry Smith	(2)	—	131,865	379,950	447,000
		(4)	—	134,100	253,300	335,250
Topeka	Andrew J. Jetter		1/1/2011	122,740	245,480	368,220
			1/1/2011	125,500	251,000	376,500
San Francisco	Dean Schultz	(7)	2/1/2011	195,100	390,200	780,300
Office of Finance	John D. Fisk	(2)	5/9/2011	—	283,208	477,914
		(4)	5/9/2011	—	188,805	318,609

(1) Represents estimate of annual short-term incentive compensation for January 1, 2011 through December 31, 2011 under the 2011 Executive Incentive Compensation Plan. The estimated future payout for the long-term component of the 2011 Executive Incentive Compensation Plan is based, in part, on the results of the short-term component at year-end 2011. The actual future payout for the long-term component will then be interpolated between threshold and target, or between target and excess, depending on the actual results of achievement for the long-term component goal as determined at year-end 2013.

If the Short-term component results in:	Estimated Future Payouts under Non-Equity Incentive Plan Awards for the Long-term Component (whole dollars):		
	Threshold	Target	Excess
Threshold	$ 26,775	$ 53,550	$ 80,325
Target	53,550	107,100	160,650
Excess	80,325	160,650	240,975

(2) Represents estimate of annual short-term incentive compensation for January 1, 2011 through December 31, 2011.

(3) In addition to the base incentive award, the FHLBank of Pittsburgh's CEO was eligible for an additional incentive award, based on the FHLBank of Pittsburgh's financial performance during the two-year period (2010 and 2011). The additional award opportunity was payable in the year following the achievement of the specific financial performance goals. In early 2012, it was determined that the FHLBank of Pittsburgh met the four criteria in at least one quarter in 2011.

(4) Represents estimate of long-term incentive compensation for the three-year performance cycle beginning January 1, 2011 and ending December 31, 2013.

(5) Represents the potential payouts under the Mr. Feldman's Incentive Compensation Plan for the period from January 1, 2011 through December 31, 2011. Pursuant to Mr. Feldman's employment agreement, payments under this plan were subject to the further condition that the FHLBank of Chicago has (A) earned a net profit for the fiscal year and (B) has paid dividends on its capital stock for at least two consecutive quarters during that fiscal year.

(6) Represents the potential payout under the Key Employee Long Term Incentive Compensation for the period from January 1, 2011 to December 31, 2013. Pursuant to Mr. Feldman's employment agreement, payments under this plan were subject to the further condition that the FHLBank of Chicago has (A) earned a net profit for the fiscal year and (B) has paid dividends on its capital stock for at least two consecutive quarters during that fiscal year.

(7) Estimated payouts for the 2011 three-year performance period are what could be earned and are calculated using the base salary in effect on February 1 in the first year of the performance period. Awards, if any, under this plan are payable in the year following the end of the three-year performance period.

Table S-4 - Pension Benefits for Year 2011

(whole dollars)

FHLBank	President/CEO Name		Plan Name*	Number of Years Credited Service	Present Value of Accumulated Benefit ($)	Payments During 2011 ($)
Boston	Edward A. Hjerpe III	(1)	Pentegra DBP	19.7	$ 784,000	$ —
			BEP	2.5	124,000	—
New York	Alfred A. DelliBovi	(2)	Pentegra DBP	18.8	1,635,000	—
			BEP	18.8	6,122,000	—
Pittsburgh	Winthrop Watson	(3)	Pentegra DBP	1.6	53,000	—
			SERP	2.1	106,000	—
Atlanta	W. Wesley McMullan	(4)	Pentegra DBP	23.8	1,006,000	—
			BEP	23.8	2,025,000	—
Cincinnati	David H. Hehman	(5)	Pentegra DBP	33.9	2,811,000	—
			BEP	33.9	9,050,000	—
Indianapolis	Milton J. Miller, II	(6) (7)	Pentegra DBP	34.0	606,000	—
			SERP	34.0	4,901,000	—
Chicago	Matthew R. Feldman	(8)	Pentegra DBP	7.8	440,000	—
			BEP	7.8	693,000	—
Des Moines	Richard S. Swanson	(9)	Pentegra DBP	4.6	343,000	—
			BEP	4.6	891,000	—
Dallas	Terry Smith	(10)	Pentegra DBP	26.0	1,920,000	—
Topeka	Andrew J. Jetter	(11)	Pentegra DBP	23.6	1,169,000	—
			BEP	23.6	3,584,000	—
San Francisco	Dean Schultz	(12)	BEP	26.8	2,916,136	—
			SERP	9.0	1,548,262	—
			CBP	26.8	404,712	—
			FIRF	11.0	531,824	—
			DCP	26.8	58,987	—
Seattle	Steven R. Horton	(13)	Pentegra DBP	22.9	1,100,000	—
			BEP	22.9	1,715,435	—
Office of Finance	John D. Fisk	(14)	Pentegra DBP	7.1	373,000	—
			SERP	7.1	1,022,000	—

* Pentegra DBP = Pentegra Defined Benefit Plan for Financial Institutions
BEP = Benefit Equalization Plan
SERP = Supplemental Executive Retirement Plan
FIRF = Financial Institutions Retirement Fund
CBP = Cash Balance Plan
DCP = Deferred Compensation Plan

(1) Formula: 1.5% × high five-year average compensation × credited years of service, subject to a maximum annual benefit amount not to exceed 80% of high five-year average compensation.
Compensation is the highest five-year compensation (salary and incentive) paid in the year.
The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.
Mr. Hjerpe's credited years of service for the Pentegra DBP includes 12.6 years of service at the FHLBank of Boston and 7.1 years of service at a previous employer that participated in the Pentegra DBP.

(2) Formula: 2.5% × years of benefit service (not to exceed 30) × highest consecutive three-year average earnings.
Earnings are defined as base salary plus short-term incentives, and overtime, subject to the annual Internal Revenue Code limit.
The normal form of payment is a life annuity with a 12 year guaranteed payment, which means that if retiree dies prior to receiving 12 years of annuity payments, the retiree's beneficiary will receive a lump sum equal to the remaining unpaid payments in the 12 year period.

(3) Formula: 1.5% × years of benefit service × high five-year average compensation.
Compensation covered for the Pentegra Defined Benefit Plan includes annual base salary, subject to IRS limitations. Compensation covered for the SERP includes annual base salary and annual incentive compensation, without regard to IRS limitations.
The regular form of retirement benefits provides a single life annuity; a lump sum option is also available.

(4) The "Present Value of Accumulated Benefit" is the present value of the annual pension benefit that was earned as of December 31, 2011, assuming retirement at age 65. Benefits under the plan were calculated using a 4.40% discount rate; 3.73% was used to calculate benefits under the excess plan. The 2000 RP Mortality Table (50% static mortality table for lump sums; 50% generational mortality table for annuities) was used for both plans.

(5) Formula: 2.5% × years of benefit service × highest three-year average compensation.
Compensation is defined as Salary, Bonus and the amount included in the Non-Equity Incentive Compensation Plan column for the short-term incentive plan as reported in Table S-1.
The regular form of retirement benefits is a single-life annuity including a lump-sum retirement death benefit.

(6) The years of credited service for Mr. Miller in Table S-4 have been increased by three years as a result of the terms of the early retirement incentive package. The early retirement incentive was offered to all employees age 50 or older with 10 or more years of service as of December 15, 2006.

(7) Formula: 2.5% × years of benefit service × high three-year average compensation plus, at age 66, an annual retiree cost of living adjustment of three percent without regard to the IRS limits.

- The remuneration covered includes salary, bonus, and any other compensation (except for Long-Term Incentive Plan), that is reflected on the Internal Revenue Service Form W-2 (exclusive of any compensation deferred from a prior year).
- The regular form of retirement benefits provides for a lump sum payment or annual installments up to 20 years or a combination of lump sum and annual payments.
- Benefit payments commencing before age 65 are reduced by applying an early retirement factor based on the employee's age when payments begin. The allowance payable at age 65 would be reduced by 3% for each year under age 65. If the sum of the age and years of vesting service at termination of employment is at least 70, the retirement allowance would be reduced by 1.5% for each year under age 65.

(8) Formula: 2.25% × the number of years credited service × highest five-year compensation.
Compensation is the average annual salary (base and short-term incentive compensation) for the five consecutive years of highest salary. At December 31, 2011, the additional present value of accrued benefit due Mr. Feldman under section (7)(b)(vi) of his employment agreement is $730,000. The regular form of retirement benefits is an annuity or a lump-sum retirement death benefit.

(9) Formula: 2.25% × the number of years credited service × highest three consecutive year's average compensation. Average compensation is defined as the total taxable compensation as reported on the IRS Form W-2.

(10) Formula: (3% × years of service credited prior to July 1, 2003 × high three-year average compensation (consecutive years)) plus (2% × years of service credited on or after July 1, 2003 × high three-year average compensation (consecutive years))
The pension plan limits the maximum years of benefit service to 30 years. Compensation covered by the plan includes taxable compensation as reported on Mr. Smith's W-2 (exclusive of any compensation deferred from a prior year) plus any pre-tax contributions to the FHLBank of Dallas' Section 401(k) plan and/or Section 125 cafeteria plan, subject to the 2011 IRS limitation of $245,000 per year. For 2012, the IRS increased the maximum compensation limit to $250,000 per year.
The regular form of retirement benefit is a single life annuity that includes a lump-sum death benefit. The normal retirement age is 65, but Mr. Smith is eligible to receive an unreduced retirement benefit beginning at age 60. The FHLBank of Dallas does not have a supplemental defined benefit plan that covers compensation in excess of the IRS maximum limit; accordingly, Table S-4 reflects the estimated pension benefits payable to Mr. Smith based solely on the IRS compensation limit as his compensation exceeded such limit.

(11) Formula: Starting September 2003 Pentegra Defined Plan Benefit = 2.0% × years of benefit service (not to exceed 30 years) × high three-year average compensation. Benefit service begins one year after employment.
Prior to September 2003 FIRF Benefit = 2.25% × years of benefit service (not to exceed 30 years) × high three-year average compensation. Benefit service begins one year after employment.
Compensation covered includes annual base salary plus incentive compensation subject to the 2010 annual IRS limitation of $245,000.
The regular form of retirement benefits provides a single life annuity, a lump sum payment or other additional payment options.

(12) Benefit Equalization Plan
The Benefit Equalization Plan (BEP) is an unfunded and non-qualified plan that is designed to restore retirement benefits lost under the Cash Balance Plan and the Savings Plan (a defined contribution plan) because of compensation and benefits limitations imposed on the Cash Balance Plan and the Savings Plan under the Internal Revenue Code (IRC). An employee's benefits that would have been credited under the Cash Balance Plan or the Savings Plan but for the limitations imposed on those plans under the IRC are credited as Supplemental Cash Balance Benefits under the BEP and the credits accrue interest at an annual rate of 6% until paid. The amounts credited or accrued under the BEP vest according to the corresponding provisions of the Cash Balance Plan and the Savings Plan.
Supplemental Executive Retirement Plan
The FHLBank of San Francisco began providing a Supplemental Executive Retirement Plan (SERP) to the FHLBank of San Francisco's senior officers, including the president, effective January 1, 2003. For this plan, years of credited service represent the years of participation since the inception of the plan in 2003. This plan is an unfunded and non-qualified retirement benefit plan that provides a cash balance benefit to the FHLBank of San Francisco's senior officers that is in addition to the Cash Balance Plan benefits. The SERP supplements the Cash Balance Plan benefits to provide a competitive postretirement compensation package that is intended to help the FHLBank of San Francisco attract and retain key senior officers who are critical to the success of the FHLBank of San Francisco.
Cash Balance Plan and the Financial Institutions Retirement Fund
The FHLBank of San Francisco began offering benefits under the Cash Balance Plan on January 1, 1996. The Cash Balance Plan is a tax-qualified defined benefit pension plan that covers employees who have completed six months of service, including the president. Each year, eligible employees accrue benefits equal to 6% of their total annual compensation (which includes base salary and short-term cash incentive compensation) plus interest equal to 6% of their account balances accrued through the prior year, referred to as the annual benefit component of the Cash Balance Plan.
The benefits under the Cash Balance Plan annual benefit component are fully vested after an employee completes 3 years of service. Vested amounts are generally payable in a lump sum or in an annuity when the employee leaves the FHLBank of San Francisco.
Prior to offering benefits under the Cash Balance Plan, the FHLBank of San Francisco participated in the Financial Institutions Retirement Fund, or the FIRF. The FIRF is a multiple-employer tax-qualified defined benefit pension plan. The FHLBank of San Francisco withdrew from the FIRF on December 31, 1995.
When the FHLBank of San Francisco withdrew from the FIRF, benefits earned under the FIRF as of December 31, 1995, were fully vested and the value of those benefits was then frozen. As of December 31, 1995, the FHLBank of San Francisco calculated each participant's FIRF benefit based on the participant's then-highest three consecutive years' average pay multiplied by the participant's years of service multiplied by two percent, referred to as the frozen FIRF benefit. Upon retirement, participants will be eligible to receive their frozen FIRF benefits.
In addition, to preserve the value of the participant's frozen FIRF benefit, the FHLBank of San Francisco maintains the ratio of each participant's frozen FIRF annuity payments to the participant's highest three consecutive years' average pay as of December 31, 1995 (annuity ratio), which is referred to as the net transition benefit component of the Cash Balance Plan. Upon retirement, each participant with a frozen FIRF benefit will receive a net transition benefit under the Cash Balance Plan that equals his or her highest three consecutive years' average pay at retirement multiplied by his or her annuity ratio minus the frozen FIRF benefit.
Deferred Compensation Plan
The FHLBank of San Francisco's Deferred Compensation Plan is an unfunded and non-qualified plan, consisting of three components: (1) employee deferral of current compensation, short-term incentive and long-term incentive, when applicable; (2) make-up matching contributions that would have been made by the FHLBank of San Francisco under the Savings Plan had the base salary compensation not been deferred; and, (3) make-up pension benefits that would have been earned under the Cash Balance Plan had total annual compensation (base salary and short-term cash incentive compensation) not been deferred.

(13) Pentegra DB Plan
The Pentegra DB Plan at the FHLBank of Seattle provides a normal retirement benefit equal to 2.5% of the participant's average annual compensation for the three highest consecutive years during the participant's years of credited service, multiplied by the participant's years of credited service, subject to IRC compensation limits and vesting provisions. Compensation is defined as base salary plus overtime and bonuses.
Retirement Benefit Equalization Plan
The FHLBank of Seattle's Retirement BEP is a non-qualified defined benefit pension plan that provides eligible executives, whose benefits under the Pentegra DB Plan are limited by the IRC limits, including the annual compensation limit, with a supplemental pension benefit. This supplemental benefit is equal to the benefit that would have been paid from the Pentegra DB Plan in the absence of the IRC limits, less the amount that the executive actually receives from the Pentegra DB Plan.

(14) Formula: Starting July 2011-2.0% × years of benefit service × high three-year average compensation. Benefits earned from April 2003 to June 2011 are frozen under the prior benefit formula of 2.25%.

Table S-5 - Non-Qualified Deferred Compensation for Year 2011

(whole dollars)

FHLBank	President/CEO Name	President/CEO Contributions ($)	FHLBank Contributions ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Earnings ($)	Aggregate Balance at 12/31/11 ($)
Boston	Edward A. Hjerpe III	$ 21,077	$ 27,455	$ —	$ 1,974	$ 101,515
Pittsburgh	Winthrop Watson	109,992	37,359	—	(3,637)	179,769
Atlanta	W. Wesley McMullan	23,010	24,810	—	1,409	248,915
Chicago	Matthew R. Feldman	27,000	237,412	—	119	354,046
Des Moines	Richard S. Swanson	78,247	37,151	—	(1,036)	194,828
Dallas	Terry Smith	2,040	477,758	30,218	42,407	2,231,446
Topeka	Andrew J. Jetter	16,524	33,047	—	47,287	1,072,856
San Francisco	Dean Schultz	—	—	—	24,161	475,500
Seattle	Steven R. Horton	—	—	—	483	80,228
Office of Finance	John D. Fisk	51,819	53,619	—	31,697	931,741

Office of Finance CEO 2011 Compensation Discussion and Analysis

Compensation Philosophy and Objectives.

The Human Resources and Compensation Committee (HR Committee) serves as the compensation committee of the Office of Finance Board of Directors. The compensation program for the Office of Finance CEO is designed to provide a flexible and market-based approach to compensation that attracts, motivates and retains an executive with the skills and expertise necessary to enable the Office of Finance to meet or exceed its business goals. To achieve these objectives, the Office of Finance compensates the CEO using a total compensation program approach that combines base salary, short- and long-term variable (incentive-based) compensation, retirement benefits and modest fringe benefits. The objectives of the compensation program are to establish and communicate short- and long-term standards of performance for the successful achievement of the Office of Finance's mission and to recognize, motivate and reward the CEO commensurate with his contributions.

The Office of Finance Board of Directors believes that its compensation philosophy is effective in attracting, retaining and motivating a highly qualified individual. The Office of Finance Board of Directors reviews annually the compensation program to ensure that it is consistent with and supports the Office of Finance's business strategies and objectives. The FHFA's five guiding principles for sound incentive compensation practices were incorporated into the development, implementation, and review of compensation policies and practices for the Office of Finance CEO in 2011.

Competition and Compensation Benchmarking.

Role of the HR Committee and the Office of Finance Board of Directors in Setting Executive Compensation. The HR Committee and the Office of Finance Board of Directors align the executive compensation program with the Office of Finance's business objectives and focus the CEO's efforts on fulfilling these goals. The HR Committee reviews the CEO's performance and researches and recommends the CEO salary to the Office of Finance Board of Directors. The percentage of salary increase that will apply to a base pay merit adjustment for each year is recommended by the HR Committee for approval by the Office of Finance Board of Directors. The retirement benefit plans that are offered, and any changes to those plans from year to year, are approved by the Office of Finance Board of Directors after a recommendation by the HR Committee. The HR Committee also recommends the goals, payouts and qualifications for both the annual short-term incentive plan and the long-term incentive plan for approval by the Office of Finance Board of Directors.

Role of Compensation Consultant in Setting Executive Compensation. The salary and benefit benchmarks used by the Office of Finance to establish reasonable and competitive compensation for its employees are the competitor groups established by Aon Consulting and its affiliate, McLagan Partners, as presented in Table S-6. The benchmarking analysis included the following competitor positions: the CEO of each FHLBank; the head of debt capital markets for certain commercial banks; the CEO of the mortgage business for certain commercial banks; the proxy data for Fannie Mae and Freddie Mac; and the publicly available data for the Federal Farm Credit Banks Funding Corporation.

Table S-6 - Benchmarking Institutions

Ally Financial Inc.	Federal Home Loan Bank of Cincinnati	National Australia Bank
Astoria Federal Savings	Federal Home Loan Bank of Dallas	Natixis
Australia & New Zealand Banking Group	Federal Home Loan Bank of Des Moines	Opus Bank
Banco Santander	Federal Home Loan Bank of Indianapolis	PNC Bank
Bank of the West	Federal Home Loan Bank of New York	Rabobank Nederland
Bank of Tokyo-Mitsubishi UFJ	Federal Home Loan Bank of Pittsburgh	Regions Financial Corporation
Bayerische Landesbank	Federal Home Loan Bank of San Francisco	Royal Bank of Canada
BBVA Compass	Federal Home Loan Bank of Seattle	Royal Bank of Scotland
BMO Financial Group	Federal Home Loan Bank of Topeka	Societe Generale
BNP Paribas	Fifth Third Bank	Standard Bank
BOK Financial Corporation	FNB Omaha	Standard Chartered Bank
Branch Banking & Trust Co.	Freddie Mac	SunTrust Banks
Capital One	GE Capital	SVB Financial Group
CIBC World Markets	HSBC	TD Securities
Cole Taylor Bank	ING	The Bank of Nova Scotia
Commerzbank	KeyCorp	The CIT Group
Crédit Agricole CIB	Lloyds Banking Group	UniCredit
Fannie Mae	M&T Bank Corporation	Union Bank, N.A.
Federal Home Loan Bank of Atlanta	MetLife Bank	Webster Bank
Federal Home Loan Bank of Boston	Mitsubishi Securities	Wells Fargo Bank
Federal Home Loan Bank of Chicago	Mizuho Corporate Bank, Ltd.	WestLB

Elements of Total Compensation Program.

Base Salary. Base salary is a key component of the Office of Finance's total CEO compensation program. In setting the base salary for the CEO, the Office of Finance Board of Directors has discretion to consider a wide range of factors, including the CEO's individual performance, the performance of the Office of Finance overall, the CEO's tenure and the amount of the CEO base salary relative to the base salaries paid to executives in similar positions in the 50th percentile of executive salaries in the Office of Finance's peer groups. The Office of Finance Board of Directors also considers the amount and relative percentage of the CEO's total compensation that is derived from base salary.

The Office of Finance Board of Directors approved, effective January 1, 2011, a three percent base salary increase for 2011, resulting in an annual base salary of $590,017.

Short-Term Non-Equity Incentive Compensation Plan. The Office of Finance's CEO Incentive Compensation Plan (ICP) is an annual cash-based incentive compensation plan designed to promote and reward high levels of performance for accomplishing Office of Finance Board of Directors-approved goals. The annual goals reflect desired performance and the Office of Finance mission. Each goal is assigned a weight reflecting its relative importance and potential effect on the Office of Finance's strategic initiatives and annual business plan. The CEO is eligible to receive 60% of the annual plan award as a cash payment and 40% of the award is deferred for three years.

The Office of Finance Board of Directors approved three goals under the 2011 annual ICP that are intended to reinforce the strategic plan actions and value delivered by the Office of Finance to support the mission of the FHLBanks.

- Bank Stakeholders (1/3 weight) consisted of serving the needs of the FHLBanks individually and collectively.
- Investor Stakeholders (1/3 weight) consisted of managing relationships with investors and other constituencies to improve debt demand, enhance funding flexibility and maintain market confidence in FHLBank debt.
- Risk Management and Controls (1/3 weight) consisted of delivering effective risk management practices and strong controls to support consistent Office of Finance performance and protection of the FHLBank franchise.

The authorization for payment of ICP awards is provided following a review of the year-end performance results by the Office of Finance Board of Directors at its first meeting subsequent to year end. The cash incentive payments are determined based on the actual performance in comparison with the performance levels established for each goal. If actual performance

falls below the threshold level of performance, no payment is made for that goal. If actual performance exceeds the maximum level, only the value assigned as the performance maximum is paid. When actual performance falls between the assigned threshold, target and maximum performance levels, an interpolation is calculated for that goal. The achievement level for each goal is then multiplied by the corresponding incentive weight assigned to that goal and the results for each goal are summed to arrive at the final incentive award payable to the Office of Finance's CEO.

The CEO is assigned an annual incentive award opportunity, stated as a percentage of base salary, which corresponds to the level of organizational responsibility and ability to contribute to and influence overall Office of Finance performance. At its February 1, 2012 meeting, the Office of Finance Board of Directors authorized an annual ICP award of $634,268 (107.5%) for John Fisk, of which $253,707 is deferred for three years.

Table S-7 - Short-term Non-Equity ICP Results

(whole dollars)

Goal	Weight	Overall Award Level	Total Award
Bank Stakeholders	33.3%	Between target and maximum	$ 211,423
Investor Stakeholders	33.3%	Between target and maximum	211,423
Risk Management and Controls	33.3%	Between target and maximum	211,422
Total			$ 634,268

Long-Term Non-Equity Incentive Compensation Plan. To remain market-competitive and to facilitate the long term focus on safe and sound operations, the Office of Finance Board of Directors establishes annually a Long-Term Incentive (LTI) opportunity based on a rolling three-year performance period. For example, payments earned for the 2009-2011 plan period were paid in 2012. The Office of Finance's LTI is a cash-based performance plan designed to promote high levels of performance, to create long-term ties between key employees and the Office of Finance, to establish a career orientation within the Office of Finance and to ensure retention of talent. Each approved goal is assigned an incentive weight reflecting its relative importance and potential effect on the strategic long-term initiatives, and each is assigned a quantitative threshold, target and maximum level of performance of 25%, 50%, and 75%, respectively, for the 2009-2011 plan.

LTI awards are calculated based on the actual performance or achievement level for each goal at the end of each three-year performance period, with interpolations made for results between achievement levels. The achievement level for each goal is multiplied by the corresponding incentive weight assigned to that goal. The results are summed and then calculated as a percentage of base salary effective at the beginning of the three-year period.

On February 1, 2012, the Office of Finance Board of Directors approved an LTI payment to John Fisk of $203,580 for the 2009-2011 plan, which concluded on December 31, 2011. The Office of Finance Board of Directors approved the payment based on the following results for the goals:

Table S-8 - 2009 - 2011 Long-term Non-Equity ICP Results

(whole dollars)

Goal	Weight	Overall Award Level	Total Award
Funding System Modernization	35%	Below Threshold	$ —
IT Operational Improvement	25%	Threshold	35,100
Investor Information and Relationship Management	40%	Maximum	168,480
Total	100%		$ 203,580

Retirement Benefits. The Office of Finance maintains a comprehensive retirement program for the CEO comprised of a combination of two IRS qualified plans and two non-qualified plans.

- Qualified Defined Benefit Pension Plan-The Pentegra DBP is a funded tax-qualified plan that is maintained on a non-contributory basis, i.e., no employee contributions. Participants' pension benefits are 100% vested upon completion of six years of service. The pension benefits payable under the Pentegra DBP are determined under a pre-established formula that provides a single life annuity payable monthly at normal retirement (age 65), or other actuarially equivalent forms of benefit payments, including an early retirement option. The benefit formula through June 30, 2011

was 2.25% for each year of benefit service multiplied by the highest three-year average compensation. As of July 1, 2011, the benefit formula was reduced to 2.0% for each year of benefit service multiplied by the highest three-year average compensation.

- Non-qualified Defined Benefit Pension Plan-The CEO is eligible to participate in the Supplemental Retirement Plan (SRP), an unfunded, non-qualified pension plan that mirrors the Pentegra DBP in all material respects. In the event that benefits payable from the Pentegra DBP have been reduced or otherwise limited, the executive's lost benefits are payable under the terms of the SRP. Because the SRP is a non-qualified plan, the benefits received from this plan do not receive the same tax treatment and funding protection associated with the qualified plan.

- Qualified Defined Contribution Plan-The Pentegra Defined Contribution Plan for Financial Institutions (Pentegra DC) is a tax-qualified defined contribution plan to which the Office of Finance makes tenure-based matching contributions. The matching contribution begins upon completion of one year of employment and subsequently increases based on length of employment to a maximum of six percent of base salary. Under the Pentegra DC plan, a participant may elect to contribute up to 50% of base salary on either a before-tax, i.e., 401(k), or after-tax basis. The plan permits participants to self-direct investment elections into one or more investment funds, which may be changed daily by the participants. A participant may withdraw vested account balances while employed, subject to certain IRS and plan limitations.

- Non-qualified Defined Contribution Plan-The CEO is eligible to participate in the Supplemental Thrift Plan (STP), an unfunded, non-qualified, contributory pension plan that mirrors the Pentegra DC plan in all material respects. The STP restores benefits that participants would have received absent IRS limits on contributions to the Pentegra DC Plan. Under the STP, participants may elect to contribute up to 50% of base salary and up to 100% of incentive compensation on a pre-tax basis. As in the Pentegra DC plan, the employer match in the STP is tenure-based with a six percent maximum. The STP permits participants to self-direct investment elections into a choice of ten investment funds.

Perquisites. The perquisites provided by the Office of Finance represent a small fraction of the CEO's total compensation and are provided in accordance with market practices for executives in similar positions and with similar responsibilities. During 2011, the CEO was provided with an Office of Finance-owned vehicle for his business and personal use. The operating expenses associated with the vehicle were also provided. The CEO's personal use of the Office of Finance-owned vehicle, including use for the daily commute to and from work, is reported as a taxable fringe benefit.

Financial Counseling. The CEO is eligible for an annual reimbursement of personal financial counseling not to exceed $10,000; however, this benefit was not used in 2011.

Director Compensation

In accordance with the regulations of the FHFA, the GLB Act, and the Housing Act, the FHLBanks have established formal policies governing the compensation and travel reimbursement provided to their directors. The goal of the policies is to compensate members of the board of directors for work performed on behalf of the FHLBanks. Under these policies, compensation consists of per-meeting fees. The meeting fees compensate directors for:

- time spent reviewing materials sent to them on a periodic basis by the FHLBanks;
- preparation for meetings;
- participation in any other activities for the FHLBanks; and
- actual time spent attending the meetings of the board or its committee.

Directors are also reimbursed for reasonable FHLBank-related travel expenses, which are not included in Table S-9 - Director Compensation for Year 2011.

An FHFA rule, issued pursuant to the Housing Act, allows each FHLBank to pay its directors reasonable compensation and expenses, subject to the authority of the Director of the FHFA to object to, and to prohibit prospectively, compensation and/or expenses that the Director of the FHFA determines are not reasonable. (See *FHLBank Management and Compensation-FHLBank Directors* and *FHLBank Management and Compensation-FHLBanks Office of Finance Board of Directors* for biographies.)

Table S-9 - Director Compensation for Year 2011

(whole dollars)

FHLBank	Director Name	Position	Fees Earned or Paid in Cash ($)	All Other Compensation ($)	Total ($)
Boston	Jan A. Miller	Chair	$ 60,000	$ —	$ 60,000
	Jay F. Malcynsky	Vice-Chair	55,000	—	55,000
New York	Michael M. Horn	Chair	100,000	—	100,000
	Josè Ramon Gonzàlez	Vice-Chair	85,000	—	85,000
Pittsburgh	Dennis S. Marlo	Chair	68,000	24	68,024
	John K. Darr	Vice-Chair	58,000	24	58,024
Atlanta	Scott C. Harvard	Chair	60,000	—	60,000
	William C. Handorf	Vice-Chair	55,000	—	55,000
Cincinnati	Carl F. Wick	Chair	72,000	1,192	73,192
	B. Proctor Caudill, Jr.	Vice-Chair	66,000	1,776	67,776
Indianapolis	Paul C. Clabuesch	Chair	110,000	—	110,000
	Jeffrey A. Paxon	Vice-Chair	85,000	—	85,000
Chicago	Thomas L. Herlache	Chair	60,000	—	60,000
	Steven F. Rosenbaum	Vice-Chair	55,000	—	55,000
Des Moines	Michael K. Guttau	Chair	75,000	—	75,000
	Eric A. Hardmeyer	Vice-Chair	65,000	—	65,000
Dallas	Lee R. Gibson	Chair	80,000	—	80,000
	Mary E. Ceverha	Vice-Chair	65,000	—	65,000
Topeka	Ronald K. Wente	Chair	100,000	—	100,000
	Robert E. Caldwell, II	Vice-Chair	85,000	—	85,000
San Francisco	Timothy R. Chrisman	Chair	60,000	—	60,000
	Scott C. Syphax	Vice-Chair	55,000	—	55,000
Seattle	William V. Humphreys	Chair	60,000	—	60,000
	Craig E. Dahl	Vice-Chair	55,000	—	55,000
Office of Finance(1)	H Ronald Weissman	Chair	101,250	2,605	103,855

(1) Terry Smith, Chief Executive Officer and President of the FHLBank of Dallas, serves as the Vice-Chair of the Office of Finance Board of Directors. Per FHFA regulation, an FHLBank president shall not receive any additional compensation or reimbursement as a result of his service as a director of the Office of Finance Board of Directors.

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Individual Federal Home Loan Bank Selected Financial Data and Financial Ratios

The following individual Federal Home Loan Bank (FHLBank) selected financial data and financial ratios are provided as a convenience to the reader. Please refer to *Explanatory Statement about Federal Home Loan Banks Combined Financial Report*, which discusses the independent management and operation of the FHLBanks; identifies the availability of other information about the FHLBanks; and describes where to find the periodic reports and other information filed by each FHLBank with the SEC.

Individual FHLBank Selected Financial Data and Financial Ratios

(dollars in millions)	Boston	New York	Pittsburgh
Selected Statement of Condition Data(1)			
At December 31, 2011			
Assets			
Investments(2)	$ 21,379	$ 14,237	$ 16,639
Advances	25,195	70,864	30,605
Mortgage loans held for portfolio	3,117	1,415	3,897
Allowance for credit losses on mortgage loans	(8)	(7)	(14)
Total assets	49,968	97,662	51,994
Consolidated obligations(3)			
Discount notes	14,652	22,123	10,922
Bonds	29,879	67,441	35,613
Total consolidated obligations	44,531	89,564	46,535
Mandatorily redeemable capital stock	228	54	45
Subordinated notes(4)	—	—	—
Total capital			
Total capital stock(5)			
Class B putable	3,626	4,491	3,389
Class A putable	—	—	—
Pre-conversion putable(6)	—	—	—
Total capital stock	3,626	4,491	3,389
Total retained earnings	398	746	435
Accumulated other comprehensive income (loss)	(535)	(191)	(161)
Total capital	3,489	5,046	3,663
Asset composition (as a percentage of the individual FHLBanks' total assets)			
Investments(2)	42.8%	14.6%	32.0%
Advances	50.4%	72.6%	58.9%
Mortgage loans, net	6.2%	1.4%	7.5%
Total retained earnings as a percentage of FHLBank's total assets	0.8%	0.8%	0.8%
FHLBank's total assets as a percentage of FHLBank System's total assets	6.5%	12.7%	6.8%
At December 31, 2010			
Assets			
Investments(2)	$ 27,134	$ 16,739	$ 18,752
Advances	28,035	81,200	29,708
Mortgage loans held for portfolio	3,255	1,272	4,486
Allowance for credit losses on mortgage loans	(9)	(6)	(3)
Total assets	58,647	100,212	53,387
Consolidated obligations(3)			
Discount notes	18,525	19,391	13,082
Bonds	35,103	71,743	34,129
Total consolidated obligations	53,628	91,134	47,211
Mandatorily redeemable capital stock	90	63	34
Subordinated notes(4)	—	—	—
Total capital			
Total capital stock(5)			
Class B putable	3,665	4,529	3,986
Class A putable	—	—	—
Pre-conversion putable(6)	—	—	—
Total capital stock	3,665	4,529	3,986
Total retained earnings	249	712	397
Accumulated other comprehensive income (loss)	(638)	(97)	(222)
Total capital	3,276	5,144	4,161
Asset composition (as a percentage of the individual FHLBanks' total assets)			
Investments(2)	46.3%	16.7%	35.1%
Advances	47.8%	81.0%	55.6%
Mortgage loans, net	5.5%	1.3%	8.4%
Total retained earnings as a percentage of individual FHLBank's total assets	0.4%	0.7%	0.7%
FHLBank's total assets as a percentage of FHLBank System's total assets	6.7%	11.4%	6.1%

(1) The sum or recalculation of individual FHLBank amounts may not agree or may not be recalculated from the Combined Statement of Condition amounts due to interbank combining adjustments.

(2) Investments consist of interest-bearing deposits, deposits with other FHLBanks, securities purchased under agreements to resell, Federal funds sold, trading securities, available-for-sale securities, and held-to-maturity securities.

(3) See *Financial Discussion and Analysis - Combined Results of Operations - Interbank Transfers of Consolidated Bonds and Their Effect on Combined Net Income*.

Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 36,138	$ 21,941	$ 15,203	$ 40,503	$ 14,637	$ 13,503	$ 10,576	$ 39,368	$ 27,369
86,971	28,424	18,568	15,291	26,591	18,798	17,394	68,164	11,292
1,639	7,871	5,958	14,163	7,157	163	4,937	1,835	1,363
(6)	(21)	(3)	(45)	(19)	—	(3)	(6)	(6)
125,270	60,397	40,375	71,255	48,733	33,770	33,190	113,552	40,184
24,330	26,136	6,536	25,404	6,810	9,799	10,251	19,152	14,034
90,662	28,855	30,358	39,880	38,012	20,070	19,895	83,350	23,221
114,992	54,991	36,894	65,284	44,822	29,869	30,146	102,502	37,255
286	275	453	4	6	15	8	5,578	1,061
—	—	—	1,000	—	—	—	—	—
5,718	3,126	1,563	—	2,109	1,256	791	4,795	1,621
—	—	—	—	—	—	536	—	119
—	—	—	2,402	—	—	—	—	—
5,718	3,126	1,563	2,402	2,109	1,256	1,327	4,795	1,740
1,254	444	497	1,321	569	495	402	1,803	157
(411)	(11)	(112)	(431)	134	(46)	(28)	(1,893)	(611)
6,561	3,559	1,948	3,292	2,812	1,705	1,701	4,705	1,286
28.8%	36.3%	37.7%	56.8%	30.0%	40.0%	31.9%	34.7%	68.1%
69.4%	47.1%	46.0%	21.5%	54.6%	55.7%	52.4%	60.0%	28.1%
1.3%	13.0%	14.7%	19.8%	14.6%	0.5%	14.9%	1.6%	3.4%
1.0%	0.7%	1.2%	1.9%	1.2%	1.5%	1.2%	1.6%	0.4%
16.4%	7.9%	5.3%	9.3%	6.4%	4.4%	4.3%	14.8%	5.2%
$ 39,879	$ 33,314	$ 19,785	$ 46,239	$ 18,640	$ 12,269	$ 14,846	$ 52,582	$ 30,499
89,258	30,181	18,275	18,901	29,253	25,456	19,368	95,599	13,355
2,040	7,782	6,703	18,327	7,434	207	4,176	2,384	3,211
(1)	(12)	(1)	(33)	(13)	—	(3)	(3)	(2)
131,798	71,631	44,930	84,116	55,569	39,690	38,706	152,423	47,208
23,915	35,003	8,925	18,421	7,208	5,132	13,705	19,527	11,597
95,198	30,697	31,875	57,849	43,791	31,316	21,521	121,120	32,479
119,113	65,700	40,800	76,270	50,999	36,448	35,226	140,647	44,076
529	357	658	530	7	8	19	3,749	1,022
—	—	—	1,000	—	—	—	—	—
7,224	3,092	1,610	—	2,183	1,601	861	8,282	1,650
—	—	—	—	—	—	593	—	126
—	—	—	2,333	—	—	—	—	—
7,224	3,092	1,610	2,333	2,183	1,601	1,454	8,282	1,776
1,124	438	427	1,099	556	452	352	1,609	73
(402)	(7)	(90)	(483)	91	(63)	(23)	(2,943)	(667)
7,946	3,523	1,947	2,949	2,830	1,990	1,783	6,948	1,182
30.3%	46.5%	44.0%	55.0%	33.5%	30.9%	38.4%	34.5%	64.6%
67.7%	42.1%	40.7%	22.5%	52.6%	64.1%	50.0%	62.7%	28.3%
1.5%	10.8%	14.9%	21.7%	13.4%	0.5%	10.8%	1.6%	6.8%
0.9%	0.6%	1.0%	1.3%	1.0%	1.1%	0.9%	1.1%	0.2%
15.0%	8.2%	5.1%	9.6%	6.3%	4.5%	4.4%	17.4%	5.4%

(4) On June 13, 2006, the FHLBank of Chicago issued $1.0 billion of subordinated notes that mature on June 13, 2016. The subordinated notes are not obligations of, and are not guaranteed by, the U.S. government or any of the FHLBanks other than the FHLBank of Chicago.

(5) FHLBank capital stock is redeemable at the request of a member subject to the statutory redemption periods and other conditions and limitations. (See *Note 19—Capital* to the accompanying combined financial statements.)

(6) The corresponding balances for capital stock-pre-conversion putable for years 2006 and beyond relate solely to the FHLBank of Chicago, which did not implement its capital plan until January 1, 2012. (See *Note 19—Capital* to the accompanying combined financial statements.)

Individual FHLBank Selected Financial Data and Financial Ratios (continued)

(dollars in millions)	Boston	New York	Pittsburgh
Selected Other Data(1)			
At December 31, 2011			
Advance concentrations (%): top five borrowers	35 %	55%	70 %
Capital stock concentrations (%): top five stockholders	49 %	49%	54 %
Regulatory capital-to-assets ratio (%)(7)	8.5 %	5.4%	7.4 %
Cash and stock dividends			
Year-to-date December 31, 2011	$ 11	$ 210	$ —
Year-to-date December 31, 2010	$ —	$ 253	$ —
Year-to-date December 31, 2009	$ —	$ 265	$ —
Weighted average dividend rate			
Year-to-date December 31, 2011	0.30 %	4.50%	—
Year-to-date December 31, 2010	—	5.29%	—
Year-to-date December 31, 2009	—	5.60%	—
Return on average equity(8)			
Year-to-date December 31, 2011	4.73 %	4.83%	0.98 %
Year-to-date December 31, 2010	3.52 %	5.24%	0.21 %
Year-to-date December 31, 2009	(6.49)%	10.02%	(0.98)%
Return on average assets			
Year-to-date December 31, 2011	0.30 %	0.24%	0.07 %
Year-to-date December 31, 2010	0.17 %	0.25%	0.01 %
Year-to-date December 31, 2009	(0.27)%	0.45%	(0.05)%
Net interest margin(9)			
Year-to-date December 31, 2011	0.58 %	0.44%	0.30 %
Year-to-date December 31, 2010	0.47 %	0.42%	0.39 %
Year-to-date December 31, 2009	0.44 %	0.56%	0.35 %
Net interest spread			
Year-to-date December 31, 2011	0.51 %	0.41%	0.17 %
Year-to-date December 31, 2010	0.40 %	0.37%	0.27 %
Year-to-date December 31, 2009	0.36 %	0.49%	0.22 %

(7) The regulatory capital ratio is calculated based on the FHLBank's total regulatory capital as a percentage of total assets held at period-end. Total regulatory capital is defined under the GLB Act except for the FHLBank of Chicago's regulatory capital, which did not implement its capital plan under the GLB Act until January 1, 2012, and is the sum of the paid-in value of capital stock and mandatorily redeemable capital stock plus retained earnings. (See *Note 19—Capital* to the accompanying combined financial statements.)

(8) Return on average equity is net income expressed as a percentage of average total capital.

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

Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
56%	57%	49%	48 %	44%	30%	51%	69%	65 %
43%	46%	41%	33 %	29%	20%	33%	66%	61 %
5.8%	6.4%	6.2%	6.4 %	5.5%	5.2%	5.2%	10.7%	7.4 %
$ 54	$ 132	$ 40	$ 2	$ 65	$ 5	$ 27	$ 22	$ —
$ 27	$ 138	$ 33	$ —	$ 61	$ 9	$ 37	$ 29	$ —
$ 24	$ 182	$ 54	$ —	$ 44	$ 8	$ 42	$ 22	$ —
0.84%	4.25%	2.50%	0.08 %	3.00%	0.38%	1.99%	0.29%	—
0.35%	4.38%	1.87%	—	2.50%	0.38%	2.36%	0.34%	—
0.31%	4.63%	2.83%	—	1.50%	0.25%	2.29%	0.21%	—
2.52%	3.89%	5.63%	7.22 %	2.78%	2.73%	4.43%	3.43%	6.40 %
3.42%	4.67%	6.13%	14.00 %	4.57%	4.23%	1.79%	6.13%	1.87 %
3.58%	6.38%	5.94%	(3.24)%	4.46%	4.92%	11.24%	5.83%	(13.94)%
0.15%	0.21%	0.26%	0.28 %	0.15%	0.14%	0.21%	0.15%	0.19 %
0.19%	0.24%	0.24%	0.41 %	0.22%	0.20%	0.08%	0.24%	0.04 %
0.16%	0.32%	0.23%	(0.07)%	0.21%	0.21%	0.48%	0.21%	(0.30)%
0.37%	0.37%	0.55%	0.69 %	0.44%	0.46%	0.63%	0.74%	0.23 %
0.38%	0.40%	0.57%	0.89 %	0.67%	0.44%	0.60%	0.79%	0.35 %
0.22%	0.46%	0.52%	0.65 %	0.28%	0.11%	0.53%	0.73%	0.40 %
0.32%	0.29%	0.47%	0.62 %	0.36%	0.43%	0.59%	0.71%	0.20 %
0.32%	0.30%	0.48%	0.83 %	0.59%	0.42%	0.54%	0.76%	0.31 %
0.13%	0.36%	0.41%	0.55 %	0.17%	0.06%	0.47%	0.69%	0.34 %

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