FEDERAL HOME LOAN BANKS

2008
COMBINED FINANCIAL REPORT

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

The Securities Act of 1933, as amended, does not require the registration of consolidated obligations. No registration statement has been filed with the Securities and Exchange Commission with respect to the consolidated obligations. None of the Securities and Exchange Commission, the Federal Housing Finance Agency or any State securities commission has approved or disapproved the consolidated obligations or has passed upon the accuracy or adequacy of any offering material.

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

Neither this Combined Financial Report nor any offering material provided by the Office of Finance on behalf of the Federal Home Loan Banks concerning any offering of consolidated obligations describes all the risks of investing in consolidated obligations. Prior to investing in consolidated obligations investors should consult their financial and legal advisors about the risks of investing in any particular issue of consolidated obligations. The combined financial reports of the FHLBanks are intended to be used by investors who invest in the consolidated obligations of the FHLBanks. Even though the consolidated obligations are the joint and several obligations of all of the FHLBanks, each FHLBank is a separately chartered entity with its own board of directors and management. There is no centralized management or oversight by a single board of directors of the FHLBanks. Please see "Explanatory Statement about FHLBanks Combined Financial Report" on page 2 for important background information regarding the publication of this Combined Financial Report.

The financial information contained in this Combined Financial Report is as of and for periods ended on or before December 31, 2008. This document is available on the Federal Home Loan Banks' Office of Finance web site at: www.fhlb-of.com.

Investors should direct questions about the Federal Home Loan Banks' combined financial reports to the Federal Home Loan Banks Office of Finance, Chief Accounting Officer & Senior Director of Accounting Policy & Financial Reporting. Investors should direct questions about the Federal Home Loan Banks' consolidated obligations to the Federal Home Loan Banks Office of Finance, Marketing & Corporate Communications Division. The address is Federal Home Loan Banks Office of Finance, 1818 Library Street, Suite 200, Reston, VA 20190, (703) 467-3600, and the web site is www.fhlb-of.com. The Office of Finance will provide additional copies of this Combined Financial Report upon request. Please contact the Office of Finance to receive subsequent annual and quarterly combined financial reports.

Investors should not assume, based on the delivery of this Combined Financial Report, that there has been no change in the financial condition of the Federal Home Loan Banks since December 31, 2008.

The date of this Combined Financial Report is April 21, 2009.

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

EXPLANATORY STATEMENT ABOUT FHLBANKS COMBINED FINANCIAL REPORT

The Federal Home Loan Banks Office of Finance (Office of Finance) assumed responsibility for the preparation of the combined financial reports of the Federal Home Loan Banks (FHLBanks) in 2001, which previously had been prepared by the Federal Housing Finance Board, the former regulator of the FHLBanks (Finance Board). The Office of Finance does not have the same access to information about the FHLBanks as the Finance Board had, or the new regulator (the Federal Housing Finance Agency (Finance Agency)) has, in its capacity as regulator (the Regulator) of the FHLBanks. See "Notes to Combined Financial Statements—Background Information" for more information regarding the change in the FHLBanks' regulator. In connection with its responsibilities in preparing combined financial reports, the Office of Finance is responsible for combining the financial information it receives from each of the FHLBanks. Each FHLBank is responsible for the financial information it provides to the Office of Finance and the underlying data it provides to the Office of Finance for inclusion in the combined financial reports.

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

Even though the consolidated obligations are the joint and several obligations of all of the FHLBanks, each FHLBank is a separately chartered entity. Each has its own board of directors and management. This is the case even though some financial institution holding companies may have one or more affiliates, each of which may be a member of a different FHLBank. There is no system-wide centralized management of the FHLBanks. All FHLBanks are subject to regulations issued by the Regulator, which periodically examines each FHLBank's operations.

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

In addition, each FHLBank's board of directors and management is responsible for establishing its own accounting and financial reporting policies in accordance with accounting principles generally accepted in the United States of America (GAAP). The FHLBanks' accounting and financial reporting policies and practices are not necessarily always identical because different policies and/or presentations are permitted under GAAP in certain circumstances. However, all 12 FHLBanks' accounting and financial reporting policies conform to GAAP. The FHLBanks may not use the same dealer prices, models and assumptions in determining the fair values (including impairments) of their respective assets, liabilities and derivatives. The use of different models or assumptions by individual FHLBanks, as well as changes in market conditions, could result in materially different valuation estimates, impairment determinations 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. 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 to all FHLBanks or the kinds of transactions described but which may not be applicable to all 12 FHLBanks as a result of their differing business practices and accounting and financial reporting policies under GAAP. An investor should review available information on individual FHLBanks to obtain more specific information on each FHLBank's business practices and accounting and financial reporting policies.

The absence of centralized management or centralized board of director oversight over the 12 FHLBanks does not necessarily allow investors in consolidated obligations, which are the joint and several obligations of all 12 FHLBanks, to obtain easily a “system-wide” view of the business, risk profile, financial condition and results of operations, and liquidity of the FHLBanks. There is no centralized system-wide management or oversight that ensures consistency in the operations, risk management, accounting and financial disclosure policies of the individual FHLBanks. This decentralized structure makes it difficult to prepare disclosures from a “system-wide” view in the same manner that is generally expected of U.S. Securities and Exchange Commission (SEC) registrants, such as the manner in which each FHLBank provides disclosures in its individual periodic financial reports. For example, the SEC’s guidance regarding Management’s Discussion and Analysis of Financial Condition and Results of Operations, commonly called MD&A, included in periodic reports filed by SEC registrants, notes 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. Because there is no centralized management of the FHLBank System, 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. Important information regarding the business and financial condition of each of the FHLBanks, including a discussion of business and financial risks, is set forth in the periodic reports filed by the respective FHLBanks with the SEC.

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

AVAILABLE INFORMATION ON INDIVIDUAL FHLBANKS

Each FHLBank provides information on its operations on an ongoing basis.

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

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

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

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 by the Finance Board, the former regulator of the FHLBanks, to facilitate the issuance and servicing of the consolidated obligations of the FHLBanks and to prepare the quarterly and annual combined financial reports of the FHLBanks. The Finance Board, an independent agency in the executive branch of the U.S. government, supervised and regulated the FHLBanks and the Office of Finance through July 29, 2008. With the passage of the "Housing and Economic Recovery Act of 2008" (the Housing Act), the Finance Agency was established and became the new independent Federal regulator (the Regulator) of the FHLBanks and the Office of Finance, effective July 30, 2008. The Finance Board was merged into the Finance Agency as of October 27, 2008.

The FHLBanks serve the general public by providing liquidity to members, thereby increasing the availability of credit for residential mortgages and 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, members are offered the opportunity to sell qualifying mortgages to, or fund them through, an FHLBank. Members can also borrow from an FHLBank to fund low-income housing, helping the members satisfy their regulatory requirements under the Community Reinvestment Act (CRA). Finally, some of the FHLBanks offer their members a variety of services such as: correspondent banking, which includes security safekeeping, wire transfers and settlements; cash management; letters of credit; and derivative intermediation.

The following table presents the FHLBanks' asset composition at December 31, 2008 and 2007.

	December 31, 2008	December 31, 2007
	Percentage of Total Assets	Percentage of Total Assets
Advances	68.8%	68.8%
Investments	22.7%	23.4%
Mortgage loans held for portfolio, net	6.5%	7.2%
Other assets	2.0%	0.6%
Total assets	100.0%	100.0%

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

— deposits;

— other borrowings; and

— the issuance of capital stock.

The following table presents the FHLBanks' liability and capital composition at December 31, 2008 and 2007.

	December 31, 2008 Percentage of Total Liabilities and Capital	December 31, 2007 Percentage of Total Liabilities and Capital
Consolidated obligations, net	93.3%	92.7%
Deposits	1.1%	1.6%
Other liabilities	1.8%	1.5%
Total capital (1)	3.8%	4.2%
Total liabilities and capital	100.0%	100.0%

(1) The FHLBanks' combined regulatory capital-to-assets ratio at December 31, 2008 and 2007 was 4.42 percent and 4.41 percent. See "Business—Capital, Capital Rules and Dividends" for details on regulatory capital requirements.

The FHLBanks are cooperatives, which means that only members and former members own the capital stock in each of the FHLBanks and, to the extent declared by an FHLBank's board of directors, receive dividends on their investment in capital stock from the earnings of their respective FHLBank. Membership is limited to regulated depositories insurance companies, and community development financial institutions engaged in residential housing finance. A table identifying members of the FHLBanks by type of financial institution is included on page 171. Each FHLBank operates as a separate entity within a defined geographic region of the country, known as its "district." Each financial institution that becomes a member of an FHLBank 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 affiliates, each of which may be a member of the same or a different FHLBank. Each FHLBank is privately-owned and has its own board of directors, management and employees. Membership is voluntary.

As a member-owned cooperative, each FHLBank conducts the majority of 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 market-rate transactions and all mortgage-backed securities are purchased through securities brokers or dealers. As a cooperative, the FHLBanks are managed with the primary objectives of enhancing the value of membership for member institutions and fulfilling their public purpose. The value of membership includes access to readily available credit and other services from the FHLBanks, the value of the cost differential between an FHLBank's advances and other potential sources of funds, and the dividends paid on members' investment in an FHLBank's capital stock.

In keeping with their cooperative philosophy, the FHLBanks price their advances at relatively small mark-ups over their cost of funds and generally return the majority of their net income to their members in the form of dividends. Accordingly, the FHLBanks' income and balance of retained earnings are relatively small relative to total assets and total liabilities.

The major source of revenue for the FHLBanks is interest income earned on advances, investments and mortgage loans held for portfolio. The major items of expense for the FHLBanks are interest paid on consolidated obligations and member deposits; Resolution Funding Corporation (REFCORP) and Affordable Housing Program (AHP) assessments; and employee salaries and benefits. A key driver of net interest income and net income is the return the FHLBanks receive on invested 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 non-member housing associates.

Congress created the FHLBanks in 1932 to improve the availability of funds to support home ownership. Although the FHLBanks were initially capitalized with government funds, their members have provided all the FHLBanks' capital for over 50 years.

Congress originally granted access to advances only to those institutions with the potential to make and hold long-term, amortizing home mortgage loans. Such institutions were primarily Federally- and state-chartered savings and loan associations, cooperative banks, and state-chartered savings banks (thrift institutions). As a result, FHLBanks and their member thrift institutions became an integral part of the home mortgage financing system in the United States. However, a variety of factors, including a severe recession, record-high interest rates, and 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 taxpayer of resolving failed thrift institutions, Congress restructured the home mortgage financing system in 1989 by passing the Financial Institutions Reform, Recovery and Enforcement Act. Congress reaffirmed the housing finance mission of the FHLBanks, and expanded membership eligibility in the FHLBanks to include commercial banks and credit unions with a commitment to housing finance.

Advances

The FHLBanks make loans, called "advances," to their members and eligible housing associates on the security of mortgages and other collateral pledged by the borrowing member or housing associate. Advances are the largest category of assets of the FHLBanks on a combined basis, representing 68.8 percent of total assets at December 31, 2008 and 2007. Advances generally are collateralized by mortgages held in member portfolios. Because portfolio lenders may originate loans that they are unwilling or unable to sell in the secondary mortgage market, FHLBank advances can serve as a funding source for a variety of conforming and nonconforming mortgages. FHLBank advances support important housing markets, including those focused on low- and moderate-income households. For those members that choose to sell or securitize their mortgages, FHLBank advances can provide interim funding.

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

- *Fixed-Rate Advances.* Fixed-rate advances have maturities ranging from one day to 30 years. The FHLBanks also offer convertible fixed-rate advances, which allow the FHLBanks to convert to open-line advances or other structures after an agreed upon lockout period. In addition, the FHLBanks offer putable fixed-rate advances, which allow FHLBanks to put or extinguish their fixed-rate advances and borrowers to enter into new advances. Maturities of convertible and putable fixed-rate advances generally range from one month to 15 years.

- *Variable-Rate Advances.* Variable-rate advances include advances with maturities less than 30 days to 10 years, where the interest rates reset periodically at a fixed spread to the London Interbank Offered Rate (LIBOR) or other specified standardized indices. Depending upon the advance selected, the member can have a cap on the interest rate or prepay the advance with or without a prepayment fee.

- *Fixed-Rate Amortizing Advances.* Fixed-rate amortizing advances have final maturities that range from one year to 30 years, with the principal repaid over the term of the advances with monthly, quarterly, semi-annual or annual amortization periods. Amortizing advances may be fully amortizing to the maturity date, or may have a balloon payment at maturity.

- *Variable- to Fixed-Rate Convertible Advances.* Variable- to fixed-rate convertible advances have maturities that range from two years to 10 years, with a defined lockout period during which the interest rates adjust based on a spread to LIBOR. At the end of the lockout period, these advances may convert to fixed-rate advances. The fixed rates on the converted advances are determined at origination.

- *Open-Line Advances.* Open-line advances are designed to provide flexible funding to meet borrowers' daily liquidity needs and can be drawn for one day. These advances are automatically renewed until the member pays down the advances. Interest rates are set daily.

Customized advances may include:

— advances with non-standard interest rate indices;

— advances with standardized interest rate indices that are averaged;

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

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

Pursuant to the FHLBank Act, the FHLBanks are permitted to make advances to non-members that are approved mortgagees under Title II of the National Housing Act (housing associates, 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 some governmental agency; and

— lend their own funds as their principal activity in the mortgage field.

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

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

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

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

From the establishment of the CIP in 1990 and the establishment of CICA in 1998, through 2007, the latest information available on the Regulator's web site, approximately $39.3 billion in FHLBank-supported lending for housing development has financed approximately 673 thousand housing units. In addition to housing developments, over $11.8 billion in FHLBank-supported community lending has helped finance thousands of local economic community development projects.

For 15 years, the AHP has provided significant resources for housing development across the 50 states and U.S. territories. The FHLBanks awarded AHP subsidies of $354 million in 2007, the latest information available on the Regulator's web site, for projects designed to provide over 47 thousand housing units. From the inception of the AHP in 1990 through 2007, the latest information available on the Regulator's web site, the FHLBanks have awarded approximately $3.3 billion in AHP subsidies to facilitate development of affordable housing projects designed to create over 623 thousand units for very low- to moderate-income families.

The FHLBanks are one of the largest sources of private funding for affordable housing in the nation. (See Note 14 to the accompanying combined financial statements.)

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

Investments

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

— overnight Federal funds;

— term Federal funds;

— interest-bearing certificates of deposits; and

— commercial paper.

The FHLBanks also enhance interest income by maintaining longer-term investment portfolios. These include mortgage-backed securities (MBS) issued by government-sponsored mortgage agencies and enterprises or those that carry the highest ratings from Moody's Investors Service, Inc. (Moody's) or Standard & Poor's Ratings Services (S&P) at the time of purchase, securities issued by U.S. government-sponsored agencies and instrumentalities, and securities issued by state or local housing finance agencies. The long-term investment portfolios provide the FHLBanks with higher returns than those available in the short-term money markets. Investments represented 22.7 percent of the FHLBanks' combined total assets at December 31, 2008 and 23.4 percent of the FHLBanks' combined total assets at December 31, 2007. In addition to the investments listed above, certain FHLBanks began investing in Temporary Liquidity Guarantee Program (TLGP) debt backed by the U.S. government.

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

Acquired Member Asset Programs—Mortgage Loans Held for Portfolio

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

The current MPF FHLBanks are the FHLBanks of Boston, Chicago, Des Moines, New York, Pittsburgh, and Topeka. The FHLBank of Chicago acts as "MPF Provider" and provides programmatic and operational support to the MPF FHLBanks and their PFIs. The current MPP FHLBanks are Atlanta,

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

Cincinnati and Indianapolis. Several FHLBanks have made changes to their mortgage loan program(s) for various reasons as follows:

- The FHLBank of Seattle, which previously offered the MPP to its members, is no longer accepting additional master commitments in the MPP, completed all of its delivery commitments in 2006 and is not purchasing additional mortgages. This change was part of the FHLBank of Seattle's 2005 three-year business and capital management plan submitted to its regulator in April 2005 to simplify the FHLBank of Seattle's business model, reduce interest-rate risk and improve the FHLBank of Seattle's profitability. In particular, the FHLBank of Seattle planned to focus more on its core advances lending business and develop an exit strategy for MPP.

- On October 6, 2006, the FHLBank of San Francisco announced that it would no longer offer new commitments to purchase mortgage loans from its members under the MPF Program. Most of the growth in the MPF Program for the FHLBank of San Francisco occurred in 2003, and after that time its purchased mortgage loan balances had declined. In particular, the FHLBank of San Francisco's mortgage loan purchase activity was low during 2005 and the first nine months of 2006 because (i) originations of conforming fixed rate mortgage loans were lower in these periods than in prior years, (ii) member business strategies led most participating members to sell their conforming fixed rate mortgage loans to other purchasers, and (iii) the FHLBank of San Francisco limited its purchases of fixed rate mortgage loans because the profit spreads available were below its targets. The last outstanding commitment of the FHLBank of San Francisco to purchase mortgage loans expired on February 14, 2007. The FHLBank of San Francisco plans to retain its existing portfolio of MPF loans, which eventually will be reduced to zero in accordance with the ordinary course of maturity of those assets.

- The FHLBank of Atlanta stopped accepting additional MPF master commitments as of February 4, 2008 and as of March 31, 2008 had ceased purchasing assets under the MPF Program. Early in the third quarter of 2008, the FHLBank of Atlanta suspended new acquisitions of mortgage loans under the MPP. The FHLBank of Atlanta plans to continue to support its existing portfolio of MPP and MPF loans.

- In 2007, the FHLBank of Chicago completed its obligations to purchase participation interests under pre-existing agreements with other FHLBanks and no longer enters into agreements to purchase participation interests in new master commitments with other FHLBanks. Effective August 1, 2008, the FHLBank of Chicago no longer accepts delivery commitments to acquire MPF loans as investments for its own balance sheet except for non-material amounts of MPF loans to support affordable housing that are guaranteed by the Rural Housing Service of the Department of Agriculture (RHS) or insured by the Department of Housing and Urban Development (HUD). MPF loans purchased from the FHLBank of Chicago's PFIs starting August 1, 2008 are primarily held for investments by other FHLBanks participating in the MPF Program and for Master Commitments entered into after October 23, 2008 concurrently sold to Federal National Mortgage Association (Fannie Mae). The other FHLBanks participating in the MPF Program continue to have the ability to purchase and fund loans through the MPF infrastructure. The FHLBank of Chicago made this change in an effort to reposition its balance sheet and enhance risk management practices in a volatile environment.

- On September 23, 2008, the FHLBank of Chicago announced the launch of the MPF Xtra product which provides its members with an additional mortgage sale alternative. Loans sold to the FHLBank of Chicago through the MPF Xtra product will concurrently be sold to Fannie Mae, as a third party investor, and will not be held on the FHLBank of Chicago's balance sheet. Unlike other MPF products, under the MPF Xtra product PFIs are not required to provide credit enhancement and do not receive credit enhancement fees. In the first quarter of 2009, each of the FHLBanks of Boston, Pittsburgh and Des Moines began offering the MPF Xtra product to its members.

- Since December 5, 2002, the FHLBank of Dallas and the FHLBank of Chicago were operating under an MPF Program investment and services agreement with respect to MPF loans, which provided that the FHLBank of Chicago acquired MPF loans directly from FHLBank of Dallas PFIs. The FHLBank of Chicago was obligated to pay to the FHLBank of Dallas a participation fee equal to a percentage of the dollar volume of MPF loans delivered by the FHLBank of Dallas' PFIs. On April 23, 2008, the FHLBank of Chicago announced that it would no longer enter into new master commitments or renew existing master commitments to acquire MPF loans after July 31, 2008. As a result, after July 31, 2008, the FHLBank of Dallas no longer receives participation fees from the FHLBank of Chicago.

MPF Loans and MPP Loans. Many members who originate mortgage loans choose to sell those loans into the secondary market rather than hold them in their own portfolios. Under the MPF Program and MPP, the FHLBanks principally invest in qualifying five-year to 30-year conventional conforming and government-guaranteed (mortgage loans insured or guaranteed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), RHS and/or HUD fixed-rate mortgage loans and participations in pools of such mortgage loans, secured by one-to-four family residential properties, by purchasing them from or funding them through participating members. Under the MPF Program, one or more MPF FHLBanks may acquire or participate in all or a portion of the acquired mortgage loans obtained from a PFI of another MPF FHLBank. Mortgage loans held for portfolio represented 6.5 percent of the FHLBanks' combined total assets at December 31, 2008 and 7.2 percent of the FHLBanks' combined total assets at December 31, 2007. At December 31, 2008, 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. No single zip code represented more than one percent of either MPF loans or MPP loans outstanding at December 31, 2008.

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

A more detailed discussion of the credit enhancement and risk-sharing arrangements and loan product information for the MPF Program and MPP is included under "Risk Management—Credit Risk—Managing Credit Risk—Mortgage Loans Held for Portfolio" below and in the "Supplemental Information" section.

MPF Product Information/MPP Product Information. 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. The MPP operates with a single structure but also includes FHA-insured mortgage loans.

PRODUCT COMPARISON CHART
MPF PROGRAM AND MPP*

Product Name	FHLBank First Loss Account Size	PFI Credit Enhancement Description	Average Credit Enhancement Amount	Credit Enhancement Fee to PFI (1)	Credit Enhancement Fee Offset (2)	Servicing Fee to PFI
Original MPF	3 to 6 basis points/added each year based on the unpaid balance	Equivalent to "AA"	1.76%	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	After First Loss Account to "AA"	1.52%	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	After First Loss Account to "AA"	1.91%	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 First Loss Account and Supplemental Mortgage Insurance (SMI) to "AA"	1.70%	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 (3)	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 (4)	N/A	N/A	N/A	N/A	N/A	25 basis points/year
MPP	30 to 50 basis points based on pool risk factors and expected losses	After First Loss Account to "AA" using SMI	N/A	N/A	N/A	25 basis points/year
MPP FHA	N/A	Unreimbursed servicing expenses	N/A	N/A	N/A	44 basis points/year

* Current as of December 31, 2008

(1) For the FHLBank of Des Moines, the credit enhancement 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 3 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

(2) Future payouts of performance-based credit enhancement fees are reduced when losses are allocated to the First Loss Account.

(3) 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 percent (2 basis points) per annum based on the month-end outstanding aggregate principal balance of the master commitment, which is in addition to the customary 0.44 percent (44 basis points) per annum 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.

(4) MPF loans acquired by the FHLBank of Chicago under the MPF Xtra product are concurrently sold to Fannie Mae and are not held in the FHLBank of Chicago's retained portfolio.

MPF Shared Funding Program. The MPF Shared Funding Program, which is administered by an unrelated third party, allows mortgage loans originated through the MPF Program to be sold to a third party-sponsored trust and "pooled" into securities. The FHLBank of Chicago purchased MPF Shared Funding securities in two transactions in 2003 and sold a portion of the MPF Shared Funding securities to two other FHLBanks at the original transaction closing. The investments are classified as held-to-maturity securities and are reported at amortized cost of $398 million and $439 million at December 31, 2008 and 2007. These securities, which are rated no lower than AA, are not publicly traded and are not guaranteed by any of the FHLBanks.

Debt Financing—Consolidated Obligations

Consolidated obligations, consisting of bonds and discount notes, are the principal funding source for the FHLBanks and are the joint and several obligations of the 12 FHLBanks. Consolidated obligations represent the primary source of liabilities used by the FHLBanks to fund advances, investments and the mortgage programs. 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.

Consolidated obligations represented an amount equal to 93.3 percent of the FHLBanks' combined total assets at December 31, 2008 and 92.7 percent of the FHLBanks' combined total assets at December 31, 2007. The capital markets have traditionally considered the FHLBanks' 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 sale of consolidated obligations, using a variety of debt structures and maturities, allows the FHLBanks to manage their balance sheets effectively and efficiently.

Consolidated obligations are currently rated Aaa/P-1 by Moody's and AAA/ A-1+ by S&P. These are the highest ratings available for such debt from a Nationally Recognized Statistical Rating Organization (NRSRO). These ratings indicate that the FHLBanks have an extremely strong capacity to meet their commitments to pay principal of and interest on consolidated obligations and that the consolidated obligations are judged to be of the highest quality with minimal credit risk. The ratings on the FHLBanks' consolidated obligations also reflect the FHLBank System's status as a GSE. These ratings have not been affected by rating actions taken with respect to individual FHLBanks. Investors should note that a rating issued by an NRSRO is not a recommendation to buy, sell or hold securities and that the ratings may be revised or withdrawn by the NRSRO at any time. Investors should evaluate the rating of each NRSRO independently.

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

— LIBOR;

— the Treasury Bills (T-Bills);

— the Constant Maturity Treasury (CMT);

— Federal funds rate; and

— the Prime rate.

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

Although each FHLBank is primarily liable for the portion of consolidated obligations (COs) corresponding to the proceeds received by that FHLBank, each FHLBank is also jointly and severally liable with the other 11 FHLBanks for the payment of principal of and interest on all COs. Under Finance Agency regulations, if the principal of or interest on any CO issued on behalf of one of the FHLBanks is not paid in full when due, the FHLBank responsible for the payment may not pay dividends to, or redeem or repurchase shares of capital stock from, any member of that FHLBank. The Finance Agency, in its sole discretion, may require any FHLBank to make principal or interest payments due on any COs, whether or not the primary obligor FHLBank has defaulted on the payment of that obligation.

To the extent that an FHLBank makes any payment on a CO on behalf of another FHLBank, the paying FHLBank shall be entitled to reimbursement from the FHLBank otherwise responsible for the payment. However, if the Finance Agency determines that an FHLBank is unable to satisfy its obligations, then the Finance Agency may allocate the outstanding liability among the remaining FHLBanks on a pro-rata basis in proportion to each FHLBank's participation in all COs outstanding, or on any other basis that the Finance Agency may determine.

The Regulator has never required an FHLBank to repay obligations in excess of its participation nor has it allocated to any FHLBank any outstanding liability on any other FHLBank's COs.

Finance Agency 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 an NRSRO that is equivalent or higher than the rating or assessment assigned by that NRSRO to consolidated obligations.

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. 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, 2008, 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 discount notes on behalf of the requesting FHLBanks when dealers submit orders for the specific 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. If all terms of the request are the same except for the time of the request, then the FHLBank may receive from zero to 100 percent of the proceeds of the sale of the discount notes issued depending on the time of the request, the maximum costs the FHLBank or other

FHLBanks, if any, participating in the same issuance of discount notes are willing to pay for the discount notes, and the amount of orders for the discount notes submitted by dealers.

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

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

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

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

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

The FHLBanks also issue global consolidated bonds. Effective in January 2009, a debt issuance process was implemented by the FHLBanks and the Office of Finance to provide a scheduled monthly issuance of global bullet consolidated bonds. As part of this process, management from each of the FHLBanks will determine and communicate a firm commitment to the Office of Finance for an amount of scheduled global 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 capital to total capital of all of the FHLBanks. If the FHLBanks' commitments exceed the minimum debt issue size, then the proceeds are allocated based on relative capital of the FHLBanks with the allocation limited to the lesser of the allocation amount or actual commitment amount. The Finance Agency and the U.S. Secretary of the Treasury have oversight over the issuance of FHLBank debt through the Office of Finance. The FHLBanks can, however, pass on any scheduled calendar slot and decline to issue any global bullet consolidated bonds upon agreement of 8 of the 12 FHLBanks.

Debt Financing—Subordinated Notes

Under Section 11(a) of the FHLBank Act, no FHLBank is permitted to issue individual debt unless it has received approval from the Regulator. As approved by the Finance Board, on June 13, 2006, the FHLBank of Chicago issued $1.0 billion of 10-year subordinated notes. These subordinated notes are the sole obligation of the FHLBank of Chicago and are not consolidated obligations. No other FHLBank has subordinated notes outstanding.

Deposits

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

— its members;

— any institution for which it is providing correspondent services;

— other FHLBanks; or

— other U.S. government instrumentalities.

Deposit programs, 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 1.1 percent of the FHLBanks' combined total assets at December 31, 2008 and 1.6 percent of the FHLBanks' combined total assets at December 31, 2007.

Capital, Capital Rules and Dividends

The capital stock and retained earnings of the FHLBanks are also a source of funding. At December 31, 2008, approximately 3.89 percent of the combined total assets of the FHLBanks were funded by GAAP capital stock and retained earnings. Total capital under GAAP, which also includes accumulated other comprehensive income, represented an amount equal to 3.81 percent of the combined total assets of the FHLBanks at December 31, 2008.

Post-Gramm-Leach-Bliley Act (GLB Act) Capital Structure. In January 2001, the Finance Board published a final rule implementing a new capital structure for the FHLBanks, as required by the GLB Act. The Finance Board's final rule implementing a new capital structure for the FHLBanks had the following effects:

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

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

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

As of July 18, 2002, the Finance Board had approved a capital structure plan for each FHLBank. The capital rule provides a transition period that grants each FHLBank up to three years from the effective date of its capital plan to comply with its new capital structure. All FHLBanks, except for the FHLBank of Chicago as further discussed below, implemented its respective new capital plan prior to 2008 and were in compliance with its respective capital plan as of the effective date of its plan. (See "Business—Oversight, Audits and Examinations" and Note 17 to the accompanying combined financial statements.)

Pre-GLB Act Capital Structure. At December 31, 2008, only the FHLBank of Chicago had not yet implemented a new capital plan. While under a Written Agreement with the Finance Board, the FHLBank of Chicago delayed implementation of a new capital plan until a time mutually agreed upon with the Finance Board. At the request of the Finance Board, on October 10, 2007, the FHLBank of Chicago entered into a Consent Cease and Desist Order (C&D Order) with the Finance Board, which concurrently terminated the prior Written Agreement. The C&D Order required the FHLBank of Chicago to submit a capital plan consistent with the GLB Act to the Finance Board within 120 days of its effective date, along with strategies for implementing the plan. On February 6, 2008, the FHLBank of Chicago submitted to the Finance Board a capital plan and implementation strategies to provide for the conversion of the FHLBank of Chicago's capital stock under the GLB Act. (See "Business—Oversight, Audits and Examinations—Regulatory Developments at the FHLBank of Chicago" for a further description of the requirements under the C&D Order.)

Until the FHLBank of Chicago implements its new capital plan, the pre-GLB Act capital rules remain in effect. In particular, the pre-GLB Act rules require members to purchase capital stock equal to the greater of $500, one percent of its mortgage-related assets or five percent of its outstanding FHLBank advances.

A member could, at the discretion of the FHLBank of Chicago, redeem at par value any capital stock greater than its statutory requirement or sell this capital stock to other members of the FHLBank of Chicago. In addition, capital stock outstanding under the pre-GLB Act rules is redeemable at the option of a member upon six-months' written notice of withdrawal from membership from the FHLBank of Chicago, provided that the FHLBank of Chicago is in compliance with its regulatory capital requirements and the Director of the Office of Supervision of the Finance Board or the Deputy Director of the Finance Agency as the new regulator (OS Director) has approved the redemption, as further discussed in "Business—Oversight, Audits and Examinations—Regulatory Developments at the FHLBank of Chicago". After entering into the C&D Order with the Finance Board on October 10, 2007, the FHLBank of Chicago's capital stock repurchases and redemptions, including redemptions upon membership withdrawal or other termination, require prior approval of the OS Director. See "FHLBank of Chicago Regulatory Actions" in Note 17 to the accompanying combined financial statements about denials of such requests for approval during 2008. On July 24, 2008, the Finance Board amended the C&D Order to allow the FHLBank of Chicago to repurchase or redeem capital stock from members in connection with the repayment of advances that required new incremental purchases of capital stock to support increased borrowings through advances, subject to the conditions discussed in "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Legislative and Regulatory Developments—FHLBank of Chicago Consent Cease and Desist Order (C&D Order)."

Effective July 1, 2000, until the FHLBank of Chicago has implemented its new capital plan subject to any applicable transition provision, its leverage limit is based on a ratio of assets to capital, pursuant to a final rule issued by the Finance Board. Effective January 1, 2004, capital for the leverage ratio calculation is based on capital as determined under GAAP plus mandatorily redeemable capital stock. Under Finance Agency regulations, the FHLBank of Chicago is currently 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 percent of such 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 Finance Agency. 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 percent of the FHLBank of Chicago's total assets. This 4 percent leverage limit is currently superseded by the 4.5 percent leverage ratio required by the C&D Order. If the FHLBank of Chicago is unable to meet the foregoing requirement based on its asset composition, it would still be able to remain in compliance with the leverage requirement so long as its total assets did not exceed 21 times total regulatory capital stock, retained earnings and reserves (that is, the FHLBank of Chicago's total regulatory capital stock, retained earnings and reserves must be at least 4.76 percent of its total assets). At December 31, 2008, the FHLBank of Chicago's non-mortgage assets were below 11 percent on an average monthly basis, so it was subject to the 4.5 percent leverage ratio. The FHLBank of Chicago had an actual leverage ratio of 4.7 percent and 4.9 percent at December 31, 2008 and 2007. In connection with the FHLBank of Chicago's issuance of subordinated notes, the Finance Board granted approvals and waivers to allow it to include a percentage of the outstanding principal amount of the subordinated notes (Designated Amount) in determining compliance with its regulatory capital and minimum regulatory ratio requirements. Under the C&D Order, the FHLBank of Chicago is also required to maintain an aggregate amount of regulatory capital stock plus a Designated Amount of subordinated notes of at least $3.6 billion. At December 31, 2008, the FHLBank of Chicago had an aggregate amount of $3.787 billion of regulatory capital stock plus the Designated Amount of subordinated notes. (See Notes 16 and 17 to the accompanying combined financial statements.)

Capital Adequacy and Structure under the GLB Act. The GLB Act permits each FHLBank to issue one or more of two classes of stock, each with sub-classes. Class A stock is redeemable on six months' written notice from a member and Class B stock is redeemable on five years' written notice from a member. Each class of stock is subject to certain conditions and limitations that may limit the ability of an FHLBank to effect these redemptions. Under the GLB Act, membership in an FHLBank became voluntary for all members. If a member withdraws its membership from an FHLBank, it may not acquire shares of any FHLBank for five years after the date on which its divestiture of capital stock is completed. This restriction does not apply if the member is transferring its membership from one FHLBank to another FHLBank on an uninterrupted basis. (See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Capital Adequacy.")

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. Under the GLB Act and the final rule implementing it, "total capital" for regulatory capital adequacy purposes for each FHLBank operating under a new capital plan is defined as the sum of the FHLBank's permanent capital; *plus*

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

— any general loss allowance, if consistent with GAAP and not established for specific assets; and

— other amounts from sources determined by the Regulator as available to absorb losses.

Under the GLB Act and the implementing final rule, an FHLBank is subject to risk-based capital rules under its new capital structure plan once the plan is fully implemented. Under Finance Agency regulations, only permanent capital (as previously defined) can satisfy the risk-based capital requirement. In addition, the GLB Act specifies a five percent minimum leverage ratio based on total capital, which includes a 1.5 weighting factor applicable to permanent capital, and a four percent minimum total capital ratio that does not include the 1.5 weighting factor applicable to permanent capital. An FHLBank may not redeem or repurchase any of its capital stock without the Regulator's approval if the Regulator or that FHLBank's board of directors determines that the FHLBank has incurred or is likely to incur losses that result in or are likely to result in charges against the capital of that FHLBank. This applies even if that FHLBank is in compliance with its minimum capital requirements. As a result, whether or not a member may 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) at any given time will depend on whether the FHLBank is in compliance with its three regulatory capital requirements (leverage ratio, total capital ratio and risk-based capital). In addition, some boards of directors and/or management teams of FHLBanks have agreed with the Regulator either to maintain higher total capital-to-assets ratios or limit dividend payments as part of their retained earnings policies.

For purposes of compliance with the regulatory minimum total capital ratio and leverage ratio, capital includes all of the FHLBank members' capital stock and retained earnings, and allowance for losses and any other amount from sources available to absorb losses that the Regulator has determined by regulation to be appropriate to include in determining total capital.

All FHLBanks that were subject to these capital requirements at December 31, 2008, except for the FHLBank of Seattle, were in compliance at that date. At that date, the FHLBank of Seattle met its total capital ratio and leverage ratio requirements, but did not meet its risk-based capital requirements. The FHLBank of Seattle reported an unrealized market value loss of $2.1 billion and a risk-based capital deficiency at December 31, 2008. A subsequent increase in market values of the FHLBank of Seattle's private-label mortgage-backed securities corrected its risk-based capital deficiency at January 31, 2008, and consequently, in February 2009, the FHLBank of Seattle redeemed Class B capital stock of a former member following the five-year redemption period. Due to an increase in the credit-risk component as a result of rating agency downgrades on a number of the FHLBank of Seattle's private-label mortgage-backed securities, the FHLBank of Seattle again had a risk-based capital deficiency at February 28, 2009 but still met its total capital ratio and leverage ratio requirements at that date. (See Note 17 to the accompanying combined financial statements.)

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

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

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

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

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

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

The operational risk component of the risk-based capital requirement of an FHLBank is equal to 30 percent of the sum of its credit risk and market risk components of the risk-based capital requirement. The Regulator can approve a reduction in this percentage. 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.

On January 27, 2009, the Finance Agency released an interim final rule, effective January 30, 2009, that, among other things, established criteria for capital classifications and critical capital levels for the FHLBanks. The interim final rule requires the Director of the Finance Agency to determine the capital classification of each FHLBank no less often than once every quarter. The rule makes clear, however, that the Director of the Finance Agency may make such a determination more often than once a quarter and that the Director of the Finance Agency can make a determination at any time for one or more FHLBanks without making a determination for all FHLBanks. The rule also requires an FHLBank to provide written notification to the Finance Agency within ten calendar days of any event that causes its permanent or total capital to fall below the level necessary to maintain its assigned capital classification.

The interim final rule sets forth the criteria for classifying the FHLBanks as adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized as follows:

- *Adequately capitalized.* An FHLBank is adequately capitalized only if it holds sufficient capital to meet both its risk-based and minimum capital requirements.

- *Undercapitalized.* An FHLBank is undercapitalized if it fails to meet any one of its minimum or risk-based capital requirements, but such deficiency is not large enough to classify the FHLBank as significantly undercapitalized or critically undercapitalized.

- *Significantly undercapitalized.* An FHLBank is significantly undercapitalized if the amount of capital held by the FHLBank is less than 75 percent of the capital levels needed for the FHLBank to meet either its risk-based or minimum capital requirements.

- *Critically undercapitalized.* An FHLBank would be considered critically undercapitalized whenever its total capital is two percent or less of its total assets.

The interim final rule established the prompt corrective actions enforcement mechanisms applicable to an FHLBank that is not adequately capitalized. The regulation requires an undercapitalized FHLBank to submit a capital restoration plan that meets with the approval of the Director of the Finance Agency within 10 calendar days following notice from the Finance Agency, and carry out all commitments made in that plan. The regulation also restricts an undercapitalized FHLBank's quarterly asset growth and its ability to engage in any new business activity or acquire any entity. The interim final rule also prohibits an undercapitalized FHLBank from making any capital distribution that would cause it to become significantly or critically undercapitalized, as well as prohibits that FHLBank from making any capital distribution that would violate any additional restrictions related to the payment of dividends or the repurchase or redemption of stock.

The Director of the Finance Agency can reclassify an FHLBank upon a written determination that the FHLBank is engaging in conduct that could result in a rapid depletion of its capital, or that the value of collateral pledged to the FHLBank or the value of property subject to mortgages owned by the FHLBank has decreased significantly. The Director of the Finance Agency can also reclassify an FHLBank if the Director of the Finance Agency determines that the FHLBank is in an unsafe and unsound condition. The interim final rule also prohibits an adequately capitalized FHLBank from making a capital distribution if, after doing so, the FHLBank would be undercapitalized. (See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Legislative and Regulatory Developments—Interim Final Rule Regarding Capital Classifications and Critical Capital Levels for the FHLBanks")

Description of FHLBanks' Capital Plan Structures Implemented Through 2008.

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

FHLBank	Description
Boston	The FHLBank of Boston requires member institutions to maintain stock based on a percentage of the member's Membership Stock Investment Base and on a percentage of advances, standby letters of credit, intermediated derivative contracts, acquired member assets and certain commitments outstanding with the FHLBank.
San Francisco	The FHLBank of San Francisco requires member institutions to maintain stock based on the greater of a percentage of the member's membership asset value or a percentage of advances outstanding plus a percentage of any portion of mortgage loans purchased and held by the FHLBank.
Dallas	The FHLBank of Dallas requires member institutions to maintain stock based on a percentage of the member's total assets and on a percentage of advances and acquired member assets outstanding with the FHLBank.
Des Moines	The FHLBank of Des Moines requires member institutions to maintain stock based on a percentage of the member's total assets and on a percentage of advances, acquired member assets, and standby letters of credit with the FHLBank.
Cincinnati	The FHLBank of Cincinnati requires institutions to maintain membership stock based on a percentage of the member's total assets. A member may be required to purchase and hold activity stock to capitalize its Mission Asset Activity. A member may not use the same stock for both membership and activity purposes. For purposes of the Capital Plan, Mission Asset Activity includes the principal balance of advances, guaranteed funds and rate advance commitments, and for the Mortgage Purchase Program, the principal balance of purchased loans and commitments that occurred after implementation of the Capital Plan.
Pittsburgh	The FHLBank of Pittsburgh requires member institutions to maintain stock based on a percentage of their outstanding FHLBank borrowings, a percentage of their unused borrowing capacity with the FHLBank and a specified percentage of the principal balance of residential mortgage loans previously sold to the FHLBank and still held by the FHLBank.

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

FHLBank	Description
New York	On December 12, 2007, the Finance Board approved amendments to the FHLBank of New York's capital plan. The amendments would allow the FHLBank of New York to recalculate the membership stock purchase requirement any time after 30 days subsequent to the merger of a member with a non-member. The amendments also would expressly permit the FHLBank of New York to use a zero mortgage asset base in performing the calculation, which recognizes the fact that the corporate entity that was once its member no longer exists. As a result of these amendments, the FHLBank of New York could determine that all of the membership stock formerly held by the member becomes excess stock, which would give the FHLBank of New York the discretion, but not the obligation, to repurchase that stock prior to the expiration of the five-year notice period. Class B1 stock is issued to meet membership stock purchase requirements. Class B2 stock is issued to meet activity-based requirements. The FHLBank of New York requires member institutions to maintain Class B1 stock based on a percentage of the member's mortgage-related assets and Class B2 stock-based on a percentage of advances and acquired member assets outstanding with the FHLBank and certain commitments outstanding with the FHLBank. Class B1 and Class B2 stockholders have the same voting rights and dividend rates.
Atlanta	Class B1 stock is issued to meet membership stock purchase requirements. The FHLBank of Atlanta requires member institutions to maintain stock based on a percentage of the member's total assets. Each member is required to maintain a minimum investment in Class B2 shares to meet its activity-based stock requirement. A member's activity-based requirement is based on a percentage of outstanding advances, acquired member assets and any targeted debt/equity investment sold by the member to the FHLBank. Class B1 and Class B2 stockholders have the same voting rights and dividend rates.
Indianapolis	Class B1 stock is issued to meet membership and activity stock purchase requirements. The FHLBank of Indianapolis requires member institutions to maintain stock based on a percentage of the member's total assets and on a percentage of advances and acquired member assets outstanding with the FHLBank. Class B1 stock is converted into shares of Class B2 stock in the event that a member withdraws from membership; a member is the non-surviving entity in a merger; if a financial institution's membership is terminated involuntarily or as a result of a relocation; or if the stock becomes subject to a redemption request by a member; while the stock is needed to meet the member's stock requirement. Class B1 and Class B2 stockholders have the same voting rights. The only difference between the Class B1 stock and Class B2 stock is that the dividend rate for the Class B2 stock is lower than the dividend rate for the Class B1 stock.

The FHLBank of Topeka offers a single series of Class A capital stock and a single series of Class B capital stock. Upon six months' written notice, a member can elect to have the FHLBank redeem its Class A capital stock, subject to certain conditions and limitations. Upon five years' written notice, a member can elect to have the FHLBank redeem its Class B capital stock, subject to certain conditions and limitations. The FHLBank of Topeka can repurchase any excess capital stock at its discretion at any time prior to the end of the redemption period, provided that it will continue to meet its regulatory capital requirements after the repurchase.

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

On February 20, 2008, the Finance Board approved the change to FHLBank of Seattle's capital plan to allow the transfer of excess stock between unaffiliated members pursuant to the requirements of the capital plan and increased the range within which its board of directors can set the member advance stock purchase requirement between 2.50 percent and 6.00 percent of a member's outstanding principal balance of advances. The additional ability to transfer excess stock between unaffiliated members was designed to provide flexibility to members with excess stock, given the existing restrictions on repurchases of Class B stock.

Prior to October 2006, the FHLBank of Seattle offered two sub-classes of Class B capital stock, Class B1 and Class B2. Upon five years' written notice, a member could elect to have the FHLBank redeem its capital stock, subject to certain conditions and limitations. The FHLBank of Seattle could repurchase excess stock of both sub-classes at its discretion at any time prior to the end of the redemption period, provided that it continued to meet its regulatory capital requirements after the repurchase. However, in May 2005, the board of directors of the FHLBank of Seattle adopted a resolution prohibiting the repurchase of stock prior to the end of five-year redemption period unless the prior approval of the OS Director was obtained.

FHLBank	Description
Seattle	In October 2006, the Finance Board approved a number of changes to the FHLBank of Seattle's capital plan including the consolidation of Class B1 and Class B2 stock into a single Class B stock and the creation of a new Class A stock with a six-month redemption period. The dividend rate that may be declared on Class A stock can differ from the dividend rate declared on Class B stock. Class A and B stockholders have the same voting rights. Another feature of the FHLBank of Seattle's updated capital plan was the use of an excess stock pool through October 1, 2008. Members that have fully utilized all of their existing capital stock are able to obtain advances with maturities up to one year without purchasing additional FHLBank of Seattle stock, subject to certain restrictions. On December 31, 2007, the FHLBank of Seattle suspended access to the excess stock pool due to a number of factors, including a substantial decline in the overall amount of excess stock, favorable member response to the use of Class A stock to capitalize advances growth, and the need to insure that the FHLBank of Seattle had sufficient available funds to meet potential additional demand for advances. The excess stock pool expired on October 1, 2008, and the FHLBank of Seattle has not request a reinstatement of the excess stock pool. During 2005 and 2006, Class B1 stock was issued to meet membership and activity stock purchase requirements. The FHLBank of Seattle required member institutions to maintain stock based on a percentage of a member's home mortgage loans and on a percentage of any outstanding balances of advances and acquired member assets with the FHLBank. Excess Class B1 stock above the lesser of $50 million or the total stock purchase requirement converted to Class B2 stock. Class B1 and Class B2 stockholders had the same voting rights. Dividends on Class B1 stock could not exceed the sum of (1) the FHLBank's earnings for that quarter plus (2) net earnings previously retained, less (3) the amount of any dividends that the FHLBank's Board of Directors declares on Class B2 stock. Dividends on Class B2 stock could be declared only at a rate equal to the lower of (A) the Class B1 stock dividend or (B) 73.47 percent times the sum of the daily average of three-month LIBOR during the quarter minus 0.25 percent. Any dividends declared had to be paid equally to the Class B1 and Class B2 stock, up to the maximum dividends permitted on the Class B2 stock, after which dividends could be paid solely to the Class B1 stockholders.

Mandatorily redeemable capital stock. In accordance with SFAS 150, an FHLBank reclassifies stock subject to redemption from equity to liability at fair value. The fair value of capital subject to mandatory redemption is generally at par value as indicated by member contemporaneous purchases and sales at par value. Fair value also includes estimated dividend earned at the time of reclassification from equity to liabilities, until such amount is paid, and any subsequently declared stock dividend. The fair value of an FHLBank's stock for SFAS 150 measurement purposes has been the par value because FHLBank stock can only be acquired by members (or transferred between members) at par value and redeemed at par value as mandated by each FHLBank's capital plan, subject to statutory and regulatory requirements. FHLBank stock is not traded and no market mechanism exits for the exchange of stock outside the cooperative structure.

Redemptions of Capital Stock Not Reclassified as Mandatorily Redeemable Capital Stock. At December 31, 2008 and 2007, certain members and former members 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 because the requesting member may revoke its request, without substantive penalty, throughout the five-year waiting period, based on each FHLBank's capital plan.

	December 31, 2008		December 31, 2007	
	Number of Shareholders	Amount	Number of Shareholders	Amount
(Dollar amounts in millions)				
FHLBank of Indianapolis	7	$ 40	7	$ 56
FHLBank of Seattle	46	195	46	206
Total	53	$235	53	$262

Dividends and Retained Earnings. The board of directors of each FHLBank may declare and pay dividends in either cash or capital stock. The Finance Board issued a final rule that became effective on January 29, 2007, which prohibits an FHLBank from issuing additional excess stock, including through the issuance of stock dividends, if the amount of excess stock exceeds one percent of the FHLBank's total assets. Excess stock is defined by the Regulator in the final rule as any FHLBank stock owned by a member or other institution in excess of that member's or other institution's minimum investment in capital stock required under the FHLBank Act, Finance Agency regulations, or the FHLBank's capital plan. Also included in this final rule is a provision permitting the FHLBanks to declare and pay dividends only from previously retained earnings or current net earnings. The regulation also prohibits an FHLBank from declaring or paying a dividend if the par value of the FHLBank's stock is impaired or is projected to become impaired after payment of the dividend.

As a result of a resolution passed by the FHLBank of Seattle's board of directors in December 2006, the FHLBank of Seattle was limited to paying dividends no greater than 50 percent of its calendar year-to-date earnings until, among other things, its retained earnings target had been met and the Finance Agency had removed the dividend restrictions imposed by the Written Agreement. In April 2008, the Finance Board notified the FHLBank of Seattle of its decision to raise the ceiling on FHLBank of Seattle's permissible dividend payments from 50 percent to 75 percent of year-to-date net income calculated in accordance with GAAP. In November 2008, the FHLBank of Seattle announced that, due to other-than-temporary impairment (OTTI) charges recorded to the Statement of Income for the third quarter of 2008, it would not be paying a fourth quarter 2008 dividend. Because of the instability in the mortgage-backed securities market and its effect on the FHLBank of Seattle's risk-based capital, the FHLBank of Seattle cannot predict when it will resume dividend payments.

Dividends declared by the board of directors of the FHLBank of Chicago are subject to the prior written approval of the OS Director. The FHLBank of Chicago did not pay any dividends in 2008. The board of directors of each FHLBank has adopted a retained earnings policy that includes a target amount of retained earnings as well as a plan that will enable the FHLBank to reach the target amount of retained earnings. Although the FHLBank of Chicago currently has a retained earnings policy in effect, the policy has been effectively superseded by its regulatory requirements. See "Regulatory Developments at the FHLBank of Chicago" for a description of the restrictions on the FHLBank of Chicago's dividends and repurchases and redemptions of capital stock.

As a capital preservation measure and to reflect a conservative financial management approach during the period of severe market volatility and due to OTTI exposure on private-label mortgage-backed securities and home equity loan investments for certain FHLBanks, a number of FHLBanks implemented actions related to suspensions of dividend payments and/or repurchases of excess capital stock in 2008 and/or subsequent to year-end:

- the FHLBank of Atlanta announced dividend guidance for the fourth quarter of 2008 that was lower than dividends paid in previous quarters;
- the FHLBank of Boston suspended the practice of repurchasing excess capital stock and announced that dividend payments for 2009 are unlikely;
- the FHLBank of Des Moines suspended the practice of repurchasing excess capital stock;
- the FHLBanks of Pittsburgh and Seattle suspended the practice of repurchasing excess capital stock and suspended dividend payments; and
- the FHLBank of San Francisco announced that it would not pay a dividend for the fourth quarter of 2008 and for the first quarter of 2009, and would not repurchase excess capital stock on its next regularly scheduled repurchase date.

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. Set forth below are 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 U.S. 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.

- 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 through which members may borrow advances, for households with incomes at or below 115 percent of the area median income (AMI), at an FHLBank's cost of funds, plus reasonable administrative costs, or may obtain triple-A-rated letters of credit from the FHLBanks.

Funds from both of these programs can be used for the purchase, construction or rehabilitation of owner-occupied or rental housing.

The AHP subsidizes the cost of owner-occupied housing for individuals and families with incomes at or below 80 percent of the AMI; and rental housing in which at least 20 percent of the units are reserved for households with incomes at or below 50 percent of AMI. 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 prescriptively score successfully in order to obtain funding under the AHP competitive application program. AHP funds are also awarded through the homeownership set-aside program. Under this program, an FHLBank may set aside up to the greater of $4.5 million or 35 percent of its AHP funds each year to assist low- and moderate-income households purchase homes, provided that at least one-third of the FHLBank's set-aside allocation is made available to assist first-time homebuyers. Members obtain the AHP set-aside funds from the FHLBank and then use them 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.

Economic Community Development Programs. In addition to housing, the CIP can be used for economic development in low- to-moderate income neighborhoods. The FHLBanks also offer long-term advances, often at below-market interest rates, through other 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 projects, 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. These are:

- *Rural Development Funding:* Projects in rural areas for beneficiaries with incomes at or below 115 percent of the AMI; and
- *Urban Development Funding Program:* Projects in urban areas for targeted beneficiaries with incomes at or below 100 percent of the AMI.

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, in which its program objectives for economic development are described. Approved "housing associates" (non-member lenders such as state housing finance agencies and tribal housing authorities) 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. Members are required to meet standards of community support activities, which they document by submitting a Community Support Statement to the Regulator approximately every two years to retain access to long-term credit from an FHLBank. The standards take into account each member's performance under the Community Reinvestment Act of 1977, and the member's record of lending to first-time homebuyers.

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 strategy. As such, the effect of these derivative instruments permeates each FHLBank's financial statements. At December 31, 2008, the combined notional amount of interest-rate exchange agreements held by the FHLBanks was $1.089 trillion. The FHLBanks play a critical role in the continuous flow of funds to the residential mortgage market by providing advances to their members. An FHLBank must have a ready supply of funds on hand at all times to meet member advance demand. The FHLBanks raise funds through the issuance of consolidated obligations in the capital markets. It is not possible for an FHLBank to consistently issue debt simultaneously with the issuance of an advance in the same amount and with the same terms as the advance, or to predict what types of advances members might need or what types of consolidated obligations investors might be willing to buy. Therefore, in order to intermediate the mismatches between advances and consolidated obligations, both with a wide range of terms, the FHLBanks typically convert both assets and liabilities to a variable-rate index such as LIBOR, and manage the interest spread between the pools of variable-rate assets and liabilities. This process of aligning the timing, structure, and amount of an FHLBank member's credit needs with the investment requirements of an FHLBank's creditors is made possible by the extensive use of interest-rate exchange agreements.

Each FHLBank's risk management policy establishes guidelines for its use of interest-rate exchange agreements. The FHLBanks can use the following instruments to manage their exposure to interest rate risks inherent in their normal course of business — lending, investment, and funding activities and to reduce funding costs:

— interest-rate swaps;

— swaptions;

— interest-rate cap and floor agreements;

— calls;

— puts; and

— futures and forward contracts.

Finance Agency 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 FHLBanks may only use derivatives to reduce funding costs for consolidated obligations and to manage their interest-rate risk, mortgage prepayment risk and foreign currency risk positions. For example, the FHLBanks use interest-rate exchange agreements in their overall interest-rate risk management to effectively adjust the interest-rate sensitivity of consolidated obligations to match more closely the interest-rate sensitivity of assets (i.e., advances, investments and mortgage loans.) Derivatives are also used to effectively adjust the interest-rate sensitivity of assets to match more closely the interest-rate of liabilities.

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

- reduce the interest-rate sensitivity and repricing gaps of assets, liabilities, and interest-rate exchange agreements;
- reduce funding costs by combining a derivative with a consolidated obligation as the cost of a combined funding structure can be lower than the cost of a comparable consolidated bond;
- 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
- as part of its overall asset/liability management.

The FHLBanks make extensive use of derivatives, executed in conjunction with specific consolidated obligation debt issuances, to reconfigure synthetically-created funding terms and costs as a primary way to reconcile the demand of its members for various kinds of advances (generally shorter-term or adjustable-rate advances) and the preferences of the capital market investors for the kinds of consolidated obligations in which they seek to invest (generally long-term, fixed-rate debt). For example, if an FHLBank member needs a variable-rate advance and investors desire a fixed-rate consolidated obligation, the FHLBank will provide the requested advance to the member and issue consolidated obligation debt to the investors, and, to protect its position against changes in interest rates, will enter into an interest-rate exchange agreement to convert the consolidated obligation's fixed rate to the same variable-rate index of the advance being funded by the consolidated obligation.

An FHLBank may also use derivatives to reduce funding costs. In a typical transaction, upon issuance of a fixed-rate consolidated obligation, the FHLBank simultaneously enters into a matching interest-rate exchange agreement in which the counterparty pays the FHLBank fixed cash flows designed to mirror the timing, optionality, and amount of the cash outflows paid by the FHLBank on the consolidated obligation. In this typical transaction, the FHLBank pays a variable cash flow that closely matches the interest payments the FHLBank receives on short-term or variable-rate assets, such as a variable-rate advance. This allows the FHLBank to create synthetic variable-rate debt at a cost that is lower than the cost of a variable-rate consolidated obligation issued directly by the FHLBank. This intermediation between the capital and derivative markets permits an FHLBank to raise funds at lower all-in costs than would otherwise be available through the issuance of variable consolidated obligations in the capital markets and enables the FHLBank to offer a wider range of attractively-priced advances to its members. The continued attractiveness of such debt depends on yield relationships between the bond and the interest-rate exchange markets. If conditions in these markets change, an FHLBank may alter the types and/or the terms of consolidated obligations it issues. The FHLBanks may enter into interest-rate exchange agreements and/or other transactions with (or arranged by) the applicable securities dealers, banks, or one or more of their affiliates, or an unaffiliated third party. Substantially all of the counterparties to FHLBank interest-rate exchange agreements are companies in the financial services business, such as large banks and major broker-dealers.

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

Competition

Advances. Demand for FHLBank advances is affected by, among other things, the cost of other sources of liquidity available to FHLBank members, including deposits. Each FHLBank individually competes with its members' depositors as well as suppliers of secured and unsecured wholesale funding. These competitors may include investment banks, commercial banks and, in certain circumstances, one or more other FHLBanks, when one or more affiliates of their members are members of other FHLBanks. Smaller members may have access to alternative funding sources only through sales of securities under agreements to resell, while larger members may have access to all of the alternatives previously listed. Large members may also have independent access to the national and global credit markets, including covered bonds. The FHLBanks have begun to face competition from several government programs created in light of the credit crisis, which have provided competitive alternatives to their members, including the Troubled Asset Relief Program (TARP), the Federal Reserve's Term Auction Facility, the TLGP, and the Federal Deposit Insurance Corporation (FDIC) deposit insurance limit increase. The availability of alternative funding sources to members can significantly influence the demand for FHLBank advances and this availability can vary as a result of a variety of factors such as:

— market conditions;

— products;

— structures;

— members' creditworthiness;

— availability of collateral; and

— new government programs or changes to existing ones.

Mortgage Loans Held for Portfolio. The activities of the FHLBanks' MPF and MPP business are subject to significant competition in purchasing conventional, conforming fixed-rate mortgage and government-guaranteed/insured loans. The FHLBanks face competition in customer service, the prices paid for these assets, and in ancillary services such as automated underwriting. The most direct competition for mortgages comes from other housing GSEs that also purchase conventional, conforming fixed-rate mortgage loans, specifically Fannie Mae and the Federal Home Loan Mortgage Corporation (Freddie Mac), as well as from other investors. These investors may seek to hold conventional, conforming fixed-rate mortgage loans. The FHLBanks continuously reassess their potential for success in attracting and retaining customers for their products and services.

Debt Issuance. Each FHLBank also competes with the U.S. government (including a number of recently announced U.S. government programs, such as the TLGP), Fannie Mae, Freddie Mac and other GSEs, as well as corporate, sovereign and supranational entities, for funds raised through the issuance of unsecured debt in the national and global debt markets. 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 than would otherwise be the case. In addition, regulatory initiatives, which tend to reduce investments by certain depository institutions in unsecured debt with greater price volatility or interest-rate sensitivity than fixed-rate, fixed-maturity instruments of the same maturity, may adversely affect the availability and cost of funds raised through the issuance of certain types of unsecured debt. The increase in Treasury issuance also affects the FHLBanks' ability to raise funds as it provides alternative investment options. Further, a perceived or actual higher level of government support for other GSEs may increase demand for their debt securities relative to similar FHLBank 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 continue to be the case in the future.

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

Oversight, Audits and Examinations

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

— each FHLBank operates in a safe and sound manner including maintenance of adequate capital and internal controls;

— 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);

— each FHLBank complies with the rules, regulations, guidelines, and orders issued under the Federal Housing Enterprises Financial Safety and Soundness Act and the FHLBank Act;

— each FHLBank carries out its statutory mission only through activities that are authorized under and consistent with the Federal Housing Enterprises Financial Safety and Soundness Act and the FHLBank Act; and

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

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

The Government Corporation Control Act provides that, before a government corporation issues and offers obligations to the public, the U.S. Secretary of the Treasury shall prescribe the form, denomination, maturity, interest rate, and conditions of the obligations; the way and time issued; and the selling price. The FHLBanks meet the definition of government corporations under the Government Corporation Control Act. The FHLBank Act also authorizes the U.S. Secretary of the Treasury, at his or her discretion, to purchase consolidated obligations up to an aggregate principal amount of $4 billion. There have been no borrowings outstanding under this authority since 1977. In addition, as a supplement to the existing $4 billion limit, the Housing Act authorizes the U.S. Secretary of the Treasury to purchase obligations issued by the FHLBanks, in any amount deemed appropriate by the U.S. Secretary of the Treasury under certain conditions. This temporary authorization expires on December 31, 2009. (See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Legislative and Regulatory Developments—Government Sponsored Enterprise Credit Facility".)

The U.S. Department of the Treasury receives the Finance Agency's annual report to Congress, weekly reports reflecting securities transactions of the FHLBanks, and other reports reflecting the operations of the FHLBanks.

Each FHLBank and the Office of Finance has an internal audit department and the board of directors of each FHLBank has an audit committee. An independent 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 (United States) and *Government Auditing Standards* issued by the Comptroller General of the United States. The FHLBanks, the Finance Agency, and Congress all receive the audited financial statements. The FHLBanks must submit annual management reports to the President of the United States, the Congress, the Office of Management and Budget, and the Comptroller General of the United States. These reports include:

— a statement of financial condition;

— a statement of operations;

— a statement of capital;

— a statement of cash flows;

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

— the report of the independent 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 and to decide the extent to which they fairly and effectively fulfill the purposes of the FHLBank Act. Furthermore, the Government Corporation Control Act provides that the Comptroller General of the United States may review any audit of the financial statements conducted by an independent registered public accounting firm. If the Comptroller General of the United States conducts such a review, he or she must report the results and provide his or her recommendations to the Congress, the Office of Management and Budget, and the FHLBank under review. The Comptroller General of the United States may also conduct his or her own audit of any financial statements of any FHLBank.

Regulatory Developments at the FHLBank of Chicago.

Written Agreement. On June 30, 2004, the FHLBank of Chicago entered into a Written Agreement with the Finance Board to address issues identified in the Finance Board's 2004 examination of the FHLBank of Chicago. Under the Written Agreement, the FHLBank of Chicago agreed to implement changes to enhance its risk management, capital management, governance, and internal control practices. The Written Agreement was subsequently amended three times in order to adjust the FHLBank of Chicago's minimum regulatory capital requirements. The FHLBank of Chicago operated under the Written Agreement until the Finance Board terminated the agreement on October 10, 2007 as part of a consensual cease and desist order, the terms of which are discussed below.

The Written Agreement, as amended, required the FHLBank of Chicago to:

- limit increases in the aggregate net book value of its acquired member assets (i.e., mortgage loans) under the MPF Program to no greater than 10 percent per annum;
- maintain a ratio of regulatory capital stock, plus retained earnings, plus a Designated Amount of its subordinated notes to total assets of at least 4.5 percent; and
- maintain an aggregate amount of outstanding regulatory capital stock plus a Designated Amount of its subordinated notes of at least $3.5 billion.

C&D Order. At the request of the Finance Board, on October 10, 2007, the FHLBank of Chicago entered into a Consent Cease and Desist Order with the Finance Board, which concurrently terminated the Written Agreement. On July 24, 2008, the Finance Board amended the Consent Cease and Desist Order (the Consent Cease and Desist Order, as amended, is herein referred to as the C&D Order) to allow the FHLBank of Chicago to redeem a member's capital stock which becomes excess capital stock above a member's capital stock floor (the amount of capital stock a member held as of the close of business at July 23, 2008) in connection with the repayment of advances subject to certain conditions. The C&D Order states that the Finance Board has determined that requiring the FHLBank of Chicago to take the actions specified in the C&D Order will improve the condition and practices at the FHLBank of Chicago, stabilize its capital, and provide the FHLBank of Chicago an opportunity to address the principal supervisory concerns identified by the Finance Board.

The C&D Order places several requirements on the FHLBank of Chicago:

- The FHLBank of Chicago must maintain a ratio of regulatory capital stock, plus retained earnings, plus a Designated Amount of subordinated notes to total assets of at least 4.5 percent, and a minimum total amount of the sum of regulatory capital stock plus a Designated Amount of subordinated notes of $3.6 billion.

- The FHLBank of Chicago's capital stock repurchases and redemptions, including redemptions upon membership withdrawal or other membership termination but excluding certain redemptions of excess capital stock above a member's capital stock floor, require prior approval of the Director of the Office of Supervision of the Finance Board, or the Finance Agency, as the new regulator ("OS Director"). The C&D Order provides that the OS Director may approve a written request by the FHLBank of Chicago for proposed redemptions or repurchases if the OS 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 operations.

- Dividend declarations are subject to the prior written approval of the OS Director.

- Effective with the July 24, 2008 amendment to the C&D Order, the FHLBank of Chicago is permitted to repurchase or redeem excess capital stock above a member's capital stock floor under the following conditions: (1) subsequent to the redemption or repurchase of capital 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 OS 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.

- Within 120 days of the effective date of the C&D Order, the FHLBank of Chicago was also required to submit a capital plan to the Finance Board consistent with the requirements of the Gramm-Leach-Bliley Act ("GLB Act") and Finance Board regulations, along with strategies for implementing the plan. As required by the C&D Order, the FHLBank of Chicago submitted a capital plan and implementation strategies in February 2008 to provide for the conversion of its capital stock under the GLB Act. Neither the Finance Board nor the Finance Agency has taken action to approve the plan. In an environment of significant market and earnings uncertainty, the FHLBank of Chicago remains committed to implementing a capital conversion plan, but cannot predict when that conversion will occur.

- The FHLBank of Chicago was also required to review and revise its market risk management and hedging policies, procedures and practices to address issues identified in the Finance Board's 2007 examination of the FHLBank of Chicago, and within 90 days of the effective date of the C&D Order submit revised policies and procedures to the OS Director for non-objection prior to implementation. The FHLBank of Chicago has reviewed its market risk hedging policies, procedures and practices, and submitted revised policies and procedures to the OS Director. During 2008, the FHLBank of Chicago has received temporary approvals or non-objection notices regarding implementation of certain changes to its market risk management and hedging practices as further described in the "Risk Management—Quantitative and Qualitative Disclosures about Market Risk—Quantitative Disclosure about Market Risk" section.

The FHLBank of Chicago's Written Agreement with the Finance Board was terminated under the terms of the C&D Order and the minimum capital and leverage requirements for the Bank, previously included in the Written Agreement, are now in the C&D Order modified as described above. The FHLBank of Chicago remains in compliance with the terms of the C&D Order, including the minimum capital and leverage requirements.

Tax Status

The FHLBanks are exempt from all Federal, state, and local taxation, except for local real estate tax. However, they are required to make payments to REFCORP in the amount equal to 20 percent of income calculated in accordance with GAAP after the assessment for AHP, but before the assessment for REFCORP. In addition, each year the FHLBanks must set aside for the AHP the greater of $100 million or 10 percent of their income calculated in accordance with GAAP after the assessment for REFCORP, but before the assessment for AHP. Assessments for REFCORP and AHP equate to an effective minimum income tax rate of 26.5 percent; this effective rate will be higher for those FHLBanks with interest expense for mandatorily redeemable capital stock. The combined REFCORP and AHP assessments were $600 million, $1.0 billion and $942 million for the years ended December 31, 2008, 2007 and 2006.

Cash dividends received by FHLBank members 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 outstanding debt;

— prepares the FHLBanks' quarterly and annual combined financial reports;

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

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

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

Pursuant to Finance Agency regulations, the Office of Finance, often in conjunction with the FHLBanks, has adopted policies and procedures for consolidated obligations that may be issued by the FHLBanks. The policies and procedures relate to the frequency and timing of issuance of consolidated obligations, issue size, minimum denomination, selling concessions, underwriter qualifications and selection, currency of issuance, coupon features, call or put features, principal amortization features, and selection 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 Finance Agency regulations. The Regulator requires that consolidated obligations shall 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 government-sponsored enterprises;
- 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.

PROPERTIES AND GEOGRAPHIC DISTRIBUTION

The FHLBanks operate in all 50 states, the District of Columbia and U.S. territories. Each FHLBank generally serves members whose principal place of business is located in its specifically-defined geographic district. Each FHLBank's name and address, the states and territories comprising each district, and its number of members, at December 31, 2008, is as follows:

FHLBank Name and Address	States and Territories	Number of Members
FHLBank of Boston 111 Huntington Avenue, 24th Floor Boston, MA 02199 Business number: (617) 292-9600 The FHLBank of Boston leases space at this property.	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	461
FHLBank of New York 101 Park Avenue New York, NY 10178-0599 Business number: (212) 681-6000 The FHLBank of New York leases space at this property.	New Jersey, New York, Puerto Rico, Virgin Islands	311
FHLBank of Pittsburgh 601 Grant Street Pittsburgh, Pennsylvania 15219 Business number: (412) 288-3400 The FHLBank of Pittsburgh leases space at this property.	Delaware, Pennsylvania, West Virginia	323
FHLBank of Atlanta 1475 Peachtree Street, N.E. Atlanta, Georgia 30309 Business number: (404) 888-8000 The FHLBank of Atlanta owns this property.	Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia	1,238
FHLBank of Cincinnati 221 East Fourth Street 1000 Atrium Two Cincinnati, Ohio 45202 Business number: (513) 852-7500 The FHLBank of Cincinnati leases space at this property.	Kentucky, Ohio, Tennessee	728
FHLBank of Indianapolis 8250 Woodfield Crossing Boulevard Indianapolis, Indiana 46240 Business number: (317) 465-0200 The FHLBank of Indianapolis owns this property.	Indiana, Michigan	424
FHLBank of Chicago 111 East Wacker Drive Chicago, Illinois 60601 Business number: (312) 565-5700 The FHLBank of Chicago leases space at this property.	Illinois, Wisconsin	816

FHLBank Name and Address	States and Territories	Number of Members
FHLBank of Des Moines Skywalk Level 801 Walnut Street, Suite 200 Des Moines, Iowa 50309 Business number: (515) 281-1000 The FHLBank of Des Moines leases space at this property.	Iowa, Minnesota, Missouri, North Dakota, South Dakota	1,245
FHLBank of Dallas 8500 Freeport Parkway South, Suite 600 Irving, Texas 75063 Business number: (214) 441-8500 The FHLBank of Dallas owns this property.	Arkansas, Louisiana, Mississippi, New Mexico, Texas	923
FHLBank Topeka One Security Benefit Place Suite 100 Topeka, Kansas 66606 Business number: (785) 233-0507 The FHLBank Topeka leases space at this property.	Colorado, Kansas, Nebraska, Oklahoma	872
FHLBank of San Francisco 600 California Street San Francisco, California 94108 Business number: (415) 616-1000 The FHLBank of San Francisco leases space at this property.	Arizona, California, Nevada	430
FHLBank of Seattle 1501 Fourth Avenue, Suite 1800 Seattle, Washington 98101 Business number: (206) 340-2300 The FHLBank of Seattle leases space at this property.	Alaska, American Samoa, Guam, Hawaii, Idaho, Montana, Northern Mariana Islands, Oregon, Utah, Washington, Wyoming	381
Federal Home Loan Banks Office of Finance 1818 Library Street, Suite 200 Reston, Virginia 20190 Business number: (703) 467-3600 *www.fhlb-of.com* The Office of Finance leases space at this property.		

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

See "Security Ownership of Certain Beneficial Owners" for more information on FHLBanks' members.

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

EMPLOYEES
(at December 31, 2008 and 2007)

FHLBank	December 31, 2008 Employees Full-time	Part-time	Total	December 31, 2007 Employees Full-time	Part-time	Total	Full-time Employee Increase (Decrease)
Boston	205	2	207	198	2	200	7
New York	247	4	251	238	8	246	9
Pittsburgh	226	8	234	233	6	239	(7)
Atlanta	368	15	383	348	14	362	20
Cincinnati	189	6	195	184	7	191	5
Indianapolis	152	6	158	144	7	151	8
Chicago	313	8	321	337	6	343	(24)
Des Moines	211	7	218	182	9	191	29
Dallas	190		190	176		176	14
Topeka	176	9	185	169	6	175	7
San Francisco	276	8	284	265	5	270	11
Seattle	147	3	150	135		135	12
Office of Finance	72	2	74	72	2	74	

The decrease in employees at the FHLBank of Chicago primarily relates to its reduction-in-force during 2008 as part of its continued expense reduction initiatives. The increase in employees at most FHLBanks is primarily the result of staffing additions to support risk management practices including increased regulatory requirements, SEC filings, and preparation for compliance with Sarbanes-Oxley requirements.

LEGAL PROCEEDINGS

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

See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Combined Results of Operations" for discussion about Lehman Brothers Special Financing (LBSF) and Lehman Brothers Holdings, Inc. (LBHI) with respect to derivative contracts with the FHLBanks of Atlanta and Pittsburgh.

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

None.

MARKET FOR FHLBANKS' CAPITAL STOCK AND RELATED STOCKHOLDER MATTERS

As a cooperative, each FHLBank conducts its advances business and acquired member asset programs almost exclusively with its members. There is no established marketplace for the FHLBanks' stock and it is not publicly traded. FHLBank stock is purchased by members at the stated par value of $100 per share and may be redeemed at its stated par value of $100 per share upon the request of a member subject to applicable redemption periods as well as certain conditions and limitations. At December 31, 2008, the FHLBanks had 496 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 1934 Act.

Voting Rights for Election of FHLBank Directors. Members holding capital stock on December 31 of the preceding year can participate in the annual election process for FHLBank directors. Eligible members may nominate and elect representatives from members in their state to serve as "member directors" on the board of directors of their FHLBank. For each directorship to be filled in an election, each member institution that is located in the state to be represented by the directorship is entitled to cast one vote for each share of stock that the member was required to hold at December 31 of the calendar year immediately preceding the election year; provided, however, that the number of votes that any member may cast for any one directorship shall not exceed the average number of shares of stock that were required to be held by all members located in the state to be represented on that date. Eligible members may elect independent directors from among eligible persons nominated by their FHLBank's board of directors after consultation with their FHLBank's Advisory Council. All directors will be elected for four-year terms, unless a shorter term is assigned to achieve statutorily-required staggering.

For a description of recent changes to the law regarding the composition of the boards of directors of the FHLBanks, see "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Legislative and Regulatory Developments—Changes to Regulation of GSEs."

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

Top 10 Regulatory Capital Stockholders at December 31, 2008(1) (Dollar amounts in millions)

Name	City	State	Capital Stock
Citibank, N.A.* (2)	Las Vegas	NV	$ 3,877
Washington Mutual Bank (3)	Henderson	NV	2,995
Countrywide Bank, FSB (4)	Alexandria	VA	1,947
Wachovia Mortgage, FSB* (5)	North Las Vegas	NV	1,572
Bank of America Rhode Island, NA	Providence	RI	1,083
Wachovia Bank, FSB (5)	Houston	TX	1,078
Hudson City Savings Bank*	Paramus	NJ	866
U.S. Bank, NA (6)	Cincinnati	OH	846
Metropolitan Life Insurance Company	New York	NY	830
Washington Mutual Bank FSB (3)	Salt Lake City	UT	772
			$15,866

* Indicates that an officer or director of the member was an FHLBank director at December 31, 2008.

(1) Includes FHLBank members' capital stock that is considered to be mandatorily redeemable, which is reclassified as a liability in accordance with Statement of Financial Accounting Standards (SFAS) No. 150, *Accounting for Certain Financial Instruments and Characteristics of both Liabilities and Equity* (SFAS 150).

(2) Includes a *de minimis* amount of FHLBank of Dallas capital stock from the merger of Citibank Texas, N.A., a former member of the FHLBank of Dallas, into Citibank, N.A. Also included is a *de minimis* amount of capital stock of the FHLBank of New York.

(3) On September 25, 2008, JPMorgan Chase Bank, N.A., acquired the deposits, assets, and certain liabilities of Washington Mutual Bank and Washington Mutual Bank FSB's banking operations. Washington Mutual Bank was a member of the FHLBank of San Francisco and Washington Mutual Bank FSB was a member of the FHLBank of Seattle. Also includes a *de minimis* amount of FHLBank of Dallas capital stock from the acquisition of Bank United, a former member of the FHLBank of Dallas and a *de minimis* amount of FHLBank of New York capital stock from the acquisition of Dime Savings Bank of New York, FSB, a former member of the FHLBank of New York.

(4) On July 1, 2008, Bank of America Corporation, the parent of Bank of America, National Association, a member of the FHLBank of Atlanta, completed its acquisition of Countrywide Financial Corporation, the parent of Countrywide Bank, FSB, which is also a member of the FHLBank of Atlanta. In February 2009, Countrywide Bank, FSB relocated its principal place of business to Colorado, which action resulted in its termination of membership pursuant to the FHLBank of Atlanta's Capital Plan. As of February 20, 2009, Countrywide Bank, FSB held $1,847.5 million in capital stock, equaling 23.2 percent of total capital stock as of that date. Bank of America Corporation has stated that it intends to convert Countrywide Bank, FSB into a national bank and merge it into Bank of America, National Association in April 2009.

(5) On December 31, 2008, Wells Fargo & Company (Wells Fargo) completed its merger with Wachovia Corporation. Wachovia Mortgage, FSB, is a member of the FHLBank of San Francisco; Wachovia Bank, FSB, is a member of the FHLBank of Dallas; and Wachovia Bank, National Association, was a member of the FHLBank of Atlanta, which had capital stock outstanding of $273 million at December 31, 2008. Wells Fargo is a non-member and is the bank holding company of Wells Fargo Bank, N.A., a member of the FHLBank of Des Moines.

(6) Includes $1 million in FHLBank of Des Moines capital stock acquired through a merger with a former member of the FHLBank of Des Moines and $4 million in FHLBank of Seattle capital stock acquired through a merger with a former member of the FHLBank of Seattle.

RISK FACTORS

The following discussion summarizes certain risks and uncertainties facing the FHLBanks as they potentially affect investors in the FHLBanks' consolidated obligations. The list is not exhaustive and there may be other risks and uncertainties that are not described below that may also affect the FHLBanks' businesses. Any of these risks or uncertainties, if realized, could negatively affect the FHLBanks' financial condition and/or results of operations, which in turn could reduce the value of FHLBank membership, such as by adversely affecting the ability of an FHLBank to pay dividends or redeem or repurchase capital stock. Each FHLBank describes the risk factors it faces in its business in its periodic reports filed with the SEC. (See "Available Information on Individual FHLBanks.") Discussions of additional risks and uncertainties are set forth in this Combined Financial Report in the sections entitled "Explanatory Statement about FHLBanks Combined Financial Report," "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations," "Controls and Procedures" and "OF Board 'Audit Committee' Report."

Continuing or broader economic downturns, including the downturn in the U.S. housing market, and changes in Federal monetary policy could have an adverse effect on the FHLBanks' business and their results of operations.

Beginning in the second half of 2007, there were world-wide disruptions in the credit and mortgage markets as well as an overall downturn in the U.S. economy and the local economies in which the FHLBanks operate. During 2008, global credit and other financial markets suffered significant illiquidity, volatility and credit deterioration, as well as a decrease in the level of credit available. These disruptions resulted in the bankruptcy or acquisition of numerous major financial institutions and diminished overall confidence in the financial markets in general and financial institutions in particular. The FHLBanks' businesses and results of operations are sensitive to general international, domestic and district-specific business and economic conditions. These conditions include short- and long-term interest rates, real estate values, residential mortgage originations, inflation, money supply, fluctuations in both debt and equity capital markets, and the strength of the foreign, domestic and local economies in which the FHLBanks conduct their business. If any of these conditions declines, the FHLBanks' businesses and results of operations, as well as the business and results of operations of the FHLBanks' counterparties and members, could be adversely affected. For example, a prolonged economic downturn could result in FHLBank members becoming delinquent or defaulting on their advances.

Further weakening of real estate prices and adverse performance trends in the prime, Alt-A and subprime mortgage lending sector could further reduce the value of collateral securing member credit obligations to each FHLBank and the fair value of its MBS investments. This could increase the possibility of under-collateralization, increasing the risk of loss in case of a member's failure, and/or increase the risk of loss on the FHLBanks' MBS investments because of additional OTTI charges. The continuing deterioration in the mortgage markets could also negatively affect the value of the FHLBanks'

MPF and/or MPP portfolios resulting in an increase in the allowance for loan losses on mortgage loans and possible additional realized losses should the FHLBanks be forced to liquidate their MPF and/or MPP loan portfolios. In addition, the FHLBanks' business and results of operations are significantly affected by the fiscal and monetary policies of the U.S. government and its agencies, including the Federal Reserve Board, which regulates the supply of money and credit in the United States. The Federal Reserve Board's policies directly and indirectly influence the yield on interest-earning assets and the cost of interest-bearing liabilities and the demand for FHLBank debt. The FHLBanks are affected by the global economy through member ownership and investment patterns. Changes in perception regarding the value of the U.S. economy or the depletion of funds available for investment by participants in overseas capital markets could lead to changes in foreign interest in investing in, or supporting, U.S. financial institutions or holding FHLBank debt.

Most FHLBanks are subject to increased credit and liquidity risk exposures related to mortgage loans that back their MBS investments, and any increased delinquency rates and credit losses could adversely affect the yield on or value of their MBS investments.

The FHLBanks may invest in MBS, including agency and private-label MBS backed by prime, Alt-A and/or subprime mortgage loans. Over the last year, delinquencies and losses with respect to mortgage loans generally have increased, particularly in the nonprime sector, including subprime and Alt-A loans. In addition, residential property values in many states have declined or remained stable, after extended periods during which those values appreciated. Each FHLBank's MBS portfolio is subject to interest-rate risk, prepayment risk, operational risk, servicer risk and originator risk, all of which can have a negative effect on the underlying collateral of the MBS investments. The rate and timing of unscheduled payments and collections of principal on mortgage loans serving as collateral for these securities are difficult to predict and can be affected by a variety of factors, including the level of prevailing interest rates, restrictions on voluntary prepayments contained in the mortgage loans, the availability of lender credit, loan modifications and other economic, demographic, geographic, tax and legal factors. If delinquency and/or default rates on mortgages continue to increase, and/or there is a rapid decline in residential real estate values, FHLBanks could experience reduced yields or losses on their MBS investments, which may result in additional OTTI charges on most of the FHLBanks' MBS portfolios, including those securities that continue to be rated triple-A. In addition, market prices for many of the private-label MBS the FHLBanks hold have deteriorated since year-end 2007 due to continued market uncertainty and illiquidity. Federal and state government authorities, as well as private entities, such as financial institutions and the servicers of residential mortgage loans, have proposed, commenced or promoted implementation of programs designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures. These loan modification programs, as well as future legislative, regulatory or other actions, including amendments to the bankruptcy laws, that result in the modification of outstanding mortgage loans, may adversely affect the value of, and the returns on, the FHLBanks' MBS.

The significant widening of credit spreads that has occurred since December 31, 2007 has further reduced the fair value of the FHLBanks' MBS portfolios. Continued deterioration in the mortgage and credit markets could result in the FHLBanks recording additional OTTI charges on certain investment securities in the future, which could result in accounting losses that significantly exceed the projected economic losses on these securities. Furthermore, market illiquidity has increased the amount of management judgment required to value private-label MBS and certain other securities owned by the FHLBanks. Reflecting the management judgment required to value private-label MBS, the FHLBanks use different valuation models and different assumptions about loan default rates, severity of loss on default, and other economic factors that influence determinations as to whether an MBS is other-than-temporarily impaired. Subsequent valuations may result in significant changes in the value of private-label MBS and other investment securities. If an FHLBank decides to sell securities due to credit deterioration, the price an FHLBank may ultimately realize will depend on the demand and liquidity in the market at the time and may be materially lower than the fair value reflected in that FHLBank's financial statements. Most of the FHLBank's investment securities are treated as "held to maturity," so the sale of any of those securities may have adverse accounting consequences.

MBS servicers have a significant role in servicing the mortgage loans that serve as collateral for the FHLBanks' MBS portfolios, including playing an active role in loss mitigation efforts and making servicer advances. The FHLBanks' credit risk exposure to their servicer counterparties includes the risk that the MBS servicers will not perform their obligation to service these mortgage loans, which could adversely affect the FHLBanks' financial condition and/or results of operations. The risk of such a failure has increased as deteriorating market conditions have affected the liquidity and financial condition of some of the larger servicers. These risks could result in losses significantly higher than are currently anticipated by the FHLBanks. (See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Legislative and Regulatory Developments—Finance Board Issues Advisory Bulletin on Application of Guidance on Nontraditional and Subprime Residential Mortgage Loans to Specific FHLBank Assets" for more information.)

The FHLBanks' funding, including the refinancing of outstanding consolidated obligations, depends on their ability to access the capital markets.

The severe financial and economic disruptions, and the U.S. government's dramatic measures enacted to mitigate their effects, have changed the traditional basis on which market participants value GSE debt securities and consequently 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 large amounts of debt frequently to meet member demand and to refinance existing outstanding consolidated obligations when needed, with a variety of maturities and call features and at attractive rates. Each FHLBank actively manages its liquidity position to maintain stable, reliable, and cost-effective sources of funds, while taking into account market conditions, member credit demand for short-and long-term loans, investment opportunities and the maturity profile of the FHLBank's assets and liabilities. 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 (including investor demand), such as the effects of the reduction of liquidity in financial markets, which are beyond the FHLBanks' control.

The FHLBanks experienced a deterioration in debt pricing as investor capital and dealer focus, including investment by the U.S. Treasury, was redirected toward those securities offered under the U.S. government's programs that carry an explicit guarantee of the U.S. government. Furthermore, international investors reduced their holdings of GSE debt securities in 2008, which adversely affected the FHLBanks' funding costs, liquidity and results of operations. During the second and third quarters of 2008, the FHLBanks' funding costs associated with issuing long-term consolidated bonds became more volatile and rose sharply compared to LIBOR and U.S. Treasury securities, reflecting dealers' reluctance to underwrite, and investors' current reluctance to buy longer-term GSE debt, coupled with strong investor demand for high-quality, short-term debt instruments, such as U.S. Treasury securities and FHLBank consolidated discount notes. The FHLBanks have recently become more reliant on the issuance of consolidated obligations, with maturities of one year or less, for funding, which increases the amount of outstanding consolidated obligations that must be repaid over the next 12 months compared to historical norms. Any significant disruption in the short-term debt markets could have a material adverse effect on the FHLBanks. If these conditions continued indefinitely, the FHLBanks may not be able to obtain funding on acceptable terms and the higher cost of longer-term liabilities would likely cause the FHLBanks to further increase advance rates, which could adversely affect demand for advances and, in turn, the FHLBanks' results of operations. Alternatively, continuing to fund longer-term assets with very short-term liabilities could adversely affect the FHLBanks' results of operations if the cost of those short-term liabilities rises to levels above the yields on the assets being funded. If the FHLBanks cannot access funding when needed on acceptable terms, their ability to support and continue their operations could be adversely affected, which could negatively affect their financial condition and results of operations, and the value of FHLBank membership.

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

The FHLBanks are GSEs, organized under the authority of the FHLBank Act, and, as such, are governed by Federal laws and regulations of the Finance Agency, an independent agency in the executive branch of the Federal government. From time to time, Congress has amended the FHLBank Act in ways that have significantly affected the FHLBanks and the manner in which the FHLBanks carry out their housing finance mission and business operations, such as through the enactment of the Housing Act in 2008. New or modified legislation enacted by Congress or regulations adopted by the Finance Agency could have a negative effect on the FHLBanks' ability to conduct business or their costs of doing business. Other Federal regulators, as well as state regulators, regulate FHLBank members, and the regulation of FHLBank members may also have a detrimental effect on the FHLBanks' operations if the regulations affect the relationship between the regulated member and its FHLBank.

In accordance with the Housing Act, effective January 30, 2009, the Finance Agency promulgated an interim final rule on capital classifications and critical capital levels for the FHLBanks. The interim final rule, among other things, establishes criteria for four capital classifications and corrective action requirements for FHLBanks that are classified in any classification other than adequately capitalized. The Finance Agency has discretion to re-classify an FHLBank and to modify or add to corrective action requirements for a particular capital classification. If an FHLBank becomes classified into a capital classification other than adequately capitalized, that FHLBank may be adversely affected by the corrective action requirements for that capital classification.

The Finance Agency's extensive statutory and regulatory authority over the FHLBanks includes without limitation the authority to liquidate, merge or consolidate FHLBanks, redistrict and/or adjust capital among the FHLBanks. The Finance Agency also has authority over the scope of permissible FHLBank products and activities, including the authority to impose limits on those products and activities.

On October 14, 2008, the FDIC established the TLGP, which guarantees newly-issued senior unsecured debt (and the unsecured portion of any secured debt) issued by FDIC-insured institutions as well as bank, thrift and financial holding companies where such debt is issued on or before October 31, 2009. These initiatives provided the FHLBanks' members with additional access to liquidity and adversely affected the FHLBanks' competitive position in regard to accessing debt financing as well as funding costs. Furthermore, the FDIC's TLGP, which carries the full faith and credit of the U.S. government, has resulted in the TLGP debt securities of financial institutions being highly competitive with FHLBank System debt. In part, as a result, the FHLBanks have experienced increased funding costs during the third quarter of 2008 through the beginning of 2009. If these costs continue to increase, the FHLBanks' ability to raise funds in the marketplace and price advances competitively may be adversely affected.

On February 27, 2009, the FDIC issued a final rule to increase deposit insurance premiums charged to FDIC-insured institutions that have outstanding FHLBank advances and other secured liabilities above a specified level. As a result, the effective advance borrowing costs of FHLBank members could be increased, reducing that attractiveness of FHLBank borrowing and membership.

Certain proposed Federal legislation, in response to the continuing U.S. housing and economic recession, may adversely affect the FHLBanks' investments in MBS. The Bankruptcy Reform Act of 1994 eliminated the risk of bankruptcy cram-downs on first mortgages secured solely by the debtor's principal residence. However, during the first quarter of 2009, legislation to allow bankruptcy cram-downs on mortgages secured by owner-occupied homes was introduced in both houses of Congress and a version has been approved by the House of Representatives (H.R. 1106). Bankruptcy cram-downs could adversely affect the value of the collateral held in support of an FHLBank's advances to members, resulting in further reduction of member borrowing capacity, and could affect the risk of loss on mortgage loans held by an FHLBank, which could result in additional OTTI charges for affected private-label MBS in the FHLBanks' investment portfolios.

Changes in regulatory or statutory requirements or in their application could result in, among other things, changes in the FHLBanks' cost of funds, retained earnings requirements, debt issuance, dividend payment limits, form of dividend payments, capital stock redemption and repurchase limits, permissible business activities, the size, scope, or nature of the FHLBanks' lending, investment, or mortgage purchase program activities, changes in affordable housing support requirements, or increased compliance costs. Changes that restrict dividend payments, the growth of the FHLBanks' current business, or the creation of new products or services could negatively affect the FHLBanks' results of operations or financial condition, or the value of FHLBank membership. Further, the regulatory environment affecting members could be changed in a manner that would negatively affect their ability to acquire or own an FHLBank's capital stock or take advantage of an FHLBank's products and services. (See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Legislative and Regulatory Developments" for more information.)

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

GSEs, such as Fannie Mae, Freddie Mac, and the FHLBanks, issue agency debt securities to fund their operations. Negative Fannie Mae and Freddie Mac announcements related to business developments, risk-management issues and regulatory enforcement actions, along with negative announcements related to OTTI and regulatory capital compliance by certain FHLBanks, have created pressure on debt pricing, as investors have perceived GSE debt instruments as bearing increased risk. Furthermore, the FHLBanks' funding costs and access to funds could be adversely affected by changes in investors' perception of the systemic risks associated with the housing GSEs. In September 2008, in response to investor and financial concerns, the Finance Agency placed Fannie Mae and Freddie Mac into conservatorship and the U.S. Treasury put in place a set of financing agreements to help those GSEs continue to meet their obligations to holders of their debt securities. These actions by the U.S. government resulted in Fannie Mae and Freddie Mac debt securities being more attractive to investors than FHLBank system debt and the future status of Fannie Mae and Freddie Mac, and the effect of their status on the FHLBanks, is uncertain. Additionally, investor concerns about U.S. agency debt may adversely affect the FHLBanks' competitive position and result in higher funding costs, which could negatively affect the FHLBanks' business and financial condition. As a result of these factors, the FHLBanks may have to pay a higher rate of interest on their consolidated obligations in order to make them attractive to investors. If the FHLBanks maintain their existing pricing on advances, the resulting increase in the cost of issuing consolidated obligations could cause the FHLBanks' advances to be less profitable and reduce the FHLBanks' net interest margins (the difference between the interest rate received on advances and the interest rate paid on consolidated obligations). If the FHLBanks change the pricing of their advances in response to this decrease in net interest margin, the advances may no longer be attractive to their members, and outstanding advances balances may decrease. In either case, the increased cost of issuing consolidated obligations could negatively affect the FHLBanks' financial condition and results of operations, and the value of FHLBank membership.

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

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

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

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

Due to the ongoing financial market stress, to the extent the number of high-quality counterparties available for hedging transactions decreases, the FHLBanks may face a reduced or limited ability to enter into hedging transactions. As a result, the FHLBanks may not be able to effectively manage their interest-rate risk, which could negatively affect their results of operations and financial condition.

Changes in interest rates or an FHLBank's inability to successfully manage interest-rate risk could have a material adverse effect on the FHLBanks' financial condition, results of operations, and the value of FHLBank membership.

The FHLBanks realize income primarily from the spread between interest earned on their outstanding advances and investments and interest paid on their consolidated obligations and other liabilities. An FHLBank's ability to anticipate changes regarding the direction and speed of interest rate changes, or to hedge the related exposures, significantly affect the success of the asset and liability management activities and the 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, as a result, the measures cannot precisely estimate net interest income or the market value of equity nor can they precisely predict the effect of higher or lower interest rates on net interest income or 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 the past year 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.

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

Fluctuations in interest rates affect profitability in several ways, including but not limited to the following:

- Increases in interest rates may reduce overall demand for loans and mortgages, thereby reducing the ability to originate new loans, the availability of mortgage loans to purchase and the volume of MBS acquired by the FHLBanks, which could have a material adverse effect on the FHLBanks' business, financial condition and profitability, and may increase the cost of funds.

- 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, adversely affecting net interest income over time. While these prepayments would reduce the asset balance, the associated debt may remain outstanding.
- Decreases in short-term interest rates reduce the return the FHLBanks receive on their interest-earning deposits. Each FHLBank maintains a required level of liquidity, sufficient in part to support member borrowing demand. This liquidity may be invested in short-term or overnight investments, such as interest-earning deposits, resulting in lower profitability for an FHLBank in a low-rate environment.
- In the current economic recession, decreases in interest rates also reflect a significant decline in economic activity. This results in a weakening of the underlying credit of the collateral supporting the FHLBanks' advances and private-label MBS portfolios, increasing the potential for the FHLBanks to experience a credit loss.

The FHLBanks' financial condition and results of operations, ability to pay dividends, and/or ability to redeem or repurchase FHLBank capital stock and the value of FHLBank membership, could be adversely affected by FHLBank exposure to credit risk.

The FHLBanks have exposure to credit risk as a result of possible deterioration in the creditworthiness of the obligor and/or the credit quality of an investment. In addition, the FHLBanks assume secured and unsecured credit risk exposure associated with the risk that a borrower or counterparty could default and an FHLBank could suffer a loss if it could not fully recover amounts owed to it on a timely basis. The FHLBanks have a high concentration of credit risk exposure to financial institutions and the real estate market, which recently have been perceived to present a higher degree of risk than they were perceived to present in the past due to the reduction of liquidity in financial markets and due to the recent housing market crisis, resulting in increased foreclosures and mortgage payment delinquencies. An FHLBank assumes unsecured credit risk when entering into money market transactions and financial derivatives transactions with counterparties. The insolvency or other inability of a significant counterparty to perform its obligations under such transactions or other agreements could have an adverse effect on an FHLBank's financial condition and results of operations. The credit losses that the FHLBanks may experience in future periods as a result of the housing and economic crisis could be larger than the FHLBanks' current combined retained earnings and would have an adverse effect on 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' results of operations, financial condition, and the value of FHLBank membership.

Some FHLBanks have a high concentration of advances and capital with certain members, and certain large members have affiliates that are members of other FHLBanks. If these members withdraw from membership in the FHLBank System, which could occur as a result of the failure of members or increased consolidation in the financial services industry, their withdrawal could result in a reduction of the FHLBanks' total combined assets, capital, and net income. The consolidation in the financial services industry could lead to the concentration of large members in some FHLBanks' districts and a related decrease in membership and significant loss of business for some FHLBanks. If advances are concentrated in a smaller number of members, an FHLBank's risk of loss resulting from a single event (such as the loss of a member's business due to the member's acquisition by a non-member) 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.

If one or more of the large members or groups of affiliated members were to prepay its advances or repay the advances as they mature, and no other advances were made to replace them, it could result in a reduction of the FHLBanks' total combined assets, capital, and net income. The timing and magnitude of the effect of a reduction in the amount of advances would depend on a number of factors, including the:

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

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

— profitability of the advances;

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

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

The deterioration of the U.S. housing market and national decline in home prices over the last few years may adversely affect the financial condition of the FHLBanks' members, particularly those whose businesses are concentrated in the mortgage industry. One or more of an FHLBank's members may default in its obligations to an FHLBank for a number of reasons, such as changes in its financial condition, a reduction in liquidity, operational failures and/or insolvency. In addition, the value of residential mortgage loans and other collateral pledged by an FHLBank's members to that FHLBank as collateral may decrease. If a member defaulted, and an FHLBank were unable to obtain additional collateral to make up for the reduced value of such residential mortgage loan collateral, the FHLBank could incur losses. Default by a member with significant obligations to an FHLBank could result in significant financial losses, which would adversely affect the FHLBanks' results of operations and financial condition.

The FHLBanks depend upon institutional counterparties that are critical to their business. Defaults by one or more of these institutional counterparties on its obligations to the FHLBanks could adversely affect their results of operations and/or financial condition.

The mortgage credit markets continued to experience very difficult conditions and volatility in 2008. The deteriorating conditions in these markets resulted in a decrease in availability of corporate credit and liquidity within the mortgage industry, causing disruptions to normal operations of major mortgage originators and resulting in the insolvency, closure or acquisition of a number of major financial institutions. These conditions have also resulted in less liquidity, greater volatility, widening of credit spreads and a lack of price transparency and have contributed to further consolidation within the financial services industry. The current instability of the financial markets has resulted in many financial institutions becoming significantly less creditworthy, exposing the FHLBanks to increased member and counterparty risk and risk of default. Consequently, some of the FHLBanks' members (or their affiliates) and derivative, money market and other counterparties have experienced various degrees of financial distress, including liquidity constraints, credit downgrades or bankruptcy. Changes in market perception of the financial strength of various financial institutions can occur very rapidly and can be difficult to predict. Over the past year, in a departure from historical experience, the pace at which financial institutions (including FDIC-insured institutions) have moved from having some financial difficulties to failure has increased dramatically. As a result, the FHLBanks face an increased risk that a counterparty or member failure will result in a financial loss to an FHLBank.

The FHLBanks face the risk that one or more of their institutional counterparties may fail to fulfill their contractual obligations to the FHLBanks. The primary exposures to institutional counterparty risk are with: obligations of mortgage servicers that service the loans the FHLBanks have as collateral on advances; third-party providers of credit enhancements on the MBS investments that the FHLBanks hold in their investment portfolios, including mortgage insurers, bond insurers and financial guarantors; third-party providers of supplemental mortgage insurance for mortgage loans purchased under the MPF and MPP programs; and derivative counterparties as referred to above. The liquidity and financial condition of some of the FHLBanks' counterparties have been adversely affected by the reduction of liquidity in the financial markets and the housing market crisis, including mortgage insurers and bond insurers. A default by a counterparty with significant obligations to an FHLBank could adversely affect that FHLBank's ability to conduct its operations efficiently and at cost-effective rates, which in turn could adversely affect that FHLBank's results of operations or financial condition.

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 interrelated as a result of trading, clearing, counterparty and/or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide disruptions in which it may be difficult for the FHLBanks to find counterparties for such transactions.

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

The FHLBanks require that all outstanding advances to their borrowers be fully collateralized. In addition, for mortgage loans purchased under the MPF and MPP programs, the FHLBanks require that the outstanding credit enhancement obligations of their borrowers not covered through the purchase of SMI be fully collateralized. 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. The devaluation or inability to liquidate the collateral in the event of a default by the obligor, due to a reduction in liquidity in the financial markets or otherwise, could cause an FHLBank to incur a credit loss and adversely affect the financial condition and results of operations of one or more FHLBanks, and the value of FHLBank membership.

In 2008, continued deterioration of economic conditions led to a significant decrease in real estate property values in some parts of the country. As a result, real estate collateral held by the FHLBanks from their members may have decreased in value. In order to remain fully collateralized, the FHLBanks may 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.

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

The FHLBanks seek to be in a position to meet their members' credit and liquidity needs and pay their obligations without maintaining excessive holdings of low-yielding liquid investments or being forced to incur unnecessarily high borrowing costs. In addition, each FHLBank maintains a contingency liquidity plan designed to enable it to meet its obligations and the liquidity needs of members in the event of operational disruptions or short-term disruptions in the capital markets. An FHLBank's inability to manage its liquidity position or its contingency liquidity plan in a manner to meet its obligations and the credit and liquidity needs of its members could affect adversely the FHLBanks' financial condition and results of operations, and the value of FHLBank membership.

The FHLBanks face competition for advances, loan purchases, and access to funding, which could adversely affect their businesses, and the FHLBanks' efforts to make advance pricing attractive to their members may affect earnings.

The FHLBanks' primary business is making advances to their members. Each FHLBank competes with other suppliers of wholesale funding, both secured and unsecured, including investment banks, commercial banks and, in certain circumstances, other FHLBanks. The FHLBanks' members have access to alternative funding sources, including independent access to the national and global credit markets, such as the covered bond market, and, more recently, the ability to issue senior unsecured debt under the TLGP, and these funding sources may offer more favorable terms than the FHLBanks do on their advances, such as more flexible credit or collateral standards. Some of the FDIC's recent changes to the deposit insurance program, such as extending coverage for deposits up to $250,000, may also adversely affect demand for advances by providing members with a cheaper source of funding. The FHLBanks may make changes in policies, programs, and agreements affecting members from time to time, including, without limitation, policies, programs, and agreements affecting the availability of and conditions for access to advances and other credit products, the mortgage purchase programs, the AHP, and other programs, products, and services that could cause members to obtain financing from alternative sources. In addition, many competitors are not subject to the same regulations, which may enable those competitors to offer products and terms that the FHLBanks are not able to offer.

The availability to the FHLBanks' members of alternative funding sources that are more attractive may significantly decrease the demand for the FHLBanks' advances. Efforts to compete effectively with other suppliers of wholesale funding by changing the pricing of FHLBank advances may decrease the profitability of the FHLBanks' advances. A decrease in the demand for the FHLBanks' advances or a decrease in the FHLBanks' profitability on advances could adversely affect the FHLBanks' financial condition and results of operations and may adversely affect the value of FHLBank membership.

Some of the FHLBanks also compete, primarily with Fannie Mae and Freddie Mac, for the purchase of mortgage loans from members. Some FHLBanks may also compete with other FHLBanks with which their members have a relationship through affiliates. Some of the FHLBanks offer the MPF Program to their members, and some offer a similar program known as the MPP. Competition among FHLBanks for MPF Program business may be affected by the requirement that a member and its affiliates can sell loans into the MPF Program through only one FHLBank relationship at a time. Increased competition may result in a reduction in the amount of mortgage loans the FHLBanks are able to purchase and, therefore, lower income from this part of their businesses.

Each FHLBank also competes with the U.S. Department of the Treasury, Fannie Mae, Freddie Mac, and other GSEs, as well as corporate, sovereign, and supranational entities, for funds raised through the issuance of unsecured debt in the national and global debt markets. Increases in the supply of competing debt products may, in the absence of increases in demand, result in higher debt costs or lower amounts of debt issued at the same cost than otherwise would be the case. Increased competition could adversely affect the FHLBanks' ability to have access to funding, reduce the amount of funding available to the FHLBanks, or increase the cost of funding available to the FHLBanks. Any of these effects could adversely affect the FHLBanks' financial condition and results of operations, and the value of FHLBank membership. During 2008, the FHLBanks experienced a decline in the demand for longer-term debt issuance due in part to legislative and regulatory actions taken by the U.S. Treasury and Federal Reserve to stimulate the housing and credit markets. (See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Legislative and Regulatory Developments" for more information). More recently, the FHLBanks compete to a certain degree with the federally-guaranteed senior unsecured debt issued by financial institutions or their holding companies under the TLGP. Increases in the supply of competing debt products may, in the absence of increases in demand, result in higher debt costs or lower amounts of debt issued at the same cost. Increased competition could adversely affect the FHLBanks' ability to access funding, reduce the amount of funding available to the FHLBanks, or increase the FHLBanks' cost of funding. Any of these results could adversely affect the FHLBanks' financial condition, results of operations, ability to pay dividends, or ability to redeem or repurchase capital stock.

Each FHLBank's accounting policies and methods are fundamental to how it reports its market value of equity, financial condition and results of operations, and they require management to make estimates about matters that are inherently uncertain.

The preparation of financial statements in accordance with U.S. GAAP requires management of each FHLBank 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 management of each FHLBank believes that its judgments, estimates and assumptions are reasonably accurate, actual results may differ. The FHLBanks identified certain accounting policies as being critical to the presentation of financial condition and results of operations because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be recorded under different conditions or using different assumptions. These critical accounting policies relate to the FHLBanks' accounting for OTTI for investment securities, fair value valuations and accounting for derivatives under Statement of

Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), among others. Because of the inherent uncertainty of the estimates associated with these critical accounting policies, the FHLBanks cannot provide absolute assurance that there will not be any adjustments to the related reported amounts. Furthermore, the FHLBanks' accounting and financial reporting policies and practices are not necessarily always identical because different policies and/or presentations are permitted under GAAP in certain circumstances. The use of different assumptions, as well as changes in market conditions, could result in materially different net income and retained earnings, even where similar or identical assets and liabilities are being measured. (See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Critical Accounting Estimates" for a description of the FHLBanks' significant accounting policies.)

Each FHLBank relies on internal models to manage its market risk, to make business decisions and for financial accounting and reporting purposes. An FHLBank's business could be adversely affected if those models fail to produce reliable and useful results.

Each FHLBanks makes significant use of business and financial models for managing risk. For example, each FHLBanks uses models to measure and monitor exposures to interest rate and other market risks and credit risk, including prepayment risk. Each FHLBank also uses models in determining the fair value of financial instruments for which 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.

The turmoil in the housing and credit markets creates additional risk regarding the reliability of internal models, particularly since each FHLBanks is regularly adjusting internal models in response to rapid changes in economic conditions. This may increase the risk that an FHLBank's internal models could produce unreliable results or estimates that vary widely or prove to be inaccurate. Models are inherently imperfect predictors of actual results because they are based on assumptions about future performance. An FHLBank's models could produce unreliable results for a number of reasons, including invalid or incorrect assumptions underlying the models or incorrect data being used by the models. The risk metrics, valuations and loan loss reserve estimations produced by an FHLBank's internal models may be different from actual results, which could adversely affect that FHLBank's business results, cash flows, fair value of net assets, business prospects and future earnings. Changes in any models or in any of the assumptions, judgments or estimates used in the models 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 asset and liability management decisions, or other decisions, which could result in an adverse financial effect. Further, any strategies that an FHLBank employs to attempt to manage the risks associated with the use of models may not be effective. The FHLBanks also do not use the same models in determining the fair values (including impairments) of their respective assets, liabilities and derivatives. The use of different models or assumptions by individual FHLBanks, as well as changes in market conditions, could result in materially different valuation estimates, impairment determinations 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.

FHLBank controls and procedures may fail or be circumvented, and risk management policies and procedures may be inadequate.

Each FHLBank may fail to identify and manage risks related to a variety of aspects of its business, including, but not limited to, operational risk, interest-rate risk, legal and compliance risk, human capital risk, liquidity risk, market risk and credit risk. Each FHLBank has adopted many controls, procedures, policies and systems to monitor and manage these risks. Each FHLBank's management cannot provide complete assurance that such controls, procedures, policies and systems are adequate to identify and manage the risks inherent in that FHLBank's various businesses. In addition, these businesses are continuously evolving. An FHLBank may fail to fully understand the implications of changes in the businesses and fail to enhance its risk governance framework in a timely or adequate fashion to address those changes. If the risk governance framework is ineffective, an FHLBank could incur losses.

Ineffectiveness in internal controls could result in errors, affect operating results and/or cause investors to lose confidence in the reported combined financial results.

FHLBanks may fail to meet minimum regulatory capital requirements, which could affect the FHLBanks' ability to conduct business "as usual" and may result in the impairment of FHLBank capital stock held by its members.

Each FHLBank subject to a new capital plan required to be implemented under the GLB Act is required to maintain sufficient permanent capital, defined as capital stock plus retained earnings, to meet its risk-based capital requirements. These requirements include components for credit risk, market risk and operational risk. In addition, each FHLBank is required to maintain certain regulatory capital and leverage ratios. Historically, the FHLBanks have held permanent capital well in excess of the risk-based capital requirements and have maintained adequate capital and leverage ratios; however, recently the FHLBank of Seattle has failed to meet its risk-based capital requirement. In recent months, most FHLBanks' excess permanent capital stock over their required risk-based capital has declined significantly, so other FHLBanks may fail to meet their respective risk-based capital requirements in the future if their respective market value of equity declines to the point where the requirement cannot be met. Any violation of these requirements will result in prohibitions on stock redemptions, repurchases and dividend payments. Violations could also result in changes in the FHLBanks' lending, investment or mortgage purchase program activities, a change in permissible business activities, restrictions on dividend payments and restrictions on capital stock redemptions and repurchases. If deemed necessary, an FHLBank may be required by the Finance Agency to call upon its members to purchase additional capital stock to meet the FHLBanks' minimum regulatory capital requirements, but members may not be in a position to satisfy those calls and the calls for additional capital, or the potential of such calls, may affect the desire on the part of members to conduct business with their respective FHLBank. Continued declines in market conditions could result in a possible violation of regulatory and/or statutory capital requirements. If an FHLBank's retained earnings were to become negative, that FHLBank might be precluded from redeeming or repurchasing shares for their full par value, which could cause members to withdraw from membership. (See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Legislative and Regulatory Developments" for more information).

The FHLBanks may not be able to pay dividends or repurchase or redeem members' capital stock at rates consistent with past practices.

Under Finance Agency 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. Further, events such as changes in the FHLBanks' market risk profile, credit quality of assets held and increased volatility of net income caused by the application of certain U.S. GAAP may affect the adequacy of the FHLBanks' retained earnings and 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 FHLBank membership and member activity with its FHLBank.

The FHLBanks' Affordable Housing Programs and other related community investment programs may 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 and/or below-market interest rate loans to members who use the funds to assist in the purchase, construction or rehabilitation of housing for very low-, low-, and moderate-income households. Annually, the FHLBanks must set aside for the AHP the greater of

$100 million or ten percent of regulatory net income. As an FHLBank's net income is reduced, the amount of funding available through the AHP is also reduced, thus impairing the FHLBanks' ability to satisfy its mission. However, the FHLBanks must always set aside a minimum of $100 million per year in the aggregate, even if the FHLBanks are unprofitable.

Compliance with regulatory contingency liquidity guidance could adversely affect the FHLBanks' earnings.

On March 6, 2009, the FHLBanks received final guidance from the Finance Agency requiring 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 as described in "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Liquidity". All FHLBanks are still required to maintain five calendar days of contingent liquidity under Finance Agency regulations. The Finance Agency's formalized guidance revises and finalizes guidance previously communicated to the FHLBanks early in the fourth quarter of 2008 and is designed to protect against temporary disruptions in access to the FHLBank debt markets in response to a rise in capital markets volatility. To satisfy this additional requirement, the FHLBanks maintain balances in shorter-term investments, which may earn lower interest rates than alternate investment options and may, in turn, negatively affect net interest income. In certain circumstances, the FHLBanks may need to fund overnight or shorter-term advances with short-term discount notes that have maturities beyond the maturities of the related advances, thus increasing the FHLBanks' short-term advance pricing or reducing net income through lower net interest spread. To the extent these increased prices make FHLBank advances less competitive, advance levels and, therefore, the FHLBanks' net interest income may be negatively affected.

The FHLBanks rely heavily on information systems and other technology.

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

SELECTED FINANCIAL DATA
(Dollar amounts in millions)

	2008	2007	2006	2005	2004
Selected Statement of Condition Data at December 31,					
Advances	$ 928,638	$ 875,061	$ 640,681	$619,860	$581,216
Mortgage loans held for portfolio, net	87,361	91,610	97,976	105,240	113,922
Investments (1) (2)	305,913	297,058	270,319	265,393	222,232
Total assets (2)	1,349,053	1,271,800	1,015,304	995,799	921,601
Deposits and borrowings (2)	16,696	22,393	20,310	21,635	21,022
Consolidated obligations, net (3)	1,258,267	1,178,916	934,214	915,901	845,738
Mandatorily redeemable capital stock (7)	6,136	1,107	1,094	1,451	1,153
Subordinated notes (4)	1,000	1,000	1,000		
Capital stock—Class B putable (5)	46,413	46,701	38,882	37,786	31,819
Capital stock—Class A putable (5)	752	891	532	498	326
Capital stock—Preconversion putable (5)	2,386	2,661	2,587	3,759	7,947
Total capital stock putable (6) (7)	49,551	50,253	42,001	42,043	40,092
Retained earnings (3)	2,936	3,689	3,144	2,600	1,744
Total capital (3) (6)	51,350	53,597	44,986	44,480	41,863
Selected Statement of Income Data for the year ended December 31,					
Total interest income (3) (8)	$ 45,595	$ 57,024	$ 50,541	$ 35,420	$ 21,925
Total interest expense (3) (7)	40,352	52,507	46,248	31,213	17,754
Net interest income (3) (8)	5,243	4,517	4,293	4,207	4,171
Provision (reversal) for credit losses	11	3	(1)	1	(5)
Net interest income after provision (reversal) for credit losses (3) (8)	5,232	4,514	4,294	4,206	4,176
Total other (loss) income (3)	(2,350)	127	3	(60)	(890)
Total other expense	1,076	792	743	729	612
Affordable Housing Program	188	318	295	282	225
REFCORP (8)	412	704	647	625	505
Total assessments (8)	600	1,022	942	907	730
Cumulative effect of change in accounting principles before assessments (7) (8)				15	50
Net income (3) (7) (8)	$ 1,206	$ 2,827	$ 2,612	$ 2,525	$ 1,994
Selected other data for the year ended December 31,					
Cash and stock dividends (7)	$ 1,975	$ 2,282	$ 2,069	$ 1,669	$ 1,348
Weighted-average dividend rate (7) (9)	3.80%	5.22%	4.91%	4.06%	3.47%
Return on average equity	2.17%	6.01%	5.80%	5.84%	4.93%
Return on average assets	0.09%	0.26%	0.26%	0.26%	0.23%
Net interest margin (7) (10)	0.40%	0.42%	0.43%	0.44%	0.48%
Selected other data at December 31,					
Total regulatory capital ratio (7) (11)	4.42%	4.41%	4.65%	N/A	N/A

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

(2) On April 30, 2007, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FIN 39-1, *Amendment of FASB Interpretation No. 39* (FSP FIN 39-1), which permits an entity to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instruments recognized at fair value executed with the same counterparty under a master netting arrangement. Reflects the effect

of reclassifications of cash collateral under FSP FIN 39-1. (See Notes 1 and 2 to the accompanying combined financial statements.)

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

(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 United States government or any of the FHLBanks other than the FHLBank of Chicago. (See Note 16 to the accompanying combined financial statements.)

(5) The FHLBanks of Cincinnati, Pittsburgh and Seattle each implemented its respective capital plan during 2002. The FHLBanks of Indianapolis, Des Moines and Dallas each implemented its respective capital plan during 2003. The FHLBanks of Atlanta, Boston, San Francisco and Topeka each implemented its respective capital plan during 2004. The FHLBank of New York implemented its capital plan in 2005. For 2006, 2007 and 2008, the corresponding balances for capital stock—pre-conversion putable relate solely to the FHLBank of Chicago, which has not yet implemented its new capital plan. (See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Legislative and Regulatory Developments" and Note 17 to the accompanying combined financial statements.)

(6) FHLBank capital stock is redeemable at the request of a member subject to the statutory redemption periods and other conditions and limitations. (See "Business—Capital, Capital Rules and Dividends" and Note 17 to the accompanying combined financial statements.)

(7) Effective January 1, 2004, the FHLBanks reclassified $946 million of their outstanding capital stock to "mandatorily redeemable capital stock" in the liability section of the Statement of Condition as a result of adopting SFAS 150. Upon adoption, the FHLBanks also recorded estimated dividends earned as a part of the carrying value of the mandatorily redeemable capital stock. The difference between the prior carrying amount and the mandatorily redeemable capital stock of $1 million was recorded as a cumulative effect of a change in accounting principle in the Statement of Income. The FHLBanks classify certain outstanding capital stock as "mandatorily redeemable capital stock" and include it in the liability section of the Statement of Condition as a result of adopting Statement of Financial Accounting Standards (SFAS) No. 150, *Accounting for Certain Financial Instruments and Characteristics of both Liabilities and Equity* (SFAS 150). For the years ended December 31, 2008, 2007 and 2006, dividends on mandatorily redeemable capital stock in the amounts of $50 million, $57 million and $60 million were recorded as interest expense. Although the mandatorily redeemable capital stock is not included in capital for financial reporting purposes, it is considered capital for regulatory purposes. (See Note 17 to the accompanying combined financial statements for information on the significant restrictions on stock redemption.)

(8) The FHLBank of Topeka changed its method of accounting under SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating and Acquiring Loans and Initial Direct Costs of Leases* (SFAS 91) in 2008. The FHLBanks of Chicago, Pittsburgh, Atlanta, Boston, Dallas, Des Moines and New York changed their method of accounting under SFAS 91 in 2004 and 2005. (See Note 2 to the accompanying combined financial statements.)

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

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

(11) The regulatory capital ratio is calculated based on the FHLBank's total regulatory capital as a percentage of total assets at period end. Total regulatory capital, under the GLB Act, is the defined as the sum of permanent capital, the amounts paid for Class A capital stock, any general allowance for losses and any other amount from sources available to absorb losses that the Finance Agency has determined by regulation to be appropriate to include in determining total capital. Total regulatory capital for the FHLBank of Chicago, which has not implemented a capital plan under the GLB Act, is defined as the sum of the paid-in value of capital stock and mandatorily redeemable capital stock plus retained earnings. The Finance Agency allows the FHLBank of Chicago to include a Designated Amount of subordinated notes in determining compliance with its regulatory capital ratio. For 2005 and 2004, the FHLBanks were in various stages of transition to a new capital plan and the current regulatory capital ratio is not applicable for those years. (See "Business—Capital, Capital Rules and Dividends" and Note 17 to the accompanying combined financial statements.)

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 notes beginning on page 179 of 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. The Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations 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 the respective FHLBank's periodic reports filed with the SEC. (See "Explanatory Statement about FHLBanks Combined Financial Report" on page 2 and "Available Information on Individual FHLBanks" on page 3.)

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 risk or uncertainty and that actual results could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate, or prediction is realized.

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

- changes in interest rates, housing prices, employment rates and the general economy;
- the size and volatility of the residential mortgage market;
- demand for FHLBank advances resulting from changes in FHLBank members' deposit flows and credit demands;
- volatility of market prices, rates, and indices or other factors that could affect the value of investments or collateral held by the FHLBanks as security for the obligations of FHLBank members and counterparties to interest-rate exchange agreements and similar agreements. This volatility could result from the effects of, and changes in, various monetary or fiscal policies and regulations, including those determined by the Federal Reserve Board and the 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 and/or investors in the consolidated obligations of the FHLBanks, such as changes in the FHLBank Act, as amended, or regulations that affect FHLBank operations, and regulatory oversight (including the U.S. Secretary of the Treasury's authority relating to the issuance of consolidated obligations and the passage of the Housing Act;

- competitive forces, including other sources of funding available to FHLBank members, other entities borrowing funds in the capital markets, and the ability to attract and retain skilled individuals;
- the pace of technological change and the ability to develop and support technology and information systems sufficient to manage the risks of the FHLBanks' business effectively;
- loss of large members through mergers and similar activities;
- changes in domestic and foreign investor demand for consolidated obligations and/or the terms of interest-rate exchange agreements and similar agreements, including changes in the relative attractiveness of consolidated obligations as compared to other investment opportunities;
- the availability, from acceptable counterparties, of derivative financial instruments of the types and in the quantities needed for risk management purposes;
- timing and volume of market activity;
- volatility of reported results due to changes in the fair value of certain assets and liabilities;
- 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;
- the FHLBanks' ability to identify, manage, mitigate and/or remedy internal control weaknesses and other operational risks;
- the FHLBanks' ability to implement business process improvements;
- risk of loss arising from litigation filed against one or more of the FHLBanks;
- significant business disruptions resulting from natural or other disasters, acts of war or terrorism;
- the effect of new accounting standards, including the development of supporting systems; and
- inflation/deflation.

Business Overview

Financial Performance. As cooperatives, the FHLBanks seek to maintain a balance between their public policy mission and their ability to provide adequate returns on the capital supplied by their members. The FHLBanks achieve this balance by delivering low-cost financing to members to help them meet the credit needs of their communities and by paying dividends. In view of their cooperative nature, the FHLBanks' financial strategies are designed to enable the FHLBanks to expand and contract in response to the credit needs of their members.

Each FHLBank invests its capital in 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. The dividends paid by an FHLBank are largely the result of the FHLBank's earnings on invested member capital, net earnings on advances to members and investment returns on investments and mortgage loans. These are offset by the FHLBank's operating expenses and assessments. The board of directors and management of each FHLBank determine the pricing of member credit and the FHLBank's dividend policies based on the needs of its members.

Different FHLBank Business Strategies. Each FHLBank is operated as a separate entity with its own management, employees and board of directors but under the supervisory and regulatory framework of the Finance Agency in its capacity as regulator (the Regulator). However, the management and board of directors of each FHLBank determine the best approach for meeting the FHLBank's business objectives and serving the needs of its members, which may not be the same as other FHLBanks due to different markets and economic characteristics. As such, the management and board of directors of each FHLBank have developed their own business strategies and initiatives to fulfill the FHLBank's mission and they reevaluate these strategies and initiatives from time to time. For example, some FHLBanks continue to offer the purchase of mortgage loans from their members through the acquired member asset programs; other FHLBanks have offered a program to their members but have not actively marketed the program or their members have not invested significant resources to develop or expand the programs; and some FHLBanks that previously participated have exited the programs. At December 31, 2008, mortgage loans purchased through the acquired member asset programs as a percentage of an individual FHLBank's total assets varied from a high of 35 percent for the FHLBank of Chicago to a low of less than one percent for the FHLBank of Dallas.

Comparative Highlights

	For the Years Ended December 31,			For the Year Ended 2008 vs. 2007 Increase (Decrease)		For the Year Ended 2007 vs. 2006 Increase	
	2008	2007	2006	$	%	$	%
(Dollar amounts in millions)							
Net interest income	$5,243	$4,517	$4,293	$ 726	16.1%	$224	5.2%
Net income	1,206	2,827	2,612	(1,621)	(57.3)%	215	8.2%

Net interest income increased from 2007 to 2008 due to the decline in interest rates, as the decrease in interest expense on consolidated obligations was greater than the decreases in interest income on advances and investments. Although the decline in interest rates caused an overall decrease in interest income and interest expense, volumes on advances, investments and consolidated obligations were higher in 2008 compared to 2007. The decrease in net income for 2008 compared to 2007 can be primarily attributed to the increases in net losses on held-to-maturity securities due to OTTI charges, the increases in net losses on derivatives and hedging activities, and the provision for derivative counterparty credit losses due from LBSF, which were partially offset by the increases in net interest income and the net gains on advances and consolidated bonds held at fair value. For the 12 FHLBanks, the combined net loss for the fourth quarter of 2008 was $715 million, compared to combined net income of $846 million for the fourth quarter of 2007.

The FHLBanks' net gains (losses) on trading securities, OTTI charges on private-label MBS and home equity loan investments, instruments held at fair value under the fair value option and derivatives and hedging activities resulted in the following (dollar amounts in millions):

	For the Years Ended December 31,			2008 vs. 2007 Increase (Decrease)		2007 vs. 2006 Increase (Decrease)	
	2008	2007	2006	$	%	$	%
Service fees	$ 29	$ 29	$ 28	$	0.0%	$ 1	3.6%
Net gains (losses) on trading securities	260	147	(127)	113	76.9%	274	215.7%
Net realized (losses) gains on available-for-sale securities	(53)	1	(3)	(54)		4	
Net realized losses on held-to-maturity securities	(1,959)	(6)	(6)	(1,953)	(32550.0)%		0.0%
Net gains on advances and consolidated bonds held at fair value	883			883			
Net (losses) gains on derivatives and hedging activities	(1,559)	(53)	83	(1,506)	(2841.5)%	(136)	(163.9)%
Other, net	49	9	28	40	444.4%	(19)	(67.9)%
Total other (loss) income	$(2,350)	$127	$ 3	$(2,477)	(1950.4)%	$ 124	4133.3%

In 2008, the FHLBanks incurred $2,025 million in OTTI charges related to certain private-label MBS and home equity loan investments that is recorded in "net realized losses on held-to-maturity securities" ($1,963 million), and "net realized losses on available-for-sale securities" ($62 million). In general, derivatives and associated hedged instruments and certain assets and liabilities that are carried at fair value are held to the maturity, call, or put date. Therefore, for these financial instruments, nearly all of the cumulative net gains and losses that are unrealized gains or losses are either generally a matter of timing and will generally reverse over the remaining contractual terms or are the reversal of gains recognized in prior periods of the hedged financial instrument, associated interest-rate exchange agreement or financial instrument carried at fair value. However, there may be instances in which these instruments are terminated 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, such as in the case of the FHLBanks' derivative transactions with LBSF. (See "Combined Results of Operations—Provision for Derivative Counterparty Credit Losses" for further discussion.) In addition, the FHLBanks may have instances in which they may sell trading securities prior to maturity, which may also result in a realized gain or loss.

Hedge ineffectiveness occurs when changes in the fair value of the derivative and the related hedged item do not perfectly offset each other. Hedge ineffectiveness is driven by changes in the benchmark interest rate and volatility. As the benchmark interest rate changes and the magnitude of that change intensifies, so will the effect on the FHLBanks' net gains (losses) on derivatives and hedging activities. Additionally, volatility in the marketplace may intensify this effect.

	For the Years Ended December 31,			2008 vs. 2007 Increase		2007 vs. 2006 Increase	
(Dollar amounts in millions)	2008	2007	2006	$	%	$	%
Total operating expenses	$732	$714	$671	$18	2.5%	$43	6.4%

The increase in operating expenses for 2008 as compared to 2007 is primarily attributable to increases in professional and contract services and costs related to the termination of merger discussions between the FHLBanks of Chicago and Dallas that were expensed in the first quarter of 2008.

Operating expenses increased in 2007 compared to 2006 primarily as a result of a higher staffing levels and general increases in pay and benefits.

	For the Years Ended December 31,			2008 vs. 2007 Increase		2007 vs. 2006 Increase	
(Dollar amounts in millions)	2008	2007	2006	$	%	$	%
Daily average total assets	$1,348,370	$1,096,831	$1,007,705	$251,539	22.9%	$89,126	8.8%

The increases in average assets are primarily the result of the growth in the FHLBanks' advances and in investment portfolios from prior years.

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

	December 31, 2008		December 31, 2007		
	Amount	Percentage of Total Assets	Amount	Percentage of Total Assets	Increase (Decrease) %
Advances	$ 928,638	68.8%	$ 875,061	68.8%	6.1%
Investments	305,913	22.7%	297,058	23.4%	3.0%
Mortgage loans held for portfolio, net	87,361	6.5%	91,610	7.2%	(4.6)%
Total assets	1,349,053		1,271,800		6.1%
Total consolidated obligations, net	1,258,267		1,178,916		6.7%
Total capital	51,350		53,597		(4.2)%

Advances increased as a percentage of total assets due to increased member demand until the fourth quarter of 2008. Even though investments increased at December 31, 2008 from December 31, 2007, investments, along with mortgage loans held for portfolio, decreased slightly as a percentage of total assets. Consolidated obligations increased to support the growth in total assets.

In light of the extraordinary events affecting the credit markets that began during the third quarter of 2007, members continued to increase their level of borrowing in FHLBank advances. Despite ongoing turbulence in the capital markets, the FHLBanks continued to fund short-term maturities at an attractive cost during 2008, relying heavily upon consolidated discount notes during the second half of the year, while reinforcing their role as liquidity providers to members. Mortgage loans held for portfolio decreased as a result of market conditions and lower origination and refinancing volumes.

Investments and the composition of investments fluctuate due to changes in the amount of the FHLBanks' asset activity, anticipated asset activity and liquidity requirements and needs in light of current market conditions. Investments in interest-bearing deposits and securities purchases under agreements to resell increased \$53.6 billion while Federal funds sold decreased by \$45.5 billion from December 31, 2007 to December 31, 2008. The interest-bearing deposits at December 31, 2008 primarily represent certain FHLBanks' deposits at the Federal Reserve Banks.

The decrease in the level of capital at December 31, 2008 compared to December 31, 2007 is primarily attributable to a decrease in retained earnings from recognizing \$2.0 billion in OTTI charges on certain private-label MBS and home equity loan investments and an increase in mandatorily redeemable capital stock and \$1.1 billion in cash dividends. The FHLBanks' combined regulatory capital- to-assets ratio at December 31, 2008 was 4.42 percent, up from 4.41 percent at December 31, 2007. The FHLBanks' combined capital-to-assets ratio calculated in accordance with accounting principles generally accepted in the United States of America (GAAP) at December 31, 2008 was 3.81 percent, down from 4.21 percent at December 31, 2007 due to the increase in assets, which was greater than the increase in capital, resulting mainly from an increase in outstanding advances, in comparison to the decrease in net income from prior periods, as a result of the lower interest-rate environment and as a result of \$2.0 billion in OTTI charges and losses on derivatives during 2008.

Key ratios are as follows:

	For the Years Ended December 31,		
	2008	2007	2006
Return on average assets (basis points)	9	26	26
Return on average equity	2.17%	6.01%	5.80%
Weighted-average dividend rate	3.80%	5.22%	4.91%

The decreases in return on average assets and return on average equity for 2008 are due primarily to larger increases in the average total assets and average invested equity balances. The dividend rate has been influenced by each FHLBank's retained earnings policies, dividend policies, net income, business strategies and Finance Agency regulations.

Financial Trends

Conditions in Financial Markets.

History will characterize 2008 as the first full year of an ongoing credit market crisis that commenced in mid-2007. For the FHLBanks, funding market access, funding costs, investor and dealer sponsorship, and the profile of debt outstanding changed markedly as the credit crisis deepened over the course of 2008.

The year commenced with the FHLBanks having increased debt outstanding by approximately \$238 billion during 2007. In addition, the three-month London Interbank Offered Rate (LIBOR), an important and influential benchmark rate in the global credit markets, had declined over 100 basis points from early September 2007 through year-end 2007 as U.S. and European central banks took action to address the lack of liquidity and confidence in the credit markets. Market participants also started off the year contemplating the \$2 billion loss sustained by Freddie Mac during the third-quarter of 2007.

First Quarter 2008.

With FHLBank debt outstanding at a record level and market rates declining, it became economically attractive for the FHLBanks to call a large proportion of callable bonds outstanding, which, at the time, represented a large proportion of term debt outstanding. Bond call volume surged during the quarter, peaking at $58.6 billion in February. In addition, the three-month LIBOR rate continued to decline throughout the quarter, reaching a first-quarter trough in late March, which increased the number of outstanding callable bonds that were economically attractive to call.

During the quarter, ongoing deterioration in the state of the credit markets, including the collapse of Bear Stearns, and a sharp decline in world equity markets increased investor anxiety and risk aversion. Credit market volatility, as measured by the price of options to buy and sell interest-rate swaps (swaptions), rose sharply during the quarter, peaking in mid-March. The fear of loss motivated many investors to allocate a larger proportion of their holdings to short-term, high-quality fixed-income securities. As a result, money fund assets increased and money fund portfolio managers increased their overall investment allocations to short-term GSE securities. This surge in demand for short-term, high-quality assets facilitated the FHLBanks refunding a large amount of called bonds with short-term, non-callable floating- and fixed-rate bonds, as well as discount notes.

As the FHLBanks refunded the large volume of called bonds, debt outstanding continued to grow during the quarter, with a $27 billion increase occurring in March. During the month, as the credit markets continued to demonstrate price and spread volatility and poor liquidity, the U.S. announced expanded dealer and bank liquidity facilities and a cut in the overnight Federal funds target rate from 3.00 percent to 2.25 percent. Coupled with the January cuts in the target rate, the overnight Federal funds rate declined by 2.00 percent during the quarter from 4.25 percent at the end of 2007. Amid the significant volume of FHLBank debt refunded, coupled with the increase in debt outstanding, aggregate bond funding costs relative to LIBOR, including the costs associated with issuing short-term, non-callable floating- and fixed-rate bonds, rose compared with the fourth quarter of 2007. Foreign investor demand for GSE securities also rose during the quarter, providing incremental demand as GSE debt outstanding rose. In addition, securities dealers carried significantly higher inventories of GSE debt relative to the fourth quarter of 2007. In the final month of the quarter, the balance of FHLBank discount notes outstanding rose sharply.

Second Quarter 2008.

During the second quarter, the year's significant deterioration in the market value of credit-risk-sensitive assets was evident as large, multi-national financial services firms reported multi-billion dollar losses in the first quarter and new capital-raising efforts. In mid-May, Fannie Mae completed its last capital offering as an independent company—$7.4 billion—and reported adequate capitalization. The fixed-income and equity markets reflected cautious optimism that the U.S. government was taking effective action to contain and alleviate the credit crisis. Swaption pricing, an indicator of the market's expectations for future fixed-income market volatility, declined early in the quarter and remained in a relatively narrow range. However, the stocks of financial services companies heavily exposed to the housing market, such as Freddie Mac, declined sharply as investor anxiety grew over the potential for future losses. In addition, growing uncertainty with regard to the magnitude of future write-downs of mortgage-related holdings on the books of commercial banks and securities dealers affected the willingness of historically active trade counterparties, primarily large financial institutions, to extend unsecured credit to each other.

FHLBank debt outstanding grew an additional $35 billion during the second quarter, while the three-month LIBOR rate remained priced in a relatively narrow range. In this environment, relative to the first quarter, bond calls moderated and money fund asset growth slowed. Foreign investor demand for GSE securities continued to rise and securities dealers continued to carry historically large inventories of GSE debt.

Early in the quarter, strong investor and dealer demand resulted in the FHLBanks issuing a large volume of short-term, fixed-rate non-callable bonds and, relative to the first quarter, fewer variable-rate bonds. With lower bond issuance relative to the first quarter, bond funding costs relative to LIBOR improved during the second quarter. As the FHLBanks responded to investor demand for short-term, high-quality securities, the weighted-average remaining term of debt outstanding started a pattern of month-over-month contraction. In addition, callable bonds, as a proportion of bonds outstanding, declined sharply, replaced with a surge in the balance of short-term, non-callable fixed-rate bonds, as well as discount notes.

Third Quarter 2008.

During the third quarter, a rapid deterioration in investor confidence in the credit and equity markets triggered significant changes in the number, ownership structure and capabilities of the industry's top companies. Elevated concern about loan loss trajectories for Fannie Mae and Freddie Mac resulted in declining market capitalization and the subsequent takeover of both companies by the Regulator. Large marquee investment banks, such as Lehman Brothers, Merrill Lynch, Morgan Stanley and Goldman Sachs, suffered sharp declines in market capitalization. Under this pressure, Lehman Brothers declared bankruptcy, Merrill Lynch agreed to be purchased by Bank of America, and Morgan Stanley and Goldman Sachs requested regulatory approval to convert to bank holding companies. During the third quarter, several of the nation's largest depository institutions suffered a significant decline in investor and regulator confidence, resulting in the closure of IndyMac Bank and the sale of Washington Mutual Bank to JP Morgan Chase Bank, N.A.

During this quarter, market participants demonstrated more acute caution about the creditworthiness of trade counterparties, which further diminished market liquidity. During the second quarter, uncertainty with regard to the magnitude of future write-downs of mortgage-related holdings on the books of commercial banks and securities dealers dominated counterparty credit decisions. During the third quarter, the scope of concern expanded to include other assets, such as commercial and credit card loans, and derivatives, such as credit default swaps, which led market participants to fear another wave of losses hitting the nation's financial institutions.

Early in the third quarter, investor caution toward interest-rate, basis and credit risk was reflected in additional growth in money market fund balances. However, on September 17, 2008, the Reserve Primary Fund, which held approximately $65 billion in assets, announced significant losses due to exposure to obligations of Lehman Brothers. This event triggered a new dimension of investor anxiety, which focused on the safety of money market funds. Subsequent to the announcement, taxable money market fund assets fell sharply and there was a large movement of funds from credit-risk-exposed prime money market funds into funds that restrict their exposure to U.S. Treasury and agency debt. In response, on September 19, 2008, the U.S. Treasury announced a temporary and voluntary asset guarantee program for eligible money market fund companies. Subsequently, investors responded to the initiative by allocating cash back into money market funds, leading to a sharp recovery in assets under management.

The unprecedented change in the landscape of the financial services industry motivated some investors to assume a defensive posture toward both credit and spread risk. Some investors became generally cautious toward any investments linked to the U.S. housing market, including mortgage-backed securities and senior debt issued by the GSEs. Other investors struggling with balance sheet problems, such as banks and hedge funds, sold off liquid assets, which included GSE debt. Other investors, such as government entities that rely on tax receipts for funding, curtailed investment activity to reflect a decline in reserves.

The sharp decline in investor confidence during the quarter significantly increased the cost and reduced the availability of term funding for the FHLBanks. Bond funding costs deteriorated as measured by a rise in the yield spread between FHLBank bonds and U.S. Treasury securities. Market confidence in the accuracy of the daily LIBOR fixings by the British Bankers Association had been shaken during the second quarter leading to uncertainty about how accurately LIBOR rates reflected the health of the interbank lending market. As a result, swapped funding costs (bond cash flows exchanged for LIBOR-indexed, variable-rate cash flows) rose sharply, coinciding with a nearly 200 basis point increase in three-month LIBOR between mid-September and mid-October.

During the third quarter, bond issue volume dropped sharply as both foreign investors and securities dealers commenced a rapid reduction in their holdings of GSE securities. Rising concerns over the futures of Fannie Mae and Freddie Mac, coupled with historically high price and spread volatility in GSE bonds, drove some large and influential investors to the sidelines. In contrast, the cost of issuing discount notes dropped sharply relative to LIBOR and the balance of discount notes outstanding increased nearly 24 percent peak-to-trough during all of 2008 as investors increased their demand for short-term, high-quality investments. During the third quarter, discount notes outstanding ranged from a low of approximately \$367 billion to a high of approximately \$450 billion. As a result of this significant shift in relative demand for FHLBank debt, the swapped funding cost differential between long-term and short-term FHLBank securities widened.

During the quarter, short-term, non-callable floating- and fixed-rate bonds represented a large proportion of the bonds issued, reflecting investors' continuing demand for short-term, high-quality securities. In addition, the FHLBanks' continued reliance on short-term bond funding led to a decline in the weighted-average remaining term of bonds outstanding. In contrast, strong investor demand for discount notes allowed the FHLBanks to address limited depth in the bond market by issuing additional discount notes, leading to a rapid increase in the weighted-average remaining term of discount notes outstanding. The proportion of debt outstanding that was comprised of discount notes rose from approximately 30 percent on June 30, 2008 to approximately 34 percent on September 30, 2008.

During the third quarter, securities dealers began to demonstrate a reduced willingness to carry inventories of GSE debt and commit risk capital to market-making. Dealer participation in FHLBank bond and discount note auctions declined and fewer dealers executed the bulk of FHLBank debt transactions. Discount notes, which represented a rising proportion of FHLBank debt outstanding during the quarter, became more difficult to sell through auction, reflecting the growing reluctance of dealers to commit capital to take principal risk. As a result, the FHLBanks commenced marketing a greater proportion of discount notes through negotiated transactions, which entail less principal risk for securities dealers. In addition, fewer callable and non-callable, fixed-rate bonds were priced using an auction format.

As the third quarter came to a close, the U.S. government announced additional initiatives to bolster liquidity and confidence in the credit and financial markets, including the approval of bank holding company status for Goldman Sachs and Morgan Stanley, an increase in the size of the domestic-bank-targeted Term Auction Facility and an increase in currency swap lines with select central banks. On September 19, 2008, September 23, 2008 and September 26, 2008, the Federal Reserve announced total purchases of \$14.5 billion in GSE discount notes.

Fourth Quarter 2008.

The market environment in the fourth quarter can be divided into two distinct periods. During the first half of the quarter, the market's outlook for volatility, as observed in swaption pricing, rose sharply. Bond funding costs deteriorated as measured by a steep and rapid rise in the yield spread between FHLBank bonds and U.S. Treasury securities. Three-month LIBOR continued the sharp rise that commenced in mid-September. During the early period of the fourth quarter, the U.S. Government announced additional actions and initiatives to bolster credit market confidence and liquidity, including the Commercial Paper Funding Facility, the Money Market Investor Funding Facility, reductions in the overnight Federal funds target rate and discount window rate, paying interest on depository institutions' required and excess reserve balances, and increases in currency swap agreements with select central banks. During this early part of the fourth quarter, FHLBank funding costs associated with short-term discount notes improved sharply relative to LIBOR as investors increased their demand for short-term, high-quality investments.

On October 7, 2008, federal bank and thrift regulatory agencies jointly announced a policy proposal to lower a banking institution's risk weight for certain Fannie Mae and Freddie Mac claims, including debentures and mortgage-backed securities, from 20 percent to 10 percent. The exclusion of FHLBank obligations from the announcement would increase the competitive disadvantage of FHLBank debt relative to the debt of the other two housing GSEs. As a result of the announcement, FHLBank term debt pricing was negatively affected. The proposed policy added to the market perception that the FHLBanks would receive less government support than Fannie Mae and Freddie Mac.

On October 13, 2008, the three-month LIBOR rate commenced a steep and sustained decline of approximately 332 basis points by year-end. As a result, FHLBank bond call volume steadily increased during the quarter as it became more economically attractive to call swapped callable bonds. FHLBank term debt issue volume dropped sharply in the fourth quarter relative to the third quarter and the weighted-average remaining term of FHLBank bonds outstanding continued to contract throughout the fourth quarter. In contrast, the weighted-average remaining term of discount notes outstanding continued to rise throughout the quarter. During the quarter, the proportion of debt outstanding that was comprised of discount notes continued to increase.

On October 14, 2008, the FDIC announced a new initiative entitled the TLGP. The initiative was designed to provide FDIC-insured institutions with the temporary ability to issue unsecured debt with the option to purchase a full-faith and credit guarantee wrap from the FDIC that would be valid initially until June 30, 2012. The TLGP was established to unfreeze interbank lending, encourage lending more broadly and enhance confidence in the banking system. Market participants responded to the announcement in a manner that indicated confusion about the relative safety of this new asset class, its potential overall size and liquidity, and the possible effect on GSE debt pricing. As a result, FHLBank term debt pricing deteriorated. FHLBank term debt funding costs spiked to the peak level of the year in early October, both relative to LIBOR and U.S. Treasury securities, as well as on an absolute rate basis when the FDIC revealed further details of the TLGP and its imminent approval on November 20, 2008. On November 24, 2008, Goldman Sachs successfully issued the first offering under the TLGP program, which was that company's own paper, indicating strong dealer and investor sponsorship.

On November 25, 2008, the Federal Reserve Board announced an initiative to commence purchasing up to $100 billion of the debt of the housing GSEs. Following this announcement, FHLBank term debt pricing commenced a rapid and sustained improvement relative to U.S. Treasury securities and interest rate swaps. During December, the Federal Reserve announced total purchases of $15 billion of GSE term debt, leaving an additional $85 billion in potential future purchases.

On November 26, 2008, the FDIC closed the comment window for their proposed rule that would have lowered a banking institution's risk weight for certain Fannie Mae and Freddie Mac claims, including debentures and mortgage-backed securities, from 20 percent to 10 percent. The proposed rule received 69 individual comment letters and 171 form letters. The rule was not finalized in 2008 and is still pending finalization.

During this quarter, FHLBank debt outstanding reversed its upward trend and declined $76 billion, primarily driven by a decline in bonds outstanding. Discount note and non-callable, fixed-rate term funding that was priced through auction was down sharply during the quarter, indicating continued dealer reluctance to commit capital to take principal risk. During the period, foreign holdings and dealer inventories of GSE debt continued the pattern of decline seen in the third quarter. Money fund balances grew steadily throughout the quarter and money fund portfolio manager allocations to GSE debt increased sharply.

During the period, the majority of FHLBank funding was obtained through negotiated transactions. No managed sales of global term debt were priced in October or November and little funding was obtained through auctions, with the exception being callable bonds that were priced in December. During the quarter, the majority of term debt was raised in the form of negotiated, short-term, non-callable fixed- and variable-rate bonds. However, a large volume of short-term, stepped-coupon callable bonds were negotiated in October and a large volume of intermediate- and long-term callable bonds, with maturities greater than one year, were negotiated in December.

On December 31, 2008, Wells Fargo & Company acquired Wachovia Corporation.

Review of Interest-Rate Levels and Volatility—2008 Compared to 2007.

The primary external factors that affect net interest income are market interest rate levels and volatility, credit spreads and the general state of the economy.

Interest rates prevailing during any reporting period affect the FHLBanks' profitability for that reporting period, due primarily to the short-term structure of earning assets and the effect of interest rates on invested capital. At December 31, 2008 and 2007, the majority of investments, excluding mortgage-backed securities, and approximately 42 percent and 33 percent of the outstanding advances, had stated maturities of less than one year. Additionally, a significant portion of the FHLBanks' advances has been hedged with interest-rate exchange agreements in which a short-term, variable rate is received. The demand for FHLBank debt, as well as current short-term interest rates, as represented, for example, by the overnight Federal funds target rate, has an effect on the FHLBanks' profitability as measured by net interest income and return on average equity.

Interest rates also directly affect the FHLBanks through earnings on invested capital. Generally, due to the FHLBanks' cooperative structures, the FHLBanks earn relatively narrow net spreads between the yield on assets and the cost of corresponding liabilities. As a result, compared with other financial institutions, a relatively higher proportion of FHLBank income is generated from the investment of member-supplied capital at the average asset yield. Consequently, changes in asset yields tend to have a greater effect on FHLBank profitability than on the profitability of financial institutions in general. Most FHLBanks' return on capital follows short-term rates such as the Federal funds or 3-month LIBOR rates, while certain FHLBank average asset yields and corresponding returns on capital are driven by longer-term assets, such as mortgage loans purchased through the mortgage purchase programs and mortgage-backed securities (also referred to as MBS) and collateralized mortgage obligations (CMO)-related investment holdings.

Certain capital markets developments may also affect the performance of the FHLBanks. Specifically, the pricing relationships between the mortgage, agency, and derivative markets and the level of market price volatility may affect the attractiveness of mortgage products for the FHLBanks as well as the cost of FHLBank debt.

The following table presents information on key market interest rates at December 31, 2008 and 2007 and key average market interest rates for the years ended December 31, 2008 and 2007.

	Year-to-date December 31, 2008 12-Month Average	Year-to-date December 31, 2007 12-Month Average	December 31, 2008 Ending Rate	December 31, 2007 Ending Rate	Average Rate 2008 vs. 2007 Variance	Ending Rate 2008 vs. 2007 Variance
Federal Funds Target (1)	2.08%	5.05%	0.25%	4.25%	(2.97)%	(4.00)%
3-month LIBOR (1)	2.93%	5.30%	1.43%	4.70%	(2.37)%	(3.27)%
2-year LIBOR (1)	2.94%	4.91%	1.48%	3.81%	(1.97)%	(2.33)%
5-year LIBOR (1)	3.69%	5.01%	2.13%	4.18%	(1.32)%	(2.05)%
10-year LIBOR (1)	4.24%	5.24%	2.56%	4.67%	(1.00)%	(2.11)%
3-month U.S. Treasury (1)	1.45%	4.46%	0.08%	3.24%	(3.01)%	(3.16)%
2-year U.S. Treasury (1)	2.00%	4.36%	0.77%	3.05%	(2.36)%	(2.28)%
5-year U.S. Treasury (1)	2.79%	4.42%	1.55%	3.44%	(1.63)%	(1.89)%
10-year U.S. Treasury (1)	3.64%	4.63%	2.21%	4.03%	(0.99)%	(1.82)%
15-year residential mortgage note rate (2)	5.59%	5.94%	4.80%	5.60%	(0.35)%	(0.80))%
30-year residential mortgage note rate (2)	6.02%	6.27%	5.03%	6.05%	(0.25)%	(1.02)%

(1) Source: Bloomberg.

(2) Average rates calculated using Bloomberg. December 31, 2008 and December 31, 2007 ending rates are from the last week in December 2008 and December 2007.

The Federal Reserve Board, through its Federal Open Market Committee (FOMC), lowered its target for the Federal funds rate by a total of 100 basis points during 2007. As of December 31, 2008, the FOMC had lowered the Federal funds rate seven more times during 2008, resulting in an additional 400-425 basis point reduction in the Federal funds rate to a level of between 0.00 and 0.25 percent.

Both short-term and long-term interest rates generally followed this downward trend in the Federal funds rate. For example, due to aggressive and unprecedented action by U.S. and foreign central banks to add liquidity to the money markets, the average three-month and two-year LIBOR rates decreased approximately 237 and 197 basis points from 2007 to 2008, while the average three-month and two-year U.S. Treasury rates for 2008 was approximately 301 and 236 basis points lower than the corresponding three-month and two-year U.S. Treasury rates during 2007. Average five-year and ten-year U.S. Treasury rates were lower by 163 and 99 basis points in 2008 compared to 2007, while average five-year and ten-year LIBOR rates were lower by 132 and 100 basis points over this time period.

The Securities Industry and Financial Markets Association's (SIFMA's) March 2009 "Research Quarterly," the latest date for which information is publicly available, noted that capital markets issuance in 2008 reached $5.0 trillion, a 23.2 percent decrease from the $6.5 trillion issued in 2007. Mortgage-related securities issuance decreased 34.7 percent to $1,339.4 billion in 2008 from $2,050.3 billion in 2007, as this market was significantly influenced by the absence of activity of private-label issuers as well as tighter underwriting standards during 2008. The shift toward GSE or agency mortgage financing led to higher agency debt issuance in 2008. Despite a decline in long-term federal agency debt issuance during the fourth quarter of 2008, long-term federal agency debt issuance rose 17.7 percent from $941.8 billion in 2007 to $1,108.3 billion in 2008. The FHLBanks' $515.1 billion of debt issuance accounted for almost half of total agency debt issuance during 2008, an increase of 4.0 percent over the $495.2 billion issued by the FHLBanks in 2007.

During the fourth quarter of 2008, the dollar amount of callable FHLBank consolidated bonds redeemed prior to maturity (called) was 54 percent lower than during the fourth quarter of 2007. However, during all of 2008, the dollar amount of bonds called was 18 percent higher than during all of 2007, as bond call volume was substantially higher during the first part of 2008.

Macroeconomic Factors Affecting the FHLBanks—2008 Compared to 2007.

The mortgage market continued to undergo a number of changes. Mortgage loan delinquencies and defaults have increased over the past year, particularly in the nonprime sector, reflecting the combination of a softening residential real estate market in many areas of the nation, the effect of less rigorous loan underwriting standards and interest-rate resets on variable-rate loans. In addition, mortgage originators, dealers and investors incurred significant markdowns on the value of subprime, alternative documentation and payment-option loans and securities backed by these loans. As a result, a number of high-profile originators have exited subprime and alternative documentation lending, disposed of assets or filed for bankruptcy as warehouse lenders invoked lending covenants and seized collateral. The FHLBanks have not experienced significant losses from their holdings of mortgage loans due primarily to conservative underwriting policies.

The FDIC's fourth quarter 2008 "Quarterly Banking Profile" reported that for the first time since the fourth quarter of 1990, FDIC-insured institutions posted an aggregate net loss for a quarter. The $32.1 billion net loss during the fourth quarter of 2008 was the result of expenses associated with rising loan losses and declining asset values overwhelming quarterly revenues. Net income earned by all FDIC-insured institutions during 2008 only totaled $10.2 billion, a decline of $89.8 billion, or 89.8 percent, from the $100.0 billion earned by these institutions during 2007. The FDIC also reported that failures and assistance transactions of FDIC-insured institutions reached a 15-year high during 2008. At December 31, 2008, the FDIC reported that total assets and total deposits of all FDIC-insured institutions had increased compared to the corresponding balances at December 31, 2007. Total assets for all FDIC-insured institutions increased to $13.8 trillion, a 6.2 percent increase over this time period, while total deposits for all FDIC-insured institutions increased to $9.0 trillion, a 7.4 percent increase over this period. While total loans and leases of $7.9 trillion at December 31, 2008 remained almost unchanged over year-end 2007, total domestic office deposits increased from $6.9 trillion to $7.5 trillion, an 8.4 percent increase over this same period. FDIC-insured institutions decreased their FHLBank borrowings by $124.0 billion, or 13.6 percent, during the fourth quarter of 2008 as these institutions began participating in U.S. government programs initiated to provide capital and liquidity to the banking sector. For example, 64 financial institutions had $224 billion in government-guaranteed debt outstanding through the TLGP at December 31, 2008.

Conditions in Financial Markets Subsequent to the Fourth Quarter of 2008.

On February 3, 2009, the Board of Governors of the Federal Reserve System announced the extension of multiple liquidity programs through October 30, 2009, which were previously scheduled to expire on April 30, 2009. These facilities are the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), the Commercial Paper Funding Facility (CPFF), the Money Market Investor Funding Facility (MMIFF), the Primary Dealer Credit Facility (PDCF) and the Term Securities Lending Facility (TSLF).

On February 18, 2009, the U.S. Treasury announced the Homeowner Affordability and Stability Plan. As part of that plan, the U.S. Treasury amended the senior preferred stock purchase agreements with Fannie Mae and Freddie Mac to increase the U.S. Treasury's funding authority from $100 billion each to $200 billion each. In addition, the U.S. Treasury announced an increase in Fannie Mae's investment portfolio cap and Freddie Mac's investment portfolio cap to $900 billion from $850 billion. On February 26, 2009, Fannie Mae announced a fourth quarter 2008 loss of $25.2 billion. On March 11, 2009, Freddie Mac announced a fourth quarter 2008 loss of $23.9 billion.

On February 25, 2009, the Director of the Finance Agency submitted a request for $15.2 billion from the U.S. Department of the Treasury on Fannie Mae's behalf under the terms of the Senior Preferred Stock Purchase Agreement in order to eliminate Fannie Mae's net worth deficit as of December 31, 2008. On March 11, 2009, Freddie Mac announced that the Director of the Finance Agency had submitted a request for $30.8 billion from the U.S. Department of the Treasury on Freddie Mac's behalf under the terms of the Senior Preferred Stock Purchase Agreement in order to eliminate Freddie Mac's net worth deficit as of December 31, 2008.

On March 18, 2009, the Federal Reserve Board announced that economic conditions had continued to deteriorate in the first quarter as indicated by job losses, declining equity and housing wealth, tight credit conditions and slumping U.S. exports. On this same day, to provide greater support to mortgage lending and the housing market, the Federal Reserve Board announced that it would purchase up to an additional $750 billion of agency mortgage-backed securities, increasing its total purchase authority to $1.25 trillion since the inception of this program. The Federal Reserve Board also announced that it would purchase up to an additional $100 billion in agency debt issued by Fannie Mae, Freddie Mac and the FHLBanks, increasing its total purchase authority to a total of up to $200 billion since the inception of this program. Additionally, to help improve conditions in private credit markets, the Federal Reserve Board announced that it would purchase up to $300 billion of longer-term U.S. Treasury securities over the next six months.

During the first quarter of 2009, the Federal Reserve Bank of New York (FRBNY) continued to purchase both GSE term debt and MBS. Since the inception of the program through March 31, 2009, the FRBNY has purchased approximately $53 billion in GSE term debt, including $12 billion of FHLBank term debt, and approximately $424 billion in GSE mortgage-backed securities—this includes approximately $121 billion in purchases related to dollar rolls, which, similar to repurchase agreements, provide holders of mortgage-backed securities with a form of short-term financing. Starting in late March 2009, the FRBNY commenced purchasing U.S. Treasury securities. Through the end of the month, the FRBNY had purchased approximately $17.5 billion in U.S. Treasury securities with various maturities.

After slowing down in February 2009, TLGP issuance has ramped up considerably during March as the FDIC announced plans to raise fees associated with the TLGP on April 1, 2009. Through March 31, 2009, approximately $222 billion in TLGP wrapped bonds have been priced. On January 16, 2009, the FDIC announced that it would change its TLGP to insure some assets for ten years, up from three years, in order to accommodate the longer maturities associated with covered bonds. On February 10, 2009, in a joint statement, U.S. Treasury, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Comptroller of the Currency and the Office of Thrift Supervision announced the Capital Assistance Program, the Public-Private Investment Fund, a "dramatic" expansion of the Term Asset-Backed Securities Lending Facility (TALF) and the extension of the TLGP by four months to October 31, 2009. In order to gradually phase out the program, the FDIC will assess a surcharge on TLGP debt that is issued beginning in the second quarter of 2009 with a maturity date of one year or longer. On

March 19, 2009, the Federal Reserve Board announced that the range of eligible collateral for TALF funding commencing in April 2009 will be expanded to include asset-backed securities backed by mortgage servicing advances, loans or leases relating to business equipment, leases of vehicle fleets and floor-plan loans.

Government initiatives have aided in reviving the GSE term debt markets, especially for large, fixed-rate, non-callable issues (bullet bonds). Year-to-date, through March 31, 2009, Fannie Mae priced a combined total of $37 billion in new two-year, three-year and five-year Benchmark Notes® while Freddie Mac priced a combined total of $24.5 billion in new two-year, three-year, five-year and ten-year Reference Notes®.

On March 23, 2009, the U.S. Treasury, Federal Reserve and FDIC announced a framework for the Public-Private Investment Program (PPIP). The PPIP is a two-part program designed to remove "toxic" assets from bank balance sheets and improve credit availability to households and businesses. The first part of the PPIP, known as the legacy loan program, is designed to attract private capital to purchase troubled loans from banks. These transactions will be facilitated by FDIC guarantees and equity provided by the U.S. Treasury using TARP funds. The second part of the PPIP, known as the legacy securities program, includes (1) an expansion of the TALF to include legacy securitization assets and (2) Public-Private Investment Funds (PPIF), whereby pre-qualified fund managers will purchase legacy securities with a combination of private capital and U.S. Treasury funds.

Year-to-date, FHLBank bond retirements, resulting from both scheduled maturities and exercised calls, reached historically high levels, resulting in lower debt outstanding. The volume of FHLBank bonds priced in January 2009 rose sharply relative to the monthly run rate during the fourth quarter of 2008. On January 14, 2009, the FHLBanks announced a mandated global bond issue under a new monthly calendar-date format. The inaugural issue was a $3.5 billion, two-year bullet bond. The volume of FHLBank bonds priced in February 2009 slowed from the January 2009 pace. The February 2009 calendar-date mandated global bond issue was a $3 billion, two-year bullet bond. The volume of FHLBank bonds priced in March 2009 was comparable to the volume priced in February 2009. The March 2009 calendar-date mandated global bond issue was a $3 billion, three-year bullet bond. The dollar volume of FHLBank bonds priced in the first quarter of 2009 was more than double the dollar volume priced during the fourth quarter of 2008.

As noted earlier, since the end of 2008, there has been an increase in the amount of term FHLBank debt priced relative to the pace during the fourth quarter of 2008. Volume increased in negotiated bullets, negotiated callable bonds, auctioned callable bonds and variable-rate bonds. In the first quarter of 2009, the weighted-average number of days to maturity of all outstanding bonds, as well as the outstanding balance, continued to decline. The weighted-average number of days to maturity of all outstanding discount notes was unchanged at the end of the first quarter of 2009 compared with the end of 2008.

Overall, FHLBank debt outstanding continued to shrink during the first quarter of 2009, falling an additional $116 billion from year-end 2008 through March 31, 2009 due to a sharp decline in consolidated bonds outstanding. Additionally, as FHLBank bond issuance has not kept pace with bond retirements, discount notes, as a percentage of total debt outstanding, has increased from approximately 35 percent at year-end 2008 to approximately 36 percent at March 31, 2009.

Foreign official holdings of GSE debt and MBS securities, as reported by the Federal Reserve Board, stabilized during the first quarter of 2009 following a sharp and sustained decline during the second half of 2008. In addition, primary securities dealer inventories of GSE debt securities, as reported by the FRBNY, which declined sharply during the fourth quarter of 2008, stabilized during the first quarter of 2009. Since late September 2008, money market funds, in the aggregate, had been increasing their asset allocation to short-term GSE debt. During the first quarter of 2009, the rate of increase in that allocation declined.

Review of Interest-Rate Levels and Volatility—2007 Compared to 2006.

The following table presents information on key average market interest rates for the years ended December 31, 2007 and 2006 and key market interest rates at December 31, 2007 and 2006.

	Year-to-date December 31, 2007 12-Month Average	Year-to-date December 31, 2006 12-Month Average	December 31, 2007 Ending Rate	December 31, 2006 Ending Rate	Average Rate 2007 vs. 2006 Variance	Ending Rate 2007 vs. 2006 Variance
Federal Funds Target (1)	5.05%	4.96%	4.25%	5.25%	0.09%	(1.00)%
3-month LIBOR (1)	5.30%	5.20%	4.70%	5.36%	0.10%	(0.66)%
2-year LIBOR (1)	4.91%	5.23%	3.81%	5.17%	(0.32)%	(1.36)%
5-year LIBOR (1)	5.01%	5.23%	4.18%	5.09%	(0.22)%	(0.91)%
10-year LIBOR (1)	5.24%	5.32%	4.67%	5.18%	(0.08)%	(0.51)%
2-year U.S. Treasury (1)	4.36%	4.82%	3.05%	4.81%	(0.46)%	(1.76)%
5-year U.S. Treasury (1)	4.42%	4.75%	3.44%	4.70%	(0.33)%	(1.26)%
10-year U.S. Treasury (1)	4.63%	4.79%	4.03%	4.70%	(0.16)%	(0.67)%
15-year residential mortgage note rate (2)	5.94%	6.03%	5.60%	5.93%	(0.09)%	(0.33)%
30-year residential mortgage note rate (2)	6.27%	6.38%	6.05%	6.22%	(0.11)%	(0.17)%

(1) Source: Bloomberg.

(2) Average calculated using "The Mortgage Bankers Association Weekly Application Survey." December 31, 2007 ending rate is from the last week in December 2007 and December 31, 2006 ending rate is from the last week in December 2006.

The Federal Reserve Board, through its Federal Open Market Committee, kept the Federal funds rate unchanged during the first and second quarters of 2007 at 5.25 percent. On September 18, 2007, the Federal Reserve reduced its Federal funds rate target for the first time in four years from 5.25 percent to 4.75 percent. In anticipation of further slowing in economic activity, on October 31, 2007 and December 11, 2007, the Federal Open Market Committee lowered its target for the Federal funds rate a total of 50 basis points to 4.25 percent.

Both short-term and long-term interest rates generally followed this downward trend in the Federal funds rate. For example, the 2007 average two-year LIBOR rate was 32 basis points lower compared with the 2006 average, while the average two-year U.S. Treasury rate was 46 basis points lower. However, the average three-month LIBOR rate was ten basis points higher, partially driven by the extreme illiquidity affecting the credit markets during the third and fourth quarters of 2007. Although the average three-month LIBOR rate was higher for 2007, a significant decline in this rate in the latter part of 2007, due to aggressive action by U.S. and foreign central banks to add liquidity to the money markets, resulted in a rate that was 66 basis points lower at year-end 2007 compared to year-end 2006. Average five-year and ten-year U.S. Treasury rates were lower by 33 and 16 basis points in 2007, while average five-year and ten-year LIBOR rates were lower by 22 and 8 basis points over this time period.

The SIFMA's February 2008 "Research Quarterly" noted that securities issuance totaled $6.44 trillion during 2007, virtually unchanged from the $6.47 trillion issued during 2006. However, the effect of the credit market turbulence contributed to a 27 percent decline in securities issuance volume during the second half of 2007 compared to securities issuance volume during the first half of 2007. During 2007, agency debt and mortgage-backed securities issue volume rose as a result of the substantial funding cost difference between the agency and non-agency mortgage markets. Federal agency new securities issuance during 2007 totaled $940.7 billion, an increase of 25.9 percent compared to the corresponding new issuance volume during 2006. This increase reflected the demand for conventional mortgage financing due to a pricing and underwriting driven slowdown of activity in the non-agency mortgage-backed securities market. Issuance of mortgage-related securities totaled $2.04 trillion in 2007, compared to $1.99 trillion in 2006. Issuance peaked at $618.5 billion in the second quarter of 2007, with the volume in the second half of the year 25.1 percent lower than in the first half of the year. The weakened housing market, declines in home prices, tighter underwriting practices and the virtual disappearance of subprime originations, combined with credit market turmoil and diminished liquidity, led to the lower mortgage-related issuance activity in the second half of 2007. Agency long-term bond issuance volume in 2007 totaled $941.7 billion, up 26.0 percent from the $747.3 billion issued during 2006. Included in this number is the FHLBanks' bond issuance of $495.2 billion, a 53.6 percent increase compared to 2006, which was due to the rise in demand for FHLBank funding from member financial institutions and a historically high volume of bonds called prior to maturity. In the fourth quarter of 2007, FHLBank issuance reached its highest level of the year at $152.6 billion, compared to an average of approximately $114 billion for the first three quarters of 2007.

During the first half of 2007, the issuance of callable FHLBank consolidated obligations increased, as callable debt continued to be a core component of the FHLBanks' interest-rate risk management strategy. During the second half of 2007, the callable bond proportion of total bonds issued declined and the proportion of bonds issued with variable-rate coupons rose sharply. In addition, the dollar amount of callable bonds redeemed prior to maturity was substantially higher in 2007 compared to the prior year. Bond call volume increased sharply during the fourth quarter of 2007 as market interest rates declined.

Combined Statement of Condition

SFAS 133 and SFAS 159. SFAS 133 requires that assets and liabilities hedged with derivative instruments designated under fair value hedging relationships be adjusted for changes in value attributable to the risk being hedged (e.g., benchmark interest rate risk) even as other assets and liabilities continue to be carried on a historical cost basis. SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115* (SFAS 159), provides an 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. In discussing changes in the Combined Statement of Condition at December 31, 2008 as compared to December 31, 2007, the SFAS 133 and SFAS 159 fair value adjustments and basis adjustments for advances, available-for-sale securities, mortgage loans held for portfolio and consolidated obligations have been included. All other SFAS 133 hedging adjustments were less than one percent of the book value. The SFAS 133 and SFAS 159 hedging and valuation adjustments for advances, available-for-sale securities, mortgage loans held for portfolio and consolidated obligations are as follows:

SFAS 133 Hedging and SFAS 159 Valuation Adjustments
(Dollar amounts in millions)

	December 31, 2008	December 31, 2007
Advances at pre-SFAS 133 and 159 value	$ 900,453	$ 867,144
SFAS 133 hedging adjustments	26,885	7,917
SFAS 159 valuation adjustments (1)	1,300	
Advances at carrying value	$ 928,638	$ 875,061
Available-for-sale securities at pre-SFAS 133 value (2)	$ 13,969	$ 5,710
SFAS 133 hedging adjustments	590	103
Available-for-sale securities at carrying value	$ 14,559	$ 5,813
Mortgage loans held for portfolio at pre-SFAS 133 value	$ 87,065	$ 91,503
SFAS 133 hedging adjustments	311	115
Mortgage loans held for portfolio at carrying value	$ 87,376	$ 91,618
Consolidated obligations at pre-SFAS 133 and 159 value	$1,247,606	$1,176,111
SFAS 133 hedging adjustments	10,595	2,805
SFAS 159 valuation adjustments (1)	66	
Consolidated obligations at carrying value	$1,258,267	$1,178,916

(1) See "Note 19—Estimated Fair Values" to the accompanying combined financial statements for discussion about financial instruments carried at fair value on the statement of condition by the FHLBanks.

(2) Book value includes fair value adjustments under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115).

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

Advances. In light of the extraordinary events affecting the credit markets that began during the third quarter of 2007 and continued through the third quarter of 2008, members have increased their level of borrowing in FHLBank advances during the period, particularly in short-term advances, due in one year or less.

At December 31, 2008, the FHLBanks had $7.1 billion of CIP housing advances and $2.7 billion of CIP commercial and economic development advances outstanding.

Advances by Contractual Maturity
(Dollar amounts in millions)

	December 31, 2008		December 31, 2007	
Redemption Term	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Overdrawn demand and overnight deposit accounts	$ 30		$ 86	
Due in 1 year or less	382,493	2.44%	378,445	4.66%
Due after 1 year through 2 years	150,323	3.67%	147,166	4.84%
Due after 2 years through 3 years	94,086	3.53%	88,576	4.93%
Due after 3 years through 4 years	67,173	3.65%	63,009	4.99%
Due after 4 years through 5 years	58,127	3.13%	57,822	4.76%
Thereafter	144,578	3.78%	128,730	4.54%
Index amortizing advances	3,654	4.62%	3,415	4.71%
Total par value	900,464	3.12%	867,249	4.73%
Commitment fees	(6)		(4)	
Discount on AHP advances	(68)		(68)	
Premiums	105		30	
Discounts	(42)		(63)	
SFAS 133 hedging adjustments	26,885		7,917	
SFAS 159 valuation adjustments	1,300			
Total	$928,638		$875,061	

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

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

	December 31, 2008		December 31, 2007	
Par amount of advances	Amount	Percentage of Total	Amount	Percentage of Total
Fixed-rate	$609,073	67.6%	$565,805	65.2%
Variable-rate	291,391	32.4%	301,444	34.8%
Total	$900,464	100.0%	$867,249	100.0%

Advance Originations
(Dollar amounts in millions)

	For the Years Ended December 31,			2008 vs. 2007 Increase		2007 vs. 2006 Increase	
	2008	2007	2006	$	%	$	%
Advances originated	$8,551,560	$7,564,733	$7,096,633	$ 986,827	13.0%	$468,100	6.6%
Advances repaid	8,518,268	7,339,019	7,075,488	1,179,249	16.1%	263,531	3.7%
Net increase	$ 33,292	$ 225,714	$ 21,145				

The increase in advance originations noted in the previous table generally reflected an increase in demand by members for short-term advances as a result of the continued credit crisis, the interest-rate environment and heavy refinancing activity in advances.

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

Callable Advances Outstanding—Par Value
(Dollar amounts in millions)

	December 31, 2008		December 31, 2007		Increase	
	Amount	Percentage of Par Value	Amount	Percentage of Par Value	$	%
Callable advances	$46,098	5.1%	$37,000	4.3%	$9,098	24.6%

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

Year of Contractual Maturity or Next Call Date	December 31, 2008	Percentage of Total	December 31, 2007	Percentage of Total
Overdrawn demand and overnight deposit accounts	$ 30	0.0%	$ 86	0.0%
Due in 1 year or less	414,444	46.0%	407,306	47.0%
Due after 1 year through 2 years	148,674	16.5%	142,670	16.5%
Due after 2 years through 3 years	89,636	10.0%	85,375	9.8%
Due after 3 years through 4 years	62,615	7.0%	58,513	6.7%
Due after 4 years through 5 years	53,534	5.9%	53,546	6.2%
Thereafter	127,877	14.2%	116,338	13.4%
Index amortizing advances	3,654	0.4%	3,415	0.4%
Total par value	$900,464	100.0%	$867,249	100.0%

The FHLBanks also offer convertible and putable advances. Convertible advances allow an FHLBank to convert a fixed-rate advance to an open-line advance or another structure after an agreed-upon lockout period. A convertible advance carries an interest rate lower than a comparable maturity advance that does not have a conversion feature. With a putable advance, an FHLBank has the right to terminate the advance at its discretion, which the FHLBank normally would exercise when interest rates increase, and the borrower may then apply for a new advance.

Convertible and Putable Advances Outstanding—Par Value
(Dollar amounts in millions)

	December 31, 2008		December 31, 2007	
	Amount	Percentage of Par Value	Amount	Percentage of Par Value
Convertible advances	$ 47,676	5.3%	$ 49,055	5.7%
Putable advances	94,621	10.5%	82,845	9.6%
Convertible and putable advances	$142,297	15.8%	$131,900	15.3%

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

Year of Contractual Maturity or Next Put/Convert Date	December 31, 2008	Percentage of Total	December 31, 2007	Percentage of Total
Overdrawn demand and overnight deposit accounts	$ 30	0.0%	$ 86	0.0%
Due in 1 year or less	483,174	53.7%	465,854	53.7%
Due after 1 year through 2 years	151,648	16.8%	163,866	18.9%
Due after 2 years through 3 years	96,779	10.8%	80,930	9.3%
Due after 3 years through 4 years	51,820	5.8%	58,912	6.8%
Due after 4 years through 5 years	52,660	5.8%	39,920	4.6%
Thereafter	60,699	6.7%	54,266	6.3%
Index amortizing advances	3,654	0.4%	3,415	0.4%
Total par value	$900,464	100.0%	$867,249	100.0%

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

At December 31, 2008 and 2007, 91.1 percent and 94.4 percent of the total investment securities classified on the Combined Statement of Condition as held-to-maturity, available-for-sale or trading securities were rated in the two highest investment rating categories for long-term or short-term investments as defined by Standard & Poor's Rating Services (S&P), Moody's Investors Service (Moody's) and/or Fitch Ratings (Fitch). At December 31, 2008, approximately 3 percent of total investment securities were on negative watch. Of the 3 percent of securities on negative watch, approximately 2 percent of the total investment securities represented private-label residential and commercial MBS, manufactured housing loans and home equity loan investments, and the balance was primarily related to certificates of deposit, commercial paper and state or local housing agency obligations. See "Risk Management—Credit Risk—Managing Credit Risk—Investments" for investment securities down-graded and/or placed on negative watch subsequent to December 31, 2008.

Investments
(Dollar amounts in millions)

	December 31, 2008	December 31, 2007	(Decrease) Increase	
			$	%
Investments (excluding mortgage-backed securities)	$136,743	$153,545	$(16,802)	(10.9)%
Mortgage-backed securities	169,170	143,513	25,657	17.9%
Total investments	$305,913	$297,058	$ 8,855	3.0%

Investments
(Dollar amounts in millions)

	December 31, 2008 Amount	December 31, 2008 Percentage of Total Investments	December 31, 2007 Amount	December 31, 2007 Percentage of Total Investments	(Decrease) Increase $	(Decrease) Increase %
Held-to-maturity securities	$184,524	60.3%	$197,818	66.6%	$(13,294)	(6.7)%
Available-for-sale securities	14,559	4.8%	5,813	2.0%	8,746	150.5%
Trading securities	12,150	4.0%	6,809	2.3%	5,341	78.4%
Total investment securities	211,233	69.1%	210,440	70.9%	793	0.4%
Interest-bearing deposits	47,486	15.5%		0.0%	47,486	0.0%
Securities purchased under agreements to resell	6,895	2.2%	800	0.2%	6,095	761.9%
Federal funds sold	40,299	13.2%	85,818	28.9%	(45,519)	(53.0)%
Total investments	$305,913	100.0%	$297,058	100.0%	$ 8,855	3.0%

Investment Securities
(Dollar amounts in millions)

	December 31, 2008 Amount	December 31, 2008 Percentage of Total Investment Securities	December 31, 2007 Amount	December 31, 2007 Percentage of Total Investment Securities
Commercial paper	$ 1,945	0.9%	$ 7,197	3.4%
Certificates of deposits and bank notes (1)	21,011	10.0%	46,642	22.2%
Other U.S. obligations*	737	0.4%	725	0.3%
Government-sponsored enterprises**	11,497	5.4%	8,874	4.2%
State or local housing agency obligations	2,985	1.4%	2,977	1.4%
Other***	3,888	1.8%	512	0.2%
	42,063	19.9%	66,927	31.7%
Mortgage-backed securities:				
Other U.S. obligations*	565	0.3%	430	0.2%
Government-sponsored enterprises****	95,561	45.2%	55,098	26.2%
Other*****	73,044	34.6%	87,985	41.9%
	169,170	80.1%	143,513	68.3%
Total investment securities	$211,233	100.0%	$210,440	100.0%

(1) Represents Certificates of deposit and bank notes that meet the definition of a security under SFAS 115. (See "Note 1—Summary of Significant Accounting Policies" to the accompanying combined financial statements.)

* Primarily consists of Government National Mortgage Association (Ginnie Mae) and/or Small Business Administration (SBA) investment pools.

** Primarily consists of debt securities issued or guaranteed by Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae) and/or the Tennessee Valley Authority (TVA).

*** Primarily consists of corporate debentures and promissory notes issued or guaranteed by the FDIC under the TLGP.

**** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae.

***** Primarily consists of private-label mortgage-backed securities.

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

	December 31, 2008		December 31, 2007	
	Carrying Value	Percentage of Total	Carrying Value	Percentage of Total
Government-sponsored enterprises residential mortgage-backed securities*	$ 95,561	56.5%	$ 55,098	38.4%
Private-label residential mortgage-backed securities	69,498	41.1%	81,997	57.2%
Home equity loans	1,959	1.2%	2,462	1.7%
Private-label commercial mortgage-backed securities	935	0.6%	2,798	1.9%
MPF Shared Funding Program mortgage-backed certificates	398	0.2%	439	0.3%
Other U.S. obligations residential mortgage-backed securities**	565	0.3%	430	0.3%
Manufactured housing loans	254	0.1%	289	0.2%
Total mortgage-backed securities	$169,170	100.0%	$143,513	100.0%

* Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae.

** Primarily consists of Ginnie Mae and/or SBA investment pools.

Regulator policy limits additional investments in mortgage-backed securities if an FHLBank's investments in mortgage-backed securities exceed 300 percent of the sum of that FHLBank's previous month-end capital plus its mandatorily redeemable capital stock on the day it purchases the securities. On March 24, 2008, the Finance Board temporarily increased this limit from 300 percent to 600 percent for certain kinds of mortgage-backed securities under certain conditions. (See "Legislative and Regulatory Developments—Finance Board's Temporary Increase in Authority to Purchase Mortgage-Backed Securities.") The FHLBank of Chicago may include a Designated Amount of subordinated notes in calculating compliance with these limits. The MPF Shared Funding Program mortgage-backed certificates, however, are not subject to these limits.

At December 31, 2008, the FHLBanks did not hold any collateralized debt obligation (CDO) securities.

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

	December 31, 2008	December 31, 2007	Increase (Decrease) $	Increase (Decrease) %
Mortgage-backed securities	$169,170	$143,513	$25,657	17.9%
Less: MPF Shared Funding Program	398	439	(41)	(9.3)%
Mortgage-backed securities (excluding MPF Shared Funding Program)	$168,772	$143,074	$25,698	18.0%
Total capital (1) and Designated Amount of applicable subordinated notes	$ 58,486	$ 55,704	$ 2,782	5.0%
Ratio of mortgage-backed securities (excluding MPF Shared Funding Program) to total capital (1) and designated amount of applicable subordinated notes	2.89	2.57		

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

Historically, the FHLBanks have been one of the major providers of Federal funds, allowing the FHLBanks to warehouse and provide balance sheet liquidity to meet unexpected borrowing demands from members. The FHLBanks also invest in U.S. agency obligations, some of which are structured debt issued by other GSEs.

Trading Securities.

Trading Securities
(Dollar amounts in millions)

	December 31, 2008 Estimated Fair Value	December 31, 2007 Estimated Fair Value
Commercial paper	$ 673	$
Certificates of deposits (1)	2,072	
Government-sponsored enterprises*	6,422	5,717
State or local housing agency obligations	14	60
Other**	2,161	11
	11,342	5,788
Mortgage-backed securities:		
Other U.S. obligations***	60	74
Government-sponsored enterprises****	748	912
Other*****		35
	808	1,021
Total	$12,150	$6,809

(1) Represents Certificates of deposit that meet the definition of a security under SFAS 115. (See "Note 1—Summary of Significant Accounting Policies" to the accompanying combined financial statements.)

* Primarily consists of debt securities issued or guaranteed by Freddie Mac and/or Fannie Mae.

** Primarily consists of corporate debentures issued or guaranteed by the FDIC under TLGP.

*** Primarily consists of Ginnie Mae investment pools.

**** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae.

***** Primarily consists of private-label mortgage-backed securities.

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

	December 31, 2008		December 31, 2007	
Year of Maturity	Estimated Fair Value	Yield	Estimated Fair Value	Yield
Non-mortgage-backed securities				
Due in one year or less	$ 3,489	2.34%	$ 211	4.30%
Due after one year through five years	5,255	3.37%	4,671	4.74%
Due after five years through ten years	2,598	4.66%	881	4.69%
Due after ten years			25	6.72%
Total	$11,342		$5,788	

Available-for-Sale Securities.

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

	December 31, 2008			
	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Certificates of deposits and bank notes (2)	$ 2,512	$	$ (1)	$ 2,511
Government-sponsored enterprises*	2,711	177	(80)	2,808
State and local housing agency obligations	30			30
Other	516		(46)	470
	5,769	177	(127)	5,819
Mortgage-backed securities:				
Government-sponsored enterprises**	8,766	36	(214)	8,588
Other ***	208		(56)	152
	8,974	36	(270)	8,740
Total	$14,743	$213	$(397)	$14,559

	December 31, 2007			
	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government-sponsored enterprises*	$1,324	$ 7	$ (1)	$1,330
Other	408	2	(1)	409
	1,732	9	(2)	1,739
Mortgage-backed securities:				
Government-sponsored enterprises**	3,748	1	(33)	3,716
Other***	376		(18)	358
	4,124	1	(51)	4,074
Total	$5,856	$10	$(53)	$5,813

(1) Amortized cost of available-for-sale securities includes adjustments made to the cost basis of an investment for accretion, amortization, OTTI, and/or hedging.

(2) Represents Certificates of deposit and bank notes that meet the definition of a security under SFAS 115. (See "Note 1—Summary of Significant Accounting Policies" to the accompanying combined financial statements.)

* Primarily consists of debt securities issued or guaranteed by Freddie Mac, Fannie Mae and/or TVA

** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae.

*** Primarily consists of private-label mortgage-backed securities.

The $219 million increase in gross unrealized losses on the FHLBanks' available-for-sale mortgage-backed securities from December 31, 2007 to December 31, 2008 is due to continued deterioration in the credit performance of mortgage loans and in house prices, compounded by the effect of forced portfolio liquidations by certain large investors. These factors resulted in temporary illiquidity in portions of the mortgage-backed securities market and extraordinarily wide mortgage asset spreads relative to historical averages. These market disruptions have caused the estimated fair values on mortgage-backed securities owned by the FHLBanks to fall below amortized cost on a large number of individual securities, particularly the private-label mortgage-backed securities.

Each FHLBank evaluates its individual available-for-sale investment securities holdings for OTTI on at least a quarterly basis. See "Critical Accounting Estimates—OTTI for Investment Securities," and

"Notes to Combined Financial Statements—Note 6—Available-for-Sale Securities" for additional information regarding the FHLBanks' processes for evaluating available-for-sale securities for OTTI. As a result of these evaluations and each FHLBank's ability and intent to hold such securities through the recovery of the unrealized losses, each FHLBank's management believes that it is probable that it will be able to collect all amounts due according to the contractual terms of the individual securities and does not consider its respective investments to be other-than-temporarily impaired at December 31, 2008, except for certain MBS instruments held by the FHLBanks of Pittsburgh and Chicago at December 31, 2008 in their available-for-sale portfolios, as further described below.

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

Available-for-Sale Other-Than-Temporarily Impaired Securities	Carrying Value Prior to Impairment	OTTI Charge	Accretion Recognized in Net Interest Income During 2008	Carrying Value At December 31, 2008
Pittsburgh	$ 5	$ 3	$	$ 2
Chicago	122	59		63
Total available-for-sale other-than-temporarily impaired securities	$127	$62	$	$65

See "Notes to Combined Financial Statements—Note 6—Available-for-Sale Securities" for additional information on other-than-temporarily impaired available-for-sale security investments.

On October 29, 2008, the FHLBank of Dallas sold a U.S. agency debenture classified as available-for-sale. Proceeds from the sale totaled $56 million, resulting in a realized loss of $1 million. At September 30, 2008, the amortized cost of this asset exceeded its estimated fair value at that date by $2 million. Because the FHLBank of Dallas did not have the intent as of September 30, 2008 to hold this available-for-sale security through to recovery of the unrealized loss, an OTTI was recognized in the third quarter of 2008 to write the security down to its estimated fair value of $57 million as of September 30, 2008. This impairment charge is reported in "Net (losses) gains on available-for-sale securities" in the Combined Statement of Income for the year ended December 31, 2008.

If the mortgage markets and general business and economic conditions continue to deteriorate, it is possible that the FHLBanks may experience additional OTTI in the value of their MBS investments. For example, events, such as the U.S. Treasury's announcement in the fourth quarter of 2008 that it would not use the TARP to purchase MBS instruments, have caused further declines in the fair value of MBS instruments. The FHLBanks could experience reduced yields or additional losses on their MBS instruments and cannot predict when or if such write-downs may occur or the size of any such write-downs if they do occur.

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

Year of Maturity	December 31, 2008 Amortized Cost	December 31, 2008 Estimated Fair Value	December 31, 2007 Amortized Cost	December 31, 2007 Estimated Fair Value
Due in one year or less	$ 2,577	$ 2,573	$ 697	$ 696
Due after one year through five years	158	164	187	190
Due after five years through ten years	1,845	2,013	60	62
Due after ten years	1,189	1,069	788	791
	5,769	5,819	1,732	1,739
Mortgage-backed securities	8,974	8,740	4,124	4,074
Total	$14,743	$14,559	$5,856	$5,813

Expected maturities of certain securities, including mortgage-backed securities, may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

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

Year of Maturity	December 31, 2008	December 31, 2007
Non-mortgage-backed securities		
Due in one year or less	0.76%	4.48%
Due after one year through five years	4.07%	4.37%
Due after five years through ten years	4.55%	4.83%
Due after ten years	6.39%	6.57%

Held-to-Maturity Securities.

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

	December 31, 2008			
	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 1,272	$ 2	$	$ 1,274
Certificates of deposits (2)	16,428	6		16,434
Other U.S. obligations*	737	6	(2)	741
Government-sponsored enterprises**	2,267	90		2,357
State or local housing agency obligations	2,941	27	(194)	2,774
Other***	1,257	1		1,258
	24,902	132	(196)	24,838
Mortgage-backed securities:				
Other U.S. obligations*	505	2	(4)	503
Government-sponsored enterprises****	86,225	1,292	(758)	86,759
Other*****	72,892	7	(19,350)	53,549
	159,622	1,301	(20,112)	140,811
Total	$184,524	$1,433	$(20,308)	$165,649

	December 31, 2007			
	Amortized Cost(1)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 7,197	$	$	$ 7,197
Certificates of deposit and bank notes (2)	46,642	11		46,653
Other U.S. obligations*	725	7	(1)	731
Government-sponsored enterprises**	1,827	41	(5)	1,863
State or local housing agency obligations	2,917	33	(29)	2,921
Other	92			92
	59,400	92	(35)	59,457
Mortgage-backed securities:				
Other U.S. obligations*	356	3	(2)	357
Government-sponsored enterprises****	50,470	307	(390)	50,387
Other*****	87,592	110	(2,126)	85,576
	138,418	420	(2,518)	136,320
Total	$197,818	$512	$(2,553)	$195,777

(1) Amortized cost of held-to-maturity securities includes adjustments made to the cost basis of an investment for accretion, amortization, and/or previous OTTIs.

(2) Represents Certificates of deposit and bank notes that meet the definition of a security under SFAS 115. (See "Note 1—Summary of Significant Accounting Policies" to the accompanying combined financial statements.)

* Primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of debt securities issued or guaranteed by Freddie Mac, Fannie Mae and/or TVA.

*** Primarily consists of promissory notes issued or guaranteed by the FDIC under TLGP.

**** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae.

***** Primarily consists of private-label mortgage-backed securities.

The $17,594 million increase in gross unrealized losses on the FHLBanks' held-to-maturity mortgage-backed securities from December 31, 2007 to December 31, 2008 is due to continued deterioration in the credit performance of mortgage loans and in house prices, compounded by the effect of forced portfolio liquidations by certain large investors. These factors resulted in temporary illiquidity in portions of the mortgage-backed securities market and extraordinarily wide mortgage asset spreads relative to historical averages. These market disruptions have caused the estimated fair values on mortgage-backed securities owned by the FHLBanks to fall below amortized cost on a large number of individual securities, particularly the private-label mortgage-backed securities.

Each FHLBank evaluates its individual held-to-maturity investment securities holdings for OTTI on at least a quarterly basis. See "Critical Accounting Estimates—OTTI for Investment Securities," and "Notes to Combined Financial Statements—Note 7—Held-to-Maturity Securities" for additional information regarding the FHLBanks' processes for evaluating held-to-maturity securities for OTTI. As a result of these evaluations and each FHLBank's ability and intent to hold such securities through the recovery of the unrealized losses, each FHLBank's management believes that it is probable that it will be able to collect all amounts due according to the contractual terms of the individual securities and does not consider its respective investments to be other-than-temporarily impaired at December 31, 2008, except for certain MBS instruments held by the FHLBanks of Boston, Pittsburgh, Atlanta, Chicago, Topeka, San Francisco and Seattle in their held-to-maturity portfolios, as further described below.

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

Held-to-Maturity Other-Than-Temporarily Impaired Securities	Carrying Value Prior to Impairment	OTTI Charge	Accretion Recognized in Net Interest Income During 2008	Carrying Value At December 31, 2008
Boston	$ 728	$ 382	$	$ 346
Pittsburgh	594	263		331
Atlanta(1)	420	186	3	229
Chicago	508	233	6	281
Topeka	8	5		3
San Francisco	1,514	590		924
Seattle	546	304	—	242
Total held-to-maturity other-than-temporarily impaired securities	$4,318	$1,963	$9	$2,356

(1) Does not include $8 million that relates to paydowns.

See "Notes to Combined Financial Statements—Note 7—Held-to-Maturity Securities" for additional information on other-than-temporarily-impaired held-to-maturity security investments.

FHLBank of Chicago. The FHLBank of Chicago's held-to-maturity portfolio had gross unrealized losses of $1.2 billion at December 31, 2008. This amount does not include $76 million of remaining unrealized losses on securities transferred from the FHLBank of Chicago's available-for-sale securities portfolio on December 27, 2007, because the transfer was recorded at fair value.

On December 27, 2007, the FHLBank of Chicago transferred from available-for-sale to held-to-maturity certain private-label MBS. The objective of the transfer was to recognize a change in the intent of the FHLBank of Chicago's management to hold these securities to maturity due to illiquidity in the credit markets related to these investments. The amortized cost basis of the securities prior to their transfer was $1.602 billion. The new cost basis established by the transfer was approximately $1.464 billion, which represented the fair value of the securities at the time of transfer.

The $138 million unrealized loss on these securities at that time was reported in FHLBank of Chicago's accumulated other comprehensive income (OCI) and is being amortized using the constant effective interest method over the estimated life of the securities, based on anticipated prepayments, offset by the interest income accretion related to the discount on the transferred securities. However, if any security transferred becomes other-than-temporarily impaired, its related unrealized loss amount in OCI will be immediately recognized as an impairment loss. FHLBank of Chicago's disclosures related to these securities as part of the held-to-maturity portfolio are based on their new cost basis established at the time of transfer. For the year ended 2008, the FHLBank of Chicago recognized $40 million from OCI into realized losses on other-than-temporarily impaired held-to-maturity securities.

If the mortgage markets and general business and economic conditions continue to deteriorate, it is possible that the FHLBanks may experience additional OTTI in the value of their MBS investments. For example, events, such as the U.S. Treasury's announcement in the fourth quarter of 2008 that it would not use the TARP to purchase MBS instruments, have caused further declines in the fair value of MBS instruments. The FHLBanks could experience reduced yields or additional losses on their MBS instruments and cannot predict when or if such write-downs may occur or the size of any such write-downs if they do occur.

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

	December 31, 2008		December 31, 2007	
Year of Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 19,866	$ 19,878	$ 55,039	$ 55,052
Due after one year through five years	2,052	2,152	1,330	1,348
Due after five years through ten years	341	337	572	603
Due after ten years	2,643	2,471	2,459	2,454
	24,902	24,838	59,400	59,457
Mortgage-backed securities	159,622	140,811	138,418	136,320
Total	$184,524	$165,649	$197,818	$195,777

Expected maturities of certain securities, including mortgage-backed securities, may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

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

Year of Maturity	December 31, 2008	December 31, 2007
Non-mortgage-backed securities		
Due in one year or less	1.32%	4.97%
Due after one year through five years	4.24%	4.72%
Due after five years through ten years	4.24%	5.32%
Due after ten years	3.80%	5.50%

Mortgage Loans Held for Portfolio.

Mortgage Loans Held for Portfolio
(Dollar amounts in millions)

	December 31, 2008	Percentage of Total	December 31, 2007	Percentage of Total	(Decrease) Increase $	(Decrease) Increase %
Real Estate:						
Fixed-rate, medium-term* single-family mortgages	$20,913	24.1%	$23,280	25.6%	$(2,367)	(10.2)%
Fixed-rate, long-term single-family mortgages	65,846	75.9%	67,848	74.4%	(2,002)	(3.0)%
Multifamily mortgages	27	0.0%	27	0.0%		0.0%
	86,786	100.0%	91,155	100.0%	(4,369)	(4.8)%
Premiums	516		596		(80)	(13.4)%
Discounts	(269)		(285)		16	5.6%
Deferred loan costs, net	32		37		(5)	(13.5)%
SFAS 133 hedging adjustments	311		115		196	170.4%
Total mortgage loans held for portfolio	$87,376		$91,618		$(4,242)	(4.6)%

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

In 2008 and 2007, principal paydowns and maturities of mortgage loans held for portfolio have been greater than purchases and fundings of new mortgage loans held for portfolio.

At December 31, 2008, the FHLBanks of Chicago, Des Moines and Indianapolis held the largest percentage of the mortgage loans held for portfolio balance with 37 percent, 12 percent and 10 percent of the combined mortgage loans held for portfolio. No other FHLBank held 10 percent or more of the combined mortgage loans held for portfolio at December 31, 2008. Several FHLBanks have made changes to their mortgage loan program(s) as follows:

- The FHLBank of Seattle, which previously offered the MPP to its members, is no longer accepting additional master commitments in the MPP, completed all of its delivery commitments in 2006 and is not purchasing additional mortgages.
- On October 6, 2006, the FHLBank of San Francisco announced that it would no longer offer new commitments to purchase mortgage loans from its members under the MPF Program, but that it would retain its existing portfolio of mortgage loans. The commitment of the FHLBank of San Francisco to purchase mortgage loans under its last outstanding master commitment expired on February 14, 2007. The FHLBank of San Francisco plans to retain its existing portfolio of MPF loans, which eventually will be reduced to zero in accordance with the ordinary course of maturity of those assets.
- The FHLBank of Atlanta stopped accepting additional MPF master commitments as of February 4, 2008 and as of March 31, 2008, had ceased purchasing assets under the MPF Program. The FHLBank of Atlanta plans to retain its existing portfolio of MPF loans, which eventually will be reduced to zero in accordance with the ordinary course of maturity of those assets. The FHLBank of Atlanta recently determined to suspend new acquisitions of mortgage loans under the MPP. The FHLBank of Atlanta plans to continue to support its existing portfolio of MPP loans.
- Since December 5, 2002 until July 31, 2008, the FHLBank of Dallas and the FHLBank of Chicago were operating under an MPF Program investment and services agreement with respect to MPF loans, which provided that the FHLBank of Chicago acquired MPF loans directly from FHLBank of Dallas PFIs. The FHLBank of Chicago was obligated to pay to the FHLBank of Dallas a participation fee equal to a percentage of the dollar volume of MPF loans delivered by the FHLBank of Dallas' PFIs. On April 23, 2008, the FHLBank of Chicago announced that it would no longer enter into new master commitments or renew existing master commitments to acquire

MPF loans after July 31, 2008. As a result, after July 31, 2008, the FHLBank of Dallas no longer receives participation fees from the FHLBank of Chicago.

- In 2007, the FHLBank of Chicago completed its obligations to purchase participation interests under pre-existing agreements with other FHLBanks and no longer enters into agreements to purchase participation interests in new master commitments with other FHLBanks. Effective August 1, 2008, the FHLBank of Chicago no longer accepts delivery commitments to acquire MPF loans as investments for its own balance sheet except for immaterial amounts of MPF loans to support affordable housing that are guaranteed by the Rural Housing Service of the Department of Agriculture (RHS) or insured by the Department of Housing and Urban Development (HUD). MPF loans purchased from the FHLBank of Chicago's PFIs starting August 1, 2008 are primarily held for investments by other FHLBanks participating in the MPF Program and for Master Commitments entered into after October 23, 2008 concurrently sold to Fannie Mae. The other FHLBanks participating in the MPF Program continue to have the ability to purchase and fund loans through the MPF infrastructure.
- On September 23, 2008, the FHLBank of Chicago announced the launch of the MPF Xtra product which provides its members with a new balance sheet mortgage sale alternative. Loans sold to the FHLBank of Chicago through the MPF Xtra product will concurrently be sold to Fannie Mae, as a third party investor, and will not be held on the FHLBank of Chicago's balance sheet. Unlike other MPF products, under the MPF Xtra product PFIs are not required to provide credit enhancement and do not receive credit enhancement fees. In the first quarter of 2009, each of the FHLBanks of Boston, Pittsburgh and Des Moines began offering the MPF Xtra product to its members.

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

	December 31, 2008		December 31, 2007		(Decrease) Increase	
	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans	$	%
MPF, mortgage loans held for portfolio	$64,481	73.8%	$67,273	73.5%	$(2,792)	(4.2)%
MPP, mortgage loans held for portfolio	22,867	26.2%	24,316	26.5%	(1,449)	(6.0)%
Other mortgage loans	28	0.0%	29	0.0%	(1)	(3.4)%
Total mortgage loans held for portfolio	$87,376	100.0%	$91,618	100.0%	$(4,242)	(4.6)%
Allowance for credit losses—MPF	$ 14	93.3%	$ 7	87.5%	$ 7	100.0%
Allowance for credit losses—MPP		0.0%		0.0%		0.0%
Allowance for credit losses—other	1	6.7%	1	12.5%		0.0%
Total allowance for credit losses	$ 15	100.0%	$ 8	100.0%	$ 7	87.5%
MPF, mortgage loans held for portfolio, net	$64,467	73.8%	$67,266	73.4%	$(2,799)	(4.2)%
MPP, mortgage loans held for portfolio, net	22,867	26.2%	24,316	26.6%	(1,449)	(6.0)%
Other mortgage loans, net	27	0.0%	28	0.0%	(1)	(3.6)%
Total mortgage loans held for portfolio, net	$87,361	100.0%	$91,610	100.0%	$(4,249)	(4.6)%

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

The "Other mortgage loans, net" balances relate to the Affordable Multifamily Participation Program (AMPP) established by the FHLBank of Atlanta, and the Community Mortgage Asset (CMA) program held by the FHLBank of New York. Through AMPP, members sold to the FHLBank of Atlanta participations in loans on affordable multifamily rental properties. These assets did not carry external CEs. Through the CMA program, the FHLBank of New York participated in residential, multifamily and community economic development mortgage loans originated by its members. The

FHLBank of Atlanta ceased acquisitions under AMPP in 2006. The FHLBank of New York suspended acquisitions under the CMA program in 2001.

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

	December 31, 2008	Percentage of Total	December 31, 2007	Percentage of Total	Decrease $	Decrease %
Conventional loans	$78,499	90.5%	$82,252	90.2%	$(3,753)	(4.6)%
Government-guaranteed or-insured loans	8,283	9.5%	8,899	9.8%	(616)	(6.9)%
Other loans	4	0.0%	4	0.0%		0.0%
Total par value	$86,786	100.0%	$91,155	100.0%	$(4,369)	(4.8)%

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

	2008	2007	2006	2005	2004
Balance, beginning of year	$ 8	$7	$10	$10	$15
Charge-offs	(1)			(1)	(1)
Recoveries				1	1
Net charge-offs	(1)				
Provision (reversal) for credit losses	8	1	(3)		(5)
Balance, end of year	$15	$8	$ 7	$10	$10

Delinquent mortgage loans and real estate owned as compared to total mortgage loans held for portfolio, net are summarized below.

Delinquent Mortgage Loans and Real Estate Owned
(Dollar amounts in millions)

	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004
Mortgage loans held for portfolio, net	$87,361	$91,610	$97,976	$105,240	$113,922
Nonperforming mortgage loans held for portfolio (1)	165	86	66	87	50
Mortgage loans held for portfolio past due 30-90 days and still accruing interest (2)	1,819	1,394	1,556	1,711	1,776
Mortgage loans held for portfolio past due 90 days or more and still accruing interest (2)	501	356	348	386	290
Loans in foreclosure	164	115	79	73	42
Real estate owned	58	43	33	24	25

(1) Generally represents mortgage loans with contractual principal or interest payments 90 days or more past due and not accruing interest.

(2) Mortgage loans insured or guaranteed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the RHS and/or HUD.

The FHLBanks' interest contractually due and actually received for nonperforming loans are as follows:

Nonperforming Loans Contractual Interest Due and Received
(Dollar amounts in millions)

	2008	2007	2006	2005	2004
Interest contractually due during the year	$6.4	$3.2	$2.5	$3.7	$6.1
Interest actually received during the year	5.2	2.8	1.5	2.3	3.5
Shortfall	$1.2	$0.4	$1.0	$1.4	$2.6

Consolidated Obligations.

General. Consolidated obligations issued through the Office of Finance are the principal source of funds used by the FHLBanks to make advances, purchase mortgages and make investments. Consolidated obligations consist of consolidated bonds and consolidated discount notes, which generally differ, among other ways, in their maturities and in some of the intended uses of the funds they provide. An FHLBank is generally prohibited by regulation from purchasing, directly or indirectly, a consolidated obligation as part of the consolidated obligation's initial issuance.

Average Consolidated Obligations Outstanding
at Par Value
(Dollar amounts in millions)

				2008 vs. 2007 Increase		2007 vs. 2006 Increase	
	2008	2007	2006	$	%	$	%
Overnight consolidated discount notes	$ 31,953	$ 28,606	$ 23,026	$ 3,347	11.7%	$ 5,580	24.2%
Term consolidated discount notes	359,998	188,636	137,002	171,362	90.8%	51,634	37.7%
Total consolidated discount notes	391,951	217,242	160,028	174,709	80.4%	57,214	35.8%
Consolidated bonds	856,221	806,010	784,966	50,211	6.2%	21,044	2.7%
Total consolidated obligations	$1,248,172	$1,023,252	$944,994	$224,920	22.0%	$78,258	8.3%

Consolidated Obligations Outstanding
(Dollar amounts in millions)

	December 31, 2008		December 31, 2007	
	Amount	Percentage of Total Consolidated Obligations, Net	Amount	Percentage of Total Consolidated Obligations, Net
Consolidated discount notes	$ 439,895	35.0%	$ 376,342	31.9%
Consolidated bonds	818,372	65.0%	802,574	68.1%
Total consolidated obligations, net	$1,258,267	100.0%	$1,178,916	100.0%

The $79.4 billion increase in total consolidated obligations from December 31, 2007 to December 31, 2008, primarily relates to the $63.6 billion increase in consolidated discount notes and the $118.6 billion increase in consolidated bonds maturing in one year or less, which are offset by decreases in long-term consolidated bonds.

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

Year of Contractual Maturity	December 31, 2008 Amount	December 31, 2008 Weighted-Average Interest Rate	December 31, 2007 Amount	December 31, 2007 Weighted-Average Interest Rate
Due in 1 year or less	$406,355	2.62%	$287,768	4.51%
Due after 1 year through 2 years	129,788	3.39%	176,486	4.71%
Due after 2 years through 3 years	68,554	4.16%	82,966	4.67%
Due after 3 years through 4 years	36,138	4.73%	49,497	5.02%
Due after 4 years through 5 years	56,818	4.24%	51,742	5.08%
Thereafter	104,405	5.18%	151,672	5.10%
Index amortizing notes	7,756	5.02%	8,111	5.02%
Total par value	809,814	3.43%	808,242	4.75%
Premiums	719		370	
Discounts	(3,216)		(8,815)	
SFAS 133 hedging adjustments	10,989		2,782	
SFAS 159 valuation adjustments	66			
Subtotal	818,372		802,579	
Bonds held in treasury			(5)	
Total	$818,372		$802,574	

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

Year of Contractual Maturity or Next Call Date	December 31, 2008	December 31, 2007
Due in 1 year or less	$511,099	$489,482
Due after 1 year through 2 years	134,664	149,453
Due after 2 years through 3 years	52,644	55,575
Due after 3 years through 4 years	19,723	27,095
Due after 4 years through 5 years	33,591	17,481
Thereafter	50,337	61,045
Index amortizing notes	7,756	8,111
Total par value	$809,814	$808,242

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

Par amount of consolidated bonds	December 31, 2008	December 31, 2007
Noncallable/nonputable	$643,882	$496,064
Callable	165,932	312,178
Total par value	$809,814	$808,242

Par Value of Consolidated Bonds Outstanding (1)
by Payment Terms
(Dollar amounts in millions)

	December 31, 2008		December 31, 2007	
	Amount	Percentage of Total	Amount	Percentage of Total
Fixed-rate, noncallable	$404,298	49.9%	$358,962	44.2%
Fixed-rate, callable	157,769	19.5%	290,062	35.8%
Single-index, non-capped variable-rate	223,895	27.6%	106,200	13.1%
Step-up / step-down	9,058	1.1%	26,272	3.2%
Amortizing prepayment linked securities	7,762	1.0%	8,142	1.0%
Zero-coupon, callable	3,583	0.4%	11,004	1.4%
Range	2,848	0.3%	5,930	0.7%
Conversion	470	0.1%	1,632	0.2%
Capped variable-rate	485	0.1%	2,476	0.3%
Other	257	0.0%	673	0.1%
Total	$810,425	100.0%	$811,353	100.0%

(1) Consolidated bonds outstanding have not been adjusted for interbank holdings of consolidated bonds totaling $611 million at December 31, 2008 and $3,111 million at December 31, 2007.

Consolidated bonds issued through the Office of Finance 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 associated interest-rate exchange agreement usually results in a funding vehicle with a lower cost than the FHLBanks could otherwise achieve. The continued attractiveness of such debt/swap transactions depends on price relationships in both the 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:

- diversifies the investor base;
- reduces funding costs; and
- provides additional asset/liability management tools.

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

These consolidated discount notes presently have a maturity range of one day through one year. They are sold at a discount and mature at par.

Debt Financing Activity. The growth in the FHLBanks' assets at December 31, 2008, compared to December 31, 2007, was primarily financed by a 6.7 percent increase in consolidated obligations of $79.4 billion.

Historically, the FHLBanks have had diversified sources and channels of funding as the need for funding from the capital markets has grown. The Global Debt Program issued $234.7 billion and

$269.1 billion at par in term funds during 2008 and 2007. The TAP Issue Program consolidates the issuance 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 they are closed and 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, secondary market activity, and utility, while providing enhanced funding diversification for the FHLBanks. Through this program, the Office of Finance seeks to enhance the liquidity of these issues. During 2008, $40.4 billion of consolidated bonds were issued through the TAP Issue Program, with $34.6 billion issued during the first half of the year. The total 2008 issuance represents an increase of $628 million over the total 2007 issuance. This decline in TAP issuance continued in 2009, with only $564 million of TAPs issued during the first quarter.

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

	Percent of Total Consolidated Bonds Issued During		
	2008	2007	2006
Negotiated transactions	85.5%	86.0%	84.1%
Competitive bid	14.5%	14.0%	15.9%
Total	100.0%	100.0%	100.0%

	Percent of Total Consolidated Bonds Issued During		
	2008	2007	2006
Fixed-rate, fixed-term, noncallable (bullet)	40.0%	30.6%	46.0%
Fixed-rate, callable	26.5%	48.6%	45.5%
Single-index, variable-rate	31.3%	19.1%	5.1%
Step-up/step-down	1.5%	0.6%	1.9%
Other	0.7%	1.1%	1.5%
Total	100.0%	100.0%	100.0%

Par Value of Consolidated Discount Notes and Consolidated Bonds Issued (Dollar amounts in millions)

	2008	2007	2006
Consolidated discount notes	$10,857,293	$8,851,719	$7,046,048
Consolidated bonds	554,731	495,208	322,484

The increase in consolidated discount notes outstanding relates primarily to the continued effects of the turbulence in the credit markets that began during the third quarter of 2007, which resulted in members significantly increasing their level of borrowings from the FHLBanks. During the early stages of the credit crisis, many investors viewed the FHLBanks' consolidated obligations as a "safe haven" during the market turmoil, which resulted in periodic improvements in funding costs for consolidated obligations relative to LIBOR. In the latter part of 2008, increasing investor uncertainty has shifted investment demand to very short-term investments, such as consolidated discount notes and consolidated bonds with maturities of one year or less. This demand has resulted in a steepening of the FHLBank funding curve as measured relative to LIBOR, whereby longer-term instruments are priced at significantly higher costs than shorter-term instruments. The increase in consolidated bonds issued at par value occurred primarily because of the increase in consolidated bond calls/maturities during 2008 as interest rates declined and the increase in debt outstanding. The FHLBanks make use of callable debt. At December 31, 2008, $165.9 billion of callable debt at par was outstanding (excluding an interbank holding adjustment of $125 million). At December 31, 2008, callable consolidated bonds represented 20.5 percent of total consolidated bonds outstanding at par. This percentage has declined in 2008, reflecting, in part, less domestic bank demand for callable consolidated bonds. (See "Financial Trends" for additional discussion.)

Consolidated discount notes accounted for 95.1 percent of the proceeds from the issuance of consolidated obligations during 2008, compared to 94.7 percent and 95.6 percent of the proceeds from the issuance of consolidated obligations during 2007 and 2006. Much of the consolidated discount note activity reflects the refinancing of overnight discount notes.

Deposits. At December 31, 2008, deposits totaled $15,496 million, a decrease of $5,397 million or 25.8 percent from December 31, 2007. Factors that generally influence deposit levels include turnover in members' investment securities portfolios, changes in member demand for liquidity primarily due to member institution deposit growth, the slope of the yield curve and the FHLBanks' deposit pricing as compared to other short-term money market rates.

The following table presents term deposits issued in amounts of $100,000 or more (dollar amounts in millions):

	December 31, 2008	December 31, 2007
3 months or less	$1,152	$679
Over 3 months through 6 months	489	30
Over 6 months through 12 months	210	12
Over 12 months	32	26
Total	$1,883	$747

Capital.

Total Capital
(Dollar amounts in millions)

December 31, 2008	December 31, 2007	Decrease	
		$	%
$51,350	$53,597	$(2,247)	(4.2)%

The decrease in total capital was due primarily to:

- the decrease in retained earnings due to $2.0 billion in OTTI charges and $1.1 billion of cash dividends; and
- the decrease in total capital stock attributable to the $23.8 billion of repurchase/redemption of capital stock and $7.9 billion of reclassification of capital stock as mandatorily redeemable capital partially offset by the $30.2 billion of net proceeds from the sale of capital stock to support increases in advances during 2008.

Over the same period, total assets increased while total capital decreased. This caused the FHLBanks' combined GAAP capital-to-assets ratio to decrease to 3.81 percent at December 31, 2008, from 4.21 percent at December 31, 2007. The FHLBanks' combined regulatory capital-to-assets ratio increased to 4.42 percent at December 31, 2008, from 4.41 percent at December 31, 2007. All FHLBanks except the FHLBank of Chicago have converted to their new capital plans at December 31, 2008.

Combined Results of Operations

The combined financial statements include the financial records of the 12 FHLBanks. Material transactions among the FHLBanks have been eliminated in accordance with combination accounting principles under GAAP, including Accounting Research Bulletin No. 51, *Consolidated Financial Statements.* (See discussions relating to "Interbank Transfers of Liability on Outstanding Consolidated Bonds and Their Effect on Combined Net Income" at the end of this section and Note 1 to the accompanying combined financial statements.)

Net Interest Income.

Changes in Net Interest Income
(Dollar amounts in millions)

	For the Years Ended December 31,			For the Year Ended 2008 vs. 2007 (Decrease) Increase		For the Year Ended 2007 vs. 2006 Increase (Decrease)	
	2008	2007	2006	$	%	$	%
INTEREST INCOME							
Advances	$29,643	$37,453	$32,411	$ (7,810)	(20.9)%	$5,042	15.6%
Prepayment fees on advances	92	23	44	69	300.0%	(21)	(47.7)%
Mortgage loans held for portfolio	4,495	4,849	5,156	(354)	(7.3)%	(307)	(6.0)%
Investments and other	11,365	14,699	12,930	(3,334)	(22.7)%	1,769	13.7%
Total interest income	45,595	57,024	50,541	(11,429)	(20.0)%	6,483	12.8%
INTEREST EXPENSE							
Consolidated obligations	39,768	51,301	45,188	(11,533)	(22.5)%	6,113	13.5%
Other	584	1,206	1,060	(622)	(51.6)%	146	13.8%
Total interest expense	40,352	52,507	46,248	(12,155)	(23.1)%	6,259	13.5%
NET INTEREST INCOME	$ 5,243	$ 4,517	$ 4,293	$ 726	16.1%	$ 224	5.2%

Net interest income increased from 2007 to 2008 due to the decline in interest rates, as the decrease in interest expense on consolidated obligations was greater than the decreases in interest income on advances and investments. This decrease in interest expense was primarily because the FHLBanks issued more short-term funding in 2008 since short-term funding rates decreased at a faster rate than long-term funding rates during the year and because investors preferred shorter-term debt during the latter part of 2008 due to all of the market uncertainties. Although the decline in interest rates caused an overall decrease in interest income and interest expense, volumes on advances, investments and consolidated obligations were higher in 2008 compared to 2007. The decrease in interest income on mortgage loans held for portfolio from 2007 to 2008 related primarily to the lower volume of outstanding mortgage loans held for portfolio, but was also affected by lower interest rates.

Net interest income increased from 2006 to 2007 primarily due to growth in advance and investment interest income as a result of primarily higher volumes during the second half of 2007 and higher interest rates during the first half of 2007. The increases were partially offset by growth in consolidated obligation interest expense due to higher volumes and the higher interest-rate environment on consolidated bonds, as well as lower interest income on mortgage loans held for portfolio, generally as a result of decreased volume. Additionally, net interest income was negatively affected by the flat to, at times, slightly inverted yield curve, primarily during the first half of 2007.

Earnings Analysis.

Change in Earnings Components
(Dollar amounts in millions)

	2008 vs. 2007		2007 vs. 2006	
	$	%	$	%
Income Statement				
(Decrease) increase in interest income	$(11,429)	(20.0)%	$6,483	12.8%
(Decrease) increase in total interest expense	(12,155)	(23.1)%	6,259	13.5%
Increase in net interest income	726	16.1%	224	5.2%
Change in provision (reversal) for credit losses	8	266.7%	4	400.0%
Increase in net interest income after provision (reversal) for credit losses	718	15.9%	220	5.1%
Increase in net realized losses on held-to-maturity securities	(1,953)	(32550.0)%		0.0%
Increase in net gains on advances and consolidated bonds held at fair value	883	N/A		
Increase in net losses on derivatives and hedging activities	(1,506)	(2841.5)%	(136)	(163.9)%
Increase in other non-interest income, net	99	53.2%	260	351.4%
(Decrease) increase in total non-interest income	(2,477)	(1950.4)%	124	4133.3%
Increase in total other expense	284	35.9%	49	6.6%
(Decrease) increase in Affordable Housing Program	(130)	(40.9)%	23	7.8%
(Decrease) increase in REFCORP	(292)	(41.5)%	57	8.8%
(Decrease) increase in total assessments	(422)	(41.3)%	80	8.5%
(Decrease) increase in net income	$ (1,621)	(57.3)%	$ 215	8.2%

The following table presents average balances and yields of major categories of earning assets and the funding sources for those earning assets. It also presents spreads between yields on total earning assets and the cost of interest-bearing liabilities and spreads between yields on total earning assets and the cost of total funding sources (i.e., interest-bearing liabilities, plus capital, plus other interest-free liabilities funding earning assets). The primary source of FHLBank earnings is net interest income. This is the interest earned on advances, mortgages, investments and invested capital, *minus* interest paid on consolidated obligations, deposits and other borrowings.

Spread and Yield Analysis
(Dollar amounts in millions)

	2008			2007			2006		
	Average Balance (1)	Interest (2)	Annualized Yield	Average Balance (1)	Interest (2)	Annualized Yield	Average Balance (1)	Interest (2)	Annualized Yield
Advances (3)	$ 933,162	$29,735	3.19%	$ 706,785	$37,476	5.30%	$ 638,656	$32,455	5.08%
Mortgage loans held for portfolio	89,147	4,495	5.04%	94,440	4,849	5.13%	101,377	5,156	5.09%
Investments:									
Interest-bearing deposits and other	8,363	93	1.11%	506	32	6.32%	7,770	45	0.58%
Securities purchased under agreements to resell	3,683	47	1.28%	2,584	134	5.19%	3,942	197	5.00%
Federal funds sold	79,901	1,737	2.17%	86,248	4,465	5.18%	68,719	3,456	5.03%
Trading securities	8,215	406	4.94%	6,008	339	5.64%	6,498	365	5.62%
Available-for-sale securities (4)	9,936	338	3.40%	6,995	367	5.25%	6,051	298	4.92%
Held-to-maturity securities	202,381	8,744	4.32%	181,073	9,362	5.17%	164,861	8,569	5.20%
Total investments	312,479	11,365	3.64%	283,414	14,699	5.19%	257,841	12,930	5.01%
Total interest-earning assets	1,334,788	$45,595	3.42%	1,084,639	$57,024	5.26%	997,874	$50,541	5.06%
Non-interest earning assets	13,582			12,192			9,831		
Total assets	$1,348,370			$1,096,831			$1,007,705		
Consolidated obligations:									
Discount notes	$ 390,111	$ 9,912	2.54%	$ 215,784	$10,720	4.97%	$ 159,617	$ 7,873	4.93%
Bonds	853,075	29,856	3.50%	792,620	40,581	5.12%	764,587	37,315	4.88%
Interest-bearing deposits and other borrowings (5)	26,973	584	2.17%	23,111	1,206	5.22%	20,690	1,060	5.12%
Total interest-bearing liabilities	1,270,159	$40,352	3.18%	1,031,515	$52,507	5.09%	944,894	$46,248	4.89%
Non-interest-bearing liabilities	22,651			18,288			17,757		
Total liabilities	1,292,810			1,049,803			962,651		
Capital	55,560			47,028			45,054		
Total liabilities and capital	$1,348,370			$1,096,831			$1,007,705		
Spread on:									
Total interest-bearing liabilities			0.24%			0.17%			0.17%
Total funding (net interest margin) (6)			0.40%			0.42%			0.43%

(1) Average balances do not reflect the effect of reclassifications of cash collateral under FSP FIN 39-1.

(2) Interest income/expense and annualized yield include the effect of associated interest-rate exchange agreements that qualify for fair-value hedge accounting under SFAS 133.

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

(4) The average balances of available-for-sale securities are reflected at amortized cost; therefore, the resulting yields do not give effect to changes in fair value.

(5) The average balances do not include non-interest-bearing deposits and include mandatorily redeemable capital stock and subordinated notes balances and related interest expenses.

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

A significant portion of net interest income results from earnings on assets funded by invested capital. This source of net interest income increased primarily due to the increase in capital stock related to advance activities during 2008 as compared to 2007. During 2008, at the combined level, the spread between asset yields and interest-bearing liabilities increased 7 basis points while the net interest margin decreased 2 basis points. During 2008, some FHLBanks experienced an increase in the net interest margin and spread, while other FHLBanks experienced a decrease in the net interest margin and spread. The FHLBanks' net interest margin and spread during 2008 were primarily affected by increased member demand for advances and a significant decline in interest rates.

Items that increased the net interest margin and spread for the year ended December 31, 2008, compared to the corresponding periods in the prior year, included:

- an increase in the volume of interest-earning assets (specifically, advances and agency MBS),
- a reduction in the average funding costs of consolidated discount notes relative to the yield of short-term assets with comparable terms (e.g., advances and money market investments),
- the replacement of higher-costing debt supporting mortgage loans held for portfolio with lower-costing debt reflecting the current low interest rate environment,
- the reinvestment of proceeds from maturing low-yield investments into higher-yield, market-rate investments, and
- increases in prepayment fee income.

Items that decreased the net interest margin and spread included:

- a decline in interest rates between periods,
- a sharp increase in long-term funding costs,
- the effect of the FHLBanks' replacement of short-term liabilities that were issued to fund overnight and short-term assets with newly-issued consolidated discount notes with extended maturities in order to ensure the FHLBanks' ability to provide liquidity to their members and meet their demand for advances, especially in the second half of the year,
- the effect of interest rate volatility on the FHLBanks' derivative and hedging activities,
- an increase in funding options available to the FHLBanks' members through various U.S. government programs,
- the maturity of low-cost debt that was issued to fund low interest rate mortgages and the replacement of such mortgages at lower net spreads, and
- an increase in the recognition of unamortized non-cash items associated with calling an increased amount of consolidated obligations for 2008.

For additional discussion related to an individual FHLBank's 2008 change in net interest margin and spread, please refer to that FHLBank's periodic report filed with the SEC.

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

During 2008, the issuance of consolidated obligations was 22 percent higher than the previous year due to increased issuance of both consolidated bonds and consolidated discount notes during the first half of the year. However, the dramatic growth in consolidated obligations outstanding, which began during the last quarter of 2007, reversed course beginning in the second quarter of 2008. This downward trend in consolidated obligations outstanding accelerated sharply in the fourth quarter of 2008, when issuance of consolidated obligations was 42 percent lower than during the fourth quarter of 2007. Consolidated obligations outstanding at par were $61.9 billion higher on December 31, 2008 compared to December 31, 2007; consolidated bonds outstanding at par fell by $0.9 billion while consolidated discount notes increased by $62.8 billion. Aggregate weighted-average new-issue funding costs for FHLBank consolidated bonds increased relative to benchmark market indices for the fourth quarter of 2008 compared to the fourth quarter of 2007. Overall, funding costs were higher for FHLBank consolidated bonds in 2008 compared to 2007 (see Rate and Volume Analysis below).

Throughout 2008, the U.S. Treasury curve continued to steepen—a trend which began during the second quarter of 2007. The spread between the 2-year and 10-year U.S. Treasury yields increased during the fourth quarter of 2008 and yields continued to fall, extending a trend that began in the third quarter of 2008.

During 2008, consolidated bonds with embedded call options comprised a lower proportion of issuance volume. During the fourth quarter and full year 2008, 31 percent and 26 percent of FHLBank consolidated bonds issued were callable, compared to 46 percent and 48 percent during the corresponding periods in 2007. Bullet consolidated bonds and variable-rate consolidated bonds became more prominent FHLBank funding vehicles during 2008. In the fourth quarter of 2008, bullet consolidated bonds were the dominant funding vehicle, accounting for 35 percent of total FHLBank issuance, compared to 27 percent during the fourth quarter of 2007. During 2008, bullet consolidated bonds comprised 40 percent of total FHLBank issuance, while variable-rate consolidated bonds made up 31 percent of total FHLBank issuance, compared to 31 percent and 19 percent, respectively, during 2007.

During the fourth quarter of 2008, the dollar amount of callable FHLBank consolidated bonds redeemed prior to maturity (called) was 54 percent lower than during the fourth quarter of 2007. However, during all of 2008, the dollar amount of consolidated bonds called was 18 percent higher than during all of 2007, as bond call volume was substantially higher during the first part of 2008.

Changes in both volume and interest rates have a direct influence on changes in net interest income and net interest margin. The following table summarizes changes in interest income and interest expense between 2008 and 2007 and between 2007 and 2006. Changes in interest income and interest expense not identifiable as either volume-related or rate-related, but rather equally attributable to both volume and rate changes, have been allocated to the volume and rate categories based upon the proportion of the absolute value of the volume and rate changes.

Rate and Volume Analysis
(Dollar amounts in millions)

	2008 vs. 2007 Increase (Decrease) Due to			2007 vs. 2006 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Advances (1)	$ 9,871	$(17,612)	$ (7,741)	$3,569	$1,452	$5,021
Mortgage loans held for portfolio	(268)	(86)	(354)	(356)	49	(307)
Investments	1,392	(4,726)	(3,334)	1,315	454	1,769
Total interest income	10,995	(22,424)	(11,429)	4,528	1,955	6,483
Interest Expense:						
Consolidated obligations	10,235	(21,768)	(11,533)	4,232	1,881	6,113
Deposits and other borrowings (2)(3)	175	(797)	(622)	126	20	146
Total interest expense	10,410	(22,565)	(12,155)	4,358	1,901	6,259
Changes in net interest income	$ 585	$ 141	$ 726	$ 170	$ 54	$ 224

(1) Includes prepayment fees on advances, net.

(2) Average balances used for this calculation do not reflect the effect of reclassifications of cash collateral under FSP FIN 39-1.

(3) Calculations do not include the average balances of non-interest-bearing deposits and include cash and stock dividends on mandatorily redeemable capital stock as interest expense. Calculations also include the average balances of subordinated notes and related interest expense.

Net Income.

Changes in Net Income
(Dollar amounts in millions)

	For the Years Ended December 31,			For the Year Ended 2008 vs. 2007 Increase (Decrease)		For the Year Ended 2007 vs. 2006 Increase (Decrease)	
	2008	2007	2006	$	%	$	%
NET INTEREST INCOME AFTER PROVISION (REVERSAL) FOR CREDIT LOSSES	$ 5,232	$4,514	$4,294	$ 718	15.9%	$ 220	5.1%
OTHER (LOSS) INCOME							
Net gains (losses) on trading securities	260	147	(127)	113	76.9%	274	215.7%
Net realized losses on held-to-maturity securities	(1,959)	(6)	(6)	(1,953)	(32550.0)%		0.0%
Net gains on advances and consolidated bonds held at fair value	883			883	N/A		
Net (losses) gains on derivatives and hedging activities	(1,559)	(53)	83	(1,506)	(2841.5)%	(136)	(163.9)%
Other	25	39	53	(14)	(35.9)%	(14)	(26.4)%
Total other (loss) income	(2,350)	127	3	(2,477)	(1950.4)%	124	4133.3%
Total other expense	1,076	792	743	284	35.9%	49	6.6%
Total assessments	600	1,022	942	(422)	(41.3)%	80	8.5%
NET INCOME	$ 1,206	$2,827	$2,612	$(1,621)	(57.3)%	$ 215	8.2%

Combined net income for the year ended December 31, 2008 was $1.2 billion, a 56 percent decrease from the $2.8 billion recorded in the same period of the previous year. The decrease in net income for the year ended December 31, 2008 compared to the year ended December 31, 2007 can be primarily attributed to the increases in net losses on held-to-maturity securities, the increases in net losses on derivatives and hedging activities, and the provision for derivative counterparty credit losses due from LBSF (included in Total other expense in the table noted above), which were partially offset by the increases in net interest income and the net gains on advances and consolidated bonds held at fair value.

Combined net income for the year ended December 31, 2008 was adversely affected by:

- the FHLBank of Boston's net loss of $116 million, which was primarily due to OTTI charges of $382 million on its held-to-maturity private-label MBS (fourth quarter net loss of $274 million);
- the FHLBank of Chicago's net loss of $119 million, which was primarily due to reduced net interest income and OTTI charges of $292 million on certain private-label MBS, which were partially offset by gains on derivative and hedging activities;
- the FHLBank of Seattle's net loss of $199 million, which was primarily due to $304 million OTTI charges on the FHLBank of Seattle's held-to-maturity private-label MBS (fourth quarter net loss of $241 million);

- the $252 million in write-offs/reserves on receivables due from LBSF and LBHI relating to the FHLBanks of New York, Atlanta, Des Moines, Dallas and Seattle;
- the fourth quarter net losses reported by the FHLBanks of Pittsburgh ($188 million) and San Francisco ($103 million), which were primarily due to OTTI charges on these FHLBanks' held-to-maturity private-label MBS;
- the fourth quarter net loss reported by the FHLBank of Dallas ($68 million), which was primarily due to losses on derivatives and hedging activities related to SFAS 133; and
- the fourth quarter net loss reported by the FHLBank of Topeka ($63 million), which was primarily due to losses on derivatives and hedging activities related to SFAS 133 and OTTI charges on the FHLBank's held-to-maturity private-label MBS.

See "Provision for Derivative Counterparty Credit Losses" within this section for a more detailed discussion relating to LBSF and LBHI.

The increase in net income for 2007 compared to 2006 can be primarily attributed to higher volumes of advances and investments and the effect of higher interest rates when compared to 2006 and an increase in other income, which was partially offset by increases in other expense and assessments.

Other (Loss) Income.

The change in total other (loss) income for 2008 compared to 2007 relates primarily to the net realized losses on held-to-maturity securities, the net losses on derivatives and hedging activities and the net realized losses on available-for-sale securities, which are partially offset by the net gains on advances and consolidated bonds held at fair value.

Net Realized Gains (Losses) on Investment Securities.

Net Realized Gains (Losses) on Investment Securities
(Dollar amounts in millions)

	2008	2007	2006
Net realized gains (losses) from sale of available-for-sale securities	$ 11	$ 1	$(3)
OTTI charge—available-for-sale securities	(64)		
Net realized (losses) gains on available-for-sale securities	$ (53)	$ 1	$(3)
Net realized gains (losses) from sale of held-to-maturity securities	$ 4	$(6)	$(6)
OTTI charge—held-to-maturity securities (1)	(1,963)		
Net realized losses on held-to-maturity securities	$(1,959)	$(6)	$(6)

(1) Certain FHLBanks sold securities out of their held-to-maturity securities portfolio in compliance with SFAS 115. See Notes 1 and 7 to the accompanying combined financial statements for additional information.

During 2008, other (loss) income was negatively affected by OTTI charges on certain held-to-maturity and available-for-sale private-label residential mortgage-backed securities and home equity loan on investments of $1,963 million and $62 million as noted below (dollar amounts in millions).

	OTTI Charge-Held-to-Maturity Securities	OTTI Charge-Available-for-Sale Securities*	Total
Boston	$ (382)	$	$ (382)
Pittsburgh	(263)	(3)	(266)
Atlanta	(186)		(186)
Chicago	(233)	(59)	(292)
Topeka	(5)		(5)
San Francisco	(590)		(590)
Seattle	(304)		(304)
	$(1,963)	$(62)	$(2,025)

* Excludes OTTI charge of $2 million related to the FHLBank of Dallas' U.S. agency debenture. See Note 6 to the accompanying combined financial statements for additional information.

For additional information on OTTI evaluations by the FHLBanks, please refer to each individual FHLBank's periodic report filed with the SEC.

Derivatives and Hedging Activities and Fair Value Measurements. Under SFAS 133, the FHLBanks are required to carry all of their derivative instruments on the statement of condition at fair value. If derivatives meet the hedging criteria, including effectiveness measures, as specified in SFAS 133, changes in fair value of the associated hedged instruments attributable to the risk being hedged (e.g., benchmark interest rate risk) may also be recorded so that some or all of the unrealized gains or losses recognized on the derivatives are offset by corresponding unrealized gains or losses on the associated hedged instruments. The unrealized gains or losses on the "ineffective" portion of all hedges, which represents the amounts by which the changes in the fair value of the derivatives differ from the changes in the values of the hedged items or the variability in the cash flows of the forecasted transactions, are recognized in current period earnings. In addition, certain derivatives are associated with assets or liabilities but do not qualify as fair value or cash flow hedges under SFAS 133. These economic hedges are recorded on the statement of condition at fair value with the unrealized gains or losses recognized in current period earnings without any offsetting unrealized gains or losses from the associated asset or liability.

Upon adoption of SFAS 159, the FHLBank of San Francisco elected to carry certain existing and newly acquired advances and certain consolidated bonds at fair value. The FHLBanks of New York and Chicago elected the fair value option for certain newly acquired financial assets and/or financial liabilities during the three months ended September 30, 2008. The FHLBanks of New York, Chicago and San Francisco recognize changes in the unrealized gains and losses on these assets and liabilities in current period earnings. In general, transactions for which the fair value option has been elected in accordance with SFAS 159 are in economic hedge relationships.

In general, derivatives and associated hedged instruments, and certain assets and liabilities that are carried at fair value, are held to the maturity, call, or put date. Therefore, for these financial instruments nearly all of the cumulative net gains and losses that are unrealized gains or losses are primarily a matter of timing and will generally reverse over the remaining contractual terms of the hedged financial instrument, associated interest rate exchange agreement, or financial instrument carried at fair value. However, there may be instances in which these instruments are terminated 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. In addition, the FHLBanks may have instances in which they may sell trading securities prior to maturity, which may also result in a realized gain or loss.

Hedge ineffectiveness occurs when changes in the fair value of the derivative and the related hedged item do not perfectly offset each other. Hedge ineffectiveness is driven by changes in the benchmark interest rate and volatility. As the benchmark interest rate changes and the magnitude of that change intensifies, so will the effect on the FHLBanks' net gains (losses) on derivatives and hedging activities. Additionally, volatility in the marketplace may intensify this effect.

The increase in net losses on derivatives and hedging activities during 2008 relative to the prior-year period primarily reflected the adverse changes in fair values on derivative instruments used in economic hedges during 2008 relative to 2007. In a declining interest rate environment at December 31, 2008, the fair values of economic hedges declined, contributing to the loss from hedging activities. The resulting negative fair value effect experienced in 2008 resulted primarily in net unrealized losses related to hedge ineffectiveness. These losses are either generally expected to reverse over the remaining term to maturity, through changes in future valuations and settlements of contractual interest cash flows, or are the reversal of gains recognized in prior periods. Unwinding of the derivative transactions between LBSF and FHLBanks resulted in $343 million of net gains on derivatives and hedging activities for the year ended December 31, 2008.

Effect of Hedging, Trading Securities Activities and Fair Value Measurements on Earnings by Product (Dollar amounts in millions)

Earnings Effect for the Year Ended December 31, 2008	Advances	Investments	MPF/MPP Loans	COs-Bonds	COs-Discount Notes	Balance Sheet	Intermediary Positions/Other	Total
Amortization/accretion of hedging activities in net margin	$ (229)	$	$ (9)	$ 31	$ (5)	$	$	$ (212)
Net (losses) gains on derivatives and hedging activities	(1,127)	(684)	98	(311)	105	34	326	(1,559)
Net gains on trading securities		260						260
Net gains (losses) on advances and consolidated bonds held at fair value	915			(32)				883
Total	$ (441)	$(424)	$89	$(312)	$100	$34	$326	$ (628)

Earnings Effect for the Year Ended December 31, 2007	Advances	Investments	MPF/MPP Loans	COs-Bonds	COs-Discount Notes	Balance Sheet	Intermediary Positions	Total
Amortization/accretion of hedging activities in net margin	$(72)	$	$ (3)	$(68)	$ (4)	$	$	$(147)
Net gains (losses) on derivatives and hedging activities	29	(145)	(7)	84	(10)	(4)		(53)
Net gains on trading securities		147						147
Total	$(43)	$ 2	$(10)	$ 16	$(14)	$(4)	$	$ (53)

Earnings Effect for the Year Ended December 31, 2006	Advances	Investments	MPF/MPP Loans	COs-Bonds	COs-Discount Notes	Balance Sheet	Intermediary Positions	Total
Amortization/accretion of hedging activities in net margin	$(76)	$ 2	$ 9	$(83)	$(15)	$	$	$(163)
Net gains (losses) on derivatives and hedging activities	51	95	(58)	(2)	7	(9)	(1)	83
Net losses on trading securities		(127)						(127)
Total	$(25)	$ (30)	$(49)	$(85)	$ (8)	$(9)	$(1)	$(207)

Other Expense.

Operating Expenses
(Dollar amounts in millions)

	For the Years Ended December 31,			For the Years Ended December 31, 2008 vs. 2007 Increase (Decrease)		For the Years Ended December 31, 2007 vs. 2006 Increase	
	2008	2007	2006	$	%	$	%
Salaries and employee benefits	$447	$445	$407	$ 2	0.4%	$38	9.3%
Cost of quarters	37	38	35	(1)	(2.6)%	3	8.6%
Other	248	231	229	17	7.4%	2	0.9%
Total operating expenses	$732	$714	$671	$18	2.5%	$43	6.4%
Operating expenses as a percentage of average assets (basis points)	5.4	6.5	6.7				

Salaries and employee benefits were primarily flat from 2007 to 2008. The increase in salaries and employees benefits from 2006 to 2007 primarily reflected the following:

— higher staffing levels across the majority of the FHLBanks to support increased regulatory requirements for risk management, SEC filings and preparations for compliance with Sarbanes-Oxley requirements;

— general increases in pay and benefits; and

— 2007 reduction-in-force charges of $7 million recorded by the FHLBank of Chicago.

The increase in other operating expenses for 2008 as compared to 2007 is primarily due to an increase is professional and contract services and costs related to the termination of the merger discussions between the FHLBanks of Chicago and Dallas that were expensed in the first quarter of 2008.

Other Expenses
(Dollar amounts in millions)

	For the Years Ended December 31,			2008 vs. 2007 Increase (Decrease)		2007 vs. 2006 Increase (Decrease)	
	2008	2007	2006	$	%	$	%
Finance Agency/Finance Board expenses	$ 41	$ 34	$ 32	$ 7	20.6%	$ 2	6.3%
Office of Finance expenses	34	30	25	4	13.3%	5	20.0%
Provision for derivative counterparty credit losses	252			252			
Other, net	17	14	15	3	21.4%	(1)	(6.7)%
Affordable Housing Program	188	318	295	(130)	(40.9)%	23	7.8%

Finance Agency/Finance Board Expenses. The FHLBanks funded the costs of operating the Finance Board, and fund a portion of the costs of operating the Finance Agency since it was created on July 30, 2008. These costs are under the sole control of the Regulator. Finance Board expenses were allocated among the FHLBanks based on each FHLBank's percentage of total combined regulatory capital stock plus retained earnings through July 29, 2008. Each FHLBank pays a pro rata share of the Finance Agency's expenses and working capital fund through annual assessments based on the ratio between that FHLBank's minimum required regulatory capital and the aggregate minimum required regulatory capital of all FHLBanks. Each FHLBank must pay an amount equal to one-half of its annual assessment twice each year.

Office of Finance Expenses. The FHLBanks also fund the costs of the Office of Finance. The Office of Finance, a joint office of the FHLBanks, issues and services consolidated obligations, prepares the FHLBanks' combined quarterly and annual financial reports, and fulfills certain other functions. The expenses of the Office of Finance are generally allocated among the FHLBanks based on each FHLBank's percentage of total capital stock, percentage of consolidated obligations issued, and percentage of consolidated obligations outstanding.

Provision for Derivative Counterparty Credit Losses. The provision for derivative counterparty credit losses reported in the Total other expense section of the Combined Statement of Income for the year ended December 31, 2008 relates to certain FHLBanks' provision for outstanding receivable with LBSF. LBSF was a counterparty to FHLBanks on multiple derivative transactions under International Swap Dealers Association, Inc. master agreements with a total notional amount of $123 billion at the time of termination of the FHLBanks' derivative transactions with LBSF. On September 15, 2008, LBHI, the parent company of LBSF and a guarantor of LBSF's obligations filed for protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court in the Southern District of New York. As a result, each affected FHLBank notified LBSF of the FHLBank's intent to early terminate all outstanding derivative positions with LBSF. Unwinding of the derivative transactions between LBSF and FHLBanks resulted in $343 million of net gains on derivatives and hedging activities for the three and nine months ended September 30, 2008.

Upon unwinding of the derivative transactions between the FHLBanks and LBSF, the FHLBanks in a net receivable position netted the value of the collateral due to be returned to the FHLBanks with all other amounts due between the parties, which resulted in an establishment of a $312 million net receivable from LBSF (before provision) included in Other assets in the Combined Statement of Condition and a $252 million provision for derivative counterparty credit losses in the Combined Statement of Income to the extent that the FHLBanks were able to reasonably estimate the amount of loss that has been occurred with respect to debt settlements of derivative transactions with LBSF. (See FHLBanks' Combining Schedules—Statements of Income for the year ended December 31, 2008 under "Provision for derivative counterparty credit losses" for provision detail by FHLBank and that FHLBank's periodic report filed with the SEC.)

On October 3, 2008, the FHLBank of Atlanta sent a settlement statement to LBSF notifying it of all amounts payable if, as permitted under the master agreement, the value of the collateral due to be returned to the FHLBank of Atlanta were netted against all other amounts due between the parties as a result of unwinding the derivative transactions, and demanding payment for that amount. On October 3, 2008, the FHLBank of Atlanta filed suit in New York State Court against LBSF with respect to certain terminated derivative transactions. Later that same day, LBSF filed for bankruptcy protection, and the FHLBank of Atlanta's action has now been stayed pursuant to applicable bankruptcy law. In accordance with the master agreement, the net amount due to the FHLBank of Atlanta as a result of such excess collateral held by LBSF is approximately $189.4 million. The FHLBank of Atlanta intends to file proofs of claim, and otherwise pursue its claims, as permitted by law, against LBSF and LBHI in the relevant bankruptcy proceedings.

Furthermore, on October 7, 2008, the FHLBank of Pittsburgh filed an adversary proceeding against JP Morgan Chase Bank, N.A. (JP Morgan) and LBSF in the United States Bankruptcy Court in the Southern District of New York alleging constructive trust, conversion, breach of contract, unjust enrichment and injunction claims relating to the right of the FHLBank of Pittsburgh to the return of the $41.5 million of its posted cash collateral held by JP Morgan in a custodial account established by LBSF as a fiduciary for the benefit of the FHLBank of Pittsburgh. The FHLBank of Pittsburgh has not recorded a reserve with respect to the receivable from LBSF as of December 31, 2008 because, at this time, the FHLBank of Pittsburgh is unable to reasonably estimate the amount of loss that has been incurred.

Affordable Housing Program (AHP). Annually, the FHLBanks must set aside for the AHP the greater of $100 million or 10 percent of regulatory income, after the assessment for Resolution Funding Corporation (REFCORP). Regulatory income is income before assessments, plus interest expense related to mandatorily redeemable capital stock under SFAS No. 150, *Accounting for Certain Financial*

Instruments and Characteristics of both Liabilities and Equity (SFAS 150), less the assessment for REFCORP. Any FHLBank with a net loss for a quarter is not required to pay the AHP assessment for that quarter. The Regulator requires each FHLBank to add back interest expense related to mandatorily redeemable capital stock before the calculation of its AHP assessment. The decrease in the AHP assessments for the year ended December 31, 2008 compared to the year ended December 31, 2007 reflects the overall downward trend of the FHLBanks' net income. AHP helps members provide subsidized and other low-cost funding 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.

Interbank Transfers of Liability on Outstanding 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 that assumes the direct liability on those outstanding consolidated bonds. By engaging in these transactions, two FHLBanks are able to better match their funding needs by transferring funds held by one FHLBank to another FHLBank that needs funds. Transfer transactions allow the assuming FHLBank to achieve equal or lower funding costs than would be available to it for a similarly sized transaction in the capital markets at the time of the transfer. Because the consolidated bonds are the joint and several obligation of all 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 mortgages. Instead of continuing to retain the excess funds for use in its own business, an FHLBank may elect to transfer a portion of its liability to an FHLBank with more immediate funding needs. The funds are transferred to the assuming FHLBank together with the corresponding liability under the consolidated bonds. The assuming FHLBank assumes this liability at fair value which represents an all-in cost equal to or lower than it would have otherwise obtained for the same amount and maturity in the capital markets at that time. In this type of transaction, the FHLBank that transfers a liability for the consolidated bond also unwinds the related portion of any hedge transactions it entered into when the consolidated bond was issued. It can also take other steps in order to manage its interest rate exposure on the debt transferred. For example, it can:

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

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

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 transferring FHLBank continues to disclose the transferred debt as a contingent liability because it still has joint and several liability with respect to repaying the transferred consolidated obligation.

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

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

(2) all 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 SFAS 133 basis adjustments of the transferring FHLBank are reinstated and amortized over the life of the consolidated bond.

These amounts are eliminated as combining adjustments in the combining schedules accompanying the combined financial statements and will reverse over the remaining term of the consolidated bonds. Due to different discount accretion and/or premium amortization periods used by the assuming FHLBank and the transferring FHLBank, timing differences will affect net interest income as these transactions are reversed. These transactions do not affect the holders of the consolidated bonds, as the consolidated bonds are the joint and several obligation of all 12 FHLBanks. (See Note 1 to the accompanying combined financial statements and the related FHLBanks combining schedules.)

Total interbank consolidated bonds of \$1.5 billion, \$1.3 billion and \$1.4 billion at par value were transferred from one FHLBank to another FHLBank during 2008, 2007 and 2006. The combining adjustments for 2008, 2007 and 2006 for the elimination of the transfers of interbank consolidated bond liabilities and interbank fees and commissions related to the MPF Program resulted in the following effect on the Combined Statement of Income:

Effect of Combining Adjustments on Combined Statement of Income
(Dollar amounts in millions)

	For the Years Ended December 31,			For the Years Ended	
				2008 vs. 2007	2008 vs. 2007
	2008	2007	2006	Decrease	Decrease
Effect on:					
Net interest income	$(7)	$	$ 7	$ (7)	$(7)
Total other (loss) income	(5)	13	16	(18)	(3)
Total other expense	(5)	(5)	(4)		(1)
Net income	(7)	18	27	(25)	(9)

REFCORP Payment

Each FHLBank is required to make payments to REFCORP (20 percent of annual GAAP net income after payment of AHP assessments) until the total amount of payments actually made is equivalent to a \$300 million annual annuity whose final maturity date is April 15, 2030. The Regulator will shorten or lengthen the period during which the FHLBanks must make payments to REFCORP depending on actual payments relative to the referenced annuity. In addition, the Regulator, in consultation with the U.S. Secretary of the Treasury, selects the appropriate discounting factors used in calculating the annuity.

Due to certain FHLBanks overpaying their 2008 REFCORP assessment, the REFCORP assessment of the FHLBanks was a negative \$99 million (cash payment of \$35 million) for the fourth quarter of 2008 compared with \$210 million (cash payment of \$209 million) for the fourth quarter of 2007. The REFCORP assessment of the FHLBanks was \$412 million (cash payment of \$611 million) for 2008 and \$704 million (cash payment of \$703 million) for 2007. The cash payments are made based on preliminary GAAP net income amounts due to the timing requirement of the payment. Any FHLBank with a net loss for a quarter is not required to pay the REFCORP assessment for that quarter. As specified in the applicable regulation that implements section 607 of the Gramm-Leach-Bliley Act of 1999 (GLB Act), the amount by which the REFCORP payment for any quarter exceeds the $75 million benchmark payment is used to simulate the purchase of zero-coupon U.S. Treasury bonds to "defease" all or a portion of the most-distant remaining quarterly benchmark payment. The defeased benchmark payments (or portions thereof) can be reinstated if future actual REFCORP payments fall short of the $75 million benchmark in any quarter. The $40 million by which the fourth quarter 2008 REFCORP payment fell short of the $75 million quarterly benchmark, along with the $182 million of credits (based on preliminary GAAP net income amounts) due to FHLBanks that overpaid their 2008 annual REFCORP assessment, had the effect of reinstating the earlier $49 million defeasance of the benchmark payment due on July 15, 2012, the earlier defeasance of the entire benchmark payments due on October 15, 2012 and January 15, 2013, and the earlier defeasance of $32 million of the benchmark payment due on April 15, 2013.

As a result of both the $40 million by which the fourth quarter 2008 REFCORP payment fell short of the $75 million quarterly benchmark and the $182 million of credits due to FHLBanks that overpaid their 2008 annual REFCORP assessment, the overall period during which the FHLBanks must continue to make quarterly payments was extended to April 15, 2013, effective at December 31, 2008, from July 15, 2012, effective at September 30, 2008. This date assumes that the FHLBanks will pay exactly $300 million annually after December 31, 2008 (including the application of the credits referred to in the preceding paragraph) until the annuity is fully satisfied. This compares to the outside date of October 15, 2013, effective at December 31, 2007, based on REFCORP payments made through 2007.

For further discussion regarding how these FHLBanks will use their respective overpayments related to their 2008 REFCORP assessments, see "Note 15—Resolution Funding Corporation (REFCORP)" to the combined financial statements.

REFCORP Reinstatement Summary
For Fourth Quarter 2008 Payment
(Dollar amounts in millions)

Payment Due Date	Amount of Benchmark Payment Reinstated	Interest Rate Used To Discount the Future Benchmark Payment	Present Value of Benchmark Payment Reinstated
July 15, 2012	$ (49)	0.98%	$ (47)
October 15, 2012	(75)	1.06%	(72)
January 15, 2013	(75)	1.03%	(72)
April 15, 2013 (most distant remaining payment)	(32)	1.15%	(31)
Total	$(231)		$(222)

Capital Adequacy

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

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

— parallel and non-parallel interest-rate shifts;

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

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

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

Some boards of directors and/or management teams of FHLBanks have agreed with the Regulator either to maintain higher total capital-to-assets ratios or limit dividend payments as part of their retained earnings policies. As these limitations may be revised from time to time, they are more flexible than the minimum requirements prescribed by statute. At December 31, 2008, each of the FHLBanks, except for the FHLBank of Seattle, was in compliance with its statutory minimum capital requirements and any internally-established or supervisory limitations. At that date, the FHLBank of Seattle met its total capital ratio and leverage ratio requirements, but did not meet its risk-based capital requirements. The FHLBank of Seattle reported an unrealized market value loss of $2.1 billion and a risk-based capital deficiency at December 31, 2008. A subsequent increase in market values on the FHLBank's of Seattle private-label mortgage-backed securities corrected its risk-based capital deficiency at January 31, 2009, and consequently, in February 2009, the FHLBank of Seattle redeemed Class B capital stock of a former member subject to the five-year redemption period. Due to an increase in the credit-risk component as a result of rating agency downgrades on a number of the FHLBank of Seattle's private-label mortgage-backed securities, the FHLBank of Seattle again had a risk-based capital deficiency at February 28, 2009 but still met its total capital ratio and leverage ratio requirements at that date. (See "Business—Oversight, Audits and Examinations" for more information on the FHLBank of Chicago's minimum capital requirements.)

At December 31, 2008, 96.5 percent of the capital of the FHLBanks consisted of capital stock, while 3.5 percent consisted of retained earnings and accumulated other comprehensive income. At December 31, 2008, the FHLBanks had a combined regulatory capital-to-assets ratio of 4.42 percent, up from 4.41 percent at December 31, 2007. At December 31, 2008, the FHLBanks had a combined GAAP capital-to-assets ratio of 3.81 percent, down from 4.21 percent at December 31, 2007. Following the passage of the Housing Act, the Director of the Finance Agency is responsible for setting the risk-based capital standards for the FHLBanks. (See "Business—Capital, Capital Rules and Dividends" and Note 17 to the accompanying combined financial statements.)

Liquidity

The FHLBanks need liquidity to:

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

The FHLBanks also maintain liquidity to repurchase excess capital stock at their discretion upon the request of a member or under an FHLBank's excess stock repurchase program.

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. The FHLBanks seek to be in a position to meet the credit and liquidity needs of their members without maintaining excessive holdings of low-yielding liquid investments or being forced to incur unnecessarily high borrowing costs. The FHLBanks' primary sources of liquidity are short-term investments and the issuance of new consolidated obligations. Other short-term borrowings, such as Federal funds purchased, securities sold under agreements to repurchase, and loans from other FHLBanks, may also provide liquidity. The GSE status and favorable credit rating have historically provided the FHLBanks with excellent access to capital markets. Consolidated obligations enjoy GSE status; however, they are not obligations of the United States and the United States does not guarantee them. The FHLBanks' consolidated obligations are rated Aaa/P-1 by Moody's and AAA/A-1+ by S&P. These are the highest ratings available for such debt from an NRSRO. These ratings indicate that the FHLBanks have an extremely strong capacity to meet their commitments to pay principal of and interest on consolidated obligations and that the consolidated obligations are judged to be of the highest quality with minimal credit risk. The ratings also reflect the FHLBanks' status as GSEs. These ratings have not been affected by rating actions taken with respect to individual FHLBanks. (See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Recent Rating Agency Actions.") Investors should note that a rating issued by an NRSRO is not a recommendation to buy, sell or hold securities and that the ratings may be revised or withdrawn by the NRSRO at any time. Investors should evaluate the rating of each NRSRO independently.

In addition, under certain circumstances the U.S. Secretary of the Treasury may acquire up to $4 billion of consolidated obligations of the FHLBanks. As a supplement to the existing $4 billion limit, the Housing Act provided temporary authority to the U.S. Secretary of the Treasury to purchase obligations issued by FHLBanks in any amount deemed appropriate under certain conditions. Pursuant to that authority, during the third quarter of 2008 each FHLBank entered into a lending agreement with the U.S. Treasury in connection with the U.S. Treasury's establishment of the Government Sponsored Enterprise Credit Facility (GSECF), as authorized by the Housing Act. The GSECF is designed to serve as a contingent source of liquidity for the housing government-sponsored enterprises, including each of the 12 FHLBanks. Any borrowings by one or more of the FHLBanks under the GSECF are considered consolidated obligations with the same joint and several liability as all other consolidated obligations. The terms of any borrowings are agreed to at the time of issuance. Loans under the lending agreement are to be secured by collateral acceptable to the U.S. Treasury, which consists of FHLBank advances to members that have been collateralized in accordance with regulatory standards and mortgage-backed securities issued by Fannie Mae or Freddie Mac. Each FHLBank is required to submit to the Federal Reserve Bank of New York, acting as fiscal agent of the U.S. Treasury, a list of eligible collateral updated on a weekly basis. As of December 31, 2008, the FHLBanks had provided the U.S. Treasury with listings of advance collateral amounting to $228.5 billion, which would have permitted borrowings up to $198.8 billion. The amount of collateral can be increased or decreased (subject to the approval of the U.S. Treasury) at any time through the delivery of an updated listing of collateral. As of December 31, 2008, no FHLBank has drawn on this available source of liquidity. This temporary authorization expires on December 31, 2009. (See "Business—Oversight, Audits and Examinations.") Other short-term borrowings, such as Federal funds purchased, securities sold under agreements to repurchase, and loans from other FHLBanks, also provide liquidity.

To protect the FHLBanks against temporary disruptions in access to the debt markets in response to a rise in capital markets volatility, effective March 6, 2009, the Finance Agency requires each FHLBank to maintain sufficient liquidity, through short-term investments, in an amount at least equal to an FHLBank's anticipated cash outflows under two different scenarios. One scenario assumes that an FHLBank cannot access the capital markets for a period of between ten to twenty days, with initial guidance set at fifteen days, and that during that time members do not renew any maturing, prepaid and 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 an NRSRO that is investment quality; and is well-rated by the individual FHLBank's internal credit rating system. The Finance Agency's formalized guidance revises and finalizes guidance previously communicated to the FHLBanks early in the fourth quarter of 2008. See "Risk Factors—Compliance with regulatory contingency liquidity guidance could adversely affect the FHLBanks' earnings" for more information.

Each FHLBank also maintains a contingency liquidity plan designed to enable it to meet its obligations and the liquidity needs of members in the event of operational disruptions at the FHLBanks or the Office of Finance, or short-term capital market disruptions. (See "Risk Management—Liquidity Risk.")

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires management of each FHLBank 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 management of each FHLBank believes that these judgments, estimates and assumptions are reasonably accurate, 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.

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 different policies and presentations are permitted under GAAP in certain circumstances. Among other things, the FHLBanks may not use the same models and assumptions in determining the fair values (including impairments) of their respective assets, liabilities and derivatives. The use of different models or assumptions by individual FHLBanks, as well as changes in market conditions, could result in materially different valuation estimates, impairment determinations 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.

The accounting estimates and assumptions discussed in this section are those generally considered by the management of each FHLBank to be the most critical to an understanding of its financial statements and the financial data it provides to the Office of Finance for these combined financial reports. 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.

Estimates and assumptions that are significant to the results of operations and financial condition of FHLBanks include those used in conjunction with OTTI determinations, fair value estimates, calculation of allowances for credit losses on advances, mortgage loans and private-label MBS and home equity loan investment securities, and derivatives and hedge accounting. These estimates and assumptions are likely to change from period to period due to the inherent subjectivity of management judgments and assumptions about highly complex and uncertain matters. A change in an estimate or assumption could have a material effect on the FHLBank's reported results of operations or 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.

These policies and the judgments, estimates, and assumptions are also described in Note 1 to the accompanying combined financial statements.

OTTI for Investment Securities. The broad-based deterioration of credit performance related to residential mortgage loans and the accompanying decline in U.S. residential real estate values have increased the level of credit risk to which the FHLBanks are exposed in their investments in mortgage-related securities, primarily private-label MBS and home equity loan investments. The FHLBanks' investments in mortgage-related securities are directly or indirectly supported by underlying mortgage loans. Due to the decline in values of residential U.S. real estate and difficult conditions in the credit markets, each FHLBank closely monitors the performance of its investment securities classified as available-for-sale or held-to-maturity on at least a quarterly basis (or more frequently if a loss-triggering event occurs, such as a material downgrade by the rating agencies) to evaluate their exposure to the risk of loss on these investments in order to determine whether a loss is other-than-temporary, consistent with SFAS 115 (as amended by FSP 115-1, *The Meaning of Other-than-Temporary Impairment and its Application to Certain Investments*). For an investment security that has a fair value that is less than its corresponding carrying value, an FHLBank will record impairment (at fair value) when the decline in fair value is deemed to be other-than-temporary. An FHLBank will conclude that a loss is other-than-temporary if it is probable that the FHLBank will not receive all of the investment security's contractual cash flows. As part of this analysis, an FHLBank must assess its intent and ability to hold a security until recovery of any unrealized losses. These evaluations are inherently subjective and consider a number of qualitative factors. In addition to monitoring the credit ratings of these securities for downgrades, as well as placement on negative outlook or credit watch, an FHLBank's management evaluates other factors that may be indicative of OTTI. These include, but are not limited to, an evaluation of the type of security, the length of time and extent to which the fair value of a security has been less than its cost, any credit enhancement or insurance, and certain other collateral-related characteristics such as FICO credit scores, loan-to-value ratios, delinquency and foreclosure rates, geographic concentrations and the security's performance. If an FHLBank's initial analysis identifies securities at risk of OTTI, the FHLBank performs additional testing of these investments, which are typically private-label mortgage-backed securities and home equity loans. Securities with weaker performance measures are evaluated by estimating projected cash flows using models that incorporate projections and assumptions typically based on the structure of the security and certain economic environment assumptions such as delinquency and default rates, loss severity, home price appreciation/depreciation, interest rates and securities prepayment speeds while factoring in the underlying collateral and credit enhancement.

If an FHLBank determines that an OTTI exists, it accounts for the investment security as if it had been purchased on the measurement date of the OTTI. The investment security is written down to fair value (its new cost basis), any deferred amounts related to the investment security are written off, and a realized loss is recognized in non-interest income. A new accretable yield is calculated and amortized prospectively over the remaining life of the investment security based on the amount and timing of future estimated cash flows. See additional discussion regarding the recognition and presentation of OTTI in Note 2 to the accompanying combined financial statements.

Fair Values. The FHLBanks carry certain assets and liabilities on the Combined Statement of Condition at fair value, including investments classified as trading and available-for-sale, all derivatives and financial instruments carried at fair value under SFAS 159. The FHLBanks adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157), on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and requires additional disclosures for instruments carried at fair value on the Combined Statement of Condition. SFAS 157 defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability (an exit price).

Fair values play an important role in the valuation of certain of the assets, liabilities and hedging transactions of the FHLBanks. The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that are actively traded and have quoted market prices or parameters readily available, there is little to no subjectivity in determining fair value. If quoted market prices or market-based prices are not available, fair values are determined based on valuation models that use either:

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

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

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

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

The FHLBanks categorize their financial instruments carried at fair value into a three-level classification in accordance with SFAS 157. The valuation hierarchy is based upon the transparency (observable or unobservable) of inputs to the valuation of an asset or liability as of the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect an FHLBank's market assumptions. The FHLBanks utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. For a discussion of an individual FHLBank's fair value measurement techniques, see that FHLBank's report on Form 10-K as filed with the SEC.

For further discussion regarding how the FHLBanks measure financial assets and financial liabilities at fair value, see "Note 19—Estimated Fair Values," to the accompanying combined financial statements.

Accounting for Derivatives. The FHLBanks adopted SFAS 133 on January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the statement of condition at their fair values. Changes in fair value of derivatives are recorded each period in current-period earnings or accumulated other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. SFAS 133 has led to more volatility in the statement of income because of changes in market prices and interest rates.

As noted under "Risk Management—Quantitative and Qualitative Disclosures about Market Risk—Qualitative Disclosures about Market Risk—Interest-Rate Exchange Agreements," by regulation, an FHLBank may use derivative instruments only to mitigate identifiable risks. All of the derivatives of an FHLBank are positioned to offset some or all of the risk exposure inherent in its member lending, investment, or funding activities. Under SFAS 133, an FHLBank is required to recognize unrealized losses or gains on derivative positions regardless of whether offsetting gains or losses on the underlying assets or liabilities being hedged are permitted to be recognized in a symmetrical manner. Therefore, the accounting framework imposed by SFAS 133 introduces the potential for a considerable mismatch between the timing of income and expense recognition from assets or liabilities and the income effects of hedge instruments positioned to mitigate market risk and cash-flow variability. Therefore, during periods of significant changes in interest rates, an FHLBank's reported GAAP earnings may exhibit considerably greater variability than had been reported prior to the full implementation of SFAS 133. The FHLBanks have generally continued their practice of utilizing the most cost-efficient hedging techniques available. The FHLBanks generally view the accounting consequences resulting from the choice of a particular hedging technique as an important but secondary consideration. The FHLBanks anticipate that this approach will result in enhanced long-term performance, while recognizing the potential for increased variability in quarterly earnings as reported under the requirements of SFAS 133. Because the FHLBanks generally manage their derivatives positions with primary emphasis on economic cost-effectiveness as opposed to symmetrical accounting results, SFAS 133 has led to more volatility in the reported earnings for the FHLBanks due to changes in market prices and interest rates.

From time to time, the FHLBanks may serve as intermediaries for their member institutions by entering into offsetting interest-rate exchange agreements between their members and other counterparties. This intermediation allows smaller members access to the derivatives market. The derivatives used in intermediary activities do not qualify for hedge accounting treatment and are separately marked-to-market through other income in "Net gains (losses) on derivatives and hedging activities." The net result of the accounting for these derivatives does not significantly affect the operating results of the FHLBanks. All derivative contracts that an FHLBank enters into with a member for this purpose are generally accompanied by counterparty trades that offset the member trade except for a negligible spread that the FHLBank receives as compensation for this member service. Generally, no fees are charged to members for this type of transaction.

SFAS 133: Accounting for Derivative Hedging Relationships. Accounting for a hedging relationship depends on the characteristics of the derivative and hedged item and their correlation to one another. A hedge relationship is created from the documented designation of a derivative financial instrument as hedging the FHLBank's exposure either to changes in the fair value of a financial instrument or to a change in future cash flows attributable to an on-balance sheet financial instrument or for an anticipated transaction. The accounting the FHLBanks use for typical hedge transactions can be summarized as follows:

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

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

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

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

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

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

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

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

Changes in the fair value of a derivative that is effective as a fair-value hedge (and that is designated as and qualifies as a fair-value hedge), along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (including changes that reflect losses or gains on firm commitments), are recorded in current-period earnings. Any ineffectiveness of a hedge (which represents the amount by which the change in the fair value of the derivative differs from the change in the fair value of the hedged item) is also recorded in current-period earnings.

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

(1) the overall hedged cash flows;

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

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

(4) cash flows due to credit risk.

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

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

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

— the short-cut treatment;

— the highly-effective treatment (also known as the "long-haul" method of accounting); and

— the not-highly-effective treatment (also known as "economic hedges").

Short-cut Treatment. A short-cut hedging relationship implies that the hedge between an interest-rate swap and an interest-bearing financial instrument is considered to be perfectly correlated. Therefore, changes in the fair value of the interest-rate swap and the interest-bearing financial instrument will perfectly offset one another, as a short-cut relationship assumes no ineffectiveness. To qualify for short-cut accounting treatment, a number of restrictive conditions must be met. The result is that the derivative relationship has no effect on earnings or capital. Under the short-cut method, the FHLBanks periodically review each hedge to ensure that none of the critical terms of the hedging relationships, as defined by paragraph 68 of SFAS 133 have changed (e.g., 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 fair value of the hedging instrument 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 FHLBanks apply the short-cut method to a qualifying fair value hedge when the relationship is designated on the trade date of both the hedging instrument and the hedged item (for example, advances or consolidated obligation bonds are issued), even though the hedged item is not recognized for accounting purposes until the transaction settles (that is, until its settlement date), provided that the period of time between the trade date and the settlement date of the hedged item is within established conventions for that marketplace. Although the hedged item will not be recognized in the financial statements until settlement date, in certain circumstances when the fair value of the hedging instrument is zero on the trade date, each FHLBank believes that it meets a condition of SFAS 133 that allows the use of the short-cut method. The FHLBanks record the changes in fair value of the hedging instrument and the hedged item beginning on the trade date.

Highly-Effective Treatment (Long-haul Method). A highly-effective hedging relationship indicates that the FHLBank assesses, prospectively and retrospectively, whether the derivative and hedged item will be highly effective in offsetting changes in fair value attributable to the hedged risk. The changes in fair value for the derivative and the hedged item may or may not perfectly offset one another. Any difference in the change of fair value between the two will be recognized as a net gain or loss in the statement of income. To maintain the highly-effective relationship, this testing of the effectiveness of the hedge is performed at the inception of the hedge and on an ongoing basis. Typically, the FHLBanks perform dollar-offset prospective testing at the inception of the hedge and calculate retrospective regressions after a sufficient number of data points have been accumulated to render a statistically significant result. Alternatively, FHLBanks may employ regression-based testing prospectively based on simulated valuations derived from historical market data. If during this testing of effectiveness the hedge fails to maintain effectiveness at any point, the hedge relationship will be deemed ineffective. As a result, the hedged item's changes in fair value will no longer be evaluated under SFAS 133, and will be treated as not-highly-effective.

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

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

The FHLBanks amortize premiums and accrete discounts in accordance with the requirements of SFAS 91. Where appropriate and allowed under SFAS 91, certain FHLBanks use estimates of prepayments and apply a level-yield calculation on a retrospective basis. The FHLBanks of Atlanta, Des Moines and Pittsburgh apply a level-yield methodology over the contractual life of their mortgage-backed securities and purchased mortgage loans. The FHLBanks of Boston, Chicago and Dallas apply a level-yield methodology over the contractual life of their purchased mortgage loans. Except for the above situations when the contractual method is used, the FHLBanks currently apply the retrospective method on mortgage-backed securities and/or purchased mortgage loans for which prepayments reasonably can be expected and estimated. Use of the retrospective method may increase volatility of reported earnings during periods of changing interest rates.

Provision for Credit Losses.

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

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

— residential mortgage loans;

— deposits in the FHLBank; and

— other real estate-related assets.

Each FHLBank may require additional collateral (whether or not that additional collateral meets the eligibility criteria set forth above) or require that the borrower substitute existing collateral at any time. The FHLBank also has a statutory lien upon each member's FHLBank stock as additional security for the indebtedness of that member. At December 31, 2008 and 2007, the rights to collateral (either loans or securities), on a member-by-member basis, held by the FHLBanks had an estimated fair value that exceeded the outstanding advances. Management of each FHLBank believes that adequate policies and procedures are in place to effectively manage that FHLBank's respective credit risk.

Mortgage Loans—MPF. Each MPF FHLBank that holds mortgage loans under the MPF Program has an allowance for credit losses on mortgage loans held or has determined that no loan loss allowance is necessary 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. In determining the allowance for credit losses on mortgage loans under the MPF Program, management typically evaluates its FHLBank's exposure to credit loss by taking into consideration delinquency statistics, past performance, current performance, loan portfolio characteristics, collateral valuations, industry data, collectibility of credit enhancements from PFIs or mortgage insurers (which includes credit enhancement protection amount, recoverability under primary mortgage insurance (PMI), FHA or HUD insurance, and VA or RHS guarantees) or from mortgage insurers, and prevailing economic conditions. Setting the level of reserves requires significant judgment and regular evaluation by management. The use of different estimates or assumptions as well as changes in external factors could produce materially different allowance levels. Management of each MPF FHLBank believes that adequate policies and procedures are in place to manage its MPF credit risk effectively.

MPF FHLBanks purchase both conventional mortgage loans and government mortgage loans under the MPF Program. Government loans are insured or guaranteed by federal agencies and, therefore, the FHLBanks have determined that no allowance for losses is necessary in connection with government loans. Conventional loans, in addition to having the related real estate as collateral, are also credit enhanced either by the PFI which is required to pledge qualified collateral to secure its credit enhancement obligation, or by supplemental mortgage insurance (SMI) purchased by the PFI. 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 estimated credit losses related to specifically identified loans as well as estimated credit losses inherent in the 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 of credit enhancements provided by PFIs, and (4) estimation of loss exposure and historical loss experience.

The MPF FHLBanks' review of specifically identified loans typically involves the identification of collateral-dependent loans. 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. PMI and the credit enhancement protection amount provided by the PFI or by SMI are factored into the allowance for credit loss determination, provided 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, represents the estimated credit losses from conventional MPF loans. Any potential losses that would be recovered from the credit enhancement protection amount, as well as PMI, FHA and HUD insurance and VA and RHS guarantees, are not reserved for as part of the allowance for credit losses on mortgage loans.

Mortgage Loans—MPP. Each MPP FHLBank that has acquired mortgage loans under MPP analyzes its MPP loans on a quarterly basis by determining inherent losses, comparing these losses to credit enhancements, and establishing general or real estate owned specific reserves based on the results. Currently, each MPP FHLBank has either established a minimal provision for credit losses on mortgage loans acquired under MPP or has determined that no such provision is required, due in part to the structure of the allocation of credit risk under that program. Management of each MPP FHLBank believes that adequate policies and procedures are in place to manage its MPP credit risk effectively. The determination of loan losses is based on managements' estimate of loan losses inherent in the MPP portfolio as of the balance sheet date. Any allowance for loan losses is reported as a separate line item in the statement of condition. The MPP FHLBank's analysis employs a consistently applied methodology to determine its best estimate of inherent credit losses. This analysis factors in the credit enhancements, including the recoverability of insurance.

MPP FHLBanks may acquire both FHA and conventional fixed-rate mortgage loans under the MPP. FHA mortgage loans are U.S. government insured and, therefore, the MPP FHLBanks have determined that they do not require a loan loss allowance. The FHLBanks are protected against credit losses on conventional mortgage loans by having the related real estate as collateral, which effectively includes the borrower's equity, and credit enhancements including primary mortgage insurance, if applicable, the member's Lender Risk Account (LRA), and, with the exception of the FHLBank of Seattle, SMI. On April 25, 2008, after the credit downgrade of its SMI provider, the FHLBank of Seattle exercised its contractual right and cancelled its SMI policies.

For conventional loans, PMI, if applicable, covers losses or exposure down to approximately a loan-to-value ratio of between 65 and 80 percent based upon the original appraisal, depending on original loan-to-value ratios, term, amount of primary mortgage insurance coverage, and characteristics of the loans. Once the borrower's equity and primary insurance are exhausted, the LRA provides credit loss coverage for pools of conventional loans until it is exhausted. After the LRA is exhausted, the MPP FHLBanks with SMI coverage are protected against credit losses down to a loan-to-value ratio of approximately 50 percent (subject, in certain cases, to an aggregate stop-loss provision in the SMI policy). The stop-loss is equal to the total initial principal balance of loans under the master commitment contract multiplied by the stop-loss percentage, currently in effect, and represents the maximum aggregate amount payable by the SMI provider under the SMI policy for that pool. The MPP FHLBanks would assume the credit exposure if the severity of losses were to exceed the SMI coverage, or in the case of the FHLBank of Seattle, the LRA coverage only.

The MPP FHLBanks have developed an approach for reviewing the adequacy of the allowance for credit losses. The key estimates and assumptions that affect the loan loss reserve analysis generally include: specific delinquent conventional loans outstanding under the MPP; evaluations of the overall delinquent loan portfolio through the use of trend analysis reviews; loss severity trends; historical default experience; collateral valuation; expected proceeds from credit enhancements; comparisons to industry reported data and current economic trends and conditions. In addition, management of the FHLBanks perform a review of the observable data used in its estimate to ensure it is representative of prevailing economic conditions or other events existing as of the statement of condition date. These estimates require significant judgments, especially considering the unprecedented 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 increasingly imprecise.

The review of credit enhancements (in addition to any PMI, if applicable) includes the LRA and SMI policy, if applicable, as well as outstanding claims against such coverage. The conventional loans are associated with specific Master Commitment Contracts and their related LRAs and are considered in such groups when the FHLBanks evaluate credit quality.

SMI coverage, if applicable, is applied on a loan-by-loan basis. Two key factors contribute to the possibility of exceeding the SMI coverage: first, the severity of the loss and, secondly, beginning in the first half of 2005, the total of losses within a particular master commitment contract. Beginning in the first half of 2005, master commitment contracts issued in amounts greater than $35 million have a stop-loss feature as part of the SMI contract that limits the total dollar amount of insurance coverage provided by the insurer on each master commitment contract. The stop loss is established at a level that permits the affected loan pools to attain an investment-grade double-A implied credit rating at the time of closing a master commitment contract.

As of December 31, 2008, each MPP FHLBank has either established a minimal provision for credit losses on mortgage loans acquired under MPP or has determined that no such provision is required for the FHLBank's conventional mortgage loans purchased under the MPP. If the MPP FHLBanks had losses in excess of the estimated liquidation value of collateral held, PMI (if applicable), LRA, and SMI (if applicable), these would be recognized credit losses for financial reporting purposes.

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

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

Off-Balance Sheet Arrangements and Other Commitments

In the ordinary course of business, the FHLBanks engage in financial transactions that, in accordance with GAAP, are not recorded on the FHLBanks' Statement of Condition or may be recorded on the FHLBanks' Statement of Condition in amounts that are different from the full contract or notional amount of the transactions. The FHLBanks routinely enter into commitments to extend advances, issue standby letters of credit and/or fund unused lines of credit. These commitments and standby letters of credit may not necessarily represent future cash requirements of the FHLBanks. Some of these commitments are expected to expire without being drawn upon. At December 31, 2008, the FHLBanks had $22.6 billion of commitments to extend advances and unused lines of credit, and $49.4 billion in standby letters of credit outstanding. The FHLBanks entered into $9.8 billion par value of consolidated bonds and $666 million par value of consolidated discount notes that had traded but not yet settled at December 31, 2008.

Contractual Obligations

In the ordinary course of operations, the FHLBanks enter into certain contractual obligations. The following table summarizes the FHLBanks' significant contractual obligations at December 31, 2008.

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

	Payments Due or Expiration Terms by Period				
	< 1 year	1 to <3 years	3 to <5 years	5 years and >	Total
Consolidated bonds (1)	$406,692	$199,501	$ 95,901	$107,720	$809,814
Capital lease obligations	6	12	6		24
Operating leases	26	48	32	64	170
Standby bond purchase agreements	554	718	988	278	2,538
Commitments to fund/purchase mortgage loans	1,846				1,846
Other unconditional purchase obligations	57	3	2		62
Unconditional purchase obligations	2,457	721	990	278	4,446
Subordinated notes				1,000	1,000
Mandatorily redeemable capital stock	364	509	5,230	33	6,136
Securities sold under agreements to repurchase		800	400		1,200
Total contractual obligations	$409,545	$201,591	$102,559	$109,095	$822,790

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

Legislative and Regulatory Developments

Changes to Regulation of GSEs. On July 30, 2008, the Housing Act was enacted and is designed to, among other things, address the current housing finance crisis, expand the FHA's financing authority and address GSE reform issues. Each FHLBank continues to review the effect of the Housing Act on its business and operations. With respect to the FHLBanks, the Housing Act:

- Creates a newly-established, independent federal agency regulator, the Finance Agency, which became the new federal regulator of the FHLBanks and the Office of Finance, Fannie Mae and Freddie Mac effective on July 30, 2008. The Finance Agency is headed by a single Director and under the Housing Act, the initial acting Finance Agency Director is James Lockhart, who had most recently served as the Director of Office of Federal Housing Enterprise Oversight (OFHEO). The Finance Board was merged into the Finance Agency as of October 27, 2008. Finance Board regulations, orders, determinations and resolutions remain in effect until modified, terminated, set aside or superseded in accordance with law by the Finance Agency Director, a court of competent jurisdiction or by operation of law. The FHLBanks are responsible for their share of the operating expenses of the Finance Agency.

- Authorizes the U.S. Secretary of the Treasury to purchase obligations issued by the FHLBanks, in any amount deemed appropriate by the U.S. Secretary of the Treasury under certain conditions. This temporary authorization expires December 31, 2009 and supplements the existing limit of $4 billion. See "Government Sponsored Enterprise Credit Facility" for more information.

- Authorizes the Finance Agency Director to set risk-based capital standards for the FHLBanks and other capital standards and reserve requirements for FHLBank activities and products.

- Provides the Finance Agency Director with express broad conservatorship and receivership authority over the FHLBanks.

- Provides that an FHLBank's board of directors shall be comprised of 13 directors, or such other number as the Finance Agency Director determines appropriate, a majority of whom shall be persons who are directors or officers of its members and a minimum of two-fifths of whom shall be non-member independent directors (nominated by an FHLBank's board of directors in consultation with the affordable housing Advisory Council of the FHLBank). Two of the non-member independent directors must have more than four years experience in representing consumer or community interests and the remaining directors must have such other knowledge and expertise as set forth in the Housing Act or regulations promulgated under the Housing Act. The statutory "grandfathering" rules for the number of elective director seats by state remain in effect, unless FHLBanks merge.

- Removes the maximum statutory annual limit on director compensation.

- Allows the Finance Agency Director to prohibit FHLBank executive compensation that is not reasonable and comparable with compensation for employment in other similar businesses involving similar duties and responsibilities. If the FHLBank is undercapitalized, the Finance Agency Director may also restrict executive compensation. Until December 31, 2009, the Finance Agency Director has additional authority to approve, disapprove or modify executive compensation.

- Requires the Finance Agency Director to issue regulations to facilitate the sharing of information among the FHLBanks to, among other things, enable the FHLBanks to assess their joint and several liability obligations.

- Provides the FHLBanks with express statutory exemptions from compliance with certain provisions of the federal securities laws.

- Allows FHLBanks to voluntarily merge with the approval of the Finance Agency Director and their respective boards of directors and requires the Finance Agency Director to issue regulations establishing the conditions and procedures for the consideration and approval of voluntary mergers, including procedures for FHLBank member approval.

- Requires the Finance Agency Director to provide to the affected FHLBank (1) at least 30 days notice prior to liquidating or reorganizing that FHLBank and (2) a hearing.
- Allows the number of FHLBank districts to be reduced to fewer than eight pursuant to a voluntary merger or pursuant to the Finance Agency Director's action to liquidate an FHLBank.
- Provides FHLBank membership eligibility for "community development financial institutions".
- Redefines "community financial institutions" as those institutions that have, as of the date of the transaction at issue, less than $1.0 billion in average total assets over the three years preceding that date (subject to annual adjustment by the Finance Agency Director based on the consumer price index) and adds secured loans for "community development activities" as a permitted purpose, and as eligible collateral, for advances to community financial institutions.
- Provides that each FHLBank shall establish an office for diversity in management, employment and business activities.
- Provides that the FHLBanks are subject to prompt corrective action enforcement provisions, similar to those currently applicable to national banks and federal savings associations.
- Authorizes the Finance Agency Director to establish low- and very low-income and certain other housing goals for loans acquired by the FHLBanks, which when established would affect the FHLBanks' acquired member asset programs.
- Authorizes each FHLBank to issue letters of credit to support tax-exempt bond issuances, where the original issuance of the bonds occurred during the period beginning July 30, 2008 and ending December 31, 2010, or a renewal or extension of a letter of credit so issued.
- Authorizes each FHLBank under its AHP to use such percentage, as the Finance Agency Director may establish, of any subsidized advances set aside to finance home ownership for the refinancing of home loans for families having an income at or below 80 percent of the applicable area median income. This authority expires in July 2010.

Interim Final Rule Regarding Capital Classifications and Critical Capital Levels for the FHLBanks. On January 27, 2009, the Finance Agency issued an interim final rule, effective January 30, 2009, with a request for comment to implement certain provisions of the Housing Act that require the Finance Agency Director to establish criteria based on the amount and type of capital held by an FHLBank for each of the following capital classifications: adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. This interim rule defines critical capital for the FHLBanks, and establishes the criteria for each of the capital classifications identified in the Housing Act. An FHLBank is considered adequately capitalized only if it holds sufficient capital to meet both its risk-based and minimum capital requirements. An FHLBank is undercapitalized if it fails to meet any one of its minimum or risk-based capital requirements, but such deficiency is not large enough to classify the FHLBank as significantly undercapitalized or critically undercapitalized. The critical capital level is the level at which an FHLBank would be categorized as critically undercapitalized. An FHLBank would be considered critically undercapitalized whenever its total capital is two percent or less of its total assets. An FHLBank is significantly undercapitalized if the amount of capital held by the FHLBank is less than 75 percent of the capital levels needed for the FHLBank to meet either its risk-based or minimum capital requirements. The interim final rule also implements prompt corrective action authority over the FHLBanks. Fannie Mae and Freddie Mac already are subject to similar prompt corrective action provisions, which were adopted in the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. The interim final rule provides for comments to be received on or before May 15, 2009. (See "Business—Capital, Capital Rules and Dividends" for additional information.)

Government Sponsored Enterprise Credit Facility (GSECF). On September 7, 2008, the U.S. Treasury, as authorized by the Housing Act, established the GSECF that is designed to serve as a contingent source of liquidity for the housing government-sponsored enterprises, including each of the 12 FHLBanks. In exchange for funding, the U.S. Treasury would receive an FHLBank consolidated obligation. The FHLBanks would secure repayment by pledging eligible collateral, which would consist of advances made by the FHLBanks and mortgage-backed securities issued by Freddie Mac and Fannie Mae. As of December 31, 2008, no FHLBank had drawn on this available source of liquidity.

Temporary Liquidity Guarantee Program. On November 21, 2008, the FDIC adopted a final rule implementing the TLGP, which was previously announced in October 2008. The TLGP has two primary components: the Debt Guarantee Program, by which the FDIC will guarantee payment of certain newly-issued senior unsecured debt where such debt is issued on or before June 30, 2009 (under the original rule); and the Transaction Account Guarantee Program, by which the FDIC will guarantee funds in noninterest-bearing transaction deposit accounts held by FDIC-insured banks until December 31, 2009. The TLGP has enabled participating entities to offer more competitive pricing on debt and therefore compete more effectively for funds. Participation for eligible institutions is voluntary: institutions were permitted to opt out of the program on or before December 5, 2008. On January 16, 2009, the FDIC announced its intention to expand the program by guaranteeing secured debt for up to 10 years beyond June 30, 2009, provided that the debt supports new consumer lending. The Board of Directors of the FDIC voted on March 17, 2009, to extend the deadline for issuing debt under the debt guarantee portion of the program from June 30, 2009 through October 31, 2009, and to impose a surcharge on debt issued with a maturity of one year or more beginning in the second quarter of 2009 to gradually phase-out the TLGP. The guarantee on debt issued before April 1, 2009, will expire no later than June 30, 2012. The guarantee on debt issued on or after April 1, 2009, will expire no later than December 31, 2012.

Term Asset-Backed Securities Loan Facility. On March 3, 2009, the U.S. Treasury and the Federal Reserve announced the launch of the Term Asset-Backed Securities Loan Facility (TALF) as part of carrying out the mission of the Financial Stability Plan. The TALF is designed to catalyze the securitization markets by providing financing to investors to support their purchases of certain triple-A-rated asset-backed securities. Under the TALF, the Federal Reserve Bank of New York will lend up to $200 billion to eligible owners of certain triple-A-rated asset-backed securities backed by newly- and recently-originated auto loans, credit card loans, student loans and small business loans guaranteed by the Small Business Administration. Issuers and investors in the private sector are expected to begin arranging and marketing new securitizations of recently generated loans, and subscriptions for funding in March will be accepted on March 17, 2009. On March 25, 2009, these new securitizations were funded by the program, creating new lending capacity for additional future loans. Additionally, on March 19, 2009, the Federal Reserve announced that the range of eligible collateral for TALF funding commencing in April 2009 will be expanded to include asset-backed securities backed by mortgage servicing advances, loans or leases relating to business equipment, leases of vehicle fleets and floor-plan loans. The program will hold monthly subscriptions on the first Tuesday of every month through December 2009 or longer if the Federal Reserve Board chooses to extend this facility.

Financial Stability Plan. On February 10, 2009, the U.S. Treasury announced a comprehensive plan to restore stability to the U.S. financial system and support an effective and lasting economic recovery. The plan requires certain financial institutions to undergo a comprehensive stress test, the provision of capital injections to certain financial institutions, controls on the use of capital injections, a purchase program for certain illiquid assets, limits on executive compensation, anti-foreclosure and housing support requirements, and small-business and community-lending initiatives. to provide government capital and government financing to assist the private markets with illiquid assets.

Emergency Economic Stabilization Act of 2008. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was enacted and, among other things, authorizes the U.S. Secretary of the Treasury to establish the $700 billion Troubled Asset Relief Program to either purchase equity in U.S. financial institutions or purchase distressed assets, particularly illiquid residential and commercial mortgages and mortgage-backed securities, from U.S. financial institutions with the intention of increasing liquidity in the secondary mortgage markets and reducing potential losses for owners of these securities.

Federal Reserve Board of Governors Announce Securities Purchase Plan. As an additional measure to further support the functioning of financial markets, on September 19, 2008, the Federal Reserve announced that it will begin purchasing short-term debt obligations issued by Fannie Mae, Freddie Mac and the FHLBanks in the secondary market. Similar to secondary market purchases of U.S. Treasury securities, purchases of Fannie Mae, Freddie Mac and FHLBank debt will be conducted with the Federal Reserve's primary dealers through a series of competitive auctions.

Federal Reserve Program to Purchase Senior Debt and MBS Issued by Housing GSEs. On November 25, 2008, the Federal Reserve announced it will initiate a program to purchase the direct obligations of housing-related GSEs—Fannie Mae, Freddie Mac, and the FHLBanks—and MBS backed by Fannie Mae, Freddie Mac, and Ginnie Mae. This action is being taken to reduce the cost and increase the availability of credit for the purchase of houses, which in turn should support housing markets and foster improved conditions in financial markets more generally. Purchases of up to $100 billion in GSE direct obligations under the program will be conducted with the Federal Reserve's primary dealers through a series of competitive auctions and began in early December 2008. Purchases of up to $500 billion in MBS will be conducted by asset managers selected through a competitive process. Purchases of both direct obligations and MBS are expected to take place over several quarters. On March 18, 2009, the Federal Reserve Board announced its plan to increase the size of total agency mortgage-backed securities purchases to $1.25 trillion under the program and to increase its purchases of agency debt under the program by up to $100 billion to a total of up to $200 billion. Since the inception of the program through March 31, 2009, the Federal Reserve Bank of New York has purchased approximately $53 billion in GSE term debt, including $12 billion of FHLBank term debt, and approximately $424 billion in GSE mortgage-backed securities.

Finance Board Issues Advisory Bulletin on Application of Guidance on Nontraditional and Subprime Residential Mortgage Loans to Specific FHLBank Assets. On July 1, 2008, the Finance Board issued Advisory Bulletin 2008-AB-02 (Advisory Bulletin) on the application of nontraditional and subprime residential mortgage loans to specific FHLBank assets. This Advisory Bulletin supplements Advisory Bulletin 2007-AB-01 by providing written guidance regarding mortgages purchased under the Acquired Member Assets programs, investments in private-label mortgage-backed securities and collateral securing advances. The Advisory Bulletin was effective upon issuance.

The Advisory Bulletin states that mortgage loan commitments and/or underlying mortgages related to private-label mortgage-backed securities and/or collateral securing advances entered into by the FHLBanks comply with all aspect of the *Interagency Guidance on Nontraditional Mortgage Product Risks* and *Statement on Subprime Mortgage Lending* guidance published by the Federal banking regulatory agencies.

Finance Board's Temporary Increase in Authority to Purchase Mortgage-Backed Securities. On March 24, 2008, the Finance Board passed a resolution authorizing the FHLBanks to increase their purchases of agency mortgage-backed securities, effective immediately and set to expire on March 31, 2010. Pursuant to the resolution, the limit on the FHLBanks' mortgage-backed securities authority would increase from 300 percent of capital to 600 percent of capital that must be originated after January 1, 2008 to March 31, 2010 for certain types of mortgage-backed securities. The resolution requires an FHLBank to notify the Regulator prior to its first acquisition under the expanded authority and include in its notification a description of the risk management principles underlying its purchases. The expanded authority is limited to mortgage-backed securities issued by Fannie Mae and Freddie Mac. The resolution provides that securities purchased under the increased authority must be backed by mortgages that were originated after January 1, 2008 consistent with, and subsequent to, the Federal banking regulatory agencies' guidance on non-traditional and subprime mortgage lending. The terms of the resolution may be amended by the Regulator based on an individual FHLBank's circumstances.

The FHLBank of Topeka received authorization and subsequently began acquiring mortgage-backed securities in the second quarter of 2008 under this expanded authority and continues to do so. The FHLBanks of Cincinnati and Dallas were approved by the Finance Board to begin making such purchases in the second quarter of 2008 and during the third quarter of 2008 additional MBS securities were purchased under the expanded authority by both FHLBanks. The FHLBank of Des Moines provided notification to the Finance Agency, and did not receive an objection, for its intention to exercise the expanded investment authority and increase its investments in additional agency MBS to 450 percent of capital. The FHLBank of Chicago received authorization from the Office of Supervision of the Finance Agency during the third quarter of 2008, to increase its investments in certain types of agency mortgage-backed securities pursuant to this resolution and substantially increased its agency mortgage-backed securities portfolio under this authority during the latter half of 2008. Each of the remaining FHLBanks has either provided notification to the Regulator that it intends to exercise the expanded investment authority, has decided not to pursue it at this time or continues to evaluate its need to increase mortgage-backed securities purchases.

Proposed Affordable Housing Program Regulation Amendment. On October 17, 2008, the Finance Agency issued and sought comment on an interim final rule to implement section 1218 of the Housing Act, which requires the Finance Agency to allow the FHLBanks until July 30, 2010, to use AHP homeownership set-aside funds to refinance low- or moderate-income households' mortgage loans. This rulemaking relocates the AHP regulation to the Finance Agency's rules, and adds new provisions that allow the FHLBanks to use AHP set-aside funds to provide direct subsidies to low- or moderate-income households who qualify for refinancing assistance under the HOPE for Homeowners Program established by the FHA under Title IV of the Housing Act. The interim final rule became effective on October 17, 2008.

FDIC Increases Deposit Insurance Premiums. On February 27, 2009, the FDIC approved a final regulation that would increase the deposit insurance premium assessment for those FDIC-insured institutions that have outstanding FHLBank advances and other secured liabilities to the extent that the institution's ratio of secured liabilities to domestic deposits exceeds 25 percent. Effective in the first quarter of 2009, deposit insurance premiums will be increased for all risk categories by seven basis points.

Golden Parachute Payments. On January 29, 2009, the Finance Agency issued a final regulation which sets forth factors that the Director of the Finance Agency will take into consideration in determining whether to limit or prohibit golden parachute payments to entity affiliated parties in connection with Fannie Mae, Freddie Mac, and the FHLBanks. Under the provisions of the final regulation, golden parachute payments may be limited or prohibited if they are contingent upon the insolvency of the regulated entity, and are received on or after the date on which the entity became insolvent, a conservator or receiver is appointed, or the Director of the Finance Agency determines that the entity is in a troubled condition as defined in the rule.

Proposed Regulation Regarding Prohibited Indemnification Payments. In accordance with the Housing Act, the Finance Agency promulgated a proposed regulation regarding prohibited indemnification payments on November 14, 2008 with a comment deadline of December 29, 2008. If adopted as proposed, the regulation would generally prohibit payments to entity-affiliated parties for any civil money penalty or judgment resulting from any administrative or civil action instituted by the Finance Agency that results in a final order or settlement pursuant to which such person is assessed a civil money penalty, removed from office or prohibited from participating in the conduct of the affairs of the related FHLBank, or required to cease and desist from an action or take any affirmative action pursuant to a notice of charges or an order from the Director of the Finance Agency. Entity-affiliated parties include, among others, any FHLBank director, officer, employee, agent, certain independent contractors and the Office of Finance. The proposed regulation does permit certain payments to entity-affiliated parties for commercial insurance policies, fidelity bonds, legal expenses and civil penalties in some limited circumstances.

Finance Agency Issues an Interim Final Regulation Regarding the Nomination and Election of Directors. On September 26, 2008, the Finance Agency published an interim final regulation to implement the provisions of the Housing Act concerning the nomination and election of directors. The regulation substantially continues the prior rules governing elected director nominations, balloting, voting and reporting of results, while making certain modifications for the election of non-member independent directors, including the addition of a requirement that each non-member independent director nominee receive at least twenty percent of the votes eligible to be cast in the election. An FHLBank must identify additional nominees and conduct additional elections until each independent directorship is filled with an non-member independent director that has received at least twenty percent of the eligible votes. In addition, and among other provisions, the interim final regulation required that the elections for member and non-member independent directors with terms commencing on January 1, 2009 be completed by December 31, 2008. Furthermore, the regulation sets terms for each directorship commencing after January 1, 2009 at four years and modifies related conflict-of-interest rules. The interim final regulation also prescribes a process for conducting non-member independent director and member director elections. The interim final regulation provides for the Director of the Finance Agency to annually determine the size of the board for each FHLBank, with the designation of member directorships based on the number of shares of FHLBank stock required to be held by members in each state using the method of equal proportions.

FHLBank of Chicago Consent Cease and Desist Order (C&D Order). At the request of the Finance Board, on October 10, 2007, the FHLBank of Chicago entered into a C&D Order, which was subsequently amended on July 24, 2008, as further discussed at "Business—Oversight, Audits and Examinations—Regulatory Developments at the FHLBank of Chicago".

Helping Families Save Their Homes Act of 2009 (Cram-down Legislation). The Helping Families Save Their Homes Act of 2009 is proposed, among other things, to allow bankruptcy cram-downs on first mortgages of owner-occupied homes. This Act amends federal bankruptcy law governing a Chapter 13 debtor, specifically the adjustment of debts of an individual with regular income. This legislation, if enacted, will authorize bankruptcy courts to modify the terms of some mortgages on principal residences during Chapter 13 bankruptcy proceedings. The Act allows judges to modify the rights of a mortgage holder - whether that mortgage holder is a primary lender or an investor in a mortgage-backed security with regard to delinquent mortgages on primary residences if the borrower has entered Chapter 13 bankruptcy proceedings. Among other modifications, the bill would allow bankruptcy judges to reduce the principal amount contractually owed by the borrower under the original mortgage and to alter mortgage loans owed by individuals participating in Chapter 13 proceedings in a number of additional ways. Specifically, the bill would allow a judge to require a mortgage holder to lower the interest rates on a loan or extend a repayment period of the loan (often 30 years) to up to 40 years in an effort to reduce the borrower's monthly payment. Furthermore, the act expands eligibility for Chapter 13 bankruptcy by excluding home mortgage debt from the current maximum debt limitations. Under current law, debtors may only enter into a Chapter 13 bankruptcy if they have less than a predetermined maximum amount of debt. This provision excludes home debt from a Chapter 13 eligibility evaluation if the value of the debtor's home is less than the mortgage owed and will allow a reduction of a claim secured by the debtor's principal residence in specified circumstances. Utilization of the cram-down provision, if signed into law in its current form, may increase FHLBank credit losses on MBS, because bankruptcy losses may be shared equally among or have different loss priorities depending on how each investment allocates the bankruptcy cram-down losses to the various prime and subordinate investor classes, although the version of the law passed by the House of Representatives on March 5, 2009 contains a provision that purports to reduce the effect of the law on MBS but which may ultimately be determined to be unconstitutional. Application of the cram-down provision may also make the determination that MBS are other-than-temporarily impaired more likely, thereby increasing the mark-to-market accounting losses flowing through the statement of income. Collateral valuations supporting advances may also be reduced. Because final passage and the scope of the law's application are undetermined, it is impossible to predict the actual effects of this proposed legislation on our collateral valuations and MBS.

Federal Banking Agencies Proposal to Lower Capital Risk Weightings for Fannie Mae and Freddie Mac. On October 27, 2008, the Federal banking agencies promulgated a proposed a rule that would lower the capital risk weighting of certain claims on guaranteed by Fannie Mae and Freddie Mac from 20 percent to 10 percent. The proposal specifically requested comments on the potential effects of the proposal on FHLBank debt. The proposed rule may tend to increase FHLBank debt pricing and may decrease the competitiveness of FHLBank debt compared to Fannie Mae and Freddie Mac debt because

FHLBank debt-risk weighting would remain at 20 percent. The comment period for the proposed rulemaking closed on November 26, 2008.

Recent Rating Agency Actions

Federal Home Loan Banks
Long-Term and Short-Term Credit Ratings
At March 31, 2009

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

(1) On February 2, 2009, Moody's announced that it placed the subordinated debt rating of the FHLBank of Chicago on review for possible downgrade.

(2) On November 20, 2008, S&P announced that the outlook for the FHLBank of Seattle was revised from positive to stable and the AA+/A-1+ counterparty credit ratings were affirmed.

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. These risks include credit risk and interest-rate risk. The FHLBanks are also subject to liquidity risk, operational risk and business risk. To control these risks, each FHLBank has established policies and practices to evaluate and manage its credit, interest-rate, liquidity, operational and business risk positions. The Finance Agency has established regulations governing the risk management practices of the FHLBanks. The FHLBanks must file periodic compliance reports with the Finance Agency. The Finance Agency conducts an annual on-site examination of each FHLBank and the Office of Finance as well as off-site analyses.

The FHLBanks do not have any special purpose entities or any other types of off-balance sheet conduits. All derivatives are recorded in the Statement of Condition at fair value. Finance Agency regulation prohibits the speculative use of interest-rate exchange agreements. The FHLBanks do not trade derivatives for short-term profit.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Each FHLBank's board of directors and management 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 "Available Information on Individual FHLBanks.")

Managing Interest-Rate Risk

Interest-rate risk is the risk that relative and absolute changes in interest rates may adversely affect an institution's financial condition. The goal of an interest-rate risk management strategy is not necessarily to eliminate interest-rate risk, but to manage it by setting appropriate limits. The FHLBanks generally approach managing interest-rate risk by acquiring and maintaining a portfolio of assets and liabilities and entering into related interest-rate exchange agreements to limit the expected mismatches in duration. The FHLBanks manage interest-rate risk in several different ways. The FHLBanks' more common used methods include the calculation of market value of equity, duration of equity and duration gap.

Market Value 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 (1) the theoretical market value of total assets and (2) 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. As such, theoretical 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 Bank'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 activity, risk management strategies, or the net profitability of assets after funding costs are subtracted.

Duration of Equity and Duration Gap.

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. A related measure of interest-rate risk is duration gap, which measures the difference between the combined durations of total assets and total liabilities, adjusted for the effect of derivatives. Duration gap determines the sensitivity of assets and liabilities to interest rate changes and reflects the extent to which estimated maturity and repricing cash flows for assets and liabilities are matched. Duration generally indicates the expected change in an instrument's market value from a small movement 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.

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 contain prepayment options, changes in interest rates 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. Finance Agency 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 whose changes in average life under certain interest-rate shock scenarios are limited. The FHLBanks may hedge against this contraction risk by funding some mortgage-related investments with consolidated obligations that have call features. In addition, the FHLBanks may use caps, floors and other interest-rate exchange agreements to manage the extension and contraction variability of mortgage-related investments. The FHLBanks may also use interest-rate exchange agreements to transform the characteristics of investment securities other than mortgage-backed securities to match the cash flow characteristics and/or market value of the hedged item.

Qualitative Disclosures about Market Risk

Interest-Rate Exchange Agreements

Types of Interest-Rate Exchange Agreements

General. Consistent with Finance Agency regulation, an FHLBank enters into derivatives only to manage the interest-rate risk exposures inherent in otherwise unhedged assets and funding positions, and to achieve the FHLBank's risk management objectives. An FHLBank may also enter into a derivative contract with its members to facilitate the members' asset/liability management strategies, where the FHLBank passes through the risk by entering into an offsetting position with an approved counterparty. For additional discussion about the FHLBanks' use of interest-rate exchange agreements see "Business—Use of Interest-Rate Exchange Agreements". Management of an FHLBank utilizes interest-rate exchange agreements in the most cost-efficient strategy and may enter into interest-rate exchange agreements that do not necessarily qualify for hedge accounting under SFAS 133 accounting rules. As a result, for these economic hedges the FHLBanks recognize only the change in fair value and interest income or expense related to these interest-rate exchange agreements in other income. They are recognized as net realized and unrealized gains (losses) on derivatives and hedging activities. No fair value adjustments of the economically hedged asset, liability or firm commitment are recorded to offset these changes.

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 principal amount at a predetermined fixed rate for a given period of time. In return for this promise, this party receives cash flows equivalent to the interest on the same notional principal amount at a variable-rate index for the same period of time. The variable rate received by the FHLBanks in most interest-rate exchange agreements is LIBOR.

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

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 may be used in conjunction with liabilities and floors may be used in conjunction with assets. Caps and floors are designed as protection against the interest rate on a variable-rate asset or liability rising above or falling below a certain level.

Futures. The FHLBanks use futures contracts in order to hedge interest-rate risk. SFAS 133 permits the benchmark interest rate to be the designated risk in a hedge of interest-rate risk. The benchmark interest rate encompasses both U.S. Treasury rates and LIBOR. In order to hedge benchmark interest-rate risk, an FHLBank enters into Eurodollar futures contracts that it can demonstrate are highly correlated to LIBOR.

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

Foreign Currencies. At times, the FHLBanks have issued some consolidated obligations denominated in currencies other than U.S. dollars. The FHLBanks use forward exchange contracts to hedge currency risk on such consolidated obligations. These contracts exchange different currencies at specified rates on specified dates in the future. These contracts effectively simulate the conversion of consolidated obligations denominated in foreign currencies into ones denominated in U.S. dollars. At December 31, 2008, there were no outstanding consolidated obligations denominated in foreign currencies.

Use of Interest-Rate Exchange Agreements

General. The FHLBanks use these derivatives to adjust the effective maturity, repricing frequency or option characteristics of financial instruments in order to achieve their risk management and funding objectives to reduce identified risks inherent in the normal course of business. Interest-rate exchange agreements are used by the FHLBanks in three ways:

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

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

— by acting as an intermediary.

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

Consolidated Obligations. An FHLBank manages the risk arising from changing market prices and volatility of a consolidated obligation by matching the cash inflow on the interest-rate exchange agreement with the cash outflow on the consolidated obligation. In addition, each FHLBank requires collateral on interest-rate exchange agreements at specified levels correlated to NRSRO credit ratings of the derivative counterparty and/or that FHLBank's internal models/policies. Although consolidated obligations are the joint and several obligations of the FHLBanks, one or more of the FHLBanks may act individually as a counterparty to interest-rate exchange agreements associated with specific debt issues.

In a typical transaction of this kind, an FHLBank issues a fixed-rate consolidated obligation and simultaneously enters into a matching interest-rate exchange agreement. The counterparty in this interest-rate exchange agreement pays the issuing FHLBank a fixed cash flow that is designed to mirror (both in timing and amount) the cash outflow the issuing FHLBank must pay on the consolidated obligation. In return, the FHLBank pays a variable cash flow that matches the interest payments it receives on short-term or variable-rate advances, which reduces the FHLBank's exposure to fixed interest rates. Such transactions are treated as fair-value hedges under SFAS 133. This strategy of issuing bonds while simultaneously entering into interest-rate exchange agreements 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 interest rate exchange 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. When a member executes a fixed-rate advance or a variable-rate advance with embedded options, an FHLBank may simultaneously execute a derivative with terms that offset the terms and embedded options, if any, in the advance. For example, an FHLBank may hedge a fixed-rate advance with an interest-rate swap where the FHLBank pays a fixed-rate coupon and receives a floating-rate coupon, effectively converting the fixed-rate advance to a variable-rate advance.

When issuing convertible advances, an FHLBank may purchase put options from a member that allow the FHLBank to convert the advance from a fixed rate to a variable rate if interest rates increase. A convertible advance generally 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, and the borrower may elect to enter into a new advance. An FHLBank may hedge these advances by entering into a cancelable interest-rate exchange agreement.

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

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

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

— interest-rate cap and floor agreements;

— swaptions;

— cancelable swaps;

— calls; and

— puts.

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

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

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

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

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

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

Finance Agency policies also limit the FHLBanks' exposure to interest rate and prepayment risks from investments in mortgage-backed and asset-backed securities. Under these policies, the total book value of mortgage-backed securities owned by an FHLBank may not exceed 300 percent of the FHLBank's previous month-end regulatory capital plus its mandatorily redeemable capital stock on the day it purchases the securities. The FHLBank of Chicago may include a designated amount of subordinated notes in calculating compliance with this requirement. The Shared Funding Program mortgage-backed certificates owned by an FHLBank, however, are not subject to this 300 percent limit. On March 24, 2008, the Finance Board passed a resolution authorizing the FHLBanks to increase their purchases of agency mortgage-backed securities, effective immediately and set to expire on March 31, 2010. Pursuant to the resolution, the limit on the FHLBanks' mortgage-backed securities authority would increase from 300 percent of capital to 600 percent of capital that must be originated after January 1, 2008 to March 31, 2010 for certain types of mortgage-backed securities. The resolution requires an FHLBank to notify the Regulator prior to its first acquisition under the expanded authority and include in its notification a description of the risk management principles underlying its purchases. The expanded authority is limited to mortgage-backed securities issued by Fannie Mae and Freddie Mac. The resolution provides that securities purchased under the increased authority must be backed by mortgages that were originated after January 1, 2008 consistent with, and subsequent to, the Federal banking regulatory agencies' guidance on non-traditional and subprime mortgage lending. The terms of the resolution may be amended by the Regulator based on an individual FHLBank's circumstances.

In addition, the FHLBanks are prohibited from purchasing:

- interest-only or principal-only stripped mortgage-backed securities;

- residual-interest or interest-only classes of CMOs or real-estate mortgage investment conduits (REMICs); and
- both variable-rate mortgage-backed securities with rates at their contractual cap on the trade date and fixed-rate mortgage-backed securities that have average lives that vary more than six years under an assumed instantaneous interest rate change of 300 basis points.

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

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

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

Derivative Notional Amounts. The notional amount of derivatives serves as a factor in determining periodic interest payments or cash flows received and paid.

The notional amount of derivatives represents neither the actual amounts exchanged nor the overall exposure of the FHLBanks to credit and market risk. The overall amount that could potentially be subject to credit loss is much smaller. Notional values are not meaningful measures of the risks associated with derivatives. The risks of derivatives can be measured meaningfully on a portfolio basis. This measurement must take into account the derivatives, the item being hedged and any offsets between the two.

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

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

	December 31, 2008		December 31, 2007	
	Total Notional	Total Estimated Fair Value (excludes collateral and accrued interest)	Total Notional	Total Estimated Fair Value (excludes collateral and accrued interest)
Advances				
Fair Value-existing cash item	$ 358,142	$(26,382)	$342,624	$(7,918)
Fair Value-firm commitments			2,093	(3)
Cash Flow-existing cash item	2,675	338	3,375	161
Economic	58,233	(1,580)	13,504	(17)
Total	419,050	(27,624)	361,596	(7,777)
Investments				
Fair Value-existing cash item	2,572	(701)	1,251	(172)
Economic (includes trading securities hedges)	13,155	(717)	13,520	(229)
Total	15,727	(1,418)	14,771	(401)
MPF/MPP Loans Held for Portfolio				
Fair Value-existing cash item	8,452	(184)	13,959	(51)
Standalone-delivery commitments	1,481	7	214	1
Economic (including TBAs)	20,414	133	7,260	19
Total	30,347	(44)	21,433	(31)
Consolidated bonds				
Fair Value-existing cash item	338,284	10,746	446,273	3,568
Cash Flow-anticipated transaction	6,447	(757)	537	(7)
Economic	137,749	334	70,952	75
Total	482,480	10,323	517,762	3,636
Consolidated discount notes				
Fair Value-existing cash item	22,799	67	2,172	4
Economic	88,698	84	22,705	14
Total	111,497	151	24,877	18
Deposits				
Fair Value	20	6	20	4
Total	20	6	20	4
Balance Sheet				
Economic	25,491	55	15,359	9
Total	25,491	55	15,359	9

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

	December 31, 2008		December 31, 2007	
	Total Notional	Total Estimated Fair Value (excludes collateral and accrued interest)	Total Notional	Total Estimated Fair Value (excludes collateral and accrued interest)
Intermediary Positions				
Intermediaries	$ 4,146	$ 1	$ 3,344	$ 1
Total	4,146	1	3,344	1
Total notional and estimated fair value	$1,088,758	$(18,550)	$959,162	$(4,541)
Total derivatives excluding collateral and accrued interest		$(18,550)		$(4,541)
Accrued interest		1,067		1,639
Net cash collateral and related accrued interest		10,653		419
Net derivative balances		$ (6,830)		$(2,483)
Net derivative assets balances		$ 902		$ 1,306
Net derivative liabilities balances		(7,732)		(3,789)
Net derivative balances		$ (6,830)		$(2,483)

In accordance with SFAS 133, each FHLBank classifies derivative assets and derivative liabilities according to the net fair value of derivatives with each of its counterparties because these swaps are covered by a master netting agreement. If the net fair value of derivatives with one of its counterparties is positive, it is classified as an asset by that FHLBank. If the net fair value of derivatives with one of its counterparties is negative, it is classified as a liability by that FHLBank. In accordance with FSP FIN 39-1, the FHLBanks also offset cash collateral and related accrued interest against the net fair value of derivatives. The $404 million decrease in combined derivative assets and the $3,943 million increase in combined derivative liabilities from December 31, 2007 to December 31, 2008 are largely the result of changes in interest rates.

Quantitative Disclosure about Market Risk

Each FHLBank has an internal modeling system for measuring duration of equity (to provide to the Regulator) and duration gap and, therefore, individual FHLBank measurements may not be directly comparable. Each FHLBank reports the results of its duration of equity calculations to the Regulator each quarter; however, each FHLBank that has converted to its new capital structure is no longer subject by regulation to the duration of equity requirements. Not all FHLBanks manage to the duration of equity risk measure. The capital adequacy rules of the Regulator require each FHLBank that has implemented a new capital plan to hold permanent capital in an amount sufficient to cover the sum of its credit, market and operational risk-based capital requirements, as these metrics are defined by applicable regulations. Each of these FHLBanks has developed a market risk model that calculates the market risk component of this requirement.

Under applicable regulations, the FHLBank of Chicago, which has not yet converted to its new capital plan, must ensure that its duration of equity stays within a range of +5 to -5 years, based on current interest rates using an appropriate discounting methodology. If one assumes an instantaneous parallel interest rate shifts of +/-200 basis points, the duration of equity of the FHLBank of Chicago must stay within a range of +7 to -7 years. On August 6, 2008, the FHLBank of Chicago received authorization from the Finance Board's Office of Supervision to implement temporary changes to its existing limits as described below.

These temporary changes eliminated positive duration of equity limits in falling interest rates scenarios and negative duration of equity limits in rising interest rate scenarios, and permitted dollar-based duration measurements and corresponding limits when the FHLBank of Chicago's market value of equity is less than $700 million. In cases where the FHLBank of Chicago's fair value of equity is $700 million or greater, its duration of equity must be greater than or equal to -7 years in a scenario that assumes an instantaneous parallel decrease in rates of 200 basis points and must be less than or equal to +7 years in a scenario that assumes an instantaneous parallel increase in rates of 200 basis points. In cases where the FHLBank of Chicago's fair value of equity is less than $700 million, the FHLBank of Chicago reports a dollar-based duration measurement (i.e., dollar duration of equity) instead of the year-based measurement. Dollar duration of equity is expressed as the expected change in fair value of equity (in actual dollars) given a one basis point instantaneous parallel change in rates. In such cases, the FHLBank of Chicago is required to maintain dollar duration of equity within ±$350 thousand (Base). Additionally, the FHLBank of Chicago's dollar duration of equity must be greater than or equal to -$490 thousand in a scenario that assumes an instantaneous parallel decrease in rates of 200 basis points and must be less than or equal to +$490 thousand in a scenario that assumes an instantaneous increase of 200 basis points. At December 31, 2008, the FHLBank of Chicago's market value of equity was less than $700 million, and therefore the dollar-based duration limits applied.

The following table reflects the FHLBank of Chicago's exposure to interest-rate risk in terms of duration of equity in accordance with its limits at December 31, 2008.

		Duration Policy Limits	
Scenario	Actual Duration (whole $)	Market Value of Equity is Less Than $700 million (in whole $)	Market Value of Equity Equals or Exceeds $700 million (in years)
–200 bp	*	–$490,000	–7 years
–100 bp	*	–420,000	–6 years
Base case	–$228,106	±350,000	±5 years
+100 bp	176,716	+420,000	+6 years
+200 bp	293,218	+490,000	+7 years

* Due to the low interest rate environment at December 31, 2008, these values cannot be calculated.

The following table reflects the FHLBank of Chicago's exposure to interest-rate risk in terms of duration of equity in accordance with its limits at December 31, 2007.

Scenario	Actual Duration	Duration Limit
–200 bp	1.87 years	±7 years
–100 bp	–1.48 years	–6 to +7 years
Base case	–0.11 years	±5 years
+100 bp	+0.26 years	–7 to +6 years
+200 bp	–2.74 years	±7 years

Each FHLBank also calculates and measures its duration gap. The duration gap is the difference between the estimated durations (market value sensitivity) of assets and liabilities (including the effect of interest-rate exchange agreements) and reflects the extent to which estimated maturity and repricing cash flows for assets and liabilities are matched.

Duration Gap
(In months)

FHLBank	December 31, 2008	December 31, 2007
Boston	(0.7)	0.5
New York	(1.2)	(0.6)
Pittsburgh	3.5	1.6
Atlanta	5.7	0.4
Cincinnati	(0.2)	0.4
Indianapolis	(0.2)	1.2
Chicago	(0.3)	0.0
Des Moines	(7.3)	(1.4)
Dallas	2.3	0.9
Topeka	2.9	1.4
San Francisco	3.4	1.5
Seattle	0.2	0.0

As discussed earlier, the FHLBanks use various methods to measure their market and interest rate risk exposure. The more commonly used methods include market value of equity and duration of equity. The following table denotes which FHLBanks include quantitative market value of equity and duration of equity information in its individual FHLBank's 2008 SEC Form 10-K. See "Supplemental Information—Finance Agency Information" section for the duration of equity information provided by each FHLBank to the Regulator.

	Market and Interest Rate Risk Measurements	
	Market Value of Equity	Duration of Equity
FHLBank		
Boston	✓	✓
New York	✓	✓
Pittsburgh		✓
Atlanta	✓	✓
Cincinnati	✓	✓
Indianapolis	✓	✓
Chicago	✓	✓
Des Moines	✓*	
Dallas	✓	✓
Topeka	✓	✓
San Francisco	✓	
Seattle	✓	✓

* 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 discloses, in its 2008 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, where capital stock accounts for approximately 92 percent of total equity.

LIQUIDITY RISK

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

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

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

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

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

In addition, to address contingency liquidity risk, Finance Agency regulations require each FHLBank to have sources of funding on hand to ensure its normal operational requirements for a period of up to five business days, in the event it is unable to access the consolidated obligation debt markets. Each of the FHLBanks was in compliance with its respective regulatory liquidity requirements at December 31, 2008.

Furthermore, during the fourth quarter of 2008, the FHLBanks significantly increased their on-balance sheet liquidity in response to both member funding needs and liquidity guidance received from the Finance Agency in response to worsening credit market conditions. The Finance Agency provided final guidance, effective March 6, 2009, revising and formalizing requests made for additional increases in liquidity that were provided to the FHLBanks in the fourth quarter 2008. This final guidance requires an FHLBank to maintain sufficient liquidity, through short-term investments, in an amount at least equal to that FHLBank's anticipated cash outflows under two different scenarios. One scenario assumes that an FHLBank cannot access the capital markets for a period of 15 days and that during that time members do not renew any maturing, prepaid and called advances. The second scenario assumes that an FHLBank cannot access the capital markets for 5 days and that during that period that 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 an NRSRO that is investment quality; and is well-rated by the individual FHLBank's internal credit rating system. These additional requirements are more stringent than the 5 calendar day contingency liquidity requirement discussed above. The new requirement is designed to enhance FHLBanks' protection against temporary disruptions in access to the FHLBanks' debt markets in response to a rise in capital markets volatility. (See "Risk Factors" for more discussion on the effects of this new guidance to the FHLBanks.)

The FHLBanks' primary sources of liquidity are maturities of overnight and short-term money-market investments and advances and the issuance of consolidated discount notes and consolidated bonds. The severe disruptions in the financial markets that commenced in the third quarter of 2007 and U.S. government actions placing Fannie Mae and Freddie Mac into conservatorship in 2008 have affected the FHLBanks' funding costs and practices. In 2008, and continuing to a lesser degree into 2009, the FHLBanks' funding costs associated with issuing long-term debt became more volatile and rose sharply compared to LIBOR and U.S. Treasuries while the spread on short-term funding to LIBOR was favorable for consolidated obligations with a maturity of three months or less. The lower short-term funding costs, relative to LIBOR were driven primarily by events adversely affecting the financial markets, which led to higher demand for FHLBanks' short-term consolidated obligations. The financial market disruptions raised the cost of inter-bank lending (represented by LIBOR) compared to other short-term interest costs such as discount notes because market participants perceived that the FHLBanks' short-term debt was a relatively lower risk investment than other short-term investments. The FHLBanks' believe this reflected investors' current reluctance to buy as much long-term debt of GSEs as they had previously. This reluctance was due in part to the uncertain length of the conservatorship of Fannie Mae and Freddie Mac, some confusion about the level of government support for the two government-controlled entities relative to the FHLBanks, and broader uncertainty surrounding the overall financial conditions in the U.S. credit markets. In addition, there was strong investor demand for short-term, high-quality assets. As a result, the issuance of long-term debt compared to recent years decreased while the FHLBanks took prudent actions to increase their liquidity. This strategy has also included decreasing term money market investments and maintaining the majority of the FHLBanks' liquidity in overnight maturities. (See "Financial Discussion and Analysis—Financial Trends" for more discussion on the effects of U.S. Government programs on the FHLBanks' liquidity.)

CREDIT RISK

General

Credit risk is the risk of loss due to default or non-performance of an obligor or counterparty. The FHLBanks are subject to credit risk on advances, investments (including mortgage-backed securities), mortgage loans held for portfolio and interest-rate exchange agreements. Each FHLBank follows guidelines established by the Regulator and its board of directors regarding unsecured extensions of credit, whether on- or off-balance sheet. Applicable regulation limits the amounts and terms of unsecured credit exposure to any counterparty other than the U.S. government. Unsecured credit exposure to any counterparty is limited by the credit quality and capital level of that counterparty and by the capital level of the FHLBank.

Managing 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/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. Collateral arrangements will vary depending upon borrower credit quality, financial condition and performance; borrowing capacity; collateral availability; and 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. Each FHLBank can call for additional or substitute collateral during the life of an advance to protect its security interest.

Residential mortgage loans are the principal form of collateral for advances. As a matter of course and through different means, the FHLBanks perfect the security interests granted to them by their borrowers. In addition, the FHLBanks must take any steps necessary to ensure that their security interests 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.

The FHLBanks generally establish an overall FHLBank credit limit for each borrower, which caps the amount of FHLBank credit availability to such borrower. This limit is designed to mitigate the FHLBanks' 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 face amount of outstanding letters of credit, the principal amount of outstanding advances, 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 (if any). Each FHLBank determines the credit limit of a 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 impose borrowing limits on borrowers within a maximum range of between 30 to 55 percent of a borrower's total assets.

At December 31, 2008, 34 individual FHLBank members held advance balances of at least $5 billion. In the aggregate, these advances represented approximately 54 percent of total FHLBank advances outstanding at December 31, 2008, with collateralization ratios (i.e., a member's eligible collateral divided by that member's advances outstanding) ranging from 1.61 to 2.95 (weighted-average collateralization ratio of 2.01). Eligible collateral values include (a) market values for private-label and agency securities and (b) the unpaid principal balance for all other collateral pledged by delivery, specific identification or blanket lien. At December 31, 2008, approximately 50 percent of these 34 individual FHLBank members' eligible collateral was pledged by specific identification, with approximately 29 percent pledged in the form of a blanket lien and approximately 21 percent pledged by delivery. The eligible collateral securing these 34 individual FHLBank members' advances was comprised of residential first mortgages (51 percent), home equity lines of credit/second mortgages (19 percent), private-label and government/agency securities (15 percent), commercial real estate (9 percent) and other collateral (6 percent) comprising the remainder.

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 estimate that the lending value of collateral securing each borrower's obligations exceeds the amount the borrower may borrow from the FHLBanks. The following collateral lending values have been combined for the blanket, listing and delivery methods of pledging collateral and range across the 12 FHLBanks as shown below. Collateral lending values are determined by subtracting the collateral haircut from 100 percent.

Collateral Type	December 31, 2008 Range of Collateral Lending Values
Single-family mortgage loans	40-93%(1)
FHA/VA loans	45-93%(2)
Multifamily mortgage loans	36-80%(3)
U.S. government/Treasury securities	80-99.5%(4)
U.S. agency securities (including MBS)	54-99%(5)
Non-agency MBS/CMOs	25-98%(6)
Other U.S. government-guaranteed mortgage loans	40-90%(7)
Community financial institution (CFI) collateral (e.g., small-business, small-farm, small-agribusiness loans)	10-80%(8)
Other real estate related collateral (e.g., commercial real estate, construction loans, home equity lines of credit)	12-91%(9)

(1) Most single-family mortgage loan collateral is discounted in the 60 percent—90 percent range.

(2) Most FHA/VA loan collateral is discounted in the 65 percent—93 percent range.

(3) Most multifamily mortgage loan collateral is discounted in the 45 percent—80 percent range.

(4) Most U.S. government/U.S. Treasury securities collateral is discounted in the 86 percent—99 percent range.

(5) Most U.S. agency securities collateral is discounted in the 85 percent—98 percent range.

(6) Most non-agency MBS/CMO collateral is discounted in the 65 percent—95 percent range, with the highest end of the range assigned to triple-A securities.

(7) All other U.S. government-guaranteed mortgage loan collateral is discounted in the 40 percent—90 percent range.

(8) Most CFI collateral is discounted in the 15 percent—80 percent range.

(9) Most other real estate related collateral is discounted in the 35 percent—91 percent range.

The FHLBank Act permitted borrowers that qualify as a "community financial institution" (which is defined in the FHLBank Act as an FDIC-insured depository institution that had average assets for the past three calendar years totaling no more than $599 million during 2007 and $625 million during 2008, up until the passage of the Housing Act) also to pledge certain CFI-specific collateral, which consists of small-business, small-farm, and small-agribusiness loans, to the extent that its FHLBank accepts such loans as collateral for advances. The Housing Act defined community financial institutions for 2008 as depository institutions insured by the FDIC with average total assets over the preceding three-year period of less than $1.0 billion (the total average asset cap), which the average total assets cap shall be adjusted annually for inflation. Beginning January 1, 2009, the Finance Agency adjusted the average total asset cap to $1.011 billion. The FHLBanks that accept CFI-specific collateral mitigate the potential increased credit risk through higher haircuts (lower lending values) on such collateral.

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. In order to borrow from its FHLBank, a borrower must pledge collateral using a blanket lien or specific identification method, or, if required, deliver such collateral to the FHLBank or its agent (acceptable third party). The FHLBanks perfect their security interests by filing applicable financing statements or taking delivery of collateral. In addition, under the FHLBank Act, a security interest granted to an FHLBank by a 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.

No FHLBank has ever experienced a credit loss on an advance. However, the expanded eligible collateral for community financial institutions and lending to non-member housing associates increases the credit risk to the FHLBanks. Advances to community financial institutions secured with expanded eligible collateral represented approximately $12.8 billion of the total $900.4 billion of advances outstanding at par value at December 31, 2008. Advances to housing associates represented $760 million of the total $900.4 billion of advances outstanding at par value at December 31, 2008.

In light of the deterioration in the housing and mortgage markets, the FHLBanks continue to evaluate and make changes to their collateral guidelines when reviewing their 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.

Collateral eligible to secure new or renewed advances includes:

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

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

3) cash or deposits in the FHLBank;

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

5) certain qualifying securities representing undivided equity interests in eligible advances collateral.

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

- instruments, such as common stock, that represent an ownership in an entity, other than stock in small business investment companies, or certain investments targeted at low-income persons or communities;
- instruments issued by non-U.S. entities, other than those issued by U.S. branches and agency offices of foreign commercial banks (e.g., Federal funds);
- non-investment grade debt instruments, other than certain investments targeted at low-income persons or communities and instruments that were downgraded after their purchase by the FHLBank;
- whole mortgages or other whole loans, other than:

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

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

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

    4) mortgage-backed securities or asset-backed securities backed by manufactured housing loans, home equity loans, and pools of commercial and residential mortgage loans that are labeled as subprime or having certain subprime characteristics; and

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

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

During the fourth quarter of 2008, certain FHLBanks purchased investments in TLGP debt; these TLGP investments are backed by the full faith and credit of the U.S. Government and are categorized as triple-A rated.

The FHLBanks further mitigate credit risk on investment securities by investing in highly-rated investment securities. At December 31, 2008 and 2007, 92.96 percent and 99.96 percent of all investments held by the FHLBanks in mortgage-backed securities were rated triple-A. See the table after this table for investments downgraded and/or placed on negative watch from January 1, 2009 through March 31, 2009.

Investment Securities Ratings (1)
(Dollar amounts in millions)

	December 31, 2008*		December 31, 2007**	
Investment Rating	Amount	Percentage of Total Investments	Amount	Percentage of Total Investments
Long-term rating				
Triple-A	$174,425	82.6%	$155,222	73.8%
Double-A	12,619	6.0%	29,617	14.1%
Single-A	13,084	6.2%	11,765	5.6%
Triple-B	3,144	1.5%		0.0%
Below investment grade	2,533	1.2%		0.0%
Short-term rating				
A-1 or higher/P-1	5,372	2.5%	13,751	6.5%
Unrated investment securities	56	0.0%	85	0.0%
Total	$211,233	100.0%	$210,440	100.0%

(1) This table reflects the effects of the certificates of deposit and bank notes reclassifications from interest-bearing deposits to held-to-maturity securities during the third quarter of 2008. The certificates of deposit and bank notes were primarily rated double-A or single-A at December 31, 2008 and 2007, which resulted in a lower percentage of total investments rated triple-A for both periods as compared to the same data reported in prior combined financial reports. (See Note 1 to the accompanying combined financial statements.)

* This chart does not reflect any changes in rating, outlook or watch status occurring after December 31, 2008. The ratings were obtained from S&P, Moody's and/or Fitch.

** This chart does not reflect any changes in rating, outlook or watch status occurring after December 31, 2007. The ratings were obtained from S&P, Moody's and/or Fitch.

Investment Securities
Downgraded and/or Placed on Negative Watch
from January 1, 2009 through March 31, 2009
(Dollar amounts in millions)

	Based on Carrying Values as of December 31, 2008		
	Downgraded and Stable	Downgraded and Placed on Negative Watch	Not Downgraded but Placed on Negative Watch
Private-label residential MBS (RMBS):			
Percentage of total private-label RMBS	30%	1%	20%
Amount of private-label RMBS rated below investment grade	$13,742	$245	$638
Private-label commercial MBS (CMBS):			
Percentage of total private-label CMBS	0%	0%	0%
Manufactured housing loans:			
Percentage of total manufactured housing loans	0%	0%	0%
Home equity loan investments:			
Percentage of total home equity loan investments	42%	0%	12%
Amount of home equity loan investments rated below investment grade	$ 481	$	$
Total private-label RMBS and CMBS, manufactured housing loans and home equity loan investments:			
Percentage of total investment securities	10%	0%(1)	7%
Amount of total private-label RMBS and CMBS, manufactured housing loans and home equity loan investments rated below investment grade	$14,223	$245	$638
Total non-MBS:			
Percentage of total investment securities	1%	0%	0%

(1) Represents less than one-half of one percent.

Of the $211.2 billion of total investment securities held by the FHLBanks at December 31, 2008, a total of $17.0 billion of MBS investments was rated below investment grade as of March 31, 2009. As noted in the previous two tables, $2.5 billion of this amount was rated below investment grade at December 31, 2008, and an additional $14.5 billion was downgraded to below investment grade from January 1, 2009 through March 31, 2009.

The FHLBanks' investments in private-label MBS include investment securities backed by residential, commercial, manufactured housing and home equity loans. The FHLBanks classify private-label MBS as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by an NRSRO upon issuance of the MBS. In some cases, the NRSROs may have changed their classification subsequent to origination, which would not necessarily be reflected in the tables noted on the following pages.

The following table represents FHLBanks' composition of private-label MBS at December 31, 2008 and 2007.

Unpaid Principal Balance of Private-Label Mortgage Backed Securities
Home Equity Loan Investments and Manufactured Housing Loans
by Fixed or Variable Rate (1)
(Dollar amounts in millions)

	December 31, 2008			December 31, 2007		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
Private-label RMBS:						
Prime	$18,442	$23,024	$41,466	$22,444	$26,844	$49,288
Alt-A	13,345	16,697	30,042	15,754	17,176	32,930
Subprime		21	21		24	24
Total private-label RMBS	31,787	39,742	71,529	38,198	44,044	82,242
Private-label CMBS:						
Prime	924	10	934	2,768	23	2,791
Alt-A						
Subprime						
Total private-label CMBS	924	10	934	2,768	23	2,791
Manufactured housing loans:						
Prime		1	1		1	1
Alt-A						
Subprime	254		254	288		288
Total manufactured housing loans	254	1	255	288	1	289
Home equity loan investments:						
Prime		11	11		14	14
Alt-A		72	72		86	86
Subprime	521	1,625	2,146	628	1,860	2,488
Total home equity loan investments	521	1,708	2,229	628	1,960	2,588
Total private-label MBS, manufactured housing loans and home equity loan investments	$33,486	$41,461	$74,947	$41,882	$46,028	$87,910

(1) The FHLBanks classify private-label MBS as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by an NRSRO upon issuance of the MBS.

At December 31, 2008, the carrying values of the FHLBanks' total private-label RMBS, private-label CMBS, manufactured housing loans and home equity loan investments reported on the Combined Statement of Condition were $69,498 million, $935 million, $254 million and $1,959 million. The following two tables present credit ratings of private-label RMBS and CMBS, manufactured housing loans and home equity loan investments at December 31, 2008. Of the total unpaid principal balance of private-label RMBS and CMBS, manufactured housing loans and home equity loan investments, prime represented 57 percent, Alt-A represented 40 percent and subprime represented 3 percent. Of the $169.2 billion in mortgage-backed securities investments held by the FHLBanks at December 31, 2008, less than 2 percent were categorized as subprime by the originator at the time of origination or based on classification by an NRSRO upon issuance of the MBS. The following table discloses the lowest ratings available for each security.

Unpaid Principal Balance of Private-Label Mortgage-Backed Securities, Home Equity Loan Investments and Manufactured Housing Loans By Year of Securitization At December 31, 2008 (Dollar amounts in millions)

	Prime (1)						
Year of Securitization	Triple-A	Double-A	Single-A	Triple-B	Below Investment Grade	Unrated	Total
Private-label RMBS:							
2008	$ 816	$	$	$	$	$	$ 816
2007	4,977	425	146	258	375		6,181
2006	3,178	1,163	1,856	1,044	434		7,675
2005	7,006		59		31		7,096
2004	9,525	469	88				10,082
2003 and prior	9,615	1					9,616
Total	35,117	2,058	2,149	1,302	840		41,466
Private-label CMBS:							
2003 and prior	934						934
Total	934						934
Manufactured housing loans:							
2003 and prior	1						1
Total	1						1
Home equity loan investments:							
2003 and prior		4		3	4		11
Total		4		3	4		11
Total private-label RMBS and CMBS, manufactured housing loans and home equity loan investments	$36,052	$2,062	$2,149	$1,305	$844	$	$42,412

Unpaid Principal Balance of Private-Label Mortgage-Backed Securities,
Home Equity Loan Investments and Manufactured Housing Loans
By Year of Securitization (continued)
At December 31, 2008
(Dollar amounts in millions)

	Alt-A (1)						
Year of Securitization	Triple-A	Double-A	Single-A	Triple-B	Below Investment Grade	Unrated	Total
Private-label RMBS:							
2008	$ 1,154	$	$	$	$	$	$ 1,154
2007	6,587	100	325	641	1,048		8,701
2006	3,545	424	269	683	925		5,846
2005	8,377	389	283	135	148		9,332
2004	2,388						2,388
2003 and prior	2,618		2	1			2,621
Total	24,669	913	879	1,460	2,121		30,042
Private-label CMBS							
Total							
Manufactured housing loans							
Total							
Home equity loan investments:							
2006		25					25
2005		6					6
2004				37	4		41
Total		31		37	4		72
Total private-label RMBS and CMBS, manufactured housing loans and home equity loan investments	$24,669	$944	$879	$1,497	$2,125	$	$30,114

Unpaid Principal Balance of Private-Label Mortgage-Backed Securities, Home Equity Loan Investments and Manufactured Housing Loans By Year of Securitization (continued) At December 31, 2008 (Dollar amounts in millions)

	Subprime (1)						
Year of Securitization	Triple-A	Double-A	Single-A	Triple-B	Below Investment Grade	Unrated	Total
Private-label RMBS:							
2003 and prior	$ 21	$	$	$	$	$	21
Total	21						21
Private-label CMBS total							
Manufactured housing loans:							
2003 and prior		254					254
Total		254					254
Home equity loan investments:							
2007	10						10
2006	302	88	148	210	470		1,218
2005	120	36	44				200
2004	6		6			4	16
2003 and prior	390	3	131	176		2	702
Total	828	127	329	386	470	6	2,146
Total private-label RMBS and CMBS, manufactured housing loans and home equity loan investments	$849	$381	$329	$386	$470	$6	$2,421

(1) The FHLBanks classify private-label MBS as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by an NRSRO upon issuance of the MBS.

Credit Ratings of Private-Label Mortgage-Backed Securities, Home Equity Loan Investments and Manufactured Housing Loans (1) At December 31, 2008 (Dollar amounts in millions)

	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Weighted-Average Collateral Delinquency Percentage
Private-label RMBS Triple-A:				
Prime	$35,117	$34,965	$ (7,096)	3%
Alt-A	24,669	24,042	(8,488)	14%
Subprime	21	21	(6)	15%
Total Private-label RMBS Triple-A	59,807	59,028	(15,590)	7%
Private-label RMBS Double-A:				
Prime	2,058	2,027	(570)	4%
Alt-A	913	839	(327)	25%
Subprime				
Total Private-label RMBS Double-A	2,971	2,866	(897)	10%

Credit Ratings of Private-Label Mortgage-Backed Securities, Home Equity Loan Investments and Manufactured Housing Loans (1) (continued) At December 31, 2008 (Dollar amounts in millions)

	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Weighted-Average Collateral Delinquency Percentage
Private-label RMBS Single-A:				
Prime	2,149	2,096	(607)	8%
Alt-A	879	803	(264)	18%
Subprime				
Total Private-label RMBS Single-A	3,028	2,899	(871)	11%
Private-label RMBS Triple-B:				
Prime	1,302	1,211	(331)	8%
Alt-A	1,460	1,301	(466)	20%
Subprime				
Total Private-label RMBS Triple-B	2,762	2,512	(797)	14%
Private-label RMBS Below Investment Grade:				
Prime	840	718	(134)	7%
Alt-A	2,121	1,523	(329)	22%
Subprime				
Total Private-label RMBS Below Investment Grade	2,961	2,241	(463)	18%
Total Private-label RMBS prime	41,466	41,017	(8,738)	3%
Total Private-label RMBS Alt-A	30,042	28,508	(9,874)	15%
Total Private-label RMBS subprime	21	21	(6)	15%
Total Private-label RMBS	$71,529	$69,546	$(18,618)	8%
Private-label CMBS Triple-A:				
Prime	$ 934	$ 935	$ (44)	2%
Alt-A				
Subprime				
Total Private-label CMBS Triple-A	934	935	(44)	2%
Total Private-label CMBS prime	934	935	(44)	2%
Total Private-label CMBS	$ 934	$ 935	$ (44)	2%
Manufactured housing loans Triple-A:				
Prime	$ 1	$ 1	$	0%
Alt-A				
Subprime				
Total Manufactured housing loans Triple-A	1	1		0%
Manufactured housing loans Double-A:				
Prime				
Alt-A				
Subprime	254	254	(84)	2%
Total Manufactured housing loans Double-A	254	254	(84)	2%
Total manufactured housing loans prime	1	1		0%
Total manufactured housing loans subprime	254	254	(84)	2%
Total manufactured housing loans	$ 255	$ 255	$ (84)	2%

Credit Ratings of Private-Label Mortgage-Backed Securities, Home Equity Loan Investments and Manufactured Housing Loans (1) (continued)
At December 31, 2008
(Dollar amounts in millions)

	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Weighted-Average Collateral Delinquency Percentage
Home equity loan investments Triple-A:				
Prime	$	$	$	
Alt-A				
Subprime	828	802	(236)	26%
Total home equity loan investments Triple-A	828	802	(236)	26%
Home equity loan investments Double-A:				
Prime	4	5	(1)	2%
Alt-A	31	31	(14)	2%
Subprime	127	118	(29)	44%
Total home equity loan investments Double-A	162	154	(44)	35%
Home equity loan investments Single-A:				
Prime				
Alt-A				
Subprime	329	315	(102)	28%
Total home equity loan investments Single-A	329	315	(102)	28%
Home equity loan investments Triple-B:				
Prime	3	2	(1)	28%
Alt-A	37	37	(23)	10%
Subprime	386	362	(162)	30%
Total home equity loan investments Triple-B	426	401	(186)	29%
Home equity loan investments Below Investment Grade:				
Prime	4	1		44%
Alt-A	4	1		10%
Subprime	470	289	(72)	47%
Total home equity loan investments Below Investment Grade	478	291	(72)	47%
Home equity loan investments Unrated:				
Prime				
Alt-A				
Subprime	6	6	(1)	0%
Total home equity loan investments Unrated	6	6	(1)	0%
Total Home equity loan investments prime	11	8	(2)	23%
Total Home equity loan investments Alt-A	72	69	(37)	6%
Total Home equity loan investments subprime	2,146	1,892	(602)	32%
Total Home equity loan investments	$ 2,229	$ 1,969	$ (641)	31%

(1) The FHLBanks classify private-label MBS as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by an NRSRO upon issuance of the MBS.

The following table summarizes rating agency actions on private-label MBS held by the FHLBanks subsequent to December 31, 2008.

Rating Agency Actions on Private-Label Mortgage-Backed Securities, Home Equity Loan Investments and Manufactured Housing Loans from January 1, 2009 to March 31, 2009
(Dollar amounts in millions)

	Total Downgraded		Downgraded from AAA									
			To AA		To A		To BBB		To Below Investment Grade		Total Downgraded from AAA	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Private-label RMBS	$21,796	$13,602	$1,526	$1,064	$1,718	$1,105	$4,316	$2,855	$11,858	$7,046	$19,418	$12,070
Private-label CMBS												
Home equity loan investments	827	573	249	184			23	15	129	75	401	274
Manufactured housing loans												
Total	$22,623	$14,175	$1,775	$1,248	$1,718	$1,105	$4,339	$2,870	$11,987	$7,121	$19,819	$12,344

	Downgraded from AA							
	To A		To BBB		To Below Investment Grade		Total Downgraded from AA	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Private-label RMBS	$ 76	$64	$125	$ 91	$630	$371	$831	$526
Private-label CMBS								
Home equity loan investments	40	33	22	18	57	39	119	90
Manufactured housing loans								
Total	$116	$97	$147	$109	$687	$410	$950	$616

	Downgraded from A						Downgraded from BBB	
	To BBB		To Below Investment Grade		Total Downgraded from A		To Below Investment Grade	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Private-label RMBS	$48	$32	$681	$475	$729	$507	$818	$499
Private-label CMBS								
Home equity loan investments	12	11	134	100	146	111	161	98
Manufactured housing loans								
Total	$60	$43	$815	$575	$875	$618	$979	$597

The broad-based deterioration of credit performance related to residential mortgage loans and the accompanying decline in U.S. residential real estate values as well as increasing collateral delinquency rates have increased the level of credit risk to which the FHLBanks are exposed in their investments in mortgage-related securities. The estimated fair value of the FHLBanks' investments in private-label MBS, manufactured housing loans and home equity loan investments with a total carrying value of $72.6 billion, was $53.3 billion at December 31, 2008. The following table summarizes private-label

MBS, home equity loan investments and manufactured housing loans fair values as a percentage of unpaid principal balances.

Private-Label Mortgage-Backed Securities,
Home Equity Loan Investments and Manufactured Housing Loans
Fair Value as a Percentage of Unpaid Principal Balance by Year of Securitization

	Private-label RMBS				
Year of Securitization	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Prime (1):					
2008	67.9%	86.7%	93.9%	97.6%	
2007	73.0%	83.0%	94.7%	95.8%	99.3%
2006	70.7%	84.0%	93.9%	95.2%	98.3%
2005	73.0%	85.7%	94.1%	95.0%	98.9%
2004	81.0%	91.0%	95.6%	96.8%	98.1%
2003 and earlier	87.8%	91.1%	94.0%	95.7%	97.1%
Weighted-average of all Prime	77.8%	87.5%	94.5%	95.8%	98.0%
Alt-A (1):					
2008	78.4%	90.0%	95.4%	95.3%	
2007	53.2%	68.2%	78.7%	79.2%	96.2%
2006	54.4%	68.3%	76.1%	77.7%	96.7%
2005	63.3%	75.6%	82.4%	82.3%	96.5%
2004	74.7%	83.1%	89.0%	89.8%	96.2%
2003 and earlier	85.1%	86.5%	89.0%	90.8%	96.4%
Weighted-average of all Alt-A	62.0%	74.2%	81.7%	82.3%	96.4%
Subprime (1):					
2003 and earlier	73.5%	86.7%	86.4%	89.1%	95.0%
Weighted-average of all Subprime	73.5%	86.7%	86.4%	89.1%	95.0%

	Private-label CMBS				
Year of Securitization	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Prime (1):					
2003 and earlier	95.4%	99.2%	100.5%	100.2%	100.8%
Weighted-average of all Prime	95.4%	99.2%	100.5%	100.2%	100.8%

	Home Equity Loan Investments				
Year of Securitization	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Prime (1):					
2003 and earlier	53.3%	60.8%	61.9%	75.4%	97.9%
Weighted-average of all Prime	53.3%	60.8%	61.9%	75.4%	97.9%
Alt-A (1):					
2006	59.3%	81.6%	69.0%	87.0%	96.8%
2005	41.2%	68.0%	77.2%	80.1%	97.5%
2004	36.7%	55.7%	58.7%	80.3%	97.2%
Weighted-average of all Alt-A	44.9%	65.5%	63.7%	82.4%	97.1%

**Private-Label Mortgage-Backed Securities,
Home Equity Loan Investments and Manufactured Housing Loans
Fair Value as a Percentage of Unpaid Principal Balance by Year of Securitization (continued)**

Year of Securitization	Home Equity Loan Investments December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Subprime (1):					
2007	33.6%	55.4%	78.4%	83.3%	
2006	52.8%	75.3%	78.7%	78.4%	85.5%
2005	86.2%	91.4%	96.3%	96.6%	89.8%
2004	72.0%	79.8%	85.8%	82.1%	98.0%
2003 and earlier	65.4%	72.8%	79.8%	88.5%	95.7%
Weighted-average of all Subprime	60.1%	76.0%	81.1%	84.0%	92.9%

Year of Securitization	Manufactured Housing Loans December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Prime (1):					
2003 and earlier	98.1%	97.6%	99.0%	99.9%	99.9%
Weighted-average of all Prime	98.1%	97.6%	99.0%	99.9%	99.9%
Subprime (1):					
2003 and earlier	66.9%	86.0%	99.1%	99.7%	99.4%
Weighted-average of all Subprime	66.9%	86.0%	99.1%	99.7%	99.4%

(1) The FHLBanks classify private-label MBS as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by an NRSRO upon issuance of the MBS.

The table below summarizes, by loan type, characteristics of private-label MBS, home equity loan investments and manufactured housing loans in a gross unrealized loss position at December 31, 2008. The lowest ratings available for each security is reported as of March 31, 2009 based on the securities unpaid principal balances at December 31, 2008.

**Private-Label Mortgage-Backed Securities, Home Equity Loan Investments and
Manufactured Housing Loans in a Loss Position at December 31, 2008 and
Credit Ratings as of March 31, 2009 (1)
(Dollar amounts in millions)**

	December 31, 2008					March 31, 2009 MBS Ratings Based on December 31, 2008 Unpaid Principal Balance (2)			
	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Weighted-Average Collateral Delinquency Rate	Percentage Rated Triple-A	Percentage Rated Triple-A	Percentage Rated Double-A to Triple-B	Percentage Rated Below Investment Grade	Percentage on Watchlist
Private-label RMBS backed by:									
Prime loans:									
First lien	$40,800	$40,612	$ (8,738)	3.2%	86%	74%	17%	9%	36%
Second lien									
Total private-label RMBS backed by prime loans	40,800	40,612	(8,738)	3.2%	86%	74%	17%	9%	36%

Private-Label Mortgage-Backed Securities, Home Equity Loan Investments and Manufactured Housing Loans in a Loss Position at December 31, 2008 and Credit Ratings as of March 31, 2009 (1) (continued)
(Dollar amounts in millions)

	December 31, 2008					March 31, 2009 MBS Ratings Based on December 31, 2008 Unpaid Principal Balance (2)			
	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Weighted-Average Collateral Delinquency Rate	Percentage Rated Triple-A	Percentage Rated Triple-A	Percentage Rated Double-A to Triple-B	Percentage Rated Below Investment Grade	Percentage on Watchlist
Alt-A and other loans:									
Alt-A option arm	6,431	6,376	(3,612)	24.5%	98%	15%	13%	72%	1%
Alt-A other	20,876	20,645	(6,262)	10.3%	82%	40%	26%	34%	13%
Total private-label RMBS backed by Alt-A and other loans	27,307	27,021	(9,874)	13.6%	86%	34%	23%	43%	10%
Subprime loans:									
First lien	21	21	(6)	15.3%	100%	66%	34%	0%	0%
Second lien									
Total private-label RMBS backed by subprime loans	21	21	(6)	15.3%	100%	66%	34%	0%	0%
Private-label CMBS backed by:									
Prime loans:									
First lien	635	636	(44)	2.5%	100%	100%	0%	0%	0%
Second lien	267	267		0.0%	100%	100%	0%	0%	0%
Total private-label CMBS backed by prime loans	902	903	(44)	1.7%	100%	100%	0%	0%	0%
Home equity loan investments backed by:									
Prime loans:									
First lien	6	6	(2)	9.2%	0%	0%	71%	29%	0%
Second lien									
Total home equity loan investments backed by prime loans	6	6	(2)	9.2%	0%	0%	71%	29%	0%
Alt-A and other loans:									
Alt-A option arm Alt-A other	72	69	(37)	6.4%	0%	0%	65%	35%	31%
Total home equity loan investments backed by Alt-A and other loans	72	69	(37)	6.4%	0%	0%	65%	35%	31%
Subprime loans:									
First lien	1,460	1,349	(480)	34.8%	38%	14%	41%	45%	8%
Second lien	5	5	(1)	20.6%	19%	19%	0%	81%	0%
Total home equity loan investments backed by subprime loans	1,465	1,354	(481)	34.8%	38%	14%	41%	45%	8%

Private-Label Mortgage-Backed Securities, Home Equity Loan Investments and Manufactured Housing Loans in a Loss Position at December 31, 2008 and Credit Ratings as of March 31, 2009 (1) (continued)
(Dollar amounts in millions)

	December 31, 2008					March 31, 2009 MBS Ratings Based on December 31, 2008 Unpaid Principal Balance (2)			
	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Weighted-Average Collateral Delinquency Rate	Percentage Rated Triple-A	Percentage Rated Triple-A	Percentage Rated Double-A to Triple-B	Percentage Rated Below Investment Grade	Percentage on Watchlist
Manufactured housing loans backed by:									
Prime loans:									
First lien	1	1		2.0%	100%	100%	0%	0%	0%
Second lien									
Total manufactured housing loans backed by prime loans	1	1		2.0%	100%	100%	0%	0%	0%
Subprime loans:									
First lien	24	24	(9)	2.3%	0%	0%	100%	0%	0%
Second lien	230	230	(75)	1.9%	0%	0%	100%	0%	0%
Total manufactured housing loans backed by subprime loans	254	254	(84)	1.9%	0%	0%	100%	0%	0%
Other—Not Classified (3)	391	391	(121)	0.0%	51%	50%	40%	10%	30%
Total private-label RMBS and CMBS, home equity loan investments and manufactured housing loans	$71,219	$70,632	$(19,387)	7.8%	84%	57%	20%	23%	25%

(1) The FHLBanks classify private-label MBS as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by an NRSRO upon issuance of the MBS.

(2) Excludes paydowns subsequent to December 31, 2008.

(3) 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. As a result, third-party providers of such information or existing servicers do not have current lien information.

The FHLBanks generally purchase private-label MBS rated triple-A (or its equivalent) by an NRSRO, such as Moody's or S&P, at the time of purchase based on structural credit enhancements designed to withstand a significant increase in defaults combined with a sharp downturn in housing prices. The FHLBanks typically require credit enhancement above the amounts required for a triple-A credit rating by an NRSRO for non-agency mortgage-backed securities. Structural credit enhancements include subordination and over-collateralization that are designed to absorb losses before an FHLBank will incur a loss on a security. Credit enhancement achieved through senior-subordinated features results in the subordination of payments to junior classes to ensure cash flows are received by senior classes held by investors such as the FHLBanks. In addition, monoline financial guarantors provide credit protection on some of the FHLBanks' securities in a form of secondary guarantees based on certain performance triggers. See the monoline insurance credit ratings and outlook table for downgrades and outlook status as of March 31, 2009. Proposed legislation related to mortgage cram-downs and/or new loan modifications could affect the valuations and credit enhancements of the FHLBanks' mortgage-backed securities. See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Legislative and Regulatory Developments—Helping Families Save Their Homes Act of

2009 (Cram-down Legislation)" for additional information on proposed legislation related to mortgage cram-downs.

Credit Enhancement and Collateral Performance of Private-Label Mortgage-Backed Securities, Home Equity Loan Investments and Manufactured Housing Loans (1)

	Weighted-Average Market Price (2) at December 31, 2008	Original Weighted-Average Credit Support (3)	Weighted-Average Credit Support at December 31, 2008	Weighted-Average Collateral Delinquency at December 31, 2008
Private-label RMBS by Year of Securitization				
Prime:				
2008	$38.36	23.5%	24.4%	5.2%
2007	45.30	11.5%	11.9%	5.6%
2006	56.74	8.7%	9.7%	5.4%
2005	38.46	7.0%	9.1%	4.2%
2004	55.50	3.8%	6.9%	1.9%
2003 and earlier	54.66	3.0%	6.3%	0.9%
Total prime	50.76	6.6%	8.7%	3.3%
Alt-A:				
2008	78.35	32.8%	33.9%	8.6%
2007	52.40	31.5%	31.7%	18.8%
2006	54.40	24.9%	26.1%	24.9%
2005	60.58	15.7%	18.5%	11.8%
2004	68.50	7.5%	13.1%	5.5%
2003 and earlier	53.00	5.8%	11.8%	3.2%
Total Alt-A	57.65	21.2%	23.4%	15.0%
Subprime:				
2003 and earlier	73.53	11.1%	40.9%	15.3%
Total subprime	73.53	11.1%	40.9%	15.3%
Total private-label RMBS	70.66	12.7%	14.9%	8.3%
Private-label CMBS by Year of Securitization				
Prime:				
2003 and earlier	$61.95	25.2%	40.4%	1.7%
Total prime	61.95	25.2%	40.4%	1.7%
Total private-label CMBS	61.95	25.2%	40.4%	1.7%
Manufactured housing loans by Year of Securitization				
Prime:				
2003 and earlier	$98.13	22.0%	90.6%	2.0%
Total prime	98.13	22.0%	90.6%	2.0%
Subprime:				
2003 and earlier	66.90	55.4%	53.2%	1.9%
Total subprime	66.90	55.4%	53.2%	1.9%
Total manufactured housing loans	66.98	55.3%	53.3%	1.9%

	Weighted-Average Market Price (2) at December 31, 2008	Original Weighted-Average Credit Support (3)	Weighted-Average Credit Support at December 31, 2008	Weighted-Average Collateral Delinquency at December 31, 2008
Home equity loan investments by Year of Securitization				
Prime:				
2003 and earlier	$53.28	0.6%	21.5%	23.1%
Total prime	53.28	0.6%	21.5%	23.1%
Alt-A:				
2006	59.26	0.0%	1.9%	2.2%
2005	41.21	3.1%	10.5%	0.1%
2004	36.69	-0.3%	6.2%	9.8%
Total Alt-A	44.85	0.1%	5.0%	6.4%
Subprime:				
2007	33.59	23.0%	35.4%	35.3%
2006	52.79	22.9%	34.9%	42.6%
2005	86.19	22.9%	48.9%	39.9%
2004	71.96	31.6%	48.5%	12.5%
2003 and earlier	65.38	55.8%	64.6%	13.6%
Total subprime	60.08	33.7%	46.0%	32.6%
Total home equity loan investments	59.55	32.5%	44.6%	31.7%

(1) The FHLBanks classify private-label MBS as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by an NRSRO upon issuance of the MBS.

(2) Weighted-average market price is calculated based on $100.00.

(3) Negative original credit support is related to certain home equity loans that rely on over-collateralization, excess spread and bond insurance. Over-collateralization builds up over time and could be negative at the security's origination.

The following table shows the FHLBanks' private-label mortgage-backed securities and home equity loan investments covered by monoline insurance and related gross unrealized losses.

Monoline Insurance Coverage and Related Unrealized Losses of Private-Label Mortgage-Backed Securities, Home Equity Loan Investments and Manufactured Housing Loans By Year of Securitization At December 31, 2008 (Dollar amounts in millions)

	Prime (1)									
	AMBAC Assurance Corp.		Financial Security Assurance, Inc.		MBIA Insurance Corp.		Other		Total	
Year of Securitization	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses
Private-label RMBS:										
2003 and prior	$ 789	$ (229)	$	$	$ 464	$ (3)	$	$	$ 1,253	$ (232)
Total	789	(229)			464	(3)			1,253	(232)
Private-label CMBS:										
2003 and prior					9,078	(100)			9,078	(100)
Total					9,078	(100)			9,078	(100)
Manufactured housing loans Total										
Home equity loan investments:										
2003 and prior	4,341	(1,262)			1,740	(838)	4,819		10,900	(2,100)
Total	4,341	(1,262)			1,740	(838)	4,819		10,900	(2,100)
Total private-label RMBS, and CMBS, manufactured housing loans and home equity loan investments	$5,130	$(1,491)	$	$	$11,282	$(941)	$4,819	$	$21,231	$(2,432)

Monoline Insurance Coverage and Related Unrealized Losses of Private-Label Mortgage-Backed Securities, Home Equity Loan Investments and Manufactured Housing Loans By Year of Securitization (continued) At December 31, 2008 (Dollar amounts in millions)

	Alt-A (1)									
	AMBAC Assurance Corp.		Financial Security Assurance, Inc.		MBIA Insurance Corp.		Other		Total	
Year of Securitization	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses
Private-label RMBS:										
2007	$107,869	$(34,161)	$41,701	$ (7,927)	$	$	$	$	$149,570	$ (42,088)
2006	20,714	(3,781)							20,714	(3,781)
2005	43,899	(19,214)							43,899	(19,214)
2003 and prior	2,111	(81)			3,706	(51)			5,817	(132)
Total	174,593	(57,237)	41,701	(7,927)	3,706	(51)			220,000	(65,215)
Private-label CMBS total										
Manufactured housing loans total										
Home equity loan investments:										
2006			24,987	(10,180)					24,987	(10,180)
2005	5,700	(3,351)							5,700	(3,351)
2004	16,620	(10,190)			20,527	(13,266)	4,409		41,556	(23,456)
Total	22,320	(13,541)	24,987	(10,180)	20,527	(13,266)	4,409		72,243	(36,987)
Total private-label RMBS, and CMBS, manufactured housing loans and home equity loan investments	$196,913	$(70,778)	$66,688	$(18,107)	$24,233	$(13,317)	$4,409	$	$292,243	$(102,202)

	Subprime (1)									
	AMBAC Assurance Corp.		Financial Security Assurance, Inc.		MBIA Insurance Corp.		Other		Total	
Year of Securitization	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses	Insurance Coverage	Gross Unrealized Losses
Private-label RMBS:										
2003 and prior	$	$	$ 293	$ (156)	$	$	$	$	$ 293	$ (156)
Total			293	(156)					293	(156)
Private-label CMBS total										
Manufactured housing loans:										
2003 and prior			230	(75)					230	(75)
Total			230	(75)					230	(75)
Home equity loan investments:										
2004							9,595	(1,664)	9,595	(1,664)
2003 and prior	255,393	(105,465)	95,202	(29,904)	62,645	(19,908)	7,877	(575)	421,117	(155,852)
Total	255,393	(105,465)	95,202	(29,904)	62,645	(19,908)	17,472	(2,239)	430,712	(157,516)
Total private-label RMBS, and CMBS, manufactured housing loans and home equity loan investments	$255,393	$(105,465)	$95,725	$(30,135)	$62,645	$(19,908)	$17,472	$(2,239)	$431,235	$(157,747)

(1) The FHLBanks classify private-label MBS as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by an NRSRO upon issuance of the MBS.

The following table provides the credit ratings of the third-party insurers.

Monoline Insurance Credit Ratings and Outlook
As of March 31, 2009

	Moody's		S&P		Fitch	
	Credit Rating	Outlook	Credit Rating	Outlook	Credit Rating	Outlook
AMBAC Assurance Corporation	Baa1	Negative Watch	A	Negative	Not Rated	Not Rated
Financial Security Assurance, Inc.	Aa3	Developing	AAA	Negative Watch	AAA	Negative Watch
MBIA Insurance Corporation	B3	Developing	BBB+	Negative	Not Rated	Not Rated
XL Capital Assurance, Inc. (Syncora)	Ca	Developing	CC	Negative	Not Rated	Not Rated
Financial Guaranty Insurance Company (FGIC)	Caa3	Negative	CCC	Negative	Not Rated	Not Rated
Fannie Mae/Freddie Mac	Aaa	Stable	AAA	Stable	AAA	Stable

OTTI on Investment Securities.

As of December 31, 2008, approximately 94.4 percent of the FHLBanks' mortgage-backed securities are classified as held-to-maturity and each of the FHLBanks believes it has the ability and intent to hold these investment securities for a sufficient time to allow for any anticipated recovery of unrealized losses as it receives cash flows from these instruments in the future. Each FHLBank actively monitors the credit quality of its mortgage-backed securities to evaluate its exposure to the risk of loss on these investments. Through December 31, 2008, seven FHLBanks recognized $1,963 million in combined year-to-date OTTI charges in earnings related to private-label MBS and home equity loan investments classified as held-to-maturity securities (Boston—$382 million, Pittsburgh—$263 million, Atlanta—$186 million, Chicago—$233 million, Topeka—$5 million, San Francisco—$590 million and Seattle—$304 million) after each of these FHLBanks concluded it was probable that it would not receive all of the contractual cash flows for certain held-to-maturity private-label residential MBS and home equity loans owned by it. If delinquency and/or loss rates on mortgages and/or home equity loans continue to increase, and/or a rapid decline in residential real estate values continues, the FHLBanks could experience further reduced yields or additional losses on their investment securities.

As of December 31, 2008, $8,740 million of the FHLBanks' mortgage-backed securities are classified as available-for-sale. Of this amount, approximately 1.7 percent represents private-label MBS. As a result of the FHLBanks' OTTI assessment at December 31, 2008, two FHLBanks determined that they did not have sufficient pervasive evidence to conclude that the impairment of certain private-label MBS designated as available-for-sale was temporary. The FHLBank of Chicago recognized $59 million in year-to-date OTTI charges in earnings related to impairment of available-for-sale private-label mortgage-backed securities classified as Alt-A based upon the nature of the majority of underlying mortgages collateralizing each security at origination. The FHLBank of Pittsburgh recognized $3 million in year-to-date OTTI charges in earnings related to impairment of available-for-sale private-label mortgage-backed securities classified as home equity loan investments based upon the classification of each security at origination or based on classification by an NRSRO upon issuance of the MBS.

Each FHLBank evaluates its investment securities portfolio to determine whether any of the investment securities are other-than-temporarily impaired. In general, an FHLBank recognizes an OTTI when it is probable that the FHLBank will not collect all of its scheduled contractual cash flows. The amount of the OTTI is calculated as the difference between the investment security's current carrying value and its fair value. If the individual investment security's carrying value is written down to its fair value, then that investment security's fair value becomes its new cost basis, any deferred amounts related to that security are written off, and a realized loss is recognized in non-interest income. Each FHLBank analyzes its individual securities based on underlying collateral performance for OTTI. The FHLBanks do not necessarily use the same dealer prices, models and assumptions when determining whether an investment security is other-than-temporarily impaired. These assumptions have a significant effect on determining whether any of the investment securities are other-than-temporarily impaired and the reported fair values and estimated economic losses of their private-label mortgage-backed securities and home equity loan investments, and the income and expense related thereto, even where similar or identical assets and liabilities are being measured. The use of different assumptions, as well as changes in market conditions, could result in materially different net income and retained earnings. See individual FHLBanks' SEC Form 10-Ks for FHLBank-specific OTTI factors, assumptions and stress test scenario information.

The following table represents a comparison of the 60-plus days or more delinquency rates for subprime, Alt-A and prime loans backing private-label MBS owned by the FHLBanks at December 31, 2008, and OTTI charges taken on these securities during the year ended December 31, 2008.

OTTI and Delinquency Rates of
Private-Label Mortgage-Backed Securities,
Home Equity Loan Investments and
Manufactured Housing Loans by Year of Securitization
At and for the Year Ended December 31, 2008
(Dollar amounts in millions)

	Prime (1)			
Year of Securitization	**Amortized Cost**	**Gross Unrealized Losses**	**Fair Value**	**Year-to-Date OTTI Charge Taken (2)**
Private-label RMBS:				
2008	$ 821	$ (267)	$ 554	$
2007	6,047	(1,534)	4,513	109
2006	7,462	(2,036)	5,426	166
2005	7,052	(1,873)	5,179	15
2004	10,061	(1,897)	8,164	
2003 and prior	9,574	(1,131)	8,443	
Total	41,017	(8,738)	32,279	290
Private-label CMBS:				
2003 and prior	935	(44)	891	
Total	935	(44)	891	
Manufactured housing loans:				
2003 and prior	1		1	
Total	1		1	
Home equity loan investments:				
2003 and prior	8	(2)	6	3
Total	8	(2)	6	3
Total private-label RMBS and CMBS, manufactured housing loans and home equity loan investments	$41,961	$(8,784)	$33,177	$293

OTTI and Delinquency Rates of Private-Label Mortgage-Backed Securities, Home Equity Loan Investments and Manufactured Housing Loans by Year of Securitization (continued) At and for the Year Ended December 31, 2008 (Dollar amounts in millions)

	Alt-A (1)			
Year of Securitization	Amortized Cost	Gross Unrealized Losses	Fair Value	Year-to-Date OTTI Charge Taken (2)
Private-label RMBS:				
2008	$ 1,154	$ (249)	$ 905	$
2007	8,131	(3,506)	4,631	553
2006	4,915	(1,734)	3,180	928
2005	9,281	(3,374)	5,907	62
2004	2,400	(615)	1,785	
2003 and prior	2,627	(396)	2,231	
Total	28,508	(9,874)	18,639	1,543
Private-label CMBS total				
Manufactured housing loans total				
Home equity loan investments:				
2006	25	(10)	15	
2005	5	(3)	2	
2004	39	(24)	15	3
Total	69	(37)	32	3
Total private-label RMBS and CMBS, manufactured housing loans and home equity loan investments	$28,577	$(9,911)	$18,671	$1,546

	Subprime (1)			
Year of Securitization	Amortized Cost	Gross Unrealized Losses	Fair Value	Year-to-Date OTTI Charge Taken (2)
Private-label RMBS:				
2003 and prior	21	(6)	15	
Total	21	(6)	15	
Private-label CMBS total				
Manufactured housing loans:				
2003 and prior	254	(84)	170	
Total	254	(84)	170	
Home equity loan investments:				
2007	9	(6)	3	
2006	970	(327)	643	184
2005	197	(24)	173	
2004	16	(4)	12	
2003 and prior	700	(241)	459	2
Total	1,892	(602)	1,290	186
Total private-label RMBS and CMBS, manufactured housing loans and home equity loan investments	$2,167	$(692)	$1,475	$186

(1) The FHLBanks classify private-label MBS as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by an NRSRO upon issuance of the MBS.

(2) Two FHLBanks recognized $62 million in combined OTTI charges on private-label MBS and home equity loan investment securities classified as available-for-sale (FHLBank of Chicago—$59 million and FHLBank of Pittsburgh—$3 million) for the year ended December 31, 2008.

Does not include effect of the application by the FHLBanks of Atlanta and Chicago of EITF 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interest and Beneficial Interest That Continue to Be Held by a Transferor in Securitized Financial Assets* (EITF 99-20) for certain securities where it has recognized OTTI for which the credit rating may be double-A or higher. This EITF requires, among other things, that any subsequent favorable or adverse change in estimated cash flows needs to be accounted for as a prospective yield adjustment to these securities. As a result, the FHLBanks of Atlanta and Chicago recognized accretion into net interest income of $9 million during the year ended December 31, 2008.

The following table summarizes OTTI charges recorded by the FHLBanks at December 31, 2008, based on security type and duration of unrealized losses prior to impairment.

Summary of OTTIs Recorded by Security Type and Duration of Unrealized Losses Prior to Impairment (1) For the Year Ended December 31, 2008 (Dollar amounts in millions)

	Gross Unrealized Loss Position		
Held-to-maturity securities	**Less than 12 months**	**12 months or greater**	**Total**
Prime:			
Private-label RMBS	$(260)	$ (30)	$ (290)
Private-label CMBS		(3)	(3)
Home equity loan investments			
Manufactured housing loans			
Total prime	(260)	(33)	(293)
Alt-A:			
Private-label RMBS	(33)	(1,451)	(1,484)
Private-label CMBS			
Home equity loan investments			
Manufactured housing loans			
Total Alt-A	(33)	(1,451)	(1,484)
Subprime:			
Private-label RMBS			
Private-label CMBS	(186)		(186)
Home equity loan investments			
Manufactured housing loans			
Total subprime	(186)		(186)
Private-label MBS total	$(479)	$(1,484)	$(1,963)

Summary of OTTIs Recorded by Security Type and
Duration of Unrealized Losses Prior to Impairment (1) (continued)
For the Year Ended December 31, 2008
(Dollar amounts in millions)

	Gross Unrealized Loss Position		
Available-for-sale securities	Less than 12 months	12 months or greater	Total
Prime:			
Private-label RMBS	$	$	$
Private-label CMBS			
Home equity loan investments			
Manufactured housing loans			
Total prime			
Alt-A:			
Private-label RMBS	(59)		(59)
Private-label CMBS		(3)	(3)
Home equity loan investments			
Manufactured housing loans			
Total Alt-A	(59)	(3)	(62)
Subprime:			
Private-label RMBS			
Private-label CMBS			
Home equity loan investments			
Manufactured housing loans			
Total subprime			
Private-label MBS total	$(59)	$(3)	$(62)

(1) The FHLBanks classify private-label MBS as prime, Alt-A and subprime based on the originator's classification at the time of origination or based on classification by an NRSRO upon issuance of the MBS.

Each of the FHLBanks reporting OTTI charges in 2008 related to certain non-agency private-label MBS believes that its OTTI charges recorded during 2008 exceed its estimated expected economic losses because the fair value of the affected investment securities was determined in an illiquid, distressed market. The FHLBanks reporting estimated economic losses at December 31, 2008 relating to their 2008 OTTI accounting charges are: FHLBank of Boston—$39 million; FHLBank of Pittsburgh—$94 million; FHLBank of Chicago—$8 million; FHLBank of Topeka—$3 million; FHLBank of San Francisco—$27 million; and FHLBank of Seattle—$12 million. See individual FHLBanks' SEC Form 10-Ks for FHLBank-specific information relating to OTTI charges including estimated economic loss related information. Each FHLBank believes it has the ability and intent to hold substantially all of these investment securities for a sufficient time to allow for any anticipated recovery of unrealized losses, so its estimated losses will be limited to any contractual cash flows not collected. A new accretable yield is calculated for securities that are other-than-temporary impaired, and the OTTI charge reverses over time as it is amortized prospectively into income over the remaining life of the investment security based on the amount and timing of estimated future cash flows. In the case of the FHLBanks reporting OTTI charges, the OTTI charges on the affected investment securities are greater than the current estimated aggregate credit losses on these securities as of December 31, 2008. The FHLBanks' portfolio monitoring is ongoing, and further deterioration in delinquency and loss rates and real estate values may cause an additional increase in estimated and actual economic losses.

Summary of OTTI
At and for the Year Ended December 31, 2008
(Dollar amounts in millions)

Other-Than-Temporarily Impaired Securities	Carrying Value Prior to Impairment	OTTI Charge	Accretion Recognized in Net Interest Income During 2008	Carrying Value At December 31, 2008	Retained Earnings (Deficit) At December 31, 2008
Boston	$ 728	$ 382	$	$ 346	$ (20)
Pittsburgh	599	266		333	170
Atlanta (1)	420	186	3	229	435
Chicago	630	292	6	344	540
Topeka	8	5		3	157
San Francisco	1,514	590		924	176
Seattle	546	304	—	242	(79)
Total other-than-temporarily impaired securities	$4,445	$2,025	$9	$2,421	

(1) Does not include $8 million that relates to paydowns.

Unsecured Credit Exposure. The following table represents the FHLBanks' exposure to unsecured credit.

Unsecured Credit Exposure
(Dollar amounts in billions)

	December 31, 2008	December 31, 2007	(Decrease) $	(Decrease) %
Unsecured credit exposure of FHLBanks to counterparties, excluding U.S. government, U.S. government agencies, and instrumentalities(1)	$66.1	$139.9	$(73.8)	(52.7)%
Maturities of unsecured credit exposure:				
Overnight	40.7%	46.4%		
2-30 days	39.6%	27.3%		
31-90 days	14.3%	24.0%		
91-270 days	5.4%	2.3%		

(1) Included in this total at December 31, 2008 is unsecured credit exposure of $1.3 billion to Citibank, N.A. In addition to the unsecured credit exposure included in the table above, Citibank, N.A. had advances totaling $80.0 billion from the FHLBanks of San Francisco, New York and Dallas at December 31, 2008.

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

	December 31, 2008	December 31, 2007	Decrease $	Decrease %
Federal funds sold	$40,299	$85,818	$(45,519)	(53.0)%
Commercial paper	1,945	7,197	(5,252)	(73.0)%

At December 31, 2008, the FHLBanks had aggregate unsecured credit exposure of $45.1 billion or more to each of 25 counterparties. The aggregate unsecured credit exposure to these 25 counterparties represented 68.2 percent of the FHLBanks' unsecured credit exposure to non-government counterparties.

Mortgage Loans Held for Portfolio. All 12 FHLBanks have established or participated in mortgage purchase programs as services to their members. All of the programs involve the investment by an FHLBank in loans either funded by that FHLBank through, or purchased directly from members or housing associates called participating financial institutions, or PFIs, or participations in such loans acquired from other FHLBanks. The Finance Board authorized all of the FHLBanks to hold acquired member assets, such as assets acquired under the MPF Program developed by the FHLBank of Chicago and assets acquired under the MPP developed by the FHLBanks of Cincinnati, Indianapolis and Seattle. The FHLBank of Seattle, which previously offered the MPP to its members, is no longer accepting additional master commitments in the MPP, completed all of its delivery commitments in early 2006 and is not purchasing additional mortgages. All of the FHLBanks except Cincinnati and Seattle offered the MPF Program to their members. On October 6, 2006, the FHLBank of San Francisco announced that it would no longer offer new commitments to purchase mortgage loans from its members under the MPF Program (MPF Loans) but that it would retain its existing portfolio of MPF Loans. The commitment of the FHLBank of San Francisco to purchase MPF Loans under its last outstanding master commitment expired on February 14, 2007. The FHLBank of Atlanta stopped accepting additional MPF master commitments as of February 4, 2008 and as of March 31, 2008 ceased purchasing assets under the MPF Program. Early in the third quarter of 2008, the FHLBank of Atlanta suspended new acquisitions of mortgage loans under the MPP. The FHLBank of Atlanta plans to continue to support its existing portfolio of MPP and MPF loans. The FHLBank of Dallas MPF Program agreement with the FHLBank of Chicago became inactive on August 1, 2008 when the FHLBank of Chicago ceased acquiring MPF Loans under that agreement.

Under these programs, the FHLBank purchases/funds mortgage assets from or through members or housing associates, for which the PFIs continue to bear a portion of the credit risk. The mortgage loans purchased/funded under these programs may carry more credit risk than advances, even though the respective member or housing associate provides credit enhancement. The credit risk under these programs is managed as follows:

— *MPF Loans:* Credit losses on conventional MPF Loans not absorbed by the borrower's equity in the mortgaged property, property insurance or PMI (primary mortgage insurance issued by qualified companies for mortgage loans with loan-to-value ratios (LTVs) greater than 80 percent which covers all types of losses except those generally classified as special hazard losses) are allocated for each Master Commitment between the MPF FHLBank and PFI as follows:

- First, to the MPF FHLBank, up to an agreed-upon amount, called a First Loss Account (FLA).
- Second, to the PFI under its credit enhancement obligation, losses for each Master Commitment in excess of the FLA, if any, 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 SMI or a combination of both. For a description of the credit enhancement amount calculation see "Supplemental Information—MPF Program—Setting Credit Enhancement Levels."
- Third, any remaining unallocated losses are absorbed by the MPF FHLBank.
- The FLA is structured by the MPF FHLBank as a memo account to track losses not covered by the credit enhancement amount provided by the PFI (or not yet recovered by the withholding of performance-based credit enhancement fees). The amount of the FLA varies by product. It may be set as a specified number of basis points of the outstanding principal balance of mortgage loans delivered by the PFI or it may initially be set at zero and increased on a monthly basis thereafter. The FLA is not a cash collateral account, and it does not give an MPF FHLBank any right/obligation to receive/pay cash or any other collateral. 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 FLA. Losses incurred by the FHLBank for each master commitment, in excess of the FLA, are covered by the PFI's credit enhancement amount. The PFI's credit enhancement amount is sized using the MPF Program Methodology to equal the amount of losses in excess of, or including, the FLA (depending on the MPF product) that would need to be paid so that any losses in excess of the

credit enhancement amount and initial FLA would be equivalent to losses experienced by an investor in a double-A rated mortgage-backed security. The PFI may procure SMI to cover losses equal to all or a portion of the credit enhancement amount (except that losses generally classified as special hazard losses are covered by the portion of the credit enhancement amount covered by the PFI or by the MPF FHLBank and not by SMI). For a description of the credit enhancement amount calculation see "Supplemental Information—MPF Program—Setting Credit Enhancement Levels."

— *MPP Loans:* 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. The "second layer" of losses that exceed coverage of the PMI are absorbed by the Lender Risk Account of the respective PFI that originated the MPP loan. 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-schedule set forth in the master commitment contract that establishes the Lender Risk Account. No Lender Risk Account balance is required after 11 years. To cover losses that exceed the PMI and the balance in the Lender Risk Account, each PFI is required to provide SMI, adding an additional layer of credit support to the MPP loan. This insurance reduces the overall loss exposure to approximately 50 percent of the property value at the time of the loan origination, subject, in certain cases, to an aggregate stop-loss provision in the SMI policy. If any loss extends beyond the insurance coverage and the balance held in the Lender Risk Account, the FHLBank(s) holding the interest(s) in the affected MPP loan would be responsible for absorbing this remaining loss.

All of the FHLBanks participating in these programs have established appropriate loan loss allowances or have determined that no loan loss allowances are necessary. Management at each FHLBank believes that it has adequate policies and procedures in place to manage this credit risk appropriately. Neither the PFI credit enhancements nor the mortgage loans are rated. An FHLBank must hold risk-based capital against acquired member assets or pools of assets that have an implied credit rating less than double-A. The Regulator's acquired member asset regulation specifies that assets must consist of either:

— whole loans eligible to secure advances (excluding mortgages above the conforming loan limit);

— whole loans secured by manufactured housing; or

— state and local housing finance agency bonds.

In addition, this regulation mandates that the FHLBank must have a nexus with the member or housing associate. All pools of acquired member assets must have a credit-risk-sharing arrangement with a member, housing associate or third-party mortgage insurer that limits the credit-risk exposure of the FHLBank to not less than an investment-grade rating. The relevant credit-risk exposure must be determined by a formal rating or a comparable methodology. The Regulator's acquired member asset regulation also applies to securities created under the MPF Shared Funding® Program. All of the mortgage loans acquired under these programs that were not government-insured were credit-enhanced by members to a level at least equivalent to an investment-grade rating. Each FHLBank that participates in these programs believes that its credit risk exposure to loan servicers is minimal.

MPF Credit Exposure. Eight mortgage insurance companies provide PMI and six mortgage insurance companies provide SMI for MPF loans under the FHLBanks' MPF Program. Each MPF FHLBank's policy is to monitor and limit its MPF credit exposure to each MI company to 10 percent of its regulatory capital. Credit exposure is defined as the total of PMI and SMI coverage written by an MI company on MPF Loans held by an MPF FHLBank that are 60 days or more delinquent. The risk of loss with respect to SMI is more remote than for PMI due to the deductible for an SMI policy (See "Supplemental Information—MPF Program and MPP" for additional information). A company that reaches the 10 percent limit will be deemed ineligible to provide further SMI coverage on MPF Loans until an MPF FHLBank's exposure falls below the 10 percent limit again. The MPF FHLBanks closely monitor the financial condition of these mortgage insurers. On June 30, 2008, the MPF guides were revised so that PMI for MPF loans with a note date after July 31, 2008 must be issued by a mortgage insurance company on the approved mortgage insurance company list whenever PMI coverage is required. To remain on the approved MPF Program list an SMI provider must be acceptable for use in S&P's LEVELS modeling software. All SMI providers are reviewed at least annually by the individual FHLBank's credit risk committee or more frequently as circumstances warrant. The FHLBanks offering the MPF Program have recently established a set of financial criteria for further monitoring the financial condition of the mortgage insurance companies. The MPF FHLBanks receive PMI coverage information only at acquisition of MPF Loans and do not receive notification of any subsequent changes in PMI coverage.

As of December 31, 2008, all of the FHLBanks' mortgage insurance providers, except for CMG Mortgage Insurance Company, have had their external ratings for insurer financial strength downgraded below AA- by one or more NRSROs. If a mortgage insurer fails to fulfill its obligations, the FHLBanks may bear any remaining loss of the borrower default on the related mortgage loans not covered by the member. The FHLBanks have not increased their loan loss reserves due to the aforementioned rating agency actions, but they will continue to monitor the financial condition of their mortgage insurance providers.

The following table summarizes the MPF FHLBanks' credit exposure (dollar amounts in millions) to their mortgage insurance providers based upon PMI and SMI credit exposure as of December 31, 2008. Credit exposure is defined as the total of PMI and SMI coverage written by a mortgage insurance company on MPF loans held by an MPF FHLBank that are 60 days or more delinquent.

		As of December 31, 2008				As of December 31, 2007			
	MI Ratings (Moody's/S&P/Fitch) As of March 31, 2009	PMI	SMI	Total	Percentage of Total	PMI	SMI	Total	Percentage of Total
Genworth Mortgage Insurance (Genworth) (1)	Baa2/A+/NR	$ 200	$231	$ 431	25%	$ 192	$305	$ 497	23%
Mortgage Guaranty Insurance Co. (MGIC)	Ba2/BB/BBB	314	105	419	24%	320	379	699	32%
United Guaranty Residential Insurance	A3/A-/AA-	162	125	287	16%	172	126	298	14%
PMI Mortgage Insurance Co.	Ba3/A-/BB	134	101	235	13%	149	101	250	12%
Other		331	57	388	22%	338	74	412	19%
Total MPF MI Coverage		$1,141	$619	$1,760	100%	$1,171	$985	$2,156	100%

(1) On November 20, 2008, Fitch withdrew its ratings of Genworth and will no longer provide ratings or analytical coverage of this insurer.

Historically, the MPF FHLBanks have not claimed any losses in excess of the SMI policy deductible against an MI company. If an MI company was to default on its insurance obligations and loan level losses for MPF Loans were to increase, an MPF FHLBank may experience increased credit losses. The MPF Provider performs a quarterly analysis evaluating the financial condition of, and the MPF FHLBanks' concentration risk with, the MI companies. Based on a third quarter 2008 analysis, all of the MI companies failed at least one of the early warning financial tests formulated by the MPF Provider. As a result, the FHLBanks stopped offering new MPF Plus master commitments. As of December 31, 2008, the MPF FHLBanks' exposure to all MI companies totaled $1,760 million, of which $1,141 million was PMI exposure and $618 million was SMI exposure. If an SMI provider is downgraded below an "AA-" rating under the MPF Plus product, the PFI has six months to either replace the SMI policy or provide its own undertaking; or it will forfeit its performance based credit enhancement fees. As of December 31, 2008, most of the SMI providers' claims paying ability have been downgraded by at least one NRSRO to below AA-. The FHLBank of Chicago has requested all of the downgraded mortgage insurance companies to provide remediation plans. In the fourth quarter 2008 each of the participating financial institutions with MPF Plus Master Commitments with SMI coverage from Mortgage Guaranty Insurance Co., PMI Mortgage Insurance Co., or Radian was notified that it would need to either replace the SMI policy or provide its own undertaking equivalent to the SMI coverage, or it will forfeit its performance based credit enhancement fees.

PMI for MPF Loans must be issued by an MI company on the approved MI company list whenever PMI coverage is required except for an immaterial amount of MPF Loans with a note date between

June 30, 2008 and July 31, 2008 insured by Triad Guaranty Insurance Company, which ceased issuing new insurance effective July 15, 2008, and was removed from the approved MI company list on June 30, 2008. Except for CMG Mortgage Insurance Company, no other MI company on the approved MI company list as of December 31, 2008 has an "AA-" or better claims paying ability rating from more than one NRSRO. The criteria for MI companies to remain on the approved MI company list at this time is acceptability for use in S&P's LEVELS® modeling software. If a PMI provider is downgraded, the MPF FHLBank may request the servicer to obtain replacement PMI coverage with a different provider. However, it is possible that replacement coverage may be unavailable or result in additional cost to the MPF FHLBank.

The following table presents MPF loan concentrations by PFI for MPF Loan purchases and fundings by the MPF FHLBanks that exceeded 10 percent of all MPF Loan purchases and fundings for the years ended December 31, 2008, 2007 and 2006 (dollar amounts in millions):

Loan Purchases and Funding Concentrations by PFI

	For the Years Ended December 31,					
	2008		2007		2006	
PFI	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Branch Banking & Trust Company	$ N/A	N/A	$ 551	15.70%	$ 361	10.50%
National City Bank	N/A	N/A	N/A	N/A	396	11.50%
All Other Institutions	6,131	100.0%	2,963	84.3%	2,674	78.0%
Total	$6,131	100.0%	$3,514	100.0%	$3,431	100.0%

N/A—not applicable, as amount is less than ten percent.

The following table summarizes the property types of the underlying mortgage assets at December 31, 2008 and 2007:

	As of December 31,	
	2008	2007
Single Family Residence	88.70%	88.42%
Planned Unit Development	5.56%	5.77%
Condominium	4.29%	4.38%
Two-to-Four Unit Property	1.21%	1.19%
Manufactured Housing	0.24%	0.24%
Total	100.00%	100.00%

Another indication of credit quality is data on actual delinquencies. An analysis of real estate mortgages past due 90 days or more and still accruing interest and the percentage of those loans to the total real estate mortgages outstanding as of December 31, 2008 and 2007 is presented below (dollar amounts in millions):

	December 31, 2008	December 31, 2007
Total Conventional MPF Mortgage Loan Delinquencies, at par	$ 326	$ 180
Total Conventional MPF Mortgage Loans Outstanding, at par	$58,025	$60,435
Percentage of Delinquent MPF Conventional Loans	0.56%	0.30%
Total Conventional MPF Loans in Foreclosure	$ 107	$ 66
Percentage of Conventional MPF Loans in Foreclosure	0.18%	0.11%
Total Government-guaranteed MPF Mortgage Loan Delinquencies, at par	$ 258	$ 193
Total Government-guaranteed MPF Mortgage Loans Outstanding, at par	$ 5,998	$ 6,542
Percentage of Delinquent Government-guaranteed MPF Loans	4.30%	2.95%
Total Government-guaranteed MPF Loans in Foreclosure	$ 58	$ 40
Percentage of Government-guaranteed MPF Loans in Foreclosure	0.97%	0.61%

MPP Credit Exposure. The FHLBanks' MPP Programs also use mortgage insurance companies to provide PMI and SMI. If a PMI provider is downgraded, an FHLBank may request the servicer to obtain replacement PMI coverage with a different provider. If an SMI provider is downgraded below AA- subsequent to the purchase of mortgage loans, Finance Agency regulations require an MPP FHLBank to re-evaluate the covered mortgage loans for deterioration in credit quality and to allocate risk-based capital to cover any potential loan quality issues. The MPP FHLBanks continue to closely monitor the financial condition of their mortgage insurers. The MPP FHLBanks have either discontinued obtaining coverage on new loans from the mortgage insurance providers that have been downgraded below AA- and are already using supplemental providers, or continue to evaluate the need for alternative insurance on their mortgage loan portfolios and reviewing other options that may be available, including obtaining regulatory relief. To date, rating agency downgrades have not had a material effect on the FHLBanks' MPP programs.

The following table summarizes the MPP FHLBanks' credit exposure (dollar amounts in millions) to their mortgage insurance providers based upon PMI and SMI credit exposure as of December 31, 2008. Credit exposure is defined as the total of PMI and SMI coverage written by a mortgage insurance company on MPP loans held by an MPP FHLBank that are more than 60 days delinquent. The MPP FHLBanks believe this is a conservative measure since most delinquent loans never go to claim and other credit protection layers (such as borrower equity and lender risk account) are called upon before insurance claims are made.

	MI Ratings (Moody's/S&P/Fitch) As of March 31, 2009	As of December 31, 2008				As of December 31, 2007			
		PMI	SMI	Total	Percentage of Total	PMI	SMI	Total	Percentage of Total
MGIC	Ba2/BB/BBB	$2	$29	$31	74%	$1	$17	$18	78%
Genworth (1)	Baa2/A+/NR	1	5	6	14%	1	1	2	9%
United Guaranty Residential Insurance	A3/A-/AA-	1		1	2%	1		1	4%
Other		4		4	10%	2		2	9%
Total MPP MI Coverage		$8	$34	$42	100%	$5	$18	$23	100%

(1) On November 20, 2008, Fitch withdrew its ratings of Genworth and will no longer provide ratings or analytical coverage of this insurer.

The MPP FHLBanks subject MI providers to the standard credit underwriting analysis and estimate their potential exposure based on historically high industry loss rate factors. If a PMI provider is downgraded, an FHLBank may request the servicer to obtain replacement PMI coverage with a different provider. If an SMI provider is downgraded below AA- subsequent to the purchase of mortgage loans, Finance Agency regulations require an MPP FHLBank to re-evaluate the covered mortgage loans for deterioration in credit quality and to allocate risk-based capital to cover any potential loan quality issues. The MPP FHLBanks continue to closely monitor the financial condition of their mortgage insurers. The MPP FHLBanks have either discontinued obtaining coverage on new loans from the mortgage insurance providers that have been downgraded below AA- and are already using supplemental providers, or continue to evaluate the need for alternative insurance on their mortgage loan portfolios and reviewing other options that may be available, including obtaining regulatory relief. To date, rating agency downgrades have not had a material effect on the FHLBanks' MPP programs.

In April 2008, S&P lowered the rating of one of the SMI providers, MGIC, from AA- to A, and Fitch did the same for the FHLBank's other provider, Genworth, in October 2008. Before the downgrade of MGIC, the MPP FHLBanks had discontinued committing new master commitment contracts with MGIC, but they continue to use Genworth for new business. On April 25, 2008, the FHLBank of Seattle exercised its contractual right and cancelled its supplemental mortgage insurance policies with MGIC. Based on the FHLBank of Seattle's analysis of the mortgage loan portfolio, as of December 31, 2008, they have determined that the credit enhancement provided by members in the form of the LRA is sufficient to absorb inherent credit losses.

Each MPP FHLBank believes this level of supplemental insurance constitutes an acceptable amount of exposure for it under the very extreme scenario that all of the conventional loans more than 60 days late default and the SMI providers are financially unable to pay the resulting claims. Because they have had only 180 claims through December 31, 2008 in the MPP out of over 282,926 conventional loans purchased since its inception in 2000, all of which were funded from the LRA and an insignificant amount by SMI providers, each FHLBank believes it is unlikely that its claims would rise to a significant level. Therefore, each MPP FHLBank believes it has a very small amount of credit exposure to its remaining SMI providers and that the downgrades discussed above will not affect the creditworthiness of the program.

The following table presents the property types of the underlying mortgage assets:

	As of December 31,	
	2008	2007
Single-Family Residence	74.55%	73.78%
Planned Unit Development	20.22%	21.34%
Condominium	4.07%	3.59%
Two-to-Four Unit Property	1.16%	1.29%
Total	100.00%	100.00%

Another indication of credit quality is data on actual delinquencies. An analysis of real estate mortgages past due 90 days or more and still accruing interest and the percentage of those loans to the total real estate mortgages outstanding as of December 31, 2008 and 2007 is presented below (dollar amounts in millions):

	December 31, 2008	December 31, 2007
Total Conventional MPP Mortgage Loan Delinquencies, at par	$ 51	$ 32
Total Conventional MPP Mortgage Loans Outstanding, at par	$20,499	$21,824
Percentage of Delinquent MPP Conventional Loans	0.25%	0.15%
Total Conventional MPP Loans in Foreclosure	$ 56	$ 27
Percentage of Conventional MPP Loans in Foreclosure	0.27%	0.12%
Total Government-guaranteed MPP Mortgage Loan Delinquencies, at par	$ 81	$ 72
Total Government-guaranteed MPP Mortgage Loans Outstanding, at par	$ 2,302	$ 2,373
Percentage of Delinquent Government-guaranteed MPP Loans	3.52%	3.03%
Total Government-guaranteed MPP Loans in Foreclosure	$ 31	$ 34
Percentage of Government-guaranteed MPP Loans in Foreclosure	1.35%	1.43%

The MPP loans delinquency percentages are well below the comparable national averages, based on a nationally recognized delinquency survey.

A factor that affects the delinquency ratio is the age of MPP loans. It is typical for mortgage delinquencies to increase during the first few years of a loan portfolio's life. The delinquency ratio is increasing as the loans age and the percentage of new loans decreases.

For government-guaranteed and government-insured mortgages, the delinquency rate is generally higher than for the conventional mortgages held in the MPP portfolio. The MPP FHLBanks rely on government insurance, which generally provides a 100 percent guarantee, as well as quality control processes, to maintain the credit quality of this portfolio.

Concentrations. The following tables set out the geographic concentration of mortgage loans held for portfolio by program. These tables show the geographic concentration on an aggregated basis for all 12 FHLBanks that purchased or funded loans under the MPF Program and MPP. As a result, the tables do not necessarily reflect the actual geographic concentration with respect to each individual FHLBank.

Geographic Concentration of MPF Program (1)(2)

	December 31, 2008	December 31, 2007
Midwest	35%	33%
Northeast	16%	16%
Southeast	19%	20%
Southwest	16%	16%
West	14%	15%
Total	100%	100%

Geographic Concentration of MPP (1)(2)

	December 31, 2008	December 31, 2007
Midwest	38%	35%
Northeast	11%	12%
Southeast	21%	21%
Southwest	14%	15%
West	16%	17%
Total	100%	100%

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

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

The following tables provide the percentage of unpaid principal balance of conventional mortgage loans held for portfolio outstanding at December 31, 2008 for the ten largest state concentrations. 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, the tables do not necessarily reflect the actual state concentration with respect to each individual FHLBank.

State Concentration of MPF Program (1)
December 31, 2008

	Percentage of Conventional Loans - Unpaid Principal Balance
Wisconsin	13%
California	11%
Illinois	8%
Minnesota	5%
Pennsylvania	4%
Texas	4%
New York	4%
Massachusetts	3%
Florida	3%
Virginia	3%
All other	42%
	100%

State Concentration of MPP Program (1)
December 31, 2008

	Percentage of Conventional Loans - Unpaid Principal Balance
Ohio	15%
California	12%
Indiana	8%
Michigan	6%
Illinois	5%
Texas	4%
Florida	4%
Georgia	3%
Pennsylvania	3%
Virginia	3%
All other	37%
	100%

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

The FHLBanks' MPF loans held for portfolio are dispersed across all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. No single zip code represented more than one percent of MPF loans outstanding at December 31, 2008. The median size of an MPF loan was approximately $108 thousand at December 31, 2008. The MPF loan statistics have been compiled and obtained from the FHLBank of Chicago and therefore do not reflect the concentration levels and mortgage loan portfolio information at individual MPF FHLBanks.

The FHLBanks' MPP mortgage loans held for portfolio are dispersed across all 50 states, the District of Columbia, and the U.S. Virgin Islands. No single zip code accounted for more than one percent of MPP loans outstanding at December 31, 2008. The median size of an MPP loan was approximately $142 thousand at December 31, 2008. The MPP mortgage loan statistics have been compiled on a combined basis by aggregating each participating FHLBank's information and therefore do not reflect the concentration levels and mortgage loan portfolio information at individual participating FHLBanks.

The following table provides the weighted-average FICO® scores and weighted-average loan-to-value ratios at origination for MPF loans and MPP conventional loans outstanding:

	December 31, 2008		December 31, 2007	
	MPF	MPP	MPF	MPP
Weighted-average FICO® score at origination (1)	739	749	738	748
Weighted-average loan-to-value at origination	67%	69%	67%	69%

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

The MPF loan statistics were compiled and obtained from the FHLBank of Chicago and MPP mortgage loan statistics were compiled on a combining basis by aggregating each participating MPP FHLBank's information; therefore, they do not reflect the weighted-average FICO® score and weighted-average loan-to-value ratio at origination at individual participating FHLBanks.

Derivatives and Counterparty Ratings. In addition to market risk, each FHLBank is subject to credit risk because of the potential non-performance by counterparties to derivative 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 to mitigate 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, before a collateral requirement is triggered, depends on the credit rating of that counterparty. A counterparty must deliver collateral to an FHLBank if the total market value of the FHLBank's exposure to that counterparty rises above a specific trigger point. As a result of these risk mitigation initiatives, the management of each FHLBank presently does not anticipate any credit losses on its interest-rate exchange agreements with counterparties as of December 31, 2008. As a result of the interest rate decline from December 31, 2007 to December 31, 2008, the gross credit exposure of the FHLBanks grew, as their net receivable position increased. Additional collateral to reduce the net credit exposure was delivered subsequent to December 31, 2008. For additional discussion regarding derivatives and counterparty ratings, please refer to the individual FHLBanks' periodic reports filed with the SEC. Also see "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Combined Results of Operations" for a discussion about LBSF and LBHI with respect to derivative contracts with the FHLBanks.

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 circumstances where an FHLBank's pledged collateral to a counterparty exceeds the FHLBanks' net position.

Derivative Counterparty Credit Exposure
(Dollar amounts in millions)
At December 31, 2008

Credit Rating*	Notional Amount	Total Net Exposure at Fair Value	Total Net Exposure Collateralized	Net Exposure After Collateral
Triple-A	$ 16,509	$ 7	$	$ 7
Double-A	409,516	1,647	1,557	90
Single-A	659,451	1,985	1,821	164
Unrated (1)	78			
	1,085,554	3,639	3,378	261
Intermediaries (2)	1,723	21	21	
Delivery commitments	1,481	10	3	7
Total derivatives	$1,088,758	$3,670	$3,402	$268

At December 31, 2007

Credit Rating**	Notional Amount	Total Net Exposure at Fair Value	Total Net Exposure Collateralized	Net Exposure After Collateral
Triple-A	$ 9,606	$ 6	$	$ 6
Double-A	723,157	1,959	1,341	618
Single-A	224,762	436	352	84
Triple-B	9			
Unrated (1)	39			
	957,573	2,401	1,693	708
Intermediaries (2)	1,375	10	10	
Delivery commitments	214	1	1	
Total derivatives	$959,162	$2,412	$1,704	$708

* This chart does not reflect any changes in rating, outlook or watch status occurring after December 31, 2008. The ratings were obtained from S&P, Moody's and/or Fitch.

** This chart does not reflect any changes in rating, outlook or watch status occurring after December 31, 2007. The ratings were obtained from S&P, Moody's and/or Fitch.

(1) Represents one broker-dealer utilized to purchase or sell forward contracts relating to TBA MBS to hedge the market value of commitments on fixed-rate mortgage loans. All broker-dealer counterparties are subjected to thorough credit review procedures in accordance with an FHLBank's risk management policy. There was no exposure at December 31, 2008 and 2007 related to this unrated counterparty.

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

Excluding fully collateralized interest-rate exchange agreements in which the FHLBanks are intermediaries for members, 99.993 percent of the notional amount of the FHLBanks' outstanding interest-rate exchange agreements at December 31, 2008 were with counterparties rated single-A or higher.

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 mitigate the likelihood of such occurrences and the potential for damage that could result from them. They have also instituted appropriate insurance coverage for such risks. The policies and procedures of the FHLBanks include controls to ensure that system-generated data are reconciled to source documentation on a regular basis. The internal audit department of each FHLBank, which reports directly to the audit committee of the individual FHLBank, regularly monitors compliance by the FHLBank with established policies and procedures. In addition, each FHLBank has a disaster recovery plan that is designed to restore critical business processes and systems in the event of a disaster. Some of the operational risks of the FHLBanks, however, are beyond their control. Furthermore, the failure of other parties to address their operational risk adequately could adversely affect the FHLBanks.

BUSINESS RISK

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

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

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 and/or management, could undertake the following capital preservation initiatives in order to meet internally established thresholds or meet its regulatory capital requirement: voluntarily reduce or eliminate the payment of dividends, suspend excess capital stock repurchases, and/or raise the capital stock holding requirements for 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/or 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 business of one or more of these members.

If an FHLBank loses one or more large borrowers that represent a significant portion of its business, the FHLBank could, depending on the magnitude of the effect, compensate for the loss by lowering dividend rates, raising advances rates, attempting to reduce operating expenses, or by 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 concentration risk, if any, in its periodic reports filed with the SEC. (See "Available Information on Individual FHLBanks.")

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Selected Quarterly Combined Results of Operations (Unaudited)
(Dollar amounts in millions)

	2008 Quarter Ended			
	March 31	June 30	September 30	December 31
Income Statement				
Total interest income	$13,475	$10,698	$10,773	$10,649
Total interest expense	12,280	9,354	9,351	9,367
Net interest income	1,195	1,344	1,422	1,282
Provision for credit losses	1	2	4	4
Net interest income after provision for credit losses	1,194	1,342	1,418	1,278
Total non-interest loss	(13)	(139)	(282)	(1,916)
Total other expense	200	200	455	221
Total assessments	284	285	175	(144)
Net income (loss)	$ 697	$ 718	$ 506	$ (715)

	2007 Quarter Ended			
	March 31	June 30	September 30	December 31
Income Statement				
Total interest income	$13,165	$13,300	$14,757	$15,802
Total interest expense	12,140	12,251	13,577	14,539
Net interest income	1,025	1,049	1,180	1,263
Provision (reversal) for credit losses	2		(1)	2
Net interest income after provision (reversal) for credit losses	1,023	1,049	1,181	1,261
Total non-interest income (loss)	12	(1)	7	109
Total other expense	191	192	189	220
Total assessments	223	228	267	304
Net income	$ 621	$ 628	$ 732	$ 846

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. See the Office of Finance's website at www.fhlb-of.com for the Audit Committee Charter relating to the combined financial reports and audit fees.

CONTROLS AND PROCEDURES

FHLBanks

The management of each FHLBank is required under applicable laws and regulations to establish and maintain controls and procedures, which include disclosure controls and procedures as well as adequate internal control over financial reporting, as such controls and procedures and internal control over financial reporting relate to that FHLBank only.

See Item 9A or Item 9A(T)—Controls and Procedures of each FHLBank's 2008 SEC Form 10-K for its "Report of Management on Internal Control over Financial Reporting."

Individual FHLBank Auditor Attestation (Integrated Audit)

In anticipation of the Section 404(b) requirement, the following FHLBanks have engaged their independent auditor to perform an auditor attestation (integrated audit) for 2008 and the Report of Independent Registered Public Accounting Firm is included in their respective 2008 SEC Form 10-K:

Boston, Cincinnati, Dallas, Des Moines, Indianapolis, New York and San Francisco.

Based on current law, each FHLBank is expected to include this report with its 2009 SEC Form 10-K.

FHLBank of Seattle Reported Material Weaknesses

The FHLBank of Seattle's management's assessment of its internal control over financial reporting identified the following material weaknesses as of December 31, 2008:

- not maintaining an effective control environment based on the criteria established in the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control-Integrated Framework (COSO framework);
- not designing and maintaining effective controls to ensure that financial reporting and accounting for OTTI of private-label MBS were in conformity with U.S. GAAP; and
- not maintaining effective controls to ensure that the amortization of premiums and accretion of discounts on held-to-maturity securities were in conformity with U.S. GAAP.

In addition, the FHLBank of Seattle's management's assessment of its internal control over financial reporting identified the following material weakness as of September 30, 2008:

- not maintaining effective controls over the determination of OTTI for certain held-to-maturity securities, specifically the methodology for evaluating OTTI.

See the FHLBank of Seattle's 2008 SEC Form 10-K "Item 9A(T) Controls and Procedures" for more information, including the FHLBank of Seattle's management's plans to remediate these material weaknesses.

Office of Finance Controls and Procedures over 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 those 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, Finance Agency 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 Finance Agency. 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 comparable to those maintained by each FHLBank with respect to its financial reporting. The Office of Finance has established procedures concerning the FHLBanks' submission of information and financial data to the Office of Finance and the process of combining the financial statements of the individual FHLBanks.

DIRECTORS AND EXECUTIVE OFFICERS OF FHLBANKS

FHLBank Directors. Effective upon enactment of the Housing Act, a board of at least 13 directors governs each FHLBank, or such other number as the Finance Agency determines appropriate. 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 Finance Agency 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 shall be comprised of a majority of member directors, who are directors or officers of members, and a minority of non-member independent directors, who shall comprise not less than two-fifths of the members of the board of directors, two of which are public interest director positions.

To be eligible to serve as a member director, a candidate must be a citizen of the United States, an officer or director of a member institution that is located in the state, and such institution must meet all 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, a bona fide resident of that FHLBank's district, and may not be an officer of any FHLBank, or an officer, director or employee of an FHLBank member or of any recipient of advances from an FHLBank. Under the Housing Act, there are two types of non-member independent directors:

- *Public interest directors.* 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 Finance Agency. 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 Finance Agency will deem 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 independent directors.* 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 Finance Agency regulations. In order for an independent director candidate to be elected, a candidate must receive at least 20 percent of the votes which are eligible to be cast. The Finance Agency will impose the Housing Act's requirements on newly elected independent directors.

On September 22, 2008, the Finance Agency issued an interim final regulation to implement the provisions of the Housing Act concerning the nomination and election of non-member independent directors. The regulation: 1) established a procedure for nominations of non-member independent director candidates providing that members and the public could nominate candidates, requiring each FHLBank's board to consult with its advisory council in determining a slate of candidates and permitting an FHLBank's nominee slate to reflect one nominee for each open position; 2) provided that the Finance Agency has the right to object to the nomination of an independent director nominee; and 3) required that a non-member independent director nominee must receive at least 20 percent of the number of votes eligible to be cast in the election.

For the election of both member directors and 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); however, the number of votes that each institution may cast for each directorship cannot exceed the average number of shares of stock that were required to be held by all member institutions located in that state on 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 Finance Agency regulations.

Compensation of Directors. Previously, the GLB Act limited the annual compensation of FHLBank directors. The Finance Board adjusted these compensation amounts based on the percentage annual increase in the Consumer Price Index. The compensation limits prior to the enactment of the Housing Act were $31,232 for a chair, $24,986 for a vice chair and $18,739 for all other directors. The Housing Act removed the maximum statutory annual limit on director compensation.

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

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

— management of the FHLBank;

— administration of the programs of the FHLBank; and

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

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

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

EXECUTIVE COMPENSATION

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

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Each FHLBank is a cooperative. The members and former members own all the stock of the FHLBanks, all of the directors of each FHLBank is elected by and from the membership, and the FHLBanks conduct their advances almost exclusively with members.

Members.

Membership by Type of Member

	Commercial Banks	Thrifts	Credit Unions	Insurance Companies	Total
December 31, 2008	5,849	1,167	952	184	8,152
December 31, 2007	5,818	1,198	907	152	8,075
December 31, 2006	5,871	1,245	875	134	8,125
December 31, 2005	5,916	1,276	846	111	8,149
December 31, 2004	5,936	1,292	801	92	8,121

Membership in an FHLBank is voluntary. A member must give notice of its intent to withdraw. The GLB Act permits each FHLBank to issue one or more of two classes of capital stock, each with subclasses. Class A capital stock is redeemable on six months' written notice from a member and Class B capital stock is redeemable on five years' written notice from a member. Capital stock outstanding under the pre-GLB Act rules, which only applies to the FHLBank of Chicago at December 31, 2008, is redeemable at the option of a member upon six months' written notice of withdrawal from membership, provided that the FHLBank of Chicago is in compliance with its regulatory capital requirements and the

Regulator has approved the redemption. See “Note 17—Capital” to the accompanying combined financial statements for discussions of restrictions placed on the redemption of the FHLBank of Chicago’s capital stock. 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 on an uninterrupted basis from one FHLBank to another.

During the year ended December 31, 2008, six FHLBank members withdrew from membership for reasons other than merger or acquisition and 35 members gave notice of intent to withdraw from membership for reasons other than merger or acquisition. None of the affected FHLBanks expect these withdrawals to have a material adverse effect on its results of operations or financial condition.

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

	Commercial Banks	Thrifts	Credit Unions	Insurance Companies	Other (1)	Total (2)
December 31, 2008	$28.8	$14.6	$3.1	$3.6	$5.6	$55.7
December 31, 2007	26.9	18.8	2.5	2.2	1.0	51.4
December 31, 2006	23.1	15.6	1.9	1.6	0.9	43.1
December 31, 2005	20.4	18.6	1.8	1.6	1.1	43.5
December 31, 2004	19.5	17.4	1.8	1.6	0.9	41.2

(1) The other category includes capital stock of members involved in mergers with non-members. Advances to a member involved in a merger must be repaid before or at maturity, if the surviving institution is a non-member institution. Until these advances are repaid, the former member must continue to hold capital stock to support these advances.

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

The holdings of commercial bank members and non-members at December 31, 2008 represented 57.1 percent of the total regulatory capital stock of the FHLBanks. The regulatory capital stock held by thrift institution members and non-members at December 31, 2008 represented 26.3 percent of the total regulatory capital stock of the FHLBanks.

Member and Non-Member Borrowers.

Member and Non-Member Borrowers

	Commercial Banks	Thrifts	Credit Unions	Insurance Companies	Total
December 31, 2008	4,581	946	521	74	6,122
December 31, 2007	4,253	938	432	52	5,675
December 31, 2006	4,245	954	414	50	5,663
December 31, 2005	4,417	999	397	46	5,859
December 31, 2004	4,492	962	328	43	5,825

The percentage of total members and non-members borrowing increased to 75.1 percent at December 31, 2008, as compared to 70.3 percent at December 31, 2007. The 110 borrowers with advance holdings of $1 billion or more at December 31, 2008 held 71.6 percent of total advances. The 101 borrowers with advance holdings of $1 billion or more at December 31, 2007 held 74.2 percent of total advances.

Advances at Par Value
(Dollar amounts in billions)

	Commercial Banks	Thrifts	Credit Unions	Insurance Companies	Other (1)	Total (2)
December 31, 2008	$464.4	$247.1	$40.6	$54.9	$93.5	$900.5
December 31, 2007	455.5	338.7	32.3	28.7	12.0	867.2
December 31, 2006	339.2	256.7	18.9	14.2	12.6	641.6
December 31, 2005	270.0	307.8	14.6	11.5	16.5	620.4
December 31, 2004	254.7	278.9	11.4	11.1	20.0	576.1

(1) The other category includes advances to housing associates and members involved in mergers with a non-member. Advances to a member involved in a merger where the surviving institution is a non-member must be repaid before or at maturity.

(2) Total advance amounts are at par value and will not agree to the Combined Statement of Condition. The differences between the par value and book value amounts primarily relate to basis adjustments arising from hedging activities.

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

Top 10 Advance Holding Borrowers at Par Value
at December 31, 2008
(Dollar amounts in millions)

Name	City	State	Advances (1)	Percentage of Total Advances
Citibank, N.A.* (2)	Las Vegas	NV	$ 80,028	8.9%
Washington Mutual Bank (3)	Henderson	NV	57,531	6.4%
Countrywide Bank, FSB (4)	Alexandria	VA	42,700	4.7%
Wachovia Mortgage, FSB* (5)	North Las Vegas	NV	24,015	2.7%
Wachovia Bank, FSB (5)	Houston	TX	22,263	2.5%
Hudson City Savings Bank*	Paramus	NJ	17,525	1.9%
Metropolitan Life Insurance Company	New York	NY	15,105	1.7%
U.S. Bank, NA (6)	Cincinnati	OH	14,875	1.6%
Bank of America Rhode Island, NA	Providence	RI	14,200	1.6%
Washington Mutual Bank FSB (3)	Salt Lake City	UT	12,705	1.4%
			$300,947	33.4%

* An asterisk indicates that an officer or director of the member was an FHLBank director at December 31, 2008.

(1) Member advance amounts and the total advance amounts are at par value, and the total advance amount will not agree to the Combined Statement of Condition. The differences between the par value and book value amounts primarily relate to basis adjustments arising from hedging activities.

(2) Includes $1 million in FHLBank of New York advances from the reorganization of Citibank, N.A., a former member of the FHLBank of New York and $1 million in FHLBank of Dallas advances from the merger of Citibank Texas, N.A., a former member of the FHLBank of Dallas, into Citibank, N.A.

(3) On September 25, 2008, JPMorgan Chase Bank, N.A., acquired the deposits, assets, and certain liabilities of Washington Mutual Bank and Washington Mutual Bank FSB's banking operations and assumed the advances outstanding from the FHLBank of San Francisco to Washington Mutual Bank and the FHLBank of Seattle to

Washington Mutual Bank FSB. Also includes $3 million in FHLBank of New York advances from the acquisition of Dime Savings Bank of New York, FSB, a former member of the FHLBank of New York.

(4) On July 1, 2008, Bank of America Corporation, the parent of Bank of America, National Association, a member of the FHLBank of Atlanta, completed its acquisition of Countrywide Financial Corporation, the parent of Countrywide Bank, FSB, which is also a member of the FHLBank of Atlanta. Countrywide Bank, FSB has remained a member of the FHLBank of Atlanta since the acquisition. In February 2009, Countrywide Bank, FSB relocated its principal place of business to Colorado, which action resulted in its termination of membership pursuant to the FHLBank of Atlanta's Capital Plan. As of February 20, 2009, Countrywide Bank, FSB held $1,847.5 million in capital stock, equaling 23.2 percent of total capital stock as of that date. Bank of America Corporation has stated that it intends to convert Countrywide Bank, FSB into a national bank and merge it into Bank of America, National Association in April 2009.

(5) On December 31, 2008, Wells Fargo completed its merger with Wachovia Corporation. Wachovia Mortgage, FSB, is a member of the FHLBank of San Francisco; Wachovia Bank, FSB, is a member of the FHLBank of Dallas; and Wachovia Bank, National Association, was a member of the FHLBank of Atlanta, which had advances outstanding of $5,508 million at December 31, 2008. Wells Fargo is a non-member and is the bank holding company of Wells Fargo Bank, N.A., a member of the FHLBank of Des Moines.

(6) Includes $17 million in FHLBank of Des Moines advances acquired through a merger with a former member of the FHLBank of Des Moines and $2 million in FHLBank of Seattle advances from acquisition of a former member of the FHLBank of Seattle.

Housing Associates. At December 31, 2008, the FHLBanks had $760 million in advances outstanding to 20 housing associates, up from $149 million at year-end 2007. Housing associates eligible to borrow include 42 state housing finance agencies, 10 county housing finance agencies, 4 housing development corporations, 3 city housing authorities, and 1 tribal housing corporation.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Each FHLBank is a member-owned cooperative, whose members elect a majority of that FHLBank's directors from among its members. The FHLBanks conduct their advances and mortgage loan business almost exclusively with members. As a result, in the normal course of business, the FHLBanks regularly extend credit to members whose officers and/or directors may serve as directors of the FHLBanks. This credit is extended on market terms that are no more favorable to these "related" members than comparable transactions with other members of the same FHLBank. As of December 31, 2008, the FHLBanks had $173.3 billion of advances outstanding to members whose officers and/or directors were serving as directors of the FHLBanks. This represents 19.2 percent of total advances at par value at that date.

An FHLBank may also purchase short-term investments, Federal funds and mortgage-backed securities from members. All investments are market-rate transactions and all mortgage-backed securities are purchased through securities brokers or dealers.

Recent Developments. The following is a discussion of recently announced transactions regarding certain significant FHLBank advance holders and stockholders.

Banking Operations of Wachovia Acquired by Wells Fargo. On December 31, 2008, Wells Fargo & Company acquired Wachovia Corporation. If FHLBank capital stock held by a member is transferred to a non-member as a result of a merger or other transactions and termination of membership becomes certain to occur, the stock will be classified as mandatorily redeemable. As of March 20, 2009, Wachovia Mortgage, FSB, a subsidiary of Wachovia Corporation, operated as a separate entity and continued to be the FHLBank of San Francisco's third largest borrower and stockholder. Wachovia Bank, FSB is the largest borrower and shareholder of the FHLBank of Dallas with outstanding advances of $22.3 billion at December 31, 2008, which represented 37 percent of the FHLBank of Dallas' total outstanding advances. Wachovia Bank, National Association is one of the FHLBank of Atlanta's largest borrowers with outstanding advance of $5.5 billion at December 31, 2008, which represented 4 percent of the FHLBank of Atlanta's total outstanding advances.

FHLBank of Pittsburgh. As of December 31, 2008, three of FHLBank of Pittsburgh's top ten borrowers had outstanding balances exceeding 10 percent of its total loans to members portfolio. On October 13, 2008, Sovereign Bancorp, the holding company of the FHLBank of Pittsburgh's largest member and borrower, Sovereign Bank, entered into an agreement to be acquired by Banco Santander, S.A. The holding company acquisition was completed on January 30, 2009. On December 24, 2008, GMAC Financial Services, the holding company for the FHLBank of Pittsburgh's member GMAC Bank announced that its application to become a bank holding company was approved by the Federal Reserve. Additionally, GMAC Bank received approval from the Utah Department of Financial Institutions to convert to a state-chartered bank. On October 24, 2008, PNC Financial Services Group Inc., the holding company for the FHLBank of Pittsburgh's member PNC Bank, N.A., entered into an agreement to acquire National City Corporation. At the time of the announcement, it was expected that upon completion of the merger, the combined company would be the fifth largest domestic banking institution on the basis on deposits. National City Bank Pennsylvania, a subsidiary of National City Corporation, was previously a member of the FHLBank of Pittsburgh until 2007, and was the largest seller of mortgage loans to the FHLBank of Pittsburgh in the MPF Program. The holding company acquisition was completed on December 31, 2008. FHLBank of Pittsburgh cannot predict the effect on its outstanding loans to Sovereign Bank, GMAC Bank and PNC Bank, N.A. as a result of these acquisitions and restructuring actions.

FHLBank of Cincinnati's Member National City Purchase by a Company Headquartered Outside its District. In October 2008, PNC Financial Services Group, Inc. announced its intention to purchase National City Bank. On December 31, 2008, National City was the FHLBank of Cincinnati's second largest stockholder at $404 million, the second largest advance borrower with current principal outstanding of $6,435 million, and the largest seller of loans in the MPP with the current unpaid principal balances of $4,709 million. PNC Financial Services Group, Inc. is currently not a member of the FHLBank of Cincinnati and is chartered outside its district. As of March 19, 2009, National City was still a member of the FHLBank of Cincinnati. The FHLBank of Cincinnati does not know if National City's charter or membership in the FHLBank of Cincinnati will be terminated because of this purchase. However, if it is, the FHLBank of Cincinnati believes that losing National City's business will not materially affect the adequacy of its liquidity, profitability, ability to make timely principal and interest payments on its participations in consolidated obligations and other liabilities, or ability to continue providing sufficient membership value to its members. This assessment is similar to that which the FHLBank of Cincinnati made, and has subsequently experienced, when it lost one of its largest members (RBS Citizens, N.A.) in 2007 due to a consolidation of its charter outside the FHLBank of Cincinnati's district.

FHLBank of Indianapolis' Member LaSalle Bank Midwest, NA Merged Out of its District. On October 1, 2007, ABN AMRO Holdings NV sold its North American bank holding company, LaSalle Bank Corporation and its subsidiaries, including the FHLBank of Indianapolis' member, LaSalle Bank Midwest, NA (LaSalle) to Bank of America Corporation, which currently has no other bank charters in the FHLBank of Indianapolis district. As of October 17, 2008, Bank of America Corporation consolidated the LaSalle bank charter into a Bank of America Corporation charter (Bank of America, N.A.) located in another FHLBank district. Consequently, while Bank of America, N.A., as successor to LaSalle, may continue to conduct business in Michigan, at this time the FHLBank of Indianapolis is no longer able to make additional advances to or purchase mortgage loans from Bank of America, N.A. As of December 31, 2008, the FHLBank of Indianapolis held $5.0 billion par value of advances to Bank of America, N.A., which represented 16.7 percent of the FHLBank of Indianapolis' total advances, at par. FHLBank of Indianapolis' current mortgage loans purchased from Bank of America, N.A. and its affiliates of $3.5 billion, representing 40.4 percent of FHLBank of Indianapolis' mortgage loans outstanding, at par, as of December 31, 2008, will remain outstanding until maturity or prepayment. FHLBank of Indianapolis also is required to repurchase any outstanding capital stock owned by Bank of America, N.A. by the later of five years after the date of termination of its charter in the FHLBank of Indianapolis' district or the repayment of all outstanding obligations to it. Bank of America, N.A. had a capital stock balance of $0.3 billion as of December 31, 2008, which represented 13.8 percent of FHLBank of Indianapolis' capital stock balance. In accordance with SFAS No. 150, *Accounting for*

Certain Instruments with Characteristics of Both Liabilities and Equity (SFAS 150), as a result of its charter termination in the FHLBank of Indianapolis' district on October 17, 2008, Bank of America, N.A.'s capital stock has been reclassified as mandatorily redeemable capital stock and was reflected as a liability.

FHLBank of Chicago. On October 17, 2008, LaSalle National Bank, N.A. was merged into Bank of America, N.A. and became ineligible for membership as Bank of America, N.A. has its principal place of business in Charlotte, North Carolina, outside of FHLBank of Chicago's membership district. Its capital stock of $230 million representing 8 percent of FHLBank of Chicago's regulatory capital stock balance at December 31, 2008, was reclassified to mandatorily redeemable capital stock as of October 17, 2008, and has not yet been redeemed.

MidAmerica Bank, FSB became ineligible for membership due to an out-of-district merger with National City Bank, effective February 9, 2008. Its capital stock of $146 million, representing 5 percent of FHLBank of Chicago's regulatory capital stock balance at December 31, 2008, was reclassified to mandatorily redeemable capital stock at that time and has not yet been redeemed. Effective December 31, 2008, National City Corporation merged with PNC Financial Services Group, Inc. Prior to redeeming capital stock, Bank of America, N.A. and PNC Financial Services Group, Inc. will need to satisfy all outstanding obligations to the FHLBank of Chicago, including payment of outstanding advances that mature in various terms ranging from 9 days to over 6 years as of December 31, 2008. If the current minimum aggregate regulatory capital stock and subordinated notes requirement is in effect at the time Bank of America, N.A. and/or PNC Financial Services Group, Inc. seek to redeem its stock, the FHLBank of Chicago may need to seek a modification to such requirement if its current capital stock levels have not sufficiently increased to meet the minimum requirement after such redemption or the FHLBank of Chicago has not reduced its outstanding assets. Any such redemption would be subject to certain restrictions, including approval by the OS Director.

FHLBank of San Francisco's Advances to IndyMac Bank Remain Fully Secured. On July 11, 2008, the Office of Thrift Supervision (OTS) closed IndyMac Bank, F.S.B., and appointed the FDIC as receiver for IndyMac Bank, F.S.B. In connection with the receivership, the OTS chartered IndyMac Federal Bank, FSB, and appointed the FDIC as conservator for IndyMac Federal Bank, FSB. IndyMac Federal Bank, FSB, assumed the outstanding FHLBank of San Francisco advances of IndyMac Bank, F.S.B., and acquired the associated FHLBank of San Francisco capital stock. The FHLBank of San Francisco capital stock acquired by IndyMac Federal Bank, FSB, was classified as mandatorily redeemable capital stock (a liability). On March 19, 2009, OneWest Bank, FSB, became a member of the FHLBank of San Francisco, assumed the outstanding advances of IndyMac Federal Bank, FSB, and acquired the associated FHLBank of San Francisco capital stock. FHLBank of San Francisco capital stock acquired by OneWest Bank, FSB, is no longer classified as mandatorily redeemable capital stock (a liability). However, the residual capital stock remaining with IndyMac Federal Bank, FSB, totaling $49 million, remains classified as mandatorily redeemable capital stock (a liability).

Seven other smaller member institutions were also placed into receivership or liquidated during 2008. Two of these institutions had no advances outstanding at the time they were placed into receivership or liquidated. The advances outstanding to three of the institutions were repaid prior to December 31, 2008, and no losses were incurred by the FHLBank of San Francisco. The advances of the remaining two institutions were assumed by a non-member institution prior to year-end 2008.

From January 1, 2009, to March 20, 2009, four member institutions were placed into receivership or liquidated. The advances outstanding to two of the institutions were repaid prior to March 20, 2009, and no losses were incurred by the FHLBank of San Francisco. The advances of the third institution were assumed by a member institution, and the advances of the fourth institution were assumed by a non-member institution.

Because the estimated fair value of the collateral exceeds the carrying amount of the advances outstanding, and the FHLBank of San Francisco expects to collect all amounts due according to the contractual terms of the advances, no allowance for loan losses on the advances outstanding to the member and non-member institutions mentioned above was deemed necessary by management.

FHLBank of San Francisco's Member Washington Mutual Bank Acquired by JPMorgan Chase. On September 25, 2008, the OTS closed Washington Mutual Bank and appointed the FDIC as receiver for Washington Mutual Bank. On the same day, JPMorgan Chase Bank, National Association, a non-member, assumed Washington Mutual Bank's outstanding FHLBank of San Francisco advances and acquired the associated FHLBank of San Francisco's capital stock, which became mandatorily redeemable (a liability). JPMorgan Chase Bank, National Association, remains obligated for all of Washington Mutual Bank's outstanding advances, continues to hold the FHLBank of San Francisco capital stock it acquired from the FDIC as receiver for Washington Mutual Bank, and as of March 20, 2009, was the FHLBank of San Francisco's second largest borrower and shareholder. On October 24, 2008, JPMorgan Bank and Trust Company, National Association, (JPMorgan B&T), an affiliate of JPMorgan Chase Bank, National Association, became a member of the FHLBank of San Francisco. The FHLBank of San Francisco intends to allow the transfer of excess stock from JPMorgan Chase Bank, National Association, to JPMorgan B&T to enable JPMorgan B&T to satisfy its minimum stock requirement and the capital stock transferred will no longer be classified as mandatorily redeemable (a liability).

In addition, the FHLBank of San Francisco had derivatives transactions with Lehman Brothers Special Financing Inc. (LBSF), a subsidiary of Lehman Brothers Holdings Inc. (LBHI). On September 15, 2008, LBH filed for protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court in the Southern District of New York. Although subsidiaries of LBHI, including LBSF, were not included in the filing, LBHI guaranteed LBSF's derivatives obligations with the FHLBank of San Francisco, and LBHI's bankruptcy filing constituted an event of default under LBSF's derivatives agreement with the FHLBank of San Francisco. At September 15, 2008, the FHLBank of San Francisco had derivatives transaction with notional amounts outstanding of $13.2 billion to which LBSF was the counterparty. Effective September 19, 2008, the FHLBank of San Francisco notified LBSF of its intent to terminate all outstanding positions with LBSF early pursuant to the derivatives agreement with it. With the early termination, the FHLBank of San Francisco entered into derivatives transactions with other dealers to replace a large portion of the terminated transactions. Because the FHLBank of San Francisco had adequate collateral from LBSF, it did not incur a loss on the termination of its positions. On October 3, 2008, LBSF also filed for Chapter 11 bankruptcy.

FHLBank of Seattle's Member Washington Mutual Bank, FSB Acquired by JPMorgan Chase. On September 25, 2008, in a transaction facilitated by the FDIC, Washington Mutual Bank, FSB was acquired by JPMorgan Chase, a non-member. In early October 2008, JPMorgan Chase notified the FHLBank of Seattle that it had merged Washington Mutual Bank, F.S.B. into a non-member entity, JPMorgan Chase Bank, N.A., which assumed the fully collateralized, related advances and outstanding capital stock of the FHLBank of Seattle. Effective October 7, 2008, the FHLBank of Seattle reclassified Washington Mutual Bank, FSB's membership to that of non-member shareholder that is no longer able to enter into new borrowing arrangements with the FHLBank of Seattle and transferred its $163.9 million in Class A stock and $750.8 million in Class B stock to mandatorily redeemable capital stock on the Statement of Condition.

In September 2008, Bank of America (BofA) announced that it had agreed to purchase Merrill Lynch, which transaction closed on January 1, 2009. Bank of America Oregon, N.A., a wholly owned subsidiary of BofA, and Merrill Lynch Bank USA, a wholly owned subsidiary of Merrill Lynch, are both members of the FHLBank of Seattle. The effect of this transaction on membership and advances levels is unknown at this time.

During 2008, the FHLBank of Seattle added 20 new members, offsetting the 10 members lost to mergers and acquisitions.

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FEDERAL HOME LOAN BANKS
INDEX TO COMBINED FINANCIAL STATEMENTS

OF BOARD "AUDIT COMMITTEE" REPORT

By Finance Agency regulation, the Office of Finance (OF) Board performs the duties of an "audit committee" in connection with the oversight of the preparation of the Federal Home Loan Banks' (FHLBanks) annual combined financial report, which includes the combined financial statements of the FHLBanks. The three-person OF Board is appointed by the Finance Agency and is comprised of two FHLBank presidents and one person not employed by an FHLBank or the Office of Finance who has a demonstrated expertise in financial markets. The OF Board seat reserved for the non-employee director has been vacant since March 23, 2009, due to a resignation. The Finance Agency has not yet appointed a non-employee director to fill the vacancy on the OF Board resulting from the resignation. In connection with its duties as an "audit committee," the OF Board reviews the combined financial statement of the FHLBanks and has adopted a written charter, which has been posted on its web site. The OF Board members are not required to satisfy any express qualification or independence standards governing their service as an "audit committee." A majority of the OF Board has been, and unless and until the applicable Finance Agency regulations are modified, a majority of the OF Board will continue to be, comprised of directors who are not independent from the FHLBanks.

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 Finance Agency 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. In addition, each FHLBank's board of directors and management is responsible for establishing its own accounting and financial reporting policies in accordance with U.S. generally accepted accounting principles. 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 "Available Information on Individual FHLBanks.")

In connection with its responsibilities in preparing combined financial reports and combined financial statements, the OF is responsible for combining the financial information it receives from each of the FHLBanks. Each FHLBank is responsible for the financial information it provides to the OF and the underlying data it provides to the OF for inclusion in the combined financial reports and combined financial statements. Based on guidance provided by the Finance Agency, the OF Board's audit committee responsibilities are limited to a review of the audit of the combination aspects of the FHLBanks' combined financial reports and not the underlying financial statements of each FHLBank; the OF Board has no authority independently to verify the financial information submitted by each FHLBank.

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

The OF Board has also received the written disclosures and the letter from the independent auditors required by 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 accountants the accounting firm's independence.

Based on the review and discussions referred to above, the OF Board decided to include the combined audited financial statements in the FHLBanks' 2008 Combined Financial Report.

Terry Smith, Chair
Dean Schultz
April 20, 2009

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 operations, capital, and of cash flows present fairly, in all material respects, the combined financial position of the Federal Home Loan Banks (the "FHLBanks") at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, 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 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 made for the purpose of forming an opinion on the combined financial statements taken as a whole; we have also audited each of the individual FHLBanks' financial statements and have also issued separate reports on the financial statements of each of the FHLBanks. The combining information shown on pages 260 to 293 is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual FHLBanks. However, the combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

PricewaterhouseCoopers LLP

McLean, Virginia
April 20, 2009

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CONDITION

(Dollar amounts in millions, except capital stock shares in thousands)

	December 31, 2008	December 31, 2007
ASSETS		
Cash and due from banks (Note 3)	$ 20,820	$ 320
Interest-bearing deposits	47,486	
Securities purchased under agreements to resell (Note 4)	6,895	800
Federal funds sold	40,299	85,818
Trading securities includes $1,865 and $1,349 pledged as collateral in 2008 and 2007 that may be repledged (Note 5)	12,150	6,809
Available-for-sale securities includes $690 and $857 pledged as collateral in 2008 and 2007 that may be repledged (Note 6)	14,559	5,813
Held-to-maturity securities includes $1,473 and $203 pledged as collateral in 2008 and 2007 that may be repledged(a) (Note 7)	184,524	197,818
Advances includes $38,774 at fair value under fair value option at December 31, 2008 (Note 8)	928,638	875,061
Mortgage loans held for portfolio	87,376	91,618
Less: allowance for credit losses on mortgage loans	15	8
Mortgage loans held for portfolio, net (Note 9)	87,361	91,610
Accrued interest receivable	4,261	5,614
Premises, software, and equipment, net	199	208
Derivative assets (Note 10)	902	1,306
Other assets	959	623
Total assets	$1,349,053	$1,271,800
LIABILITIES		
Deposits (Note 11):		
Interest-bearing	$ 15,183	$ 20,685
Non-interest-bearing	313	208
Total deposits	15,496	20,893
Borrowings (Note 12):		
Securities sold under agreements to repurchase	1,200	1,400
Other		100
Total borrowings	1,200	1,500
Consolidated obligations, net (Note 13):		
Discount notes	439,895	376,342
Bonds includes $31,285 at fair value under fair value option at December 31, 2008	818,372	802,574
Total consolidated obligations, net	1,258,267	1,178,916
Mandatorily redeemable capital stock	6,136	1,107
Accrued interest payable	6,331	8,187
Affordable Housing Program (Note 14)	808	893
Payable to REFCORP (Note 15)	37	212
Derivative liabilities (Note 10)	7,732	3,789
Other liabilities	696	1,706
Subordinated notes (Note 16)	1,000	1,000
Total liabilities	1,297,703	1,218,203
Commitments and contingencies (Notes 20 and 21)		
CAPITAL (Note 17)		
Capital Stock:		
Capital stock Class B putable ($100 par value per share) issued and outstanding shares: 464,136 shares in 2008 and 467,014 shares in 2007	46,413	46,701
Capital stock Class A putable ($100 par value per share) issued and outstanding shares: 7,518 shares in 2008 and 8,916 shares in 2007	752	891
Capital stock Pre-conversion ($100 par value per share) issued and outstanding shares: 23,860 shares in 2008 and 26,613 shares in 2007	2,386	2,661
Total capital stock	49,551	50,253
Retained earnings	2,936	3,689
Accumulated other comprehensive income:		
Net unrealized losses on available-for-sale securities (Note 6)	(410)	(41)
Net unrealized losses on held-to-maturity securities transferred from available-for-sale securities (Note 7)	(76)	(138)
Net unrealized losses relating to hedging activities (Note 10)	(612)	(137)
Pension and postretirement benefits (Note 18)	(39)	(29)
Total capital	51,350	53,597
Total liabilities and capital	$1,349,053	$1,271,800

(a) Fair values: $165,649 and $195,777 at December 31, 2008 and 2007.

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

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

	For the Years Ended December 31,		
	2008	2007	2006
INTEREST INCOME			
Advances	$29,643	$37,453	$32,411
Prepayment fees on advances, net	92	23	44
Interest-bearing deposits	90	27	40
Securities purchased under agreements to resell	47	134	197
Federal funds sold	1,737	4,465	3,456
Trading securities	406	339	365
Available-for-sale securities	338	367	298
Held-to-maturity securities	8,744	9,362	8,569
Mortgage loans held for portfolio	4,495	4,849	5,156
Other	3	5	5
Total interest income	45,595	57,024	50,541
INTEREST EXPENSE			
Consolidated obligations—Discount notes	9,912	10,720	7,873
Consolidated obligations—Bonds	29,856	40,581	37,315
Deposits	411	949	813
Securities sold under agreements to repurchase	64	139	152
Subordinated notes	57	57	31
Mandatorily redeemable capital stock	50	57	60
Other borrowings	2	4	4
Total interest expense	40,352	52,507	46,248
NET INTEREST INCOME	5,243	4,517	4,293
Provision (reversal) for credit losses	11	3	(1)
NET INTEREST INCOME AFTER PROVISION (REVERSAL) FOR CREDIT LOSSES	5,232	4,514	4,294
OTHER (LOSS) INCOME			
Service fees	29	29	28
Net gains (losses) on trading securities	260	147	(127)
Net realized (losses) gains on available-for-sale securities	(53)	1	(3)
Net realized losses on held-to-maturity securities	(1,959)	(6)	(6)
Net gains on advances and consolidated obligations—bonds held at fair value	883		
Net (losses) gains on derivatives and hedging activities	(1,559)	(53)	83
Other, net	49	9	28
Total other (loss) income	(2,350)	127	3
OTHER EXPENSE			
Operating	732	714	671
Finance Agency/Finance Board	41	34	32
Office of Finance	34	30	25
Provision for derivative counterparty credit losses	252		
Other, net	17	14	15
Total other expense	1,076	792	743
INCOME BEFORE ASSESSMENTS	1,806	3,849	3,554
Affordable Housing Program	188	318	295
REFCORP	412	704	647
Total assessments	600	1,022	942
NET INCOME	$ 1,206	$ 2,827	$ 2,612

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

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Dollar amounts and shares in millions)

	Capital Stock Class B*		Capital Stock Class A*		Capital Stock Pre-conversion*		Total Capital Stock*			Accumulated Other	
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value	Retained Earnings	Comprehensive Income	Total Capital
BALANCE, DECEMBER 31, 2005	377	$ 37,786	5	$ 498	38	$ 3,759	420	$ 42,043	$ 2,601	$ (163)	$ 44,481
Proceeds from sale of capital stock	185	18,372		6		34	185	18,412			18,412
Repurchase/redemption of capital stock	(168)	(16,826)					(168)	(16,826)			(16,826)
Net shares reclassified to mandatorily redeemable capital stock	(13)	(1,273)	(1)	(99)	(12)	(1,206)	(26)	(2,578)			(2,578)
Comprehensive income:											
Net income									2,612		2,612
Other comprehensive income:											
Net unrealized losses on available-for-sale securities										(4)	(4)
Reclassification adjustment for losses included in net income relating to available-for-sale securities										2	2
Net unrealized gains relating to hedging activities										23	23
Reclassification adjustment for losses included in net income relating to hedging activities										8	8
Pension and postretirement benefits										2	2
Total comprehensive income											2,643
Adjustment to initially apply SFAS 158										(27)	(27)
Transfer between Class B and Class A shares	(1)	(127)	1	127							
Dividends on capital stock:											
Cash									(1,122)		(1,122)
Stock	9	950					9	950	(947)		3
BALANCE, DECEMBER 31, 2006	389	38,882	5	532	26	2,587	420	42,001	3,144	(159)	44,986
Proceeds from sale of capital stock	279	27,875	3	325	1	88	283	28,288			28,288
Repurchase/redemption of capital stock	(179)	(17,852)		(32)			(179)	(17,884)			(17,884)
Net shares reclassified to mandatorily redeemable capital stock	(27)	(2,825)	(1)	(102)		(14)	(28)	(2,941)			(2,941)
Comprehensive income:											
Net income									2,827		2,827
Other comprehensive income:											
Net unrealized losses on available-for-sale securities										(32)	(32)
Reclassification adjustment for losses (gains) included in net income relating to available-for-sale securities										(1)	(1)
Net unrealized gains (losses) on held-to-maturity securities transferred from available-for-sale securities										(138)	(138)
Net unrealized losses relating to hedging activities										(36)	(36)
Reclassification adjustment for losses included in net income relating to hedging activities										13	13
Pension and postretirement benefits										8	8
Total comprehensive income											2,641
Transfer between Class B and Class A shares	(2)	(168)	2	168							
Dividends on capital stock:											
Cash									(1,492)		(1,492)
Stock	8	789					8	789	(790)		(1)

	Capital Stock Class B*		Capital Stock Class A*		Capital Stock Pre-conversion*		Total Capital Stock*				
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total Capital
BALANCE, DECEMBER 31, 2007	468	46,701	9	891	27	2,661	504	50,253	3,689	(345)	53,597
Adjustment to opening balance relating to SFAS 158 and 159									16		16
Proceeds from sale of capital stock	295	29,484	6	614	1	115	302	30,213			30,213
Repurchase/redemption of capital stock	(232)	(23,216)	(6)	(615)			(238)	(23,831)			(23,831)
Net shares reclassified to mandatorily redeemable capital stock	(71)	(7,079)	(5)	(445)	(4)	(390)	(80)	(7,914)			(7,914)
Comprehensive income:											
Net income									1,206		1,206
Other comprehensive income:											
Net unrealized losses on available-for-sale securities										(422)	(422)
Reclassification adjustment for losses included in net income relating to available-for-sale securities										53	53
Net unrealized gains (losses) on held-to-maturity securities transferred from available-for-sale securities											
Reclassification adjustment for losses included in net income relating to held-to-maturity securities transferred from available-for-sale securities										62	62
Net unrealized gains relating to hedging activities										(532)	(532)
Reclassification adjustment for losses included in net income relating to hedging activities										57	57
Pension and postretirement benefits										(10)	(10)
Total comprehensive income											414
Transfer between Class B and Class A shares	(3)	(307)	3	307							
Dividends on capital stock:											
Cash									(1,144)		(1,144)
Stock	8	830					8	830	(831)		(1)
BALANCE, DECEMBER 31, 2008	465	$ 46,413	7	$ 752	24	$ 2,386	496	$ 49,551	$ 2,936	$(1,137)	$ 51,350

* Putable

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

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CASH FLOWS

(Dollar amounts in millions)

	For the Years Ended December 31,		
	2008	2007	2006
OPERATING ACTIVITIES			
Net income	$ 1,206	$ 2,827	$ 2,612
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	(423)	1,632	442
Change in net fair value adjustment on derivative and hedging activities	1,304	(463)	(854)
Other adjustments	2,272	32	27
Net change in fair value adjustments on trading securities	(297)	(125)	110
Net change in fair value adjustments on advances and consolidated obligations-bonds held at fair value	(883)		
Net change in:			
Trading securities	(499)	184	
Accrued interest receivable	1,183	(1,272)	(621)
Other assets	(255)	(82)	(74)
Accrued interest payable	(1,825)	(355)	2,231
Other liabilities	(384)	175	71
Total adjustments	193	(274)	1,332
Net cash provided by operating activities	1,399	2,553	3,944
INVESTING ACTIVITIES			
Net change in:			
Interest-bearing deposits	(59,398)	(1,254)	699
Securities purchased under agreements to resell	(6,095)	4,105	(1,610)
Federal funds sold	45,519	(8,763)	3,502
Premises, software and equipment	(51)	(48)	(63)
Trading securities:			
Proceeds	3,903	903	2,201
Purchases	(9,358)	(2,064)	(831)
Available-for-sale securities:			
Proceeds	5,896	44,912	111,513
Purchases	(14,571)	(45,632)	(112,557)
Held-to-maturity securities:			
Net decrease (increase) in short-term	34,972	(12,799)	(1,212)
Proceeds from long-term	26,961	26,203	26,799
Purchases of long-term	(51,365)	(33,496)	(31,824)
Advances:			
Proceeds	8,518,268	7,339,019	7,075,488
Made	(8,551,560)	(7,564,733)	(7,096,633)
Mortgage loans held for portfolio:			
Principal collected	12,022	11,852	13,505
Purchases	(7,700)	(5,522)	(6,297)
Proceeds from sales of foreclosed assets	46	51	60
Principal collected on other loans	1	1	1
Net cash used in investing activities	(52,510)	(247,265)	(17,259)

	For the Years Ended December 31,		
	2008	2007	2006
FINANCING ACTIVITIES			
Net change in:			
Deposits and pass-through reserves	$ (3,826)	$ 3,123	$ (106)
Borrowings	166	(788)	(282)
Net proceeds on derivative contracts with financing element	1,665		
Net proceeds from issuance of consolidated obligations:			
Discount notes	10,848,109	8,839,550	7,038,295
Bonds	554,624	495,029	323,371
Payments for maturing and retiring consolidated obligations:			
Discount notes	(10,784,163)	(8,622,055)	(7,060,576)
Bonds	(547,180)	(476,151)	(285,873)
Net proceeds from issuance of subordinated notes			994
Proceeds from issuance of capital stock	30,213	28,288	18,412
Payments for redemption of mandatorily redeemable capital stock	(2,912)	(2,945)	(2,965)
Payments for repurchase/redemption of capital stock	(23,831)	(17,884)	(16,826)
Cash dividends paid	(1,254)	(1,465)	(1,155)
Net cash provided by financing activities	71,611	244,702	13,289
Net increase (decrease) in cash and cash equivalents	20,500	(10)	(26)
Cash and cash equivalents at beginning of the period	320	330	356
Cash and cash equivalents at end of the period	$ 20,820	$ 320	$ 330
Supplemental Disclosures:			
Interest paid	$ 41,073	$ 48,858	$ 40,003
AHP payments, net	$ 269	$ 229	$ 226
REFCORP assessments paid	$ 785	$ 656	$ 675
Transfers of mortgage loans to real estate owned	$ 99	$ 86	$ 62

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

Federal Home Loan Banks

Notes to Combined Financial Statements

Background Information

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

The former Federal Housing Finance Board (Finance Board) was an independent agency in the executive branch of the U.S. government that supervised and regulated the FHLBanks and the Federal Home Loan Banks' Office of Finance (Office of Finance) through July 29, 2008. With the passage of the "Housing and Economic Recovery Act of 2008" (the Housing Act), the Federal Housing Finance Agency (Finance Agency) was established and became the new independent Federal regulator (the Regulator) of the FHLBanks, effective July 30, 2008. The Finance Board was merged into the Finance Agency as of October 27, 2008. Pursuant to the Housing Act, all regulations, orders, determinations, and resolutions that were issued, made, prescribed, or allowed to become effective by the Finance Board will remain in effect until modified, terminated, set aside, or superseded by the Director of the Finance Agency, any court of competent jurisdiction, or operation of law. References throughout this document to regulations of the Finance Agency also include the regulations of the Finance Board where they remain applicable. The Office of Finance is a joint office of the FHLBanks established by the Finance Board to facilitate the issuance and servicing of the debt instruments of the FHLBanks, known as consolidated obligations, and to prepare the combined quarterly and annual financial reports of all 12 FHLBanks. The Finance Agency's principal purpose is to ensure that the FHLBanks operate in a safe and sound manner including maintenance of adequate capital and internal controls. In addition, the Regulator ensures that the operations and activities of each FHLBank foster liquid, efficient, competitive, and resilient national housing finance markets; each FHLBank complies with the title and the rules, regulations, guidelines, and orders issued under the Federal Housing Enterprises Financial Safety and Soundness Act and the FHLBank Act; each FHLBank carries out its statutory mission only through activities that are authorized under and consistent with the Federal Housing Enterprises Financial Safety and Soundness Act and the FHLBank Act; and the activities of each FHLBank and the manner in which such regulated entity is operated are consistent with the public interest. 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.

As provided by the Federal Home Loan Bank Act of 1932 (FHLBank Act), as amended, and applicable regulations, consolidated obligations are backed only by the financial resources of all 12 FHLBanks and are the primary source of funds for the FHLBanks. Deposits, other borrowings and capital stock issued to members provide other funds. Each FHLBank primarily uses these funds to provide advances to members. Certain FHLBanks also use these funds to purchase loans from members through their respective FHLBank's Mortgage Purchase Program (MPP) or the Mortgage Partnership Finance

(MPF®)[1] Program. 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

Principles of Combination. The combined financial statements include the financial records of the 12 FHLBanks. Material transactions among the FHLBanks have been eliminated in accordance with combination accounting principles under generally accepted accounting principles in the United States of America (GAAP), including Accounting Research Bulletin No. 51, *Consolidated Financial Statements.* The most significant transactions between the FHLBanks are: 1) transfers of direct liability on consolidated bonds between FHLBanks; consolidated bonds issued on behalf of one FHLBank and transferred to and assumed by another FHLBank and 2) purchases of consolidated bonds; consolidated obligations issued on behalf of one FHLBank and purchased by another FHLBank in the open market.

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

The FHLBank assuming the consolidated bond liability accounts for the consolidated bond at par with the initial carrying amount being the amount paid to the transferring FHLBank by the assuming FHLBank in exchange for the assumption, plus any premium or minus any discount. There have not been any transactions with a third party independent of the FHLBanks under the transfer scenario. Under combination accounting principles, combining adjustments are required to reflect the transaction as if the transferring FHLBank still held the consolidated bond for purposes of the FHLBanks' combined financial statements. The debt extinguishment transaction, including any gain or loss, is eliminated, all statement of condition and statement of income effects related to the assuming FHLBank's premium or discount related to the purchase of the consolidated bonds are eliminated and the transferring FHLBank reinstates and amortizes over the life of the consolidated bond the original premium or discount, concession fees and basis adjustments relating to Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement No. 133*, SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* and SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Statements No. 133 and 140* (SFAS 133).

Purchases of Consolidated Bonds. 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 interest income and expense are eliminated in combination.

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

Segment Reporting. For the purposes of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* the Finance Agency regulations consider each FHLBank to be a segment.

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

Basis of Presentation and Use of Estimates. The FHLBanks' accounting and financial reporting policies conform to GAAP. The preparation of financial statements in accordance with GAAP requires each FHLBank's management to make 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 includes the 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.

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 the same, 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 GAAP differences.

Interest-Bearing Deposits in Banks, Securities Purchased Under Agreements to Resell, and Federal Funds Sold. These investments provide short-term liquidity and are carried at cost. The FHLBanks treat securities purchased under agreements to resell as collateralized financings. The FHLBanks invest in certificates of deposit that are recorded, at amortized cost, as Interest-bearing deposits. The FHLBanks also invest in certain certificates of deposit and bank notes that meet the definition of a security under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115) and are recorded as available-for-sale, held-to-maturity and trading securities.

Investment Securities. The FHLBanks classify certain investments acquired for purposes of liquidity and asset/liability management as trading and carry them at fair value. The FHLBanks record changes in the fair value of these investments through other income as "Net gains (losses) on trading securities." However, the FHLBanks do not participate in speculative trading practices and hold these investments indefinitely as each FHLBank's management periodically evaluates its liquidity needs.

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

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

Under SFAS 115, changes in circumstances may cause an FHLBank to change its intent to hold a certain security to maturity without calling into question its intent to hold other debt securities to maturity in the future. Thus, the sale or transfer of a held-to-maturity security due to certain changes in circumstances, such as evidence of significant deterioration in the issuer's creditworthiness or changes in regulatory requirements, is not considered to be inconsistent with its original classification. Other events that are isolated, nonrecurring, and unusual for the FHLBanks that could not have been reasonably anticipated may cause an FHLBank to sell or transfer a held-to-maturity security without necessarily calling into question its intent to hold other debt securities to maturity.

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

The FHLBanks amortize premiums and accrete discounts on investment securities using either the contractual level-yield method (contractual method) or the retrospective level-yield method (retrospective method) over the estimated cash flows of the securities. The contractual 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 and reflects the contractual terms of the securities without regard to changes in estimated prepayments based on assumptions about future borrower behavior. The retrospective method requires that an FHLBank estimate prepayments over the estimated life of the securities and make a retrospective adjustment of the effective yield each time that FHLBank changes the estimated life as if the new estimate had been known since the original acquisition date of the securities.

The FHLBanks compute gains and losses on sales of investment securities using the specific identification method and include these gains and losses in other income (loss).

Each FHLBank evaluates its individual available-for-sale and held-to-maturity investment securities holdings for other-than-temporary impairment (OTTI) on at least a quarterly basis. An FHLBank will conclude that a loss is other-than-temporary if it is probable that the FHLBank will not receive all of the investment security's contractual amount and timing of future expected cash flows. As part of this analysis, an FHLBank must assess its intent and ability to hold a security until recovery of any unrealized losses. These evaluations are inherently subjective and consider a number of qualitative factors. In addition to monitoring the credit ratings of these securities for downgrades, as well as placement on negative outlook or credit watch, an FHLBank's management evaluates other factors that may be indicative of OTTI. These include, but are not limited to, an evaluation of the type of security, the length of time and extent to which the fair value of a security has been less than its cost, any credit enhancement or insurance, and certain other collateral-related characteristics such as FICO® credit scores, loan-to-value ratios, delinquency and foreclosure rates, geographic concentrations and the security's performance. The FHLBanks do not necessarily use the same dealer prices, models and assumptions when determining whether an investment security is other-than-temporarily impaired. These assumptions have a significant effect on determining whether any of the investment securities are other-than-temporarily impaired and the reported fair values and estimated economic losses of their private-label mortgage-backed securities and home equity loan investments, and the income and expense related thereto, even where similar or identical assets and liabilities are being measured. The use of different assumptions, as well as changes in market conditions, could result in materially different net income and retained earnings.

If an FHLBank determines that an OTTI exists, it accounts for the investment security as if it had been purchased on the measurement date of the OTTI. The investment security is written down to fair value (its new cost basis), any deferred amounts related to the investment security are written off, and a realized loss is recognized in non-interest income. A new accretable yield is calculated and amortized prospectively over the remaining life of the investment security based on the amount and timing of future expected cash flows.

When there is an OTTI in the value of an investment, the decline in value is recognized as a loss and presented in the Combined Statement of Income as other loss. The FHLBanks of Boston, Pittsburgh, Atlanta, Chicago, Topeka, San Francisco and Seattle recognized an aggregate OTTI loss of $2,025 million in the year ended December 31, 2008 related to private-issue mortgage-backed securities (also referred to as private-label MBS) and home equity loan investments in its held-to-maturity and available-for-sale portfolios. The FHLBank of Dallas recognized an OTTI loss of $2 million relating to a

U.S. agency debenture classified as available-for-sale during the year ended December 31, 2008. No other FHLBank recognized an OTTI loss during the year ended 2008. The FHLBanks did not experience any OTTI in the value of their investments during 2007 or 2006.

Advances. The FHLBanks report advances (loans to members or housing associates) net of unearned commitment fees, discounts and premiums on advances and discounts on advances related to the Affordable Housing Program (AHP), as discussed below. The FHLBanks amortize the premiums and accrete the discounts on advances to interest income using a level-yield methodology. The FHLBanks record interest on advances to income as earned. Following the requirements of the FHLBank Act, each FHLBank obtains sufficient collateral on advances to protect it from losses. The FHLBank Act limits eligible collateral to certain investment securities, residential mortgage loans, cash or deposits with the FHLBanks, and other eligible real estate-related assets. As Note 8 more fully describes, Community Financial Institutions (CFIs) (the purposes of advances to which have been redefined by the Housing Act to also include community development activities) are eligible to utilize expanded statutory collateral rules. The FHLBanks have not incurred any credit losses on advances since their inception. Each FHLBank evaluates the creditworthiness of its members and non-member borrowers on an ongoing basis and classifies as impaired any advance with respect to which management believes it is probable that all principal and interest due will not be collected according to its contractual terms. Impaired advances are valued using the present value of expected future cash flows discounted at the advance's effective interest rate, the advance's observable market price or, if collateral dependent, the fair value of the advance's underlying collateral. When an advance is classified as impaired, the accrual of interest is discontinued and unpaid accrued interest is reversed. Advances do not return to accrual status until brought current with respect to both principal and interest and if management believes future principal payments are no longer in doubt. Based upon each FHLBank management's analysis of the credit standing of its members and the collateral held as security for its advances and the repayment history of the FHLBanks' advances, management of each FHLBank believes that an allowance for credit losses on its advances is unnecessary at December 31, 2008.

Commitment Fees. The FHLBanks defer commitment fees for advances and amortize them to interest income using a level-yield methodology. Refundable fees are deferred until the commitment expires or until the advances are made. The FHLBanks record commitment fees for standby letters of credit as a deferred credit when they receive the fees and accrete them using the straight-line method over the term of the standby letter of credit.

Prepayment Fees. The FHLBanks charge a member a prepayment fee when the member prepays certain advances before the original maturity. The FHLBanks record prepayment fees net of SFAS 133 basis adjustments included in the book basis of the advance as "Prepayment fees on advances, net" in the interest income section of the Combined Statement of Income. In cases in which the FHLBank funds a new advance concurrent with or within a short period of time after the prepayment of an existing advance, the FHLBank evaluates whether the new advance meets the accounting criteria to qualify as a modification of an existing advance or whether it constitutes a new advance in accordance with EITF Issue No. 01-7, *Creditor's Accounting for a Modification or Exchange of Debt Instruments,* and SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating and Acquiring Loans and Initial Direct Costs of Leases* (SFAS 91). If the new advance qualifies as a modification of the existing advance, the net prepayment fee on the prepaid advance is deferred, recorded in the basis of the modified advance and amortized over the life of the modified advance using a level-yield methodology. This amortization is recorded in advance interest income.

For prepaid advances that are hedged and meet the hedge accounting requirements of SFAS 133, the FHLBank terminates the hedging relationship upon prepayment and records the associated fair value gains and losses, adjusted for the prepayment fees, in interest income. If the FHLBank funds a new advance to a member concurrent with or within a short period of time after the prepayment of a previous advance to that member, the FHLBank evaluates whether the new advance qualifies as a modification of the original hedged advance. If the new advance qualifies as a modification of the original hedged advance, the fair value gains or losses of the advance and the prepayment fees are included in the carrying amount of the modified advance, and gains or losses and prepayment fees are amortized in interest income over the life of the modified advance using a level-yield methodology. If the modified advance is also hedged and the hedge meets the hedging criteria in accordance with SFAS 133, the modified advance is marked to fair value after the modification, and subsequent fair value changes are recorded in other income.

If the FHLBank determines that the transaction does not qualify as a modification of an existing advance, it is treated as an advance termination with subsequent funding of a new advance and the net fees are recorded as "Prepayment fees on advances, net" in the interest income section of the Combined Statement of Income.

Mortgage Loans Held for Portfolio. The FHLBanks established member mortgage purchase asset programs as services to their Participating Financial Institution members (PFIs). The programs involve the investment by an FHLBank in loans created or acquired by members. The Finance Board authorized all of the FHLBanks to hold acquired member assets, such as assets acquired under the MPF Program developed by the FHLBank of Chicago and the MPP developed by the FHLBanks of Cincinnati, Indianapolis and Seattle. Several FHLBanks have made changes to their mortgage loan program(s) as follows:

- The FHLBank of Seattle, which previously offered the MPP to its PFIs, is no longer accepting additional master commitments in the MPP, completed all of its delivery commitments in 2006 and is not purchasing additional mortgages.

- On October 6, 2006, the FHLBank of San Francisco announced that it would no longer offer new commitments to purchase mortgage loans from its PFIs under the MPF Program, but that it would retain its existing portfolio of mortgage loans. The commitment of the FHLBank of San Francisco to purchase mortgage loans under its last outstanding master commitment expired on February 14, 2007. The FHLBank of San Francisco plans to retain its existing portfolio of MPF loans, which eventually will be reduced to zero in accordance with the ordinary course of maturity of those assets.

- The FHLBank of Atlanta stopped accepting additional MPF master commitments as of February 4, 2008 and as of March 31, 2008 had ceased purchasing assets under the MPF Program. Early in the third quarter of 2008, the FHLBank of Atlanta suspended new acquisitions of mortgage loans under the MPP. The FHLBank of Atlanta plans to continue to support its existing portfolio of MPP and MPF loans.

- In 2007, the FHLBank of Chicago completed its obligations to purchase participation interests under pre-existing agreements with other FHLBanks and no longer enters into agreements to purchase participation interests in new master commitments with other FHLBanks. Effective August 1, 2008, the FHLBank of Chicago no longer entered into delivery commitments to acquire mortgage loans as investments for its own balance sheet except for immaterial amounts of MPF loans to support affordable housing that are guaranteed by the Rural Housing Service of the Department of Agriculture (RHS) or insured by the Department of Housing and Urban Development (HUD). Mortgage loans purchased from the FHLBank of Chicago's PFIs from August 1, 2008 are primarily held for investments by other FHLBanks participating in the MPF Program and for master commitments entered into after October 23, 2008, concurrently sold to Fannie Mae. The other FHLBanks participating in the MPF Program continue to have the ability to purchase and fund loans through the MPF infrastructure.

- On September 23, 2008, the FHLBank of Chicago announced the MPF Xtra product which provides its members with a new alternative for selling MPF loans. Loans sold to the FHLBank of Chicago through the MPF Xtra product will concurrently be sold to Fannie Mae, as a third party investor, and will not be held on the FHLBank of Chicago's balance sheet. Unlike other MPF products, under the MPF Xtra product PFIs are not required to provide credit enhancement and do not receive credit enhancement fees.

Under these programs, an FHLBank invests in government-guaranteed/insured mortgage loans (mortgage loans insured or guaranteed by the Federal Housing Administration, the Department of Veterans Affairs, the RHS and/or the HUD) and conventional residential mortgage loans, which are either funded by the FHLBank, purchased from its PFIs, or are participations in pools of eligible mortgage loans purchased from other FHLBanks. The FHLBank manages the liquidity and interest-rate risk (including prepayment risk), and optionality of the loans, while its PFIs either retain or release the servicing activities. If participating in the servicing released program, the PFI concurrently sells the servicing of the mortgage loans to an unrelated designated mortgage service provider. The FHLBank and its PFIs share the credit risk on the conventional loans. The member assumes credit losses up to a contractually specified credit enhancement obligation amount. (See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Risk Management—Credit Risk—Managing Credit Risk— Mortgage Loans Held for Portfolio" for further discussion about MPF and MPP loss allocations.)

Accounting for Mortgage Loans Held in Portfolio. The FHLBanks classify mortgage loans as held for portfolio and, accordingly, report them at their principal amount outstanding, net of deferred loan costs, unamortized premiums and unaccreted discounts, SFAS 133 hedging adjustments, and mark-to-market basis adjustments on loans initially classified as mortgage loan commitments. The FHLBanks have the intent and ability to hold these mortgage loans to maturity.

The FHLBanks defer and amortize deferred loan costs, premiums and discounts paid to and received by an FHLBank's participating member, and basis adjustments as interest income using either the contractual method or the retrospective method. The FHLBank aggregates the mortgage loans by similar characteristics (type, maturity, note rate and acquisition date) in determining prepayment estimates for the retrospective method.

The FHLBanks record credit enhancement fees paid to PFIs as a reduction to mortgage loan interest income. The FHLBanks may receive other non-origination fees, such as delivery commitment extension fees, pair-off fees and price adjustment fees. Extension fees are received when a member requests to extend the period of the delivery commitment beyond the original stated maturity and are recorded in other income as received. Pair-off fees represent a make-whole provision and are received when the amount funded is less than a specific percentage of the delivery commitment amount and price adjustment fees are received when the amount funded is greater than a specified percentage of the delivery commitment amount. To the extent that pair-off fees relate to under-deliveries of loans, they are included in the mark-to-market of the related delivery commitment derivative, which is recorded in "Net gains (losses) on derivatives and hedging activities." Fees related to over-deliveries represent purchase price adjustments to the related loans acquired and are recorded as part of the loan basis.

The FHLBanks place a conventional mortgage loan on nonaccrual status when the collection of the contractual principal or interest is 90 days or more past due. However, there may be exceptions, such as when a loan is well-secured and in the process of collection (e.g., through credit enhancements), or when an FHLBank's agreements with its PFIs include monthly settlement on a schedule/scheduled basis. Monthly settlement on a schedule/scheduled basis means that the PFI is obligated to remit the contractual mortgage payments on mortgage loans sold to the FHLBank, regardless of whether or not the PFI received payment from the mortgagor. For those mortgage loans placed on nonaccrual status, accrued but uncollected interest is reversed against interest income. The FHLBanks generally record cash payments received on nonaccrual loans 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. A government-guaranteed/insured loan is not placed on nonaccrual status when the collection of the contractual principal or interest is 90 days or more past due because of the (1) U.S. government guarantee of the loan and (2) contractual obligation of the loan servicer.

An FHLBank bases the allowance for credit losses on its management's estimate of credit losses inherent in the FHLBank's mortgage loan portfolio at the statement of condition date. Actual losses greater than defined levels are offset by the member's credit enhancement. An FHLBank performs periodic reviews of its portfolio to identify the losses inherent within the portfolio and to determine the likelihood of collection of the portfolio. The overall allowance is determined by an analysis that includes consideration of various data observations such as past performance, current performance, loan portfolio characteristics, collateral valuations, industry data, and prevailing economic conditions. As a result of this analysis, the MPP FHLBanks have determined that as of December 31, 2008, each member's obligation for losses and the mortgage insurance coverage exceeds the inherent loss in the portfolio. Accordingly, no allowance for loan losses is considered necessary. As a result of this analysis, the combined financial statements reflect an aggregate allowance for loan losses with respect to MPF loans in the amounts of $15 million and $8 million at December 31, 2008 and 2007.

MPF Credit Enhancement. For conventional portfolio MPF loan products, PFIs assume or retain a portion of the credit risk on the MPF Loans that are funded by, or sold to, a participating FHLBank 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 guaranty insurance (SMI).

Under the MPF Program, the PFI's credit enhancement protection level (CEP Amount) may take the form of the credit enhancement, and/or the PFI may contract for a contingent performance-based credit enhancement fee whereby such fees are reduced by losses up to a certain amount arising under the master commitment. The required PFI credit enhancement may vary depending on the MPF product alternatives selected. Under the Acquired Member Assets Regulation, any portion of the credit enhancement that is a PFI's direct liability must be collateralized by the PFI in the same way that advances from the MPF FHLBank are collateralized. All of the PFI's obligations under the PFI agreement are secured under its regular advances agreement with the MPF FHLBank. The MPF FHLBank may request additional collateral to secure the PFI's obligations.

PFIs are paid a credit enhancement fee (CE Fee) for managing credit risk, and in some instances all or a portion of the CE Fee may be performance-based. CE Fees are paid monthly and are determined based on the remaining unpaid principal balance of the MPF Loans. CE Fees, payable to a PFI as compensation for assuming credit risk, are recorded as an offset to mortgage loan interest income. The MPF FHLBank also pays performance-based CE Fees, which are based on actual performance of the pool of MPF Loans under each individual master commitment. To the extent that losses in the current month exceed performance-based CE Fees accrued, the remaining losses may be recovered from future performance CE Fees payable to the PFI.

MPP Credit Enhancement. A lender risk account (LRA) is funded by an FHLBank either up front as a portion of the purchase proceeds or through a portion of the net interest remitted monthly by the member. The LRA is a lender-specific account funded by the FHLBank in an amount approximately sufficient to cover expected losses on the pool of mortgages. The LRA funds are used to offset any losses that may 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. No LRA balance is required after 11 years. The total balance of all LRAs is recorded in other liabilities and totaled $91 million and $92 million at December 31, 2008 and 2007.

In addition to the expected losses covered by the LRA, the member selling conventional loans also is required to purchase SMI as an enhancement to cover losses over and above losses covered by the LRA. The FHLBank is listed as the insured and this coverage serves to further limit the exposure to losses. The total credit enhancement, which includes borrower's equity, primary mortgage insurance (if applicable), the LRA and the SMI, is intended to provide, at a minimum, the equivalent to an investment-grade "AA" rating under the Standard & Poor's Ratings Services (S&P) LEVELS® rating methodology (although the assets are not rated by S&P or any other agency). In the event the LRA and the standard SMI policy do not provide sufficient loss protection to support the equivalent investment-grade rating, additional mortgage insurance coverage called SMI Plus also must be purchased by the member. This policy covers the expected losses to achieve an investment-grade rating equivalent to "AA" over and above the LRA and SMI.

MPF Shared Funding Program. Several FHLBanks participate in the MPF Shared Funding Program, which is administered by an unrelated third party. This program allows mortgage loans originated through the MPF Program to be sold to a third party-sponsored trust and "pooled" into securities. The FHLBank of Chicago purchased MPF Shared Funding securities in two transactions in 2003 and sold a portion of the MPF Shared Funding to other FHLBanks at the original transaction closing. The investments are classified as held-to-maturity securities and are reported at amortized cost of \$398 million and \$439 million at December 31, 2008 and 2007. These securities, which are rated AA, are not publicly traded and are not guaranteed by any of the FHLBanks.

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46), a new interpretation on consolidation accounting. In December 2003, the FASB issued a revision to FIN 46 (FIN 46-R) to address various technical corrections and implementation issues that had arisen since the issuance of FIN 46. Application of FIN 46-R to the FHLBanks is limited to the MPF Shared Funding securities and certain investments in mortgage-backed securities (also referred to as private-label MBS). With regard to the Shared Funding Program, certain of the FHLBanks currently hold MPF Shared Funding securities which they believe were issued by qualifying special purpose entities (QSPEs) that are sponsored by One Mortgage Partners Corporation, a subsidiary of JPMorgan Chase. A QSPE generally can be described as an entity whose permitted activities are limited to passively holding financial assets and distributing cash flows to investors based on pre-set terms. A QSPE must meet certain criteria in SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—a replacement of FASB Statement 125* (SFAS 140) to be considered a QSPE. FIN 46-R does not require an investor to consolidate a QSPE, as long as the investor does not have the unilateral ability to liquidate the QSPE or cause it to no longer meet the QSPE criteria. The affected FHLBanks meet this scope exception for QSPEs under FIN 46-R, and accordingly do not consolidate their investments in the MPF Shared Funding securities. Further, even if the special purpose entities were not QSPEs, these FHLBanks would not consolidate under FIN 46-R because they hold the senior interest, rather than the residual interest, in these securities.

Premises, Software, and Equipment. The FHLBanks record premises, software and equipment at cost less accumulated depreciation and amortization. The FHLBanks' accumulated depreciation and amortization related to premises, software and equipment was \$347 million and \$295 million at December 31, 2008 and 2007. The FHLBanks compute depreciation on the straight-line method over the estimated useful lives of relevant assets ranging from 1 to 40 years. They amortize leasehold improvements on the straight-line basis over the shorter of the estimated useful life of the improvement or the remaining term of the lease. The FHLBanks capitalize improvements and major renewals but expense ordinary maintenance and repairs when incurred. Depreciation and amortization expense for premises, software and equipment was \$55 million, \$57 million and \$48 million for the years ended December 31, 2008, 2007 and 2006. The FHLBanks include gains and losses on the disposal of premises, software and equipment in other income. The net realized loss on disposal of premises, software and equipment was \$5 million, \$1 million and less than \$1 million in 2008, 2007 and 2006.

The cost of computer software developed or obtained for internal use is accounted for in accordance with Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1). SOP 98-1 requires the cost of purchased software and certain costs incurred in developing computer software for internal use to be capitalized and amortized over future periods. At December 31, 2008 and 2007, the FHLBanks had \$109 million and \$106 million in unamortized computer software costs. Amortization of computer software costs charged to expense was \$35 million, \$37 million and \$30 million for the years ended December 31, 2008, 2007 and 2006.

Derivatives. Accounting for derivatives is addressed in SFAS 133. All derivatives are recognized on the balance sheet at their fair values. Due to the application of FASB Staff Position (FSP) No. FIN 39-1, *Amendment of FASB Interpretation No. 39* (FSP FIN 39-1), derivative assets and derivative liabilities reported on the Combined Statement of Condition include the net cash collateral and accrued interest from counterparties. (See "Note 2—Recently Issued and Adopted Accounting Standards and Interpretations and Change in Accounting Principle" for more information on the effect of adopting FSP FIN 39-1.)

In accordance with SFAS 133 each derivative is designated as one of the following:

(1) a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (a “fair-value” hedge);

(2) a hedge of a forecasted transaction or the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a “cash-flow” hedge);

(3) a non-qualifying hedge of an asset or liability (“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.

Changes in the fair value of a derivative that is designated and qualifies as a fair-value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (including changes that reflect losses or gains on firm commitments), are recorded in other income as “Net gains (losses) on derivatives and hedging activities.”

Changes in the fair value of a derivative that is designated and qualifies as a cash-flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, a component of capital, until earnings are affected by the variability of the cash flows of the hedged transaction.

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 value of the hedged item attributable to the hedged risk or the variability in the cash flows of the forecasted transaction) is recorded in other income as “Net gains (losses) on derivatives and hedging activities.”

An economic hedge is defined as a derivative hedging specific or non-specific underlying assets, liabilities, or firm commitments that does not qualify or was not designated for hedge accounting, but is an acceptable hedging strategy under an FHLBank’s risk management program. These economic hedging strategies also comply with Finance Agency 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 other income as “Net gains (losses) on derivatives and hedging activities” with no offsetting fair value adjustments for the assets, liabilities, or firm commitments. Cash flows associated with such stand-alone derivatives (derivatives not qualifying as a hedge) are reflected as cash flows from operating activities in the Combined Statement of Cash Flows.

The derivatives used in intermediary activities do not qualify for SFAS 133 hedge accounting treatment and are separately marked-to-market through earnings. The net result of the accounting for these derivatives does not significantly affect the operating results of the FHLBanks. These amounts are recorded in other income as “Net gains (losses) on derivatives and hedging activities.”

The differentials between accruals of interest receivables and payables on derivatives designated as fair-value or cash-flow hedges are recognized as adjustments to the income or expense of the designated underlying investment securities, advances, consolidated obligations or other financial instruments. The differentials between accruals of interest receivables and payables on intermediated derivatives for members and other economic hedges are recognized in other income as “Net gains (losses) on derivatives and hedging activities.”

The FHLBanks may issue debt, make advances, or purchase financial instruments in which a derivative instrument is “embedded.” Upon execution of these transactions, the FHLBank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the advance or debt (the host contract) and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When the FHLBank determines that (1) the embedded derivative has economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and designated as a stand-alone derivative instrument pursuant to an economic hedge. However, if the entire contract (the host contract and the embedded derivative) is to be measured at fair value, with changes in fair value reported in current-period earnings (such as an investment security classified as "trading" under SFAS 115 as well as hybrid financial instruments accounted for under SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Statements No. 133 and 140* (SFAS 155), or if the FHLBank cannot reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract is carried on the balance sheet at fair value and no portion of the contract is designated as a hedging instrument.

If hedging relationships meet certain criteria specified in SFAS 133, they are eligible for fair-value hedge accounting and the offsetting changes in the value of the hedged items attributable to the risk being hedged may be recorded in earnings. The application of hedge accounting generally requires an FHLBank to evaluate the effectiveness of the hedging relationships on an ongoing basis and to calculate the change in fair value of the derivatives and the change in value of the related hedged items attributable to the risk being hedged independently. This is known as the "long-haul" method of accounting. Transactions that meet more stringent criteria qualify for the "short-cut" method of hedge accounting in which an assumption can be made that the change in value of a hedged item attributable to the risk being hedged exactly offsets the change in fair value of the related derivative.

Derivatives are typically executed at the same time as the hedged advances or consolidated obligations, and the FHLBanks designate the hedged item in a qualifying hedge relationship at the trade date. In many hedging relationships, the FHLBank may designate the hedging relationship upon its commitment to disburse an advance or trade a consolidated obligation in which settlement occurs within the shortest period of time possible for the type of instrument based on market settlement conventions. The FHLBank defines market settlement conventions for advances to be five business days or less and for consolidated obligations to be thirty calendar days or less, using a next business day convention. The FHLBank then records the changes in fair value of the derivative and the hedged item beginning on the trade date. When the hedging relationship is designated on the trade date and the fair value of the derivative is zero on that date, the hedge meets the criteria within SFAS 133 for applying the short-cut method provided all the other criteria of paragraph 68 of SFAS 133 are also met.

An FHLBank discontinues hedge accounting prospectively when: (1) it determines that the derivative is no longer effective in offsetting changes in the value or cash flows of a hedged item attributable to the risk being hedged (including hedged items such as firm commitments or forecasted transactions); (2) the derivative and/or the hedged item expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur in the originally expected period; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines that designating the derivative as a hedging instrument in accordance with SFAS 133 is no longer appropriate.

When hedge accounting is discontinued because the FHLBank determines that the derivative no longer qualifies as an effective fair-value hedge of an existing hedged item, the FHLBank continues to carry the derivative on the statement of condition at its fair value, ceases to adjust the hedged asset or liability for changes in 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 the FHLBank determines that the derivative no longer qualifies as an effective cash-flow hedge of an existing hedged item, the FHLBank continues to carry the derivative on the balance sheet at its fair value and 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 the FHLBank discontinues cash-flow hedge accounting because it is no longer probable that the forecasted transaction will occur by the end of the originally specified time period, or within the following two months, but it is probable the transaction will still occur in the future, the gain or loss on the derivative remains in accumulated other comprehensive income and is recognized as earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within the following two months, the gains and losses that were accumulated in other comprehensive income are recognized immediately in earnings.

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the FHLBank continues to carry the derivative on the balance sheet at its fair value, removing from the balance sheet any asset or liability that was recorded to recognize the firm commitment and recording it as a gain or loss in current-period earnings.

Concessions on Consolidated Obligations. Concessions are paid 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 the FHLBank. Concessions paid on consolidated obligations designated under SFAS 159, "*Fair Value Option*" (SFAS 159), are expensed as incurred. Concessions paid on consolidated obligations not designated under SFAS 159, are deferred and amortized, using a level-yield methodology, over the terms to maturity or the estimated lives of the consolidated obligations. Unamortized concessions were $246 million and $285 million at December 31, 2008 and 2007 and are included in "Other assets." Amortization of such concessions is included in consolidated obligation interest expense and totaled $270 million, $179 million and $143 million in 2008, 2007, and 2006.

Discounts and Premiums on Consolidated Obligations. The FHLBanks expense the discounts on consolidated discount notes using a level-yield methodology over the term of the related notes due to their short-term nature. They accrete the discounts and amortize the premiums on consolidated bonds to interest expense using a level-yield methodology over the term to maturity or the estimated life of the corresponding consolidated bond.

Mandatorily Redeemable Capital Stock. In accordance with SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (SFAS 150), the FHLBanks reclassify stock subject to redemption from equity 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 in accordance with SFAS 150 are accrued at the expected dividend rate and reflected as interest expense in the Combined Statement of Income. Once redeemed, the repayment of these mandatorily redeemable financial instruments (by repurchase or redemption of the shares) 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 a liability to equity in accordance with SFAS 150. After the reclassification, dividends on the capital stock will no longer be classified as interest expense.

Finance Agency/Finance Board Expenses. The FHLBanks funded the costs of operating the Finance Board, and fund a portion of the costs of operating the Finance Agency since it was created on July 30, 2008. The Finance Board allocated its operating and capital expenditures to the FHLBanks based on each FHLBank's percentage of total combined regulatory capital stock plus retained earnings through July 29, 2008. The portion of the Finance Agency'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 based on the ratio between each FHLBank's minimum required regulatory capital and the aggregate minimum required regulatory capital of every FHLBank. Each FHLBank must pay an amount equal to one-half of its annual assessment twice each year.

Office of Finance Expenses. The FHLBanks are assessed for the costs of operating the Office of Finance. The Office of Finance allocates its operating and capital expenditures based equally on each FHLBank's percentage of capital stock, percentage of consolidated obligations issued and percentage of consolidated obligations outstanding.

Affordable Housing Program. The FHLBank Act requires each FHLBank to establish and fund an AHP. The FHLBank charges the required funding for AHP to earnings and establishes a liability. The AHP funds provide subsidies to members to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. The FHLBank issues AHP advances at interest rates below the customary interest rate for non-subsidized advances. When the FHLBank makes an AHP advance, the present value of the variation in the cash flow caused by the difference in the interest rate between the AHP advance rate and the FHLBank's related cost of funds for comparable maturity funding is charged against the AHP liability and recorded as a discount on the AHP advance. As an alternative, the FHLBank has the authority to make the AHP subsidy available to members as a grant. The discount on AHP advances is accreted to interest income on advances using a level-yield methodology over the life of the advance. (See Note 14 for more information.)

Resolution Funding Corporation (REFCORP). Although the FHLBanks are exempt from ordinary Federal, State, and local taxation, except for local real estate tax, they are required to make quarterly payments to REFCORP to pay toward interest on bonds issued by the 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. (See Note 15 for more information.)

Estimated Fair Values. Some of the FHLBanks' financial instruments lack an available trading market characterized by transactions between a willing buyer and a willing seller engaging in an exchange transaction. Therefore, the FHLBanks use pricing services and/or internal models employing significant estimates and present value calculations when disclosing estimated fair values. Certain FHLBanks assume that book value approximates fair value for some financial instruments with three months or less to repricing or maturity. (See Note 19 for more information.)

Cash Flows. In the Combined Statement of Cash Flows, the FHLBanks consider cash and due from banks as cash and cash equivalents. Federal funds sold are not treated as cash equivalents for purposes of the Combined Statement of Cash Flows, but instead are treated as short-term investments and are reflected in the investing activities section of the Combined Statement of Cash Flows.

The FHLBank of New York reflects gains or losses on debt extinguishments in the operating activities section of its Statement of Cash Flows and reports the cash payments from the early retirement of debt net of these amounts in the financing activities section of its Statement of Cash Flows. The remaining 11 FHLBanks report an operating adjustment as "Other adjustments" on the Statement of Cash Flows for gains or losses on debt extinguishments.

Second Quarter 2008 Error Correction by the FHLBank of Seattle. During the second quarter of 2008, the FHLBank of Seattle identified and corrected the effect of an error in the manner in which it accounts for basis adjustments when differences exist at inception of benchmark fair-value hedges between the initial calculation of the present value of future cash flows and the carrying value of certain consolidated bonds and advances pursuant to its application of SFAS 133. Under the FHLBank of Seattle's prior approach, it inappropriately excluded the natural amortization of the initial difference between the fair value and carrying value of a limited number of consolidated obligations and advances at inception of the benchmark fair value hedges. The FHLBank of Seattle assessed the effect of this error on all prior periods and determined that the error, which began occurring in the second quarter of 2006, did not result in a material misstatement to any previously issued financial statements. A cumulative out-of-period adjustment in the amount of $5.4 million, representing an increase to net income before assessments, was recorded and was not considered material to the annual results for the year ended December 31, 2008. Consequently, the FHLBank of Seattle recorded the adjustment during the quarter ended June 30, 2008, rather than restate its previously issued financial statements.

Reclassifications. Certain amounts in the 2007 and 2006 financial statements have been reclassified to conform to the 2008 presentation. In particular, during the third quarter of 2008, on a retrospective basis, the FHLBanks reclassified their investments in certain certificates of deposit and bank notes, previously reported as interest-bearing deposits, as held-to-maturity securities in their statements of condition and income as they meet the definition of a security under SFAS 115. These financial instruments have been classified as held-to-maturity securities based on their short-term nature and the FHLBanks' history of holding them until maturity. This reclassification had no effect on total assets or net interest income and net income. The certificates of deposit and bank notes that do not meet the definition of a security will continue to be classified as interest-bearing deposits on the statements of condition and income.

In addition, in accordance with FSP FIN 39-1, the FHLBanks recognized the effects of applying FSP FIN 39-1 as a change in accounting principle through retrospective application for all financial statement periods presented. As a result of the FHLBanks' reclassification during the third quarter of 2008 and the FHLBanks' adoption and retrospective application of FSP FIN 39-1 on January 1, 2008, the Combined Statement of Condition at December 31, 2007 and the Combined Statements of Income for the years ended December 31, 2007 and 2006 were revised as follows (dollar amounts in millions):

Statement of Condition	As Previously Reported	Effect of FSP FIN 39-1 Adoption	Effect of Certificates of Deposit and Bank Notes Reclassification	As Adjusted
Assets:				
Interest-bearing deposits	$ 48,243	$(1,601)	$(46,642)	$
Held-to-maturity securities	151,176		46,642	197,818
Accrued interest receivable	5,618	(4)		5,614
Derivative assets	2,401	(1,095)		1,306
Effect on Total assets	$207,438	$(2,700)	$	$204,738
Liabilities:				
Total interest-bearing deposits	$ 21,865	$(1,180)	$	$ 20,685
Accrued interest payable	8,193	(6)		8,187
Derivative liabilities	5,303	(1,514)		3,789
Effect on Total liabilities	$ 35,361	$(2,700)	$	$ 32,661

Statement of Income	As Previously Reported	Effect of Certificates of Deposit and Bank Notes Reclassification	Other Adjustments*	As Adjusted
For the year ended December 31, 2007:				
Interest-bearing deposits	$2,153	$(2,126)	$	$ 27
Held-to-maturity securities	7,235	2,126	1	9,362
Cumulative effect of reclassification on Total interest income		$		
For the year ended December 31, 2006:				
Interest-bearing deposits	$1,777	$(1,737)	$	$ 40
Held-to-maturity securities	6,859	1,737	(27)	8,569
Cumulative effect of reclassification on Total interest income		$		

* Represents adjustments for rounding and 2006 interbank investments interest income related to held-to-maturity securities.

For more information related to FSP FIN 39-1, see Note 2.

Furthermore, in accordance with SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115* (SFAS 159), which amends FASB Statement No. 95, *Statement of Cash Flows* (SFAS 95), and SFAS 115, cash flows from trading securities (which include securities for which an entity has elected the fair value option) should be classified in the statement of cash flows based on the nature of and purpose for which the securities were acquired. As a result, the Combined Statement of Cash Flows for the years ended December 31, 207 and 2006 were adjusted as follows (dollar amounts in millions):

	As Previously Reported	Effect of SFAS 159	Other Adjustments*	As Adjusted
For the year ended December 31, 2007:				
Operating Activities:				
Trading securities	$(1,102)	$ 1,286	$	$ 184
Net change in fair value adjustments on trading securities		(125)		(125)
Effect on net cash (used in) provided by operating activities	(1,102)	1,161		59
Investing Activities:				
Trading securities:				
Proceeds		903		903
Purchases		(2,064)		(2,064)
Effect on net cash used in investing activities		(1,161)		(1,161)
Total net effect on the Statement of Cash Flows	$(1,102)	$	$	$(1,102)
For the year ended December 31, 2006:				
Operating Activities:				
Trading securities	$ 1,114	$(1,480)	$366	$
Net change in fair value adjustments on trading securities		110		110
Effect on net cash provided by (used in) operating activities	1,114	(1,370)	366	110
Investing Activities:				
Trading securities:				
Proceeds		2,201		2,201
Purchases		(831)		(831)
Effect on net cash provided by investing activities		1,370		1,370
Total net effect on the Statement of Cash Flows	$ 1,114	$	$366	$ 1,480

* Represents adjustments for rounding and 2006 interbank investments related to trading securities.

For more information on SFAS 159, see Note 2.

Certain prior period amounts have been revised and may not agree to the 2007 Annual Combined Financial Report. These amounts were not deemed to be material.

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

Recently Issued Accounting Standards and Interpretations.

SFAS 161. On March 19, 2008, the FASB issued SFAS 161, which is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 (January 1, 2009 for the FHLBanks), with early adoption allowed. The FHLBanks have determined that the adoption of SFAS 161 will result in increased financial statement disclosures.

FSP FAS 115-2 and FAS 124-2. On April 9, 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 is intended to provide greater clarity to investors about the credit and noncredit component of an OTTI event and to communicate more effectively when an OTTI event has occurred. FSP FAS 115-2 and FAS 124-2 amends the OTTI guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of OTTI on debt and equity securities in the financial statements. This FSP requires a separate display of losses on debt securities related to credit deterioration and losses related to other market factors on the income statement. Market-related losses will be recorded in other comprehensive income if the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis. When adopting FSP FAS 115-2 and FAS 124-2, the entity will be required to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the non-credit component of a previously recognized OTTI from retained earnings to accumulated other comprehensive income if the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis. FSP FAS 115-2 and FAS 124-2 will be effective and should be applied prospectively for financial statements issued for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for reporting periods ending after March 15, 2009 (March 31, 2009 if the FHLBanks early adopt). Early adoption of FSP FAS 115-2 and FAS 124-2 also requires early adoption of FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.* The FHLBanks are currently evaluating whether or not FSP FAS 115-2 and FAS 124-2 will be adopted in the first quarter or second quarter of 2009. The FHLBanks' adoption of FSP FAS 115-2 and FAS 124-2, and the timing of that adoption, could have a material effect on certain FHLBanks' financial statements to the extent that the FHLBanks have material OTTI charges.

FSP FAS 157-4. On April 9, 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 is intended to provide application guidance addressing the determination of when a market for a financial asset or a financial liability is not active and when a transaction is not distressed for fair value measurements under SFAS 157. FSP FAS 157-4 will be effective and should be applied prospectively for financial statements issued for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for reporting periods ending after March 15, 2009. Early adoption of FSP FAS 157-4 also requires early adoption of FSP FAS 115-2 and FAS 124-2. The FHLBanks are currently evaluating whether or not FSP FAS 157-4 will be adopted in the first quarter or second quarter of 2009. The FHLBanks have not yet determined the effect that adoption of FSP FAS 157-4 will have on their financial condition, results of operations or cash flows.

FSP FAS 107-1 and APB 28-1. On April 9, 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends the disclosure requirements in SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* (SFAS 107), and APB Opinion No. 28, *Interim Financial Reporting*, to require disclosures about the fair value of financial instruments within the scope of SFAS 107, including disclosure of the method(s) and significant assumptions used to estimate the fair value of financial instruments, in interim financial statements as well as in annual financial statements. Previously, these disclosures were required only in annual financial statements. FSP FAS 107-1 and APB 28-1 will be effective and should be applied prospectively for financial statements issued for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for reporting periods ending after March 15, 2009. Early adoption of FSP FAS 107-1 and APB 28-1 is only permitted if an election is also made to early adopt FSP FAS 115-2 and FAS 124-2 and FSP FAS 157-4. In periods after initial adoption, FSP FAS 107-1 and APB 28-1 requires comparative disclosures only for periods ending subsequent to initial adoption and does not require earlier periods to be disclosed for comparative purposes at initial adoption. The FHLBanks' adoption of FSP FAS 107-1 and APB 28-1 will result in increased interim financial statement disclosures.

Recently Adopted Accounting Standards and Interpretations.

FSP EITF 99-20-1. FSP EITF 99-20-1. On January 12, 2009, the FASB issued FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20* (FSP EITF 99-20-1). FSP EITF 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets* (EITF 99-20), to align the impairment model in EITF 99-20 with the impairment model in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115), resulting in a more consistent determination of whether an OTTI has occurred. FSP EITF 99-20-1 also retains and emphasizes the objective of an OTTI assessment and the related disclosure requirement in SFAS 115 and other related guidance. FSP EITF 99-20-1 is effective and should be applied prospectively for financial statements issued for fiscal years and interim periods ending after December 15, 2008 (December 31, 2008 for the FHLBanks). The FHLBanks' adoption of FSP EITF 99-20-1 at December 31, 2008 did not have a material effect on their financial condition, results of operations or cash flows.

FSP FAS 133-1 and FIN 45-4. On September 12, 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161* (FSP FAS 133-1 and FIN 45-4). FSP FAS 133-1 and FIN 45-4 amended SFAS 133 and FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34* (FIN 45), to improve disclosures about credit derivatives and guarantees and clarify the effective date of SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* (SFAS 161). FSP FAS 133-1 and FIN 45-4 amended FAS 133 to require entities to disclose sufficient information to allow users to assess the potential effect of credit derivatives, including their nature, maximum payment, fair value, and recourse provisions. Additionally, FSP FAS 133-1 and FIN 45-4 amended FIN 45 to require a disclosure about the current status of the payment/performance risk of a guarantee, which could be indicated by external credit ratings or categories by which an FHLBank measures risk. While the FHLBanks do not currently enter into credit derivatives, they do have guarantees (e.g., FHLBank joint and several liability on consolidated obligations and FHLBank letters of credit). Each FHLBank disclosed the required financial statement disclosures as a result of the adoption of FSP FAS 133-1 and FIN 45-4. The provisions of FSP FAS 133-1 and FIN 45-4 that amend SFAS 133 and FIN 45 are effective for fiscal years and interim periods ending after November 15, 2008 (December 31, 2008 for the FHLBanks). Additionally, FSP FAS 133-1 and FIN 45-4 clarifies that the disclosures required by SFAS 161 should be provided for any reporting period (annual or quarterly interim) beginning after November 15, 2008 (January 1, 2009 for the FHLBanks).

SFAS 157. On September 15, 2006, the FASB issued SFAS 157. In defining fair value, SFAS 157 retains the exchange price notion in earlier definitions of fair value. However, the definition of fair value under SFAS 157 focuses on the price that would be received to sell an asset or paid to transfer a liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). SFAS 157 applies whenever other accounting pronouncements require or permit assets or liabilities to be measured at fair value. Accordingly, SFAS 157 does not expand the use of fair value in any new circumstances. SFAS 157 also establishes a three-level fair value hierarchy that prioritizes the information used to develop assumptions used to determine the exit price, thereby increasing consistency and comparability in fair value measurements and related disclosures. The adoption of SFAS 157 at January 1, 2008 did not have a material effect on the FHLBanks. For additional information detailing the extent to which the FHLBanks measure assets and liabilities at fair value and the methods and assumptions used by the FHLBanks to measure fair value, see "Note 19—Estimated Fair Values" to these combined financial statements.

FSP FAS 157-3. On October 10, 2008 the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP FAS 157-3), which clarifies the application of SFAS No. 157, *Fair Value Measurements* (FAS 157) in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. Key existing principles of SFAS 157 illustrated in the example include:

- A fair value measurement represents the price at which a transaction would occur between market participants at the measurement date.
- In determining a financial asset's fair value, use of a reporting entity's own assumptions about future cash flows and appropriately risk-adjusted discount rates is acceptable when relevant observable inputs are unavailable.
- Broker or pricing service quotes may be an appropriate input when measuring fair value, but they are not necessarily determinative if an active market does not exist for the financial asset.

FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. While revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate consistent with SFAS No. 154, *Accounting Changes and Error Corrections*, the related disclosure provisions for this change in accounting estimate would not be required. The FHLBanks' adoption of FSP FAS 157-3 did not have a material effect on their financial condition, results of operations or cash flows.

SFAS 158. On September 29, 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), which requires employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. SFAS 158 did not have a material effect on the FHLBanks' financial condition, results of operations or cash flow upon adoption at December 31, 2006. SFAS 158 also requires an employer to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of condition, effective for fiscal years ending after December 15, 2008. All FHLBanks, except for the FHLBank of San Francisco, used a December 31 measurement date as of December 31, 2006. In accordance with SFAS 158, the FHLBank of San Francisco re-measured its plan assets and benefit obligations as of the beginning of 2008 and recognized an adjustment to the opening balance of its retained earnings. The adoption of the change in the measurement date did not have a material effect on the FHLBank of San Francisco's financial condition, results of operations or cash flows.

SFAS 159. On February 15, 2007, the FASB issued SFAS 159, which creates a fair value option allowing, but not requiring, an entity to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities, with changes in fair value recognized in earnings as they occur. It requires entities to display separately the fair value of those assets and liabilities for which the entity has chosen to use fair value on the face of the statement of condition. Additionally, SFAS 159 requires an entity to provide information that would allow users to understand the effect on earnings of changes in the fair value on those instruments selected for the fair value election. The FHLBank of San Francisco is the only FHLBank that elected to record certain existing financial assets and financial liabilities at fair value on adoption of SFAS 159 on January 1, 2008. The effect of adopting SFAS 159 on January 1, 2008 was a net $16 million increase to the FHLBank of San Francisco's retained earnings balance, as follows (dollar amounts in millions):

	Ending Balance at December 31, 2007	Effect of Adopting SFAS 159	Opening Balance at January 1, 2008
Advances	$15,968	$17	$15,985
Consolidated bonds	(1,246)	(1)	(1,247)
Cumulative effect of adoption		$16	

Subsequently, during the third quarter of 2008 the FHLBanks of New York and Chicago also elected the fair value option for certain newly acquired financial assets and financial liabilities. For additional information detailing the fair value of certain financial assets and financial liabilities, see "Note 19—Estimated Fair Values" to these combined financial statements.

Cash Flows from Trading Securities. SFAS 159 amends SFAS 95 and SFAS 115 to specify that cash flows from trading securities (which include securities for which an entity has elected the fair value option) should be classified in the statement of cash flows based on the nature of and purpose for which the securities were acquired. Prior to this amendment, SFAS 95 and SFAS 115 specified that all cash flows from trading securities must be classified as cash flows from operating activities. On a retroactive basis, beginning in the first quarter of 2008, the FHLBanks classify purchases, sales and maturities of trading securities *held for investment* purposes as cash flows from investing activities. Cash flows related to trading securities *held for trading* purposes continue to be reported as cash flows from operating activities. Previously, all cash flows associated with trading securities were reflected in the Combined Statement of Cash Flows as operating activities.

While the FHLBanks classify certain investments acquired for purposes of liquidity and asset/liability management as trading and carry them at fair value, the FHLBanks do not participate in speculative trading practices and may hold certain trading investments indefinitely as each FHLBank's management periodically evaluates its liquidity needs.

FSP FIN 39-1. On April 30, 2007, the FASB issued FSP FIN 39-1, which permits an entity to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instruments recognized at fair value executed with the same counterparty under a master netting arrangement. Under FSP FIN 39-1, the receivable or payable related to cash collateral may not be offset if the amount recognized does not represent or approximate fair value or arises from instruments in a master netting arrangement that are not eligible to be offset. See Note 1 for the effect on the FHLBanks' Statement of Condition as a result of the FHLBanks' adoption and retrospective application of FSP FIN 39-1 on January 1, 2008.

DIG Issue E23. On December 20, 2007, the FASB issued Derivatives Implementation Group (DIG) Issue No. E23, *Issues Involving the Application of the Short-cut Method Under Paragraph 68* (DIG Issue E23). DIG Issue E23 amends paragraph 68 of SFAS 133 with respect to the conditions that must be satisfied in order to apply the short-cut method for assessing hedge effectiveness. The FHLBanks' adoption of DIG Issue E23 at January 1, 2008 did not have a material effect on their financial condition, results of operations or cash flows.

Change in Accounting Principle.

Effective January 1, 2008, the FHLBank of Topeka changed its method of amortizing/accreting mortgage loan origination fees (agent fees) and premiums/discounts under SFAS 91. Previously, amortization/accretion of origination fees and premiums/discounts were computed using the estimated life method with retrospective adjustment. Under this method, the income effects of loan origination fees, premiums and discounts were recognized using the interest method over the estimated lives of the assets, which required a retrospective adjustment of the effective yield each time the FHLBank of Topeka changed its estimate of the loan life, based on actual prepayments received and changes in expected future prepayments. Under the estimated life method, the net investment in the loans was adjusted as if the new estimate had been known since the original acquisition of the mortgage loan. On January 1, 2008, the FHLBank of Topeka began amortizing/accreting loan origination fees and premiums/discounts using the contractual method. The contractual method uses the cash flows specified by the loan contracts, as adjusted for actual prepayments, to apply the interest method. The contractual method does not utilize estimates of future prepayments of principal. While both methods are acceptable under GAAP, the FHLBank of Topeka believes that the contractual method is preferable to the estimated life method because, under the contractual method, the income effects of loan origination cost, premiums and discounts are recognized in a manner that is reflective of the actual behavior of the mortgage loans during the period in which the behavior occurs while also reflecting the contractual terms of the assets without regard to changes in estimated prepayments based on assumptions about future borrower behavior.

As a result of the change in method of amortizing/accreting loan origination costs and premiums/discounts, the prior period historical financial statements have been retrospectively adjusted to reflect the reporting periods as if the contractual method had been used during those reporting periods. The change in amortization/accretion method resulted in increases of $2.9 million for mortgage loans held for portfolio, $239 thousand for the Affordable Housing Program liability, $539 thousand for payable to REFCORP and $2.2 million for retained earnings for the Combined Statement of Condition at December 31, 2007. The effect on the Combined Statement of Income for the year ended December 31, 2007 and 2006 was approximately $1 million or less for interest income on mortgage loans held for portfolio and Affordable Housing Program and REFCORP assessments.

Note 3—Cash and Due from Banks

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 for the years ended December 31, 2008 and 2007 were approximately $32 million and $21 million.

In addition, the FHLBanks maintained average required balances with various Federal Reserve Banks of approximately $71 million and $76 million for the years ended December 31, 2008 and 2007. 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. 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 approximately $52 million and $124 million at December 31, 2008 and 2007.

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. These 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 must place an equivalent amount of additional securities in safekeeping in the name of the FHLBank or the dollar value of the resale agreement will be decreased accordingly.

Note 5—Trading Securities

Major Security Types. Trading securities, excluding interbank holdings of consolidated bonds totaling $617 million and $522 million, at December 31, 2008 and 2007, were as follows (dollar amounts in millions):

	December 31, 2008	December 31, 2007
	Estimated Fair Value	Estimated Fair Value
Commercial paper	$ 673	$
Certificates of deposits (1)	2,072	
Government-sponsored enterprises*	6,422	5,717
State or local housing agency obligations	14	60
Other**	2,161	11
	11,342	5,788
Mortgage-backed securities:		
Other U.S. obligations***	60	74
Government-sponsored enterprises****	748	912
Other*****		35
	808	1,021
Total	$12,150	$6,809

(1) Represents Certificates of deposit that meet the definition of a security under SFAS 115. (See "Note 1—Summary of Significant Accounting Policies.")

* Primarily consists of debt securities issued or guaranteed by Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae).

** Primarily consists of corporate debentures issued or guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program (TLGP).

*** Primarily consists of Government National Mortgage Association (Ginnie Mae) investment pools.

**** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae.

***** Primarily consists of private-label mortgage-backed securities.

Net gains on trading securities during the year ended in December 31, 2008, includes a change in net unrealized holding gains of $260 million for securities held on December 31, 2008. Net losses on trading securities during the years ended December 31, 2007 and 2006, includes a change in net unrealized holding losses of $147 million and $92 million for securities held on December 31, 2007 and 2006.

Note 6—Available-for-Sale Securities

Major Security Types. Available-for-sale securities, excluding interbank holdings of consolidated bonds totaling $42 million at December 31, 2007, were as follows (dollar amounts in millions). There were no available-for-sale interbank holdings of consolidated bonds at December 31, 2008.

	December 31, 2008			
	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Certificates of deposits and bank notes (2)	$ 2,512	$	$ (1)	$ 2,511
Government-sponsored enterprises*	2,711	177	(80)	2,808
State and local housing agency obligations	30			30
Other	516		(46)	470
	5,769	177	(127)	5,819
Mortgage-backed securities:				
Government-sponsored enterprises**	8,766	36	(214)	8,588
Other***	208		(56)	152
	8,974	36	(270)	8,740
Total	$14,743	$213	$(397)	$14,559

	December 31, 2007			
	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government-sponsored enterprises*	$1,324	$ 7	$ (1)	$1,330
Other	408	2	(1)	409
	1,732	9	(2)	1,739
Mortgage-backed securities:				
Government-sponsored enterprises**	3,748	1	(33)	3,716
Other***	376		(18)	358
	4,124	1	(51)	4,074
Total	$5,856	$10	$(53)	$5,813

(1) Amortized cost of available-for-sale securities includes adjustments made to the cost basis of an investment for accretion, amortization, OTTI, and/or hedging.

(2) Represents Certificates of deposit and bank notes that meet the definition of a security under SFAS 115. (See "Note 1—Summary of Significant Accounting Policies.")

* Primarily consists of debt securities issued or guaranteed by Freddie Mac, Fannie Mae and/or TVA.

** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae.

*** Primarily consists of private-label mortgage-backed securities.

The following tables summarize the available-for-sale 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 (dollar amounts in millions).

	December 31, 2008					
	Less than 12 Months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposits and bank notes (1)	$2,012	$ (1)	$	$	$ 2,012	$ (1)
Government-sponsored enterprises*	324	(64)	70	(16)	394	(80)
Other	410	(38)	49	(5)	459	(43)(2)
Mortgage-backed securities:						
Government-sponsored enterprises**	4,196	(103)	2,859	(111)	7,055	(214)
Other***			87	(56)	87	(56)
Total temporarily impaired	$6,942	$(206)	$3,065	$(188)	$10,007	$(394)

	December 31, 2007					
	Less than 12 Months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprises*	$ 57	$	$366	$(1)	$ 423	$ (1)
Other	80	(1)			80	(1)
Mortgage-backed securities:						
Government-sponsored enterprises**	2,984	(30)	215	(3)	3,199	(33)
Other***	321	(18)	37		358	(18)
Total temporarily impaired	$3,442	$(49)	$618	$(4)	$4,060	$(53)

(1) Represents Certificates of deposit and bank notes that meet the definition of a security under SFAS 115. (See "Note 1—Summary of Significant Accounting Policies.")

(2) Does not include $3 million of unrealized losses in mutual funds in two grantor trusts designated as available-for-sale securities.

* Primarily consists of debt securities issued or guaranteed by Freddie Mac, Fannie Mae and/or TVA.

** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae.

*** Primarily consists of private-label mortgage-backed securities.

Investments in government-sponsored enterprise securities, specifically debentures issued by Fannie Mae and Freddie Mac, were additionally affected by investor concerns regarding those entities' capital levels that are needed to offset expected credit losses that may result from declining home prices. The Housing Act contains provisions allowing the U.S. Treasury to provide support to Fannie Mae and Freddie Mac. Additionally, in September 2008, the U.S. Treasury and the Finance Agency announced that Fannie Mae and Freddie Mac were placed into conservatorship, with the Finance Agency named as conservator. The Finance Agency will manage Fannie Mae and Freddie Mac in an attempt to stabilize their financial conditions and their ability to support the secondary mortgage market.

Each FHLBank evaluates its individual available-for-sale investment securities holdings for OTTI on at least a quarterly basis. As part of this process, an FHLBank considers its ability and intent to hold each security for a sufficient time to allow for any anticipated recovery of unrealized losses. To determine which individual securities are at risk for OTTI, an FHLBank considers various characteristics of each security including, but not limited to, the following: the credit rating and related outlook or status; the creditworthiness of the issuers of the agency debt securities; the strength of the government-sponsored enterprises' guarantees of the holdings of agency mortgage-backed securities; the underlying type of collateral; the duration and level of the unrealized loss; any credit enhancements or insurance; and certain other collateral-related characteristics such as FICO® credit scores, delinquency rates and the security's performance. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment.

As a result of this security-level review, an FHLBank identifies individual securities believed to be at risk for OTTI, which are evaluated further by analyzing the performance of the security. Securities with weaker performance measures are evaluated by estimating projected cash flows based on the structure of the security and certain assumptions, such as default rates and loss severity, to determine whether the FHLBank expects to receive the contractual cash flows to which it is entitled. As a result of these evaluations and each FHLBank's ability and intent to hold such securities through the recovery of the unrealized losses, each FHLBank's management believes that it is probable that it will be able to collect all amounts when due according to the contractual terms of the individual securities and does not consider its respective investments to be other-than-temporarily impaired at December 31, 2008, except for certain MBS instruments held by the FHLBanks of Pittsburgh and Chicago.

On October 29, 2008, the FHLBank of Dallas sold a U.S. agency debenture classified as available-for-sale. Proceeds from the sale totaled $56 million resulting in a realized loss of $1 million. At September 30, 2008, the amortized cost of this asset exceeded its estimated fair value at that date by $2 million. Because the FHLBank of Dallas did not have the intent as of September 30, 2008 to hold this available-for-sale security through to recovery of the unrealized loss, an OTTI was recognized in the third quarter of 2008 to write down the security to its estimated fair value of $57 million as of September 30, 2008. This impairment charge is reported in "Net realized (losses) gains on available-for-sale securities" in the Combined Statement of Income for the year ended December 31, 2008.

The FHLBanks recognized total OTTI charges of $62 million in the year ended December 31, 2008 related to MBS instruments in their available-for-sale portfolios, which are reported in the Combined Statement of Income as "Net realized losses on available-for-sale securities." The following FHLBanks recognized an OTTI, based on each individual FHLBank's impairment analysis of its investment portfolio at December 31, 2008 to determine the contractual cash flows to which it is entitled based on the securities' underlying collateral, delinquency and default rates and expected loss severities, as follows (dollar amounts in millions).

	At December 31, 2008				For the Year Ended December 31, 2008
	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Fair Value	OTTI Impairment Charge
FHLBank of Pittsburgh					
Other-than-temporarily-impaired investment					
Home equity loan investments—Alt-A	$ 5	$ 2	$ —	$ 2	$ 3
Total AFS OTTI investments	$ 5	$ 2	$ —	$ 2	$ 3
Available-for-sale MBS		34	(15)	20	3
Total available-for-sale investment securities		34	(15)	20	3
FHLBank of Chicago					
Other-than-temporarily-impaired investment					
Private-label RMBS—Alt-A	$122	$ 63	$ —	$ 63	$59
Total AFS OTTI investments	$122	$ 63	$ —	$ 63	$59
Available-for-sale MBS		1,593	(41)	1,588	59
Total available-for-sale investment securities		2,130	(41)	2,142	59

The remainder of the FHLBanks' available-for-sale securities portfolio has experienced unrealized losses and a decrease in fair value due to interest rate volatility, illiquidity in the marketplace, and credit deterioration in the U.S. mortgage markets. However, the decline is considered temporary as each of the FHLBanks have the intent and ability to hold these investments owned by it to recovery of unrealized losses and expects to collect all contractual principal and interest.

Redemption Terms. The amortized cost and estimated fair value of available-for-sale securities by contractual maturity are shown below (dollar amounts in millions). Expected maturities of some securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

	December 31, 2008		December 31, 2007	
Year of Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 2,577	$ 2,573	$ 697	$ 696
Due after one year through five years	158	164	187	190
Due after five years through ten years	1,845	2,013	60	62
Due after ten years	1,189	1,069	788	791
	5,769	5,819	1,732	1,739
Mortgage-backed securities	8,974	8,740	4,124	4,074
Total	$14,743	$14,559	$5,856	$5,813

The amortized cost of the FHLBanks' mortgage-backed securities classified as available-for-sale includes net premiums of $2 million at December 31, 2008 and net discounts of $4 million at December 31, 2007.

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

	December 31, 2008	December 31, 2007
Amortized cost of available-for-sale securities other than mortgage-backed securities:		
Fixed-rate	$ 5,729	$1,723
Variable-rate	40	9
	5,769	1,732
Amortized cost of available-for-sale mortgage-backed securities:		
Pass-through securities:		
Fixed-rate	250	315
Variable-rate	1,239	1
Collateralized mortgage obligations:		
Fixed-rate	322	287
Variable-rate	7,163	3,521
	8,974	4,124
Total	$14,743	$5,856

Gains and Losses. The FHLBanks recognized $1,118 million, $108 million and $1,692 million in proceeds from the sale of available-for-sale securities during 2008, 2007 and 2006. The FHLBanks realized $12 million, $2 million and $3 million in gross gains and $4 million, $2 million and $6 million in gross losses on the sale of available-for-sale securities in 2008, 2007 and 2006.

During the third quarter of 2008, the FHLBank of Boston sold available-for-sale mortgage-backed securities with a carrying value of $2.7 million and recognized a loss of $80 thousand on the sale of these securities. These mortgage-backed securities had been pledged as collateral to Lehman Brothers Special Financing Inc. (LBSF) on out-of-the-money derivative transactions. On September 15, 2008, Lehman Brothers Holdings, Inc. (LBHI) announced it had filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court. This petition precipitated the termination of the FHLBank of Boston's derivative transactions with LBSF, and in connection with those terminations, the FHLBank of Boston requested a return of the related collateral from LBSF. However, LBSF did not honor this request. Accordingly, the FHLBank of Boston netted the value of the collateral with the amounts due to LBSF on those outstanding derivative transactions. This event was determined by the FHLBank of Boston to be isolated, nonrecurring and unusual and could not have been reasonably anticipated. As such, the sale does not affect the FHLBank of Boston's ability and intent to hold remaining available-for-sale securities that are in an unrealized loss position through to a recovery of fair value, which may be maturity. The FHLBank of Boston did not have any other sales of available-for-sale investment securities during the years ended December 31, 2008 and 2007. For additional information on the FHLBank of Boston's securities and derivative transactions please refer to the FHLBank of Boston's periodic report filed with the SEC.

On December 27, 2007, the FHLBank of Chicago transferred certain privately-issued investment grade collateralized mortgage obligations with $138 million of unrealized losses from the available-for-sale portfolio to the held-to-maturities portfolio, which was recorded at fair value. The objective of the transfer was to recognize a change in the FHLBank of Chicago's management's intent to hold these securities to maturity due to the current illiquidity in the credit markets related to subprime investments. At the time of transfer, the fair value of these securities ranged from 63 percent to 100 percent of their amortized cost bases, of which the weighted-average fair value was 91 percent of the amortized cost bases. There were 74 securities that were transferred, of which two securities were in an unrealized loss position for greater than 12 months. The FHLBank of Chicago performed an impairment analysis of this portfolio at December 31, 2007 to determine the recoverability of all principal and interest contractually due based on the securities' underlying collateral, delinquency and default rates and expected loss severities. Based on this analysis, the FHLBank of Chicago determined that there was no OTTI at that time. At December 31, 2008, $76 million of the original $138 million unrealized loss remained in accumulated other comprehensive income (OCI) and is being amortized over the remaining life of the securities as a yield adjustment, offset by the interest income accretion related to the discount on the transferred securities. During the year ended December 31, 2008, the FHLBank of Chicago recognized $40 million from OCI into realized losses on held-to-maturity securities due to OTTI. Net of these impairment charges and amortization, the remaining balance in OCI at December 31, 2008 on these transferred securities was $76 million. See Note 7 for details on the FHLBank of Chicago's OTTI-related losses for held-to-maturity securities during 2008.

Note 7—Held-to-Maturity Securities

Major Security Types.

Held-to-maturity securities, excluding interbank holdings of consolidated bonds totaling $2.5 billion at December 31, 2007 were as follows (dollar amounts in millions). There were no held-to-maturity interbank holdings of consolidated bonds at December 31, 2008.

	December 31, 2008			
	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 1,272	$ 2	$	$ 1,274
Certificates of deposits (2)	16,428	6		16,434
Other U.S. obligations*	737	6	(2)	741
Government-sponsored enterprises**	2,267	90		2,357
State or local housing agency obligations	2,941	27	(194)	2,774
Other***	1,257	1		1,258
	24,902	132	(196)	24,838
Mortgage-backed securities:				
Other U.S. obligations*	505	2	(4)	503
Government-sponsored enterprises****	86,225	1,292	(758)	86,759
Other*****	72,892	7	(19,350)	53,549
	159,622	1,301	(20,112)	140,811
Total	$184,524	$1,433	$(20,308)	$165,649

	December 31, 2007			
	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 7,197	$	$	$ 7,197
Certificates of deposit and bank notes (2)	46,642	11		46,653
Other U.S. obligations*	725	7	(1)	731
Government-sponsored enterprises**	1,827	41	(5)	1,863
State or local housing agency obligations	2,917	33	(29)	2,921
Other	92			92
	59,400	92	(35)	59,457
Mortgage-backed securities:				
Other U.S. obligations*	356	3	(2)	357
Government-sponsored enterprises****	50,470	307	(390)	50,387
Other*****	87,592	110	(2,126)	85,576
	138,418	420	(2,518)	136,320
Total	$197,818	$512	$(2,553)	$195,777

(1) Amortized cost of held-to-maturity securities includes adjustments made to the cost basis of an investment for accretion, amortization and/or previous OTTIs.

(2) Represents Certificates of deposit and bank notes that meet the definition of a security under SFAS 115. (See "Note 1—Summary of Significant Accounting Policies.")

* Primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of debt securities issued or guaranteed by Freddie Mac, Fannie Mae and/or TVA.

*** Primarily consists of promissory notes issued or guaranteed by FDIC under TLGP.

**** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae.

***** Primarily consists of private-label mortgage-backed securities.

The following tables summarize the held-to-maturity 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 (dollar amounts in millions).

	December 31, 2008					
	Less than 12 Months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other U.S. obligations*	$ 51	$ (2)	$	$	$ 51	$ (2)
State or local housing agency obligations	243	(23)	427	(171)	670	(194)
Mortgage-backed securities:						
Other U.S. obligations*	245	(3)	40	(1)	285	(4)
Government-sponsored enterprises***	18,220	(459)	7,512	(299)	25,732	(758)
Other****	17,973	(5,474)	33,058	(13,876)	51,031	(19,350)
Total temporarily impaired	$36,732	$(5,961)	$41,037	$(14,347)	$77,769	$(20,308)

	December 31, 2007					
	Less than 12 Months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other U.S. obligations*	$ 51	$ (1)	$	$	$ 51	$ (1)
Government-sponsored enterprises**			608	(5)	608	(5)
State or local housing agency obligations	482	(26)	92	(3)	574	(29)
Mortgage-backed securities:						
Other U.S. obligations*	25		86	(2)	111	(2)
Government-sponsored enterprises***	9,545	(68)	15,895	(322)	25,440	(390)
Other****	37,069	(1,004)	36,821	(1,122)	73,890	(2,126)
Total temporarily impaired	$47,172	$(1,099)	$53,502	$(1,454)	$100,674	$(2,553)

* Primarily consists of Ginnie Mae and/or SBA investment pools.

** Primarily consists of debt securities issued or guaranteed by Freddie Mac, Fannie Mae and/or TVA.

*** Primarily consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae.

**** Primarily consists of private-label mortgage-backed securities.

Investments in government-sponsored enterprise securities, specifically debentures issued by Fannie Mae and Freddie Mac, were additionally affected by investor concerns regarding those entities' capital levels needed to offset expected credit losses that may result from declining home prices. The Housing Act contains provisions allowing the U.S. Treasury to provide support to Fannie Mae and Freddie Mac. Additionally, in September 2008, the U.S. Treasury and the Finance Agency announced that Fannie Mae and Freddie Mac were placed into conservatorship, with the Finance Agency named as conservator. The Finance Agency will manage Fannie Mae and Freddie Mac in an attempt to stabilize their financial conditions and their ability to support the secondary mortgage market.

Each FHLBank evaluates its individual held-to-maturity investment securities holdings for OTTI on at least a quarterly basis. As part of this process, an FHLBank considers its ability and intent to hold each security for a sufficient time to allow for any anticipated recovery of unrealized losses. To determine which individual securities are at risk for OTTI, an FHLBank considers various characteristics of each security including, but not limited to, the following: the credit rating and related outlook or status; the creditworthiness of the issuers of the agency debt securities; the strength of the government-sponsored enterprises' guarantees of the holdings of agency mortgage-backed securities; the underlying type of collateral; the duration and level of the unrealized loss; any credit enhancements or insurance; and certain other collateral-related characteristics such as FICO® credit scores, delinquency rates and the security's performance. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment.

As a result of this security-level review, an FHLBank identifies individual securities believed to be at risk for OTTI, which are evaluated further by analyzing the performance of the security. Securities with weaker performance measures are evaluated by estimating projected cash flows based on the structure of the security and certain assumptions, such as default rates and loss severity, to determine whether the FHLBank expects to receive the contractual cash flows when it is entitled. As a result of its evaluations, as of December 31, 2008, each of the FHLBanks of Boston, Pittsburgh, Atlanta, Chicago, Topeka, San Francisco and Seattle recognized OTTI losses related to mortgage-backed securities (also referred to as MBS) instruments in its held-to-maturity portfolio, as further described in this footnote. Each of these seven FHLBanks has both the intent and ability to hold these securities to maturity and generally expects to recover the majority of the amount written down as the difference between the estimated credit loss and the OTTI charge for each security is accreted to interest income, using the level-yield method on a retrospective basis, over the remaining life of each security. Each of the remaining five

FHLBanks has the ability and intent to hold its held-to-maturity securities with unrealized losses through the recovery of the unrealized losses. Additionally, the management of each of these five FHLBanks believes that it is probable that it will be able to collect all amounts when due according to the contractual terms of the individual securities it owns and does not consider its respective investments to be other-than-temporarily impaired at December 31, 2008.

The FHLBanks recognized total OTTI charges of $1,963 million in the year ended December 31, 2008 related to MBS instruments in their held-to-maturity portfolios, which are reported in the Combined Statement of Income as "Net realized losses on held-to-maturity securities." The following FHLBanks recognized an OTTI, based on each individual FHLBank's impairment analysis of its investment portfolio at December 31, 2008 to determine the recoverability of all principal and interest contractually due based on the securities' underlying collateral, delinquency and default rates and expected loss severities, as noted below (dollar amounts in millions).

	At December 31, 2008				For the Year Ended December 31, 2008
	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Fair Value	OTTI Impairment Charge
FHLBank of Boston					
Other-than-temporarily-impaired investment					
Private-label RMBS—Alt-A	$ 728	$ 346	$	$ 346	$382
Home equity loan investments—Subprime	1	*		*	*
Total HTM OTTI investments	$ 729	$ 346	$	$ 346	$382
Held-to-maturity MBS		8,385	(1,666)	6,782	382
Total held-to-maturity investment securities		9,268	(1,749)	7,585	382
FHLBank of Pittsburgh					
Other-than-temporarily-impaired investment					
Private-label RMBS—Prime	$ 66	$ 37	$	$ 37	$ 28
Private-label RMBS—Alt-A	528	294		294	235
Total HTM OTTI investments	$ 594	$ 331	$	$ 331	$263
Held-to-maturity MBS		10,626	(2,080)	8,575	263
Total held-to-maturity investment securities		14,918	(2,142)	12,825	263
FHLBank of Atlanta					
Other-than-temporarily-impaired investment					
Private-label RMBS—Prime	$ 315	$ 161	$	$ 161	$153
Private-label RMBS—Alt-A	99	68		68	33
Total HTM OTTI investments	$ 414	$ 229	$	$ 229	$186
Held-to-maturity MBS		23,017	(3,652)	19,489	186
Total held-to-maturity investment securities		23,118	(3,652)	19,594	186

	At December 31, 2008				For the Year Ended December 31, 2008
	Unpaid Principal Balance	Amortized Cost	Gross Unrealized Losses	Fair Value	OTTI Impairment Charge
FHLBank of Chicago (1)					
Other-than-temporarily-impaired investment					
Private-label RMBS—Prime	$ 134	$ 87	$	$ 87	$ 47
Home equity loan investments—Subprime	374	194	(16)	178	186
Total HTM OTTI investments	$ 508	$ 281	$ (16)	$ 265	$233
Held-to-maturity MBS		15,569	(1,196)	14,679	233
Total held-to-maturity investment securities		16,595	(1,197)	15,728	233
FHLBank of Topeka					
Other-than-temporarily-impaired investment					
Private-label RMBS—Prime	$ 3	$ 1	$	$ 1	$ 2
Home equity loan investments—Prime	5	2		2	3
Total HTM OTTI investments	$ 8	$ 3	$	$ 3	$ 5
Held-to-maturity MBS		9,398	(614)	8,799	5
Total held-to-maturity investment securities		11,051	(614)	10,455	5
FHLBank of San Francisco					
Other-than-temporarily-impaired investment					
Private-label RMBS—Prime	$ 146	$ 87	$	$ 87	$ 59
Private-label RMBS—Alt-A	1,360	837		837	531
Total HTM OTTI investments	$1,506	$ 924	$	$ 924	$590
Held-to-maturity MBS		39,053	(7,095)	32,114	590
Total held-to-maturity investment securities		51,205	(7,095)	44,270	590
FHLBank of Seattle					
Other-than-temporarily-impaired investment					
Private-label RMBS—Alt-A	$ 542	$ 242	$ (23)	$ 219	$304
Total HTM OTTI investments	$ 542	$ 242	$ (23)	$ 219	$304
Held-to-maturity MBS		7,589	(2,005)	5,597	304
Total held-to-maturity investment securities		9,785	(2,005)	7,857	304

(1) This amount does not include $76 million of remaining unrealized losses on securities transferred from the FHLBank of Chicago's available-for-sale securities portfolio on December 27, 2007, because the transfer was recorded at fair

value. The original $138 million unrealized loss was recorded in OCI and is being amortized over the remaining life of the securities as a yield adjustment, offset by the interest income accretion related to the discount on the transferred securities. However, OCI on these securities is recognized immediately into earnings if an impairment charge is realized. During the year ended December 31, 2008, the FHLBank of Chicago recognized $40 million from OCI into realized losses on held-to-maturity securities due to OTTI.

* Represents an amount less than $1 million.

The remainder of the FHLBanks' held-to-maturity securities portfolio has experienced unrealized losses and a decrease in fair value due to interest rate volatility, illiquidity in the marketplace, and credit deterioration in the U.S. mortgage markets. However, the decline is considered temporary as each of the FHLBanks has the intent and ability to hold these investments with unrealized losses it owns to maturity and expects to collect all contractual principal and interest.

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

	December 31, 2008		December 31, 2007	
Year of Maturity	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$ 19,866	$ 19,878	$ 55,039	$ 55,052
Due after one year through five years	2,052	2,152	1,330	1,348
Due after five years through ten years	341	337	572	603
Due after ten years	2,643	2,471	2,459	2,454
	24,902	24,838	59,400	59,457
Mortgage-backed securities	159,622	140,811	138,418	136,320
Total	$184,524	$165,649	$197,818	$195,777

The amortized cost of the FHLBanks' mortgage-backed securities classified as held-to-maturity includes net discounts of $2,127 million and $448 million at December 31, 2008 and 2007.

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

	December 31, 2008	December 31, 2007
Amortized cost of held-to-maturity securities other than mortgage-backed securities:		
Fixed-rate	$ 22,481	$ 57,285
Variable-rate	2,421	2,115
	24,902	59,400
Amortized cost of held-to-maturity mortgage-backed securities:		
Pass-through securities:		
Fixed-rate	29,910	26,221
Variable-rate	6,365	1,471
Collateralized mortgage obligations:		
Fixed-rate	63,451	64,315
Variable-rate	59,896	46,411
	159,622	138,418
Total	$184,524	$197,818

Gains and Losses. Certain FHLBanks each sold securities out of its held-to-maturity securities portfolio during the years ended December 31, 2008 and 2007 that were either within three months of maturity or had less than 15 percent of the acquired principal outstanding at the time of the sale (except as noted below for the FHLBanks of Boston, New York and Atlanta). In accordance with SFAS 115, such sales are considered as maturities for the purposes of security classification. These FHLBanks recognized \$659 million, \$2,058 million and \$1,044 million in proceeds from the sale of held-to-maturity securities during 2008, 2007 and 2006. The following table summarizes the gain (loss) on the sale of held-to-maturity securities for the years ended December 31, 2008 and 2007 (dollar amounts in millions).

	For The Year Ended December 31,		
	2008	2007	2006
Boston	\$ *	\$	\$
New York	1**		
Atlanta	**		
Chicago	***		
Des Moines	2	1	
Topeka	***	(1)	
Seattle	1	(6)	(6)
Total	\$ 4	\$ (6)	\$ (6)

* During the third quarter of 2008, the FHLBank of Boston sold held-to-maturity mortgage-backed securities with a carrying value of \$5.7 million and recognized a loss of \$52 thousand on the sale of these securities. These mortgage-backed securities sold had been pledged as collateral to LBSF on out-of-the-money derivatives transactions. On September 15, 2008, LBHI announced it had filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court. This petition precipitated the termination of the FHLBank of Boston's derivative transactions with LBSF, and in connection with those terminations the FHLBank of Boston requested a return of the related collateral. However, LBSF did not honor this request. Accordingly, the FHLBank of Boston netted the value of the collateral with the amounts due to LBSF on those outstanding derivative transactions. This event was determined by the FHLBank of Boston to be isolated, nonrecurring and unusual and could not have been reasonably anticipated. As such, the sale does not affect the FHLBank of Boston's ability and intent to hold the remaining investments classified as held-to-maturity through their stated maturity dates. The FHLBank of Boston did not have any other sales of held-to-maturity investment securities during the years ended December 31, 2008 and 2007. For additional information on securities transactions and derivative transactions affected by this event, please refer to the FHLBank of Boston's periodic report filed with the SEC.

** Each of the FHLBanks of New York and Atlanta recognized a gain of \$1 million or less during the year ended December 31, 2008 on a state and local housing agency bond that was redeemed by the issuer.

*** Represents an amount less than \$1 million.

Under SFAS 115, changes in circumstances may cause an FHLBank to change its intent to hold a certain security to maturity without calling into question its intent to hold other debt securities to maturity in the future. Thus, the sale or transfer of a held-to-maturity security due to certain changes in circumstances, such as evidence of significant deterioration in the issuer's creditworthiness or changes in regulatory requirements, is not considered to be inconsistent with its original classification. Other events that are isolated, nonrecurring, and unusual for the FHLBanks that could not have been reasonably anticipated may cause an FHLBank to sell or transfer a held-to-maturity security without necessarily calling into question its intent to hold other debt securities to maturity.

Note 8—Advances

Redemption Terms. At December 31, 2008 and 2007, the FHLBanks had advances outstanding, including AHP advances (see Note 14), at interest rates ranging from 0 percent to 9.75 percent, as summarized below (dollar amounts in millions). Advances with interest rates of 0 percent are AHP-subsidized advances.

Redemption Term	December 31, 2008 Amount	December 31, 2008 Weighted-Average Interest Rate	December 31, 2007 Amount	December 31, 2007 Weighted-Average Interest Rate
Overdrawn demand and overnight deposit accounts	$ 30		$ 86	
Due in 1 year or less	382,493	2.44%	378,445	4.66%
Due after 1 year through 2 years	150,323	3.67%	147,166	4.84%
Due after 2 years through 3 years	94,086	3.53%	88,576	4.93%
Due after 3 years through 4 years	67,173	3.65%	63,009	4.99%
Due after 4 years through 5 years	58,127	3.13%	57,822	4.76%
Thereafter	144,578	3.78%	128,730	4.54%
Index amortizing advances	3,654	4.62%	3,415	4.71%
Total par value	900,464	3.12%	867,249	4.73%
Commitment fees	(6)		(4)	
Discount on AHP advances	(68)		(68)	
Premiums	105		30	
Discounts	(42)		(63)	
SFAS 133 hedging adjustments	26,885		7,917	
SFAS 159 valuation adjustments	1,300			
Total	$928,638		$875,061	

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

The FHLBanks offer advances to members that may be prepaid on pertinent dates (call dates) without incurring prepayment or termination fees (callable advances). Other advances may only be prepaid by paying a fee to the FHLBank (prepayment fee) that makes the FHLBank financially indifferent to the prepayment of the advance. At December 31, 2008 and 2007, the FHLBanks had callable advances of $46,098 million and $37,000 million.

The following table summarizes advances by year of contractual maturity or next call date for callable advances (dollar amounts in millions):

Year of Contractual Maturity or Next Call Date	December 31, 2008	December 31, 2007
Overdrawn demand and overnight deposit accounts	$ 30	$ 86
Due in 1 year or less	414,444	407,306
Due after 1 year through 2 years	148,674	142,670
Due after 2 years through 3 years	89,636	85,375
Due after 3 years through 4 years	62,615	58,513
Due after 4 years through 5 years	53,534	53,546
Thereafter	127,877	116,338
Index amortizing advances	3,654	3,415
Total par value	$900,464	$867,249

The FHLBanks also offer putable and convertible advances. With a putable advance, an FHLBank has the right to terminate the advance at predetermined exercise dates, which the FHLBank typically would exercise when interest rates increase, and the borrower may then apply for a new advance at the prevailing market rate. At December 31, 2008 and 2007, the FHLBanks had putable advances outstanding totaling $94,621 million and $82,845 million.

Convertible advances allow the FHLBanks 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. At December 31, 2008 and 2007, the FHLBanks had convertible advances outstanding totaling $47,676 million and $49,055 million.

The following table summarizes advances by year of contractual maturity or next put/convert date for putable/convertible advances (dollar amounts in millions):

Year of Contractual Maturity or Next Put/Convert Date	December 31, 2008	December 31, 2007
Overdrawn demand and overnight deposit accounts	$ 30	$ 86
Due in 1 year or less	483,174	465,854
Due after 1 year through 2 years	151,648	163,866
Due after 2 years through 3 years	96,779	80,930
Due after 3 years through 4 years	51,820	58,912
Due after 4 years through 5 years	52,660	39,920
Thereafter	60,699	54,266
Index amortizing advances	3,654	3,415
Total par value	$900,464	$867,249

Security Terms. The FHLBanks lend to financial institutions involved in housing finance within their districts according to Federal statutes, including the FHLBank Act. The FHLBank Act requires each FHLBank to obtain sufficient collateral on advances to protect against losses and permits each FHLBank to accept the following as eligible collateral on such advances: residential mortgage loans, certain U.S. government or government agency securities, cash or deposits, and other eligible real estate-related assets. The capital stock of the FHLBanks owned by each borrowing member is pledged as additional collateral for the member's indebtedness to the FHLBank. CFIs are defined in the Housing Act as those institutions that have, as of the date of the transaction at issue, less than $1.0 billion in average total assets over the three years preceding that date. The Finance Agency adjusts the average total asset cap for inflation annually. Effective January 1, 2009, the cap was $1.011 billion. CFIs are eligible under expanded statutory collateral rules to pledge as collateral for advances small-business, small- farm and small-agribusiness loans fully secured by collateral other than real estate, or securities representing a whole interest in such secured loans. The Housing Act also adds secured loans for "community development activities" as a permitted purpose, and as eligible collateral, for advances to CFIs. Since the FHLBank of Chicago has not yet converted to a new capital plan, the FHLBank Act requires that total advances from the FHLBank of Chicago to a member may not exceed 20 times the member's capital stock in the FHLBank of Chicago.

At December 31, 2008 and 2007, the FHLBanks had rights to collateral with an estimated value greater than the related outstanding advances. The estimated value of the collateral required to secure each borrower's obligations is calculated by applying collateral discounts or haircuts. On the basis of the financial condition of the borrower, the type of security agreement, and other factors, each FHLBank requires a borrower to execute a written security agreement and imposes one of two requirements to protect its secured collateral:

- allowing the borrower to retain possession of the collateral assigned to the FHLBank while agreeing to hold such collateral for the benefit of the FHLBank; or
- requiring the borrower specifically to assign or place physical possession of such collateral with the FHLBank or a third-party custodian approved by the FHLBank.

Beyond these provisions, Section 10(e) of the FHLBank Act affords any security interest granted by a member or any affiliate of the member to an FHLBank priority over the claims and rights of any other party except those claims that would be entitled to priority under otherwise applicable law and that are held by bona fide purchasers for value or by secured parties with perfected security interests.

Credit Risk. While the FHLBanks have never experienced a credit loss on an advance to a member, the expanded statutory collateral rules for CFIs provides the potential for additional credit risk for the FHLBanks. The management of each FHLBank has the policies and procedures in place to appropriately manage this credit risk. Accordingly, the FHLBanks have not provided any allowances for losses on advances.

The FHLBanks' potential credit risk from advances is concentrated in commercial banks and savings institutions. At December 31, 2008 and 2007, the FHLBanks had $645 billion and $643 billion of advances outstanding that were greater than or equal to $1 billion per borrower. These advances were made to 110 and 101 borrowers, respectively, representing 71.6 percent and 74.2 percent of total advances outstanding. The FHLBanks hold sufficient collateral to cover the advances to these institutions, and the FHLBanks do not expect to incur any credit losses on these advances.

Interest-Rate Payment Terms. The following table details additional interest-rate payment terms for advances (dollar amounts in millions):

	December 31, 2008	December 31, 2007
Par Amount of Advances	**Amount**	**Amount**
Fixed-rate	$609,073	$565,805
Variable-rate	291,391	301,444
Total	$900,464	$867,249

Prepayment Fees. The FHLBanks record prepayment fees received from members on prepaid advances net of any associated SFAS 133 hedging fair-value adjustments on those advances.

The net amount of prepayment fees is reflected as interest income in the Combined Statement of Income. Gross advance prepayment fees received from members were $322 million, $85 million and $133 million for the years ended December 31, 2008, 2007 and 2006.

Note 9—Mortgage Loans Held for Portfolio

Under two programs, the FHLBanks hold single-family mortgage loans that are funded through and primarily serviced by PFIs. In addition, these mortgage loans are guaranteed or insured by Federal agencies or are credit-enhanced by PFIs. The Finance Board previously authorized different and much smaller mortgage loan purchase programs not confined to single-family mortgage loans at the FHLBanks of New York and Atlanta. The FHLBanks of New York and Atlanta suspended acquisitions under these programs prior to 2007.

The following table presents information on mortgage loans held by all FHLBanks under all programs (dollar amounts in millions):

	December 31, 2008	December 31, 2007
Real Estate:		
Fixed-rate, medium-term* single-family mortgages	$20,913	$23,280
Fixed-rate, long-term single-family mortgages	65,846	67,848
Multifamily mortgages	27	27
	86,786	91,155
Premiums	516	596
Discounts	(269)	(285)
Deferred loan costs, net	32	37
SFAS 133 hedging adjustments	311	115
Total mortgage loans held for portfolio	$87,376	$91,618

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

The following table details the par value of mortgage loans held for portfolio outstanding (dollar amounts in millions):

	December 31, 2008	December 31, 2007
Conventional loans	$78,499	$82,252
Government-guaranteed or-insured loans	8,283	8,899
Other loans	4	4
Total par value	$86,786	$91,155

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

	2008	2007	2006
Balance, beginning of year	$ 8	$7	$10
Charge-offs	(1)		
Recoveries			
Net charge-offs	(1)		
Provision (reversal) for credit losses	8	1	(3)
Balance, end of year	$15	$8	$ 7

At December 31, 2008 and 2007, the FHLBanks had $165 million and $86 million of nonaccrual loans.

Mortgage loans, other than those included in large groups of smaller-balance homogeneous loans, are considered impaired when, based on current information and events, it is probable that the FHLBank will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage loan agreement. At December 31, 2008 and 2007, the FHLBanks had recorded $26 million and $17 million of investments in impaired mortgage loans. Average impaired mortgage loans balances were $17 million, $12 million and $10 million during 2008, 2007 and 2006. The FHLBanks' interest income related to impaired loans was less than $1 million during 2008, 2007 and 2006.

The FHLBanks record credit enhancement fees as a reduction to mortgage loan interest income. Credit enhancement fees totaled $75 million, $82 million and $90 million for the years ended December 31, 2008, 2007 and 2006

The following table presents changes in the MPP Lender Risk Account (dollar amounts in millions):

	December 31, 2008	December 31, 2007
Lender Risk Account at beginning of year	$ 92	$84
Additions	13	16
Claims	(3)	(1)
Scheduled distributions	(11)	(7)
Lender Risk Account at end of year	$ 91	$92

Note 10—Derivatives and Hedging Activities

Nature of Business Activity

An FHLBank may enter into interest-rate swaps (including callable and putable swaps), swaptions, interest-rate cap and floor agreements, calls, puts, and futures and forward contracts (collectively, derivatives) to manage its exposure to changes in interest rates.

The FHLBanks may use these instruments to adjust the effective maturity, repricing frequency, or option characteristics of financial instruments to achieve risk management objectives. The FHLBanks use derivatives in several ways: by designating them as either a fair-value or cash-flow hedge of an underlying financial instrument or a forecasted transaction, by acting as an intermediary, or in asset-liability management (i.e., an economic hedge). For example, an FHLBank uses derivatives in its overall interest-rate risk management to adjust the interest-rate sensitivity of consolidated obligations to approximate more closely the interest-rate sensitivity of assets (advances, investments, and mortgage loans), and/or to adjust the interest-rate sensitivity of advances, investments, or mortgage loans to approximate more closely the interest-rate sensitivity of liabilities.

In addition to using derivatives to manage mismatches of interest rates between assets and liabilities, the FHLBanks also use derivatives as follows: (1) to manage embedded options in assets and liabilities, (2) to hedge the market value of existing assets and liabilities and anticipated transactions, (3) to hedge the duration risk of prepayable instruments, (4) to exactly offset other derivatives executed with members (when an FHLBank serves as an intermediary) and (5) to reduce funding costs.

Consistent with Finance Agency regulation, an FHLBank enters into derivatives to manage the interest-rate risk exposures inherent in otherwise unhedged assets and funding positions, to achieve the FHLBank's risk management objectives, and to act as an intermediary between its members and counterparties. FHLBank management uses derivatives when they are considered to be the most cost-effective alternative to achieve the FHLBank's financial and risk management objectives. Accordingly, an FHLBank may enter into derivatives that do not necessarily qualify for hedge accounting (economic hedges).

Types of Assets and Liabilities Hedged

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 value of the related hedged items attributable to the risk being hedged and whether those derivatives may be expected to remain effective in future periods. Each FHLBank typically uses regression analyses or other statistical analyses to assess the effectiveness of its hedges.

Consolidated Obligations—While consolidated obligations are the joint and several obligations of the FHLBanks, each FHLBank has consolidated obligations for which it is the primary obligor. Each FHLBank enters into derivatives to hedge the interest rate risk associated with its specific debt issuances.

For instance, in a typical transaction, fixed-rate consolidated obligations are issued for one or more FHLBanks, and each FHLBank simultaneously enters into a matching derivative in which the counter-party pays fixed cash flows to the FHLBank designed to mirror 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 the London Interbank Offered Rate (LIBOR)). These transactions are treated as fair-value hedges under SFAS 133. 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.

The intermediation between the capital and derivatives markets permits the FHLBanks to raise funds at lower costs than would otherwise be available through the issuance of simple fixed- or variable-rate consolidated obligations in the capital markets.

Advances—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 more closely match 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 treated as a fair-value hedge under SFAS 133.

Mortgage Loans—The FHLBanks invest in fixed-rate mortgage loans. The prepayment options embedded in mortgage loans can result in extensions or contractions in the expected repayment of these investments, depending on changes in estimated prepayment speeds. The FHLBanks manage the interest-rate and prepayment risks associated with mortgages through a combination of debt issuance and derivatives. The FHLBanks issue both callable and noncallable debt 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 under which changes in the fair value of the swaps, and changes in the fair value of the mortgages that are attributable to the hedged risk, are recorded in current period earnings.

A combination of swaps and options, including futures, may be used as a portfolio of derivatives linked to a portfolio of mortgage loans. The portfolio of mortgage loans consists of one or more pools of similar assets, as determined by factors such as product type and coupon. As the portfolio of loans changes due to new loans, liquidations and payments, the derivative portfolio is modified accordingly to hedge the interest-rate and prepayment risks effectively. A new hedging relationship is created with each change to the loan and derivative portfolios; such relationship is treated as a fair-value hedge.

Options may also be used to hedge prepayment risk on the mortgages, many of which are not identified to specific mortgages and, therefore, do not receive fair-value or cash-flow hedge accounting treatment. The options are marked-to-market through current-period earnings and presented in the Combined Statement of Income as "Net gains (losses) on derivatives and hedging activities." The FHLBanks may also purchase interest-rate caps and floors, swaptions, callable swaps, calls, and puts to minimize the prepayment risk embedded in the mortgage loans. Although these derivatives are valid economic hedges against the prepayment risk of the loans, they are not specifically linked to individual loans and, therefore, do not receive either fair-value or cash-flow hedge accounting. The derivatives are marked-to-market through earnings.

Anticipated Streams of Future Cash Flows—The FHLBanks may enter into an option to hedge a specified future variable cash stream as a result of rolling over short-term, fixed-rate financial instruments such as LIBOR advances and consolidated discount notes. The option will effectively cap the variable cash stream at a predetermined target rate.

Firm Commitment Strategies—In accordance with SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (SFAS 149), certain mortgage purchase commitments are considered derivatives. The FHLBanks normally hedge these commitments by selling to be announced (TBA) mortgage-backed securities or other derivatives for forward settlement. A TBA represents a forward contract for the sale of mortgage-backed securities at a future agreed upon date for an established price. 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.

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

Investments—The FHLBanks invest in U.S. agency obligations, mortgage-backed securities, and the taxable portion of state or local housing finance agency obligations, 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 is managed through a combination of debt issuance and derivatives. The FHLBanks may manage the prepayment and interest rate risks by funding investment securities with consolidated obligations that have call features or by hedging the prepayment risk with caps or floors, callable swaps or swaptions.

For available-for-sale securities that have been hedged and qualify as a fair-value hedge, the FHLBanks record the portion of the change in value related to the risk being hedged in other income as “Net gains (losses) on derivatives and hedging activities” together with the related change in the fair value of the derivative, and the remainder of the change in other comprehensive income as “Net unrealized gains (losses) on available-for-sale securities.” For available-for-sale securities that have been hedged and qualify as a cash-flow hedge, the FHLBanks record the effective portion of the change in value of the derivative related to the risk being hedged in other comprehensive income as a “Net unrealized gains (losses) relating to hedging activities.” The ineffective portion is recorded in other income in the Combined Statement of Income and presented as “Net gains (losses) on derivatives and hedging activities.”

The FHLBanks may also manage the risk arising from changing market prices or cash flows of investment securities classified as trading by entering into derivatives (economic hedges) that offset the changes in fair value or cash flows of the securities. The market value changes of both the trading securities and the associated derivatives are included in other income in the Combined Statement of Income and presented as part of the “Net gains (losses) on trading securities” and “Net gains (losses) on derivatives and hedging activities.”

Anticipated Debt Issuance—The FHLBanks may enter into interest-rate swaps for the anticipated issuance of fixed-rate consolidated bonds to lock in the cost of funding. The interest-rate swap is terminated upon issuance of the fixed-rate consolidated bond, with the realized gain or loss on the interest-rate swap recorded in other comprehensive income. Realized gains and losses reported in accumulated other comprehensive income are recognized as earnings in the periods in which earnings are affected by the cash flows of the fixed rate consolidated bonds.

Managing Credit Risk on Derivatives

The FHLBanks are subject to credit risk due to nonperformance by counterparties to the derivative agreements. The degree of counterparty risk depends on the extent to which master netting arrangements are included in such contracts to mitigate the risk. The FHLBanks manage counterparty credit risk through credit analysis, collateral requirements and adherence to the requirements set forth in FHLBank policies and regulations. Based on credit analyses and collateral requirements, the management of each FHLBank does not anticipate any credit losses on its derivative agreements.

The contractual or notional amount of derivatives reflects the involvement of the FHLBanks in the various classes of financial instruments. The notional amount of derivatives does not measure the credit risk exposure of the FHLBanks, and the maximum credit exposure of the FHLBanks is substantially less than the notional amount. The FHLBanks require collateral agreements on all derivatives that establish collateral delivery thresholds. The maximum credit risk is the estimated cost of replacing interest-rate swaps, forward interest-rate agreements, mandatory delivery contracts for mortgage loans, and purchased caps and floors that have a net positive market value, assuming the counterparty defaults and the related collateral, if any, is of no value to the FHLBanks. This collateral has not been sold or repledged. This calculation of maximum credit risk excludes circumstances where an FHLBank's pledged collateral to a counterparty exceeds the FHLBanks' net position.

At December 31, 2008 and 2007, the FHLBanks' maximum credit risk, as defined above, was approximately $3,670 million and $2,411 million. These totals include $902 million and $988 million of net accrued interest receivable. In determining maximum credit risk, the FHLBanks consider accrued interest receivables and payables, and the legal right to offset derivative assets and liabilities by counterparty. The FHLBanks held securities and cash with a fair value of $3,429 million and $1,773 million as collateral at December 31, 2008 and 2007. 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.

Each FHLBank transacts most of its derivatives with large banks and major broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell, and distribute consolidated obligations. Note 20 discusses assets pledged by the FHLBanks to these counterparties. FHLBanks are not derivative dealers and thus do not trade derivatives for short-term profit.

Intermediation. To assist its members in meeting their hedging needs, an FHLBank may act as an intermediary between the members and other counterparties by entering into offsetting derivatives. This intermediation allows smaller members indirect access to the derivatives market.

Derivatives in which an FHLBank is an intermediary may arise when the FHLBank: (1) enters into derivatives with members and offsetting derivatives with other counterparties to meet the needs of its members, and (2) enters into derivatives to offset the economic effect of other derivatives that are no longer designated to either advances, investments, or consolidated obligations.

Total notional principal of derivatives for the FHLBanks' intermediary positions was $4,146 million and $3,344 million at December 31, 2008 and 2007.

Financial Statement Effect and Additional Financial Information

Net (losses) gains on derivatives and hedging activities were as follows (dollar amounts in millions):

	For the Year Ended		
	2008	2007	2006
(Losses) gains related to fair-value hedge ineffectiveness	$ (128)	$ 12	$21
(Losses) gains on economic hedges	(1,416)	(65)	63
Losses related to cash-flow hedge ineffectiveness	(15)		(1)
Net (losses) gains on derivatives and hedging activities	$(1,559)	$(53)	$83

There were no material amounts for the years ended December 31, 2008, 2007 and 2006 that were reclassified into earnings as a result of the discontinuance of cash-flow hedges because it became probable that the original forecasted transactions would not occur by the end of the originally specified time period or within a two-month period thereafter. At December 31, 2008, the deferred net gains (losses) on derivative instruments accumulated in other comprehensive income expected to be reclassified to earnings during the next twelve months is not material. The maximum length of time over which the FHLBanks are hedging their exposure to the variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, is generally no more than three months. For the FHLBank of Chicago, the maximum length of time over which forecasted transactions are hedged is 10 years.

On September 15, 2008, LBHI, the parent company of LBSF and a guarantor of LBSF's obligations filed for protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court in the Southern District of New York. LBSF was a counterparty to FHLBanks on multiple derivative transactions under International Swap Dealers Association, Inc. master agreements with a total notional amount of $123 billion at the time of termination of the FHLBanks' derivative transactions with LBSF. As a result, each affected FHLBank notified LBSF of the FHLBank's intent to early terminate all outstanding derivative positions with LBSF. The provision for derivative counterparty credit losses in Total other expense section of the Statements of Income for the year ended December 31, 2008 relates to certain FHLBanks' provision for outstanding receivable with LBSF. Unwinding of the derivative transactions between LBSF and FHLBanks resulted in $343 million of net gains on derivatives and hedging activities during the third quarter 2008. In addition, upon unwinding of the derivative transactions between the FHLBanks and LBSF, the FHLBanks in a net receivable position netted the value of the collateral due to be returned to the FHLBanks with all other amounts due between the parties, which resulted in an establishment of a $312 million net receivable from LBSF (before provision) included in Other assets in the Combined Statement of Condition and a $252 million provision for derivative counterparty credit losses in the Combined Statement of Income to the extent that the FHLBanks were able to reasonably estimate the amount of loss that has occurred with respect to debt settlements of derivative transactions with LBSF.

The following table provides outstanding notional balances and estimated fair values of the derivatives outstanding, excluding collateral and accrued interest by category (dollar amounts in millions):

	December 31, 2008		December 31, 2007 (1)	
	Notional	Estimated Fair Value	Notional	Estimated Fair Value
Interest-rate Swaps:				
Fair Value	$ 725,044	$(16,631)	$796,542	$(4,629)
Cash Flow	6,447	(757)	537	(7)
Economic	313,681	(2,070)	112,460	(253)
Interest-rate Swaptions:				
Fair Value	3,930	181	4,113	70
Economic	10,797	272	16,465	72
Interest-rate Caps/Floors:				
Fair Value	296		4,433	(3)
Cash Flow	2,675	338	3,375	161
Economic	21,894	115	17,542	53
Interest-rate Futures/Forwards:				
Fair Value	999	2	3,304	(6)
Economic	1,204	(7)	87	
Mortgage Delivery Commitments:				
Economic	1,481	7	214	1
Other:				
Economic	310		90	
Total	$1,088,758	$(18,550)	$959,162	$(4,541)
Total derivatives excluding accrued interest		$(18,550)		$(4,541)
Accrued interest		1,067		1,639
Net cash collateral and related accrued interest		10,653		419
Net derivative balances		$ (6,830)		$(2,483)
Net derivative assets balances		$ 902		$ 1,306
Net derivative liabilities balances		(7,732)		(3,789)
Net derivative balances		$ (6,830)		$(2,483)

(1) December 31, 2007 amounts reflect the FHLBanks' retrospective application of FSP FIN 39-1. See Note 1 and Note 2 for further information on the FHLBanks' adoption of FSP FIN 39-1.

Note 11—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 such 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 average interest rates paid on average deposits during 2008 and 2007 were 1.74 percent and 4.90 percent.

The following table details interest-bearing and non-interest-bearing deposits with the FHLBanks (dollar amounts in millions):

	December 31, 2008	December 31, 2007
Interest-bearing:		
Demand and overnight	$13,260	$19,912
Term	1,885	749
Other	38	24
Total interest-bearing	15,183	20,685
Non-interest-bearing:		
Demand and overnight	129	84
Other	184	124
Total non-interest-bearing	313	208
Total deposits	$15,496	$20,893

The aggregate amount of time deposits with a denomination of $100 thousand or more was $1,883 million and $747 million as of December 31, 2008 and 2007.

Note 12—Borrowings

Securities Sold Under Agreements to Repurchase. Certain FHLBanks have sold securities under repurchase agreements. The amounts received under these agreements represent short-term borrowings and are classified as liabilities on the Combined Statement of Condition. These FHLBanks have delivered securities sold under agreements to repurchase to the primary dealer. Should the market value of the underlying securities fall below the market value required as collateral, the relevant FHLBank must deliver additional securities to the dealer.

Note 13—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, each FHLBank specifies the amount of debt it wants issued on its behalf. The Office of Finance tracks the amount of debt issued on behalf of each FHLBank. In addition, each FHLBank separately tracks and records as a liability its specific portion of consolidated obligations for which it is the primary obligor.

The Finance Agency 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. These notes sell at less than their face amount and are redeemed at par value when they mature. (See "Note 20—Commitments and Contingencies" for discussion of the U.S. Treasury's establishment of the Government Sponsored Enterprise Credit Facility (GSECF), which is designed to serve as a contingent source of liquidity for each of the 12 FHLBanks through issuance of consolidated obligations to the U.S. Treasury.)

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

The par amounts of the 12 FHLBanks' outstanding consolidated obligations, including consolidated obligations held by other FHLBanks, were approximately \$1.3 trillion and \$1.2 trillion at December 31, 2008 and 2007. 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 an 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.

To provide the holders of consolidated obligations issued before January 29, 1993 (prior bondholders) the protection equivalent to that provided under the FHLBanks' previous leverage limit of 12 times FHLBanks' regulatory capital stock, prior bondholders have a claim on a certain amount of the qualifying assets (Special Asset Account or SAA) if regulatory capital stock is less than 8.33 percent of consolidated obligations. Mandatorily redeemable capital stock is considered capital stock for determining the FHLBanks' compliance with this requirement. At December 31, 2008 and 2007, the FHLBanks' regulatory capital stock equaled 4.4 percent and 4.3 percent of the par value of consolidated obligations outstanding, and the required minimum pledged qualifying asset balance was less than \$1 million for 2008 and 2007. Further, the resolution requiring the establishment of the SAA also requires each FHLBank to transfer qualifying assets in the amount of its allocated share of the FHLBanks' SAA to a trust for the benefit of the prior bondholders if its capital-to-assets ratio falls below two percent. At December 31, 2008 and 2007, no FHLBank had a capital-to-assets ratio of less than two percent; therefore, no assets were being held in a trust. In addition, no trust has ever been established as a result of this regulation, as the ratio has never fallen below two percent.

General Terms. Consolidated obligations are issued with either fixed-rate coupon payment terms or variable-rate coupon payment terms that use a variety of indices for interest-rate resets including the LIBOR, Constant Maturity Treasury (CMT), Treasury Bills (T-Bills), the Prime rate, and others. To meet the expected specific needs of certain investors in consolidated obligations, both fixed-rate consolidated bonds and variable-rate consolidated bonds may contain features, which may result in complex coupon payment terms and call or put options. When such consolidated obligations are issued, the FHLBanks enter into derivatives containing offsetting features that effectively convert the terms of the consolidated bond to those of a simple variable-rate consolidated bond or a fixed-rate consolidated bond.

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

- *Indexed principal redemption consolidated bonds* (index amortizing notes) repay principal according to predetermined amortization schedules that are linked to the level of a certain index. At December 31, 2008 and 2007, most of the index amortizing notes had fixed-rate coupon payment terms. Usually, as market interest rates rise (fall), the maturity of the index amortizing notes extends (contracts); and

- *Optional principal redemption 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;
- *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;
- *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 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;
- *Conversion consolidated bonds* have coupons 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;
- *Inverse floating consolidated bonds* have coupons that increase as an index declines and decrease as an index rises; and
- *Comparative index consolidated bonds* have coupon rates determined by the difference between two or more market indices, typically CMT and LIBOR.

Interest-Rate Payment Terms. The following table details consolidated bonds by interest-rate payment type (dollar amounts in millions):

Par Value of Consolidated Bonds	December 31, 2008	December 31, 2007
Fixed rate	$569,427	$654,695
Simple variable-rate	224,352	108,719
Step-up	8,888	25,489
Zero-coupon	3,675	11,126
Range bonds	2,846	5,907
Variable rate that converts to fixed rate	375	971
Step-down	163	593
Fixed rate that converts to variable rate	30	480
Other	58	262
Total par value	$809,814	$808,242

Redemption Terms. The following is a summary of the FHLBanks' consolidated bonds outstanding, excluding interbank holding of $611 million and $3.1 billion, at December 31, 2008 and 2007, by year of contractual maturity (dollar amounts in millions):

	December 31, 2008		December 31, 2007	
Year of Contractual Maturity	**Amount**	**Weighted - Average Interest Rate**	**Amount**	**Weighted - Average Interest Rate**
Due in 1 year or less	$406,355	2.62%	$287,768	4.51%
Due after 1 year through 2 years	129,788	3.39%	176,486	4.71%
Due after 2 years through 3 years	68,554	4.16%	82,966	4.67%
Due after 3 years through 4 years	36,138	4.73%	49,497	5.02%
Due after 4 years through 5 years	56,818	4.24%	51,742	5.08%
Thereafter	104,405	5.18%	151,672	5.10%
Index amortizing notes	7,756	5.02%	8,111	5.02%
Total par value	809,814	3.43%	808,242	4.75%
Premiums	719		370	
Discounts	(3,216)		(8,815)	
SFAS 133 hedging adjustments	10,989		2,782	
SFAS 159 valuation adjustments	66			
Subtotal	818,372		802,579	
Bonds held in treasury			(5)	
Total	$818,372		$802,574	

The FHLBanks' consolidated bonds outstanding included (dollar amounts in millions):

Par Amount of Consolidated Bonds	**December 31, 2008**	**December 31, 2007**
Noncallable/nonputable	$643,882	$496,064
Callable	165,932	312,178
Total par value	$809,814	$808,242

The following table summarizes consolidated bonds outstanding by year of contractual maturity or next call date (dollar amounts in millions):

Year of Contractual Maturity or Next Call Date	**December 31, 2008**	**December 31, 2007**
Due in 1 year or less	$511,099	$489,482
Due after 1 year through 2 years	134,664	149,453
Due after 2 years through 3 years	52,644	55,575
Due after 3 years through 4 years	19,723	27,095
Due after 4 years through 5 years	33,591	17,481
Thereafter	50,337	61,045
Index amortizing notes	7,756	8,111
Total par value	$809,814	$808,242

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 at December 31, 2008 and 2007.

Consolidated Discount Notes. Consolidated discount notes are issued to raise short-term funds. Consolidated discount notes are consolidated obligations with original maturities of up to one year. These consolidated discount notes are issued at less than their face amount and redeemed at par value when they mature.

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

	Book Value	Par Value	Weighted-Average Interest Rate
December 31, 2008	$439,895	$441,118	1.34%
December 31, 2007	$376,342	$378,352	4.24%

* The consolidated discount notes weighted-average interest rate represents an implied rate.

Note 14—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 $100 million or 10 percent of regulatory income. Regulatory income is income before assessments, and before interest expense related to mandatorily redeemable capital stock under SFAS 150, but after the assessment for REFCORP. The exclusion of interest expense related to mandatorily redeemable capital stock is based on an advisory bulletin issued by the Regulator. The AHP and REFCORP assessments are calculated simultaneously because of their interdependence on each other. Each FHLBank accrues this expense monthly based on its income before assessments. An FHLBank reduces its AHP liability as members use subsidies. Calculation of the REFCORP assessment is discussed in Note 15.

If an FHLBank experienced a regulatory loss during a quarter, but still had regulatory income for the year, the FHLBank's obligation to the AHP would be calculated based on the FHLBank's year-to-date regulatory income. If the FHLBank had regulatory income in subsequent quarters, it would be required to contribute additional amounts to meet its calculated annual obligation. If the FHLBank experienced a regulatory loss for a full year, the FHLBank would have no obligation to the AHP for the year, because each FHLBank's required annual AHP contribution is limited to its annual net earnings. If the aggregate 10 percent calculation described above 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.

There was no shortfall, as described above, in 2008, 2007 or 2006. If an FHLBank finds that its required contributions are contributing to the financial instability of that FHLBank, it may apply to the Finance Agency for a temporary suspension of its contributions. The FHLBanks did not make any such applications in 2008, 2007 or 2006. The FHLBanks had outstanding principal in AHP-related advances of $357 million and $350 million at December 31, 2008 and 2007.

An analysis of the AHP liability as reported on the Combined Statement of Condition is as follows (dollar amounts in millions):

	2008	2007	2006
Balance at beginning of year	$ 893	$ 805	$ 739
Expense	188	318	295
Subsidy usage, net	(273)	(230)	(229)
Balance at end of year	$ 808	$ 893	$ 805

Note 15—Resolution Funding Corporation (REFCORP)

Each FHLBank is required to pay to REFCORP 20 percent of income calculated in accordance with GAAP after the assessment for AHP, but before the assessment for REFCORP. The AHP and REFCORP assessments are calculated simultaneously because of their interdependence on each other. Each FHLBank accrues its REFCORP assessment on a monthly basis. Calculation of the AHP assessment is discussed in Note 14. REFCORP has been designated as the calculation agent for AHP and REFCORP assessments. Each FHLBank provides its net income before AHP and REFCORP to REFCORP, which then performs the calculations for each quarter end.

The FHLBanks will continue to be obligated to pay these amounts until the aggregate amounts actually paid by all 12 FHLBanks are equivalent to a $300 million annual annuity (or a scheduled payment of $75 million per quarter) whose final maturity date is April 15, 2030, at which point the required payment of each FHLBank to REFCORP will be fully satisfied. The cumulative amount to be paid to REFCORP by each FHLBank is not determinable at this time because it depends on the future earnings of all FHLBanks and interest rates. If an FHLBank experienced a net loss during a quarter, but still had net income for the year, the FHLBank's obligation to REFCORP would be calculated based on the FHLBank's year-to-date GAAP net income. The FHLBank would be entitled to either a refund or a credit for amounts paid for the full year that were in excess of its calculated annual obligation. If the FHLBank had net income in subsequent quarters, it would be required to contribute additional amounts to meet its calculated annual obligation. If the FHLBank experienced a net loss for a full year, the FHLBank would have no obligation to REFCORP for the year.

Due to certain FHLBanks overpaying their 2008 REFCORP assessment, and as directed by the U.S. Treasury, these FHLBanks will use their respective overpayments as a credit against future REFCORP assessments (to the extent the FHLBank has positive net income in the future) over an indefinite period of time. These overpayments of $198 million were recorded as deferred assets by the FHLBanks and reported in "other assets" on the FHLBanks' Combined Statement of Condition at December 31, 2008. Over time, as the FHLBanks use these credits against their future REFCORP assessments, each FHLBank's deferred asset will be reduced until the deferred asset has been exhausted. If any amount of an FHLBank's deferred asset still remains at the time that the REFCORP obligation for the FHLBank System as a whole is fully satisfied, REFCORP, in consultation with the U.S. Treasury, will implement a procedure so that the FHLBank would be able to collect on its remaining deferred asset.

The Finance Agency is required to extend the term of the FHLBanks' obligation to REFCORP for each calendar quarter in which the FHLBanks' quarterly payment falls short of $75 million.

The FHLBanks' aggregate payments through 2008 have exceeded the scheduled payments, effectively accelerating payment of the REFCORP obligation and shortening its remaining term to April 15, 2013, effective at December 31, 2008. The FHLBanks' aggregate payments through 2008 have satisfied $43 million of the $75 million scheduled payment due on April 15, 2013 and all scheduled payments thereafter. This date assumes that the FHLBanks will pay exactly $300 million annually after December 31, 2008 until the annuity is satisfied.

The benchmark payments or portions of them could be reinstated if the actual REFCORP payments of the FHLBanks fall short of $75 million in a quarter. The maturity date of the REFCORP obligation may be extended beyond April 15, 2030 if such extension is necessary to ensure that the value of the aggregate amounts paid by the FHLBanks exactly equals a $300 million annual annuity. Any payment beyond April 15, 2030 will be paid to the U.S. Department of the Treasury.

Note 16—Subordinated Notes

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 United States government or any of the 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. 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 it has paid, in full, all interest and principal due in respect of the subordinated notes on a particular date.

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 percent per annum. Interest is payable semi-annually in arrears on each June 13 and December 13, commencing December 13, 2006. 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 percent 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). At December 31, 2008, the FHLBank of Chicago satisfied the minimum regulatory leverage ratios applicable to the FHLBank of Chicago, and it had not deferred any interest payments.

The Finance Agency allows the FHLBank of Chicago to include a percentage of the outstanding principal amount of the subordinated notes (Designated Amount) in determining compliance with its regulatory capital and minimum regulatory leverage ratio requirements and in calculating its maximum permissible holdings of mortgage-backed securities and unsecured credit, subject to 20 percent annual phase-outs beginning in the sixth year following issuance, as follows (dollar amounts in millions):

Time Period	Percentage of Designated Amount	Designated Amount Included
Issuance through June 13, 2011	100%	$1,000
June 14, 2011 through June 13, 2012	80%	800
June 14, 2012 through June 13, 2013	60%	600
June 14, 2013 through June 13, 2014	40%	400
June 14, 2014 through June 13, 2015	20%	200
June 14, 2015 through June 13, 2016	0%	

Note 17—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. By July 18, 2002, the Finance Board had approved the capital structure plan of each FHLBank.

As of December 31, 2008, all of the FHLBanks, except for the FHLBank of Chicago, had implemented their respective capital plans. 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 Finance Agency rules and regulations: (1) risk-based capital, (2) total capital and (3) leverage capital. First, under the risk-based capital requirement, 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 Finance Agency. The Finance Agency may require an FHLBank to maintain a greater amount of permanent capital than is required by the risk-based capital requirements as defined. Second, an 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 Finance Agency as available to absorb losses. Third, 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 (i) permanent capital weighted 1.5 times and (ii) all other capital without a weighting factor. Mandatorily redeemable capital stock is considered capital for determining an FHLBank's compliance with its regulatory requirements. If the FHLBank of Chicago is not in compliance with the capital requirements at the effective date of its capital conversion, it must come into compliance within a transition period of up to three years. During that period, the existing leverage limit established by Finance Agency regulations will continue to apply. For the 11 FHLBanks that have implemented their respective capital plans, each FHLBank was in compliance with these capital requirements at the effective date of its capital conversion.

Until the FHLBank of Chicago implements its new capital plan, the pre-GLB Act capital rules remain in effect. In particular, the pre-GLB Act rules require members to purchase capital stock equal to the greater of $500, 1 percent of its mortgage-related assets or 5 percent of its outstanding FHLBank advances.

At December 31, 2008, all of the FHLBanks, except for the FHLBank of Seattle, were in compliance with their risk-based capital rules as follows (dollar amounts in millions):

Regulatory Capital Requirements

		At December 31, 2008				
FHLBank*	Minimum Regulatory Capital Ratio Requirement	Minimum Regulatory Capital Requirement	Actual Capital Ratio	Total Regulatory Capital (1)	Permanent Capital (2)	Required Risk-Based Capital
Boston	4.0%	$ 3,214	4.6%	$ 3,658	$ 3,658	$2,133
New York	4.0%	5,502	4.4%	6,113	6,112	650
Pittsburgh	4.0%	3,632	4.6%	4,171	4,157	3,923
Atlanta	4.0%	8,343	4.3%	8,942	8,942	5,716
Cincinnati	4.0%	3,928	4.5%	4,399	4,399	543
Indianapolis	4.0%	2,274	4.8%	2,701	2,701	1,482
Des Moines	4.0%	2,725	4.7%	3,174	3,174	1,968
Dallas	4.0%	3,157	4.5%	3,530	3,530	930
Topeka	4.0%	2,342	4.2%	2,432	1,763	1,389
San Francisco	4.0%	12,850	4.2%	13,539	13,539	8,635
Seattle (3)	4.0%	2,334	4.6%	2,687	2,548	2,707

		At December 31, 2008		
FHLBank*	Minimum Leverage Ratio Requirement	Minimum Weighted Leverage Capital Requirement	Actual Leverage Ratio	Actual Weighted Leverage Capital
Boston	5.0%	$ 4,018	6.8%	$ 5,488
New York	5.0%	6,877	6.7%	9,169
Pittsburgh	5.0%	4,540	6.9%	6,249
Atlanta	5.0%	10,428	6.4%	13,413
Cincinnati	5.0%	4,910	6.7%	6,599
Indianapolis	5.0%	2,843	7.1%	4,052
Des Moines	5.0%	3,406	7.0%	4,761
Dallas	5.0%	3,947	6.7%	5,295
Topeka	5.0%	2,928	5.7%	3,314
San Francisco	5.0%	16,062	6.3%	20,308
Seattle	5.0%	2,918	6.8%	3,961

* Excludes the FHLBank of Chicago, which had not implemented a new capital plan as of December 31, 2008. See "FHLBank of Chicago Regulatory Actions" within this note for a description of this FHLBank's regulatory capital requirements.

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

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

(3) As of December 31, 2008, due to the significant decline in the FHLBank of Seattle's market value of its private-label mortgage-backed securities, the FHLBank of Seattle was out of compliance with its risk-based capital requirement.

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 cancelled 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 Finance Agency rules. Dividends declared by the board of directors of the FHLBank of Chicago are subject to the prior written approval of the Director of the Office of Supervision of the Finance Agency (OS Director), as further discussed in "FHLBank of Chicago Regulatory Actions" within this note.

At December 31, 2008 and 2007, the 10 largest holders of capital stock held $15.9 billion and $15.8 billion of the aggregate capital stock of the FHLBanks. At December 31, 2008 and 2007, Citibank, N.A. held $3.9 billion and $4.9 billion of the FHLBanks' capital stock.

Mandatorily Redeemable Capital Stock. In accordance with SFAS 150, the FHLBanks reclassify capital stock subject to redemption from equity to liability once a member exercises a written redemption right, gives notice of intent to withdraw from membership, or attains non-member status by merger or acquisition, charter termination, or involuntary termination from membership. Shares of capital stock meeting these definitions are reclassified to a liability at fair value. Dividends related to capital stock classified as a liability are accrued at the expected dividend rate and reported as interest expense in the

Combined Statement of Income. The repayment of these mandatorily redeemable financial instruments is reflected as a financing cash outflow in the Combined Statement of Cash Flows.

Each FHLBank is a cooperative whose member financial institutions and former members own all of the relevant FHLBank's capital stock. Member shares cannot be purchased or sold except between an FHLBank and its members at its $100 per share par value. If a member cancels its written notice of redemption or notice of withdrawal, the FHLBank will reclassify mandatorily redeemable capital stock from a liability to equity in accordance with SFAS 150. After the reclassification, dividends on the capital stock would no longer be classified as interest expense. For the years ended December 31, 2008, 2007 and 2006, dividends on mandatorily redeemable capital stock in the amount of $50 million, $57 million and $60 million were recorded as interest expense.

At December 31, 2008 and 2007, the FHLBanks had $6.1 billion and $1.1 billion in capital stock subject to mandatory redemption with payment subject to each FHLBank's waiting period and the FHLBank continuing to meet its minimum regulatory capital requirements. These amounts have been classified as a liability in the Combined Statement of Condition in accordance with SFAS 150.

The following table provides the number of stockholders and the related dollar amounts for activities recorded in "Mandatorily redeemable capital stock" (dollar amounts in millions):

	2008		2007		2006	
	Number of Stockholders (1)	Amount	Number of Stockholders (1)	Amount	Number of Stockholders (1)	Amount
Balance, beginning of year	181	$ 1,107	154	$ 1,094	128	$ 1,451
Capital stock subject to mandatory redemption reclassified from equity:						
Withdrawals	82	5,936	80	1,042	80	528
Other redemptions	158	1,978	156	1,938	640	2,050
Capital stock previously subject to mandatory redemption reclassified to equity:						
Withdrawals	(3)					
Other redemptions			(12)	(38)		
Net redemption of mandatorily redeemable capital stock:						
Withdrawals	(34)	(796)	(33)	(962)	(65)	(1,095)
Other redemptions	(194)	(2,116)	(164)	(1,983)	(629)	(1,870)
Accrued dividend classified as mandatorily redeemable		27		16		30
Balance, end of year	190	$ 6,136	181	$ 1,107	154	$ 1,094

(1) Number of stockholders represents:

a. total number of stockholders that notified the FHLBanks to voluntarily redeem their capital stock, and

b. withdrawal and redemption notices redeemed, cancelled or transferred in their entirety.

At December 31, 2008 and 2007, certain members and former members 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 since the requesting member may revoke its request, without substantive penalty, throughout the five-year waiting period, based on each FHLBank's capital plan.

(dollar amounts in millions)	December 31, 2008 Number of Shareholders	December 31, 2008 Amount	December 31, 2007 Number of Shareholders	December 31, 2007 Amount
FHLBank of Indianapolis	7	$ 40	7	$ 56
FHLBank of Seattle	46	195	46	206
Total	53	$235	53	$262

Certain FHLBanks have a grace period for capital stock redemption requests; capital stock not reclassified as mandatorily redeemable capital stock at December 31, 2008 represents requests where the grace period had not yet expired.

The following table shows the amount of mandatorily redeemable capital stock by year of redemption (dollar amounts in millions). The year of redemption in the table is the later of the end of the appropriate redemption period applicable to each FHLBank's capital plan, or the maturity date of the activity the stock is related to, if the capital stock represents the activity-based stock purchase requirement of a non-member (former member that withdrew from membership, merged into a non-member or was otherwise acquired by a non-member). An FHLBank is not required to redeem membership stock until either five years or six months, depending on 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 disappearing institution's membership stock requirement following such termination and the stock may be deemed excess stock subject to repurchase at the FHLBank's discretion. The FHLBanks are not required to redeem 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, the FHLBanks may repurchase such shares, in their sole discretion, subject to the statutory and regulatory restrictions on capital stock redemption discussed below.

Contractual Year of Repurchase	2008	2007
Year 1	$ 364	$ 87
Year 2	211	125
Year 3	298	49
Year 4	335	274
Year 5	4,892	541
Thereafter	36	31
Total	$6,136	$1,107

A member may cancel or revoke its written notice of redemption or its notice of withdrawal from membership prior to the end of the five-year redemption period. Each FHLBank's capital plan provides the terms for cancellation fees that may be incurred by the member upon such cancellation.

Statutory and Regulatory Restrictions on Capital Stock Redemption. In accordance with the FHLBank Act, each class of FHLBank stock is considered putable by the member. However, there are significant statutory and regulatory restrictions on the obligation, or right, to redeem the outstanding stock, including the following:

- An FHLBank may not redeem any capital stock if, following such redemption, the FHLBank would fail to satisfy any of its minimum capital requirements (i.e., a capital/asset ratio requirement and a risk-based capital/asset ratio requirement established by the Finance Agency). By law, no FHLBank stock may be redeemed if the FHLBank becomes undercapitalized so only a minimal portion of outstanding stock qualifies for redemption consideration.
- An FHLBank may not redeem any capital stock without approval of the Finance Agency if either its board of directors, or the Finance Agency, 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.

In addition, as discussed in the "FHLBank of Chicago Regulatory Actions" within this note, the FHLBank of Chicago is prohibited from repurchasing and redeeming its capital stock, including upon membership withdrawal or other termination, except for certain redemptions of excess stock above a member's capital stock floor, unless it has received the approval of the OS Director.

Additionally, an FHLBank may not redeem or repurchase shares of capital stock from any member of the FHLBank if (1) the principal or interest due on any consolidated obligation has not been paid in full; (2) the FHLBank fails to certify in writing to the Finance Agency 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; (3) the FHLBank notifies the Finance Agency 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; (4) 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 FHLBank to obtain financial assistance to meet its current obligations.

If the 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 Finance Agency.

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.

The GLB Act states that an FHLBank may repurchase, in its sole discretion, any member's stock investments that exceed the required minimum amount.

FHLBank of Chicago Regulatory Actions. On June 30, 2004, the FHLBank of Chicago entered into a Written Agreement with the Finance Board to address issues identified in their 2004 examination. The Written Agreement, which was amended three times to adjust the FHLBank of Chicago's minimum regulatory capital requirements, ultimately required it to maintain both:

- a ratio of regulatory capital stock, plus retained earnings, plus a Designated Amount of subordinated notes to total assets of at least 4.5 percent; and
- an aggregate amount of regulatory capital stock plus a Designated Amount of subordinated notes of at least \$3.500 billion.

At the request of the Finance Board, on October 10, 2007, the FHLBank of Chicago entered into a Consent Cease and Desist Order (C&D Order) with the Finance Board, which concurrently terminated the Written Agreement. On July 24, 2008, the Finance Board amended the C&D Order to allow the

FHLBank of Chicago to redeem a member's capital stock which becomes excess capital stock above a member's capital stock floor (the amount of capital stock a member held as of the close of business on July 23, 2008) in connection with the repayment advances subject to certain conditions. The C&D Order places several requirements on the FHLBank of Chicago, including the following:

- the FHLBank of Chicago must maintain a ratio of regulatory capital stock, plus retained earnings, plus a Designated Amount of subordinated notes to total assets of at least 4.5 percent, and an aggregate amount of regulatory capital stock plus a Designated Amount of subordinated notes of $3.600 billion;
- capital stock repurchases and redemptions, including redemptions upon membership withdrawal or other membership termination, except for certain redemptions of excess stock above a member's capital stock floor, require prior approval of the OS Director. The C&D Order provides that the OS Director may approve a written request by the FHLBank of Chicago for proposed redemptions or repurchases if the OS 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 operations; and
- dividend declarations are subject to the prior written approval of the OS Director.

The C&D Order required the FHLBank of Chicago to submit a revised capital plan to the Finance Board, implementation strategies for the plan, and a revised market risk, management and hedging policies, procedures and practices.

Effective with the July 24, 2008 amendment to the C&D Order, the FHLBank of Chicago is permitted to repurchase or redeem excess capital stock above a member's capital stock floor under 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 violate or cause the FHLBank of Chicago to violate a provision of the FHLBank Act.

The OS 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 operations. Prior to April 24, 2008, the FHLBank of Chicago redeemed $7 million of capital stock from five members as permitted by the OS Director. Subsequent to that date through December 31, 2008, the OS Director has denied requests to redeem capital stock totaling $14 million in connection with 11 membership withdrawals or other membership terminations from the FHLBank of Chicago. As a result, four members who previously withdrew from membership rejoined the FHLBank of Chicago during 2008. In addition, two members who submitted withdrawal notices during 2008 rescinded their withdrawal notices prior to the end of 2008. The mandatorily redeemable capital stock for these six members had been reclassified from a liability back to capital stock as of December 31, 2008. The FHLBank of Chicago does not believe a denial of a stock redemption request by the OS Director affects the reclassification of mandatorily redeemable capital stock as a liability. Rather, this denial delays the timing of an eventual mandatory redemption. In 2008, the FHLBank of Chicago redeemed $4 million in excess capital stock for seven members as permitted under the C&D Order related to incremental purchases of capital stock to support increased borrowing through advances.

As required by the C&D Order, the FHLBank of Chicago submitted to the Finance Board a capital plan and implementation strategies to provide for the conversion of its capital stock under the GLB Act. Neither the Finance Board nor the Finance Agency has taken action to approve the plan. Until such time as the FHLBank of Chicago fully implements a new capital plan or the C&D Order is changed, the minimum capital requirements contained in the C&D Order and as described below will remain in effect.

As of December 31, 2008, the FHLBank of Chicago was in compliance with all of its minimum regulatory capital requirements. The following table summarizes the FHLBank of Chicago's regulatory capital requirements at December 31, 2008 as a percentage of its total assets (dollar amounts in millions):

Regulatory Capital (1)			
Requirement in Effect		Actual	
Ratio (2)	Amount	Ratio	Amount
4.50%	$4,146	4.70%	$4,327

(1) Regulatory capital is 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. The Finance Agency allows the FHLBank of Chicago to include a Designated Amount of subordinated notes in determining compliance with its regulatory capital ratio.

(2) The regulatory capital ratio required by Finance Agency regulations for the FHLBank of Chicago, which has not implemented a capital plan under the GLB Act, is 4.0 percent provided that its non-mortgage assets (defined as total assets less advances, acquired member assets, standby letters of credit, intermediary derivative contracts, certain MBS, and other investments specified by Finance Agency regulation) after deducting its amount of deposits and capital are not greater than 11 percent of the FHLBank of Chicago's total assets. If non-mortgage assets are greater than 11 percent of its total assets, the Finance Agency regulations require a regulatory capital ratio of 4.76 percent. The C&D Order includes an additional minimum regulatory capital ratio of 4.5 percent, which supersedes the 4.0 percent regulatory requirement discussed above. The FHLBank of Chicago's non-mortgage assets on an average monthly basis were below 11 percent at December 31, 2008, thus it was subject to the 4.5 percent ratio at that date.

Under the C&D Order, the FHLBank of Chicago is also required to maintain an aggregate amount of regulatory capital stock plus a Designated Amount of subordinated notes of at least $3.600 billion. At December 31, 2008, the FHLBank of Chicago had an aggregate amount of $3.787 billion of regulatory capital stock plus the Designated Amount of subordinated notes.

FHLBank of Seattle Agreement with the Finance Board. On January 11, 2007, the Finance Board terminated the Written Agreement between the FHLBank of Seattle and the Finance Board, dated December 10, 2004. Subsequently, on January 26, 2007 due to the termination of the Written Agreement, the FHLBank of Seattle's board authorized the FHLBank of Seattle to lower the minimum capital-to-assets ratio from 4.25 percent to 4.05 percent. Prior to the termination of the Written Agreement, the FHLBank of Seattle maintained a minimum supervisory capital-to-assets ratio of 4.25 percent which was required under its business plan submitted to the Finance Board in April 2005 and accepted by the Finance Board in May 2005. The FHLBank of Seattle was in compliance with the applicable regulatory and supervisory capital requirements at all times during 2007, and with the exception of its risk-based capital requirement, it was in compliance with applicable regulatory and supervisory capital requirements at all times during 2008.

On February 20, 2008, the Finance Board approved the change to the FHLBank of Seattle's capital plan to allow the transfer of excess stock between unaffiliated members pursuant to the requirements of the capital plan and increased the range within which its board of directors can set the member advance stock purchase requirement between 2.50 percent and 6.00 percent of a member's outstanding principal balance of advances. The additional ability to transfer excess stock between unaffiliated members was designed to provide flexibility to members with excess stock, given the existing restrictions on repurchases of Class B stock.

Note 18—Employee Retirement Plans

The FHLBanks, except for the FHLBank of San Francisco, participate in the Pentegra Defined Benefit Plan for Financial Institutions (Pentegra Defined Benefit Plan), a tax-qualified defined-benefit pension plan. The plan covers substantially all officers and employees of the FHLBanks. However, the Pentegra Defined Benefit Plan covers substantially all officers and employees of the FHLBank of Dallas who were hired prior to January 1, 2007. The Pentegra Defined Benefit Plan also covers any new employee of the FHLBank of Dallas who was hired on or after January 1, 2007, provided that the employee had prior service with a financial services institution that participated in the Pentegra Defined Benefit Plan, during which service the employee was covered by such plan. Also, the Pentegra Defined

Benefit Plan covers substantially all officers and employees of the FHLBank of Seattle hired before January 1, 2004. Funding and administrative costs of the Pentegra Defined Benefit Plan charged to other operating expenses were $44 million, $55 million and $50 million in 2008, 2007 and 2006. The Pentegra Defined Benefit Plan is a multi-employer plan in which assets contributed by one participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. As a result, disclosure of the accumulated benefit obligations, plan assets, and the components of annual pension expense attributable to the FHLBanks are not presented herein.

The FHLBanks, except for the FHLBanks of Atlanta, San Francisco and Seattle, also participate in the Pentegra Defined Contribution Plan for Financial Institutions, a tax-qualified, defined-contribution pension plan. The FHLBanks of Atlanta, San Francisco and Seattle have similar defined-contribution plans. The FHLBanks contribute a percentage of the participants' compensation by making a matching contribution equal to a percentage of voluntary employee contributions, subject to certain limitations. The FHLBanks contributed $11 million, $11 million and $9 million in the years ended December 31, 2008, 2007 and 2006.

In addition, several FHLBanks maintain deferred compensation plans, available to all or select employees and directors, depending on the terms of each FHLBank's plan. The plans' liabilities consist of the accumulated compensation deferrals and accrued earnings on the deferrals. The FHLBanks' minimum obligations for these plans at December 31, 2008 and 2007 were $74 million and $79 million. Operating expense includes deferred compensation and accrued earnings of $7 million, $4 million and $6 million in the years ended December 31, 2008, 2007, and 2006.

Certain FHLBanks offer supplemental retirement and postretirement benefit plans to retirees. There are no funded plan assets that have been designated to provide postretirement benefits. The obligations and funding status of the FHLBanks' supplemental retirement plans and postretirement benefit plans were as follows (dollar amounts in millions):

	Supplemental Retirement Plans		Postretirement Benefit Plans	
	2008	2007	2008	2007
Change in benefit obligation				
Benefit obligation at beginning of year	$ 110	$105	$ 36	$ 38
Service cost	7	6	2	2
Interest cost	7	6	2	2
Amendments—changes in assumptions	2			(4)
Actuarial loss (gain)	7	3	(1)	
Benefits paid	(11)	(13)	(1)	(1)
Settlements and curtailments		3		(1)
Benefit obligation at end of year	$ 122	$110	$ 38	$ 36
Change in plan assets				
Fair value of plan assets at beginning of the year	$ 15	$ 11	$	$
Actual return on plan assets	(4)	2		
Employer contributions	12	15	1	1
Benefits paid	(11)	(13)	(1)	(1)
Fair value of plan assets at end of the year	12	15		
Funded status	$(110)	$ (95)	$(38)	$(36)

Amounts recognized in "Other liabilities" on the Combined Statement of Condition for the FHLBanks' supplemental retirement plans and postretirement benefit plans at December 31, 2008 and 2007 were $148 million and $131 million.

Amounts recognized in accumulated other comprehensive income consisted of (dollar amounts in millions):

	Supplemental Retirement Plans		Postretirement Benefit Plans	
	2008	2007	2008	2007
Net actuarial loss	$39	$30	$ 5	$ 6
Prior service cost (benefit)	2	1	(8)	(9)
Transition obligation			1	1
	$41	$31	$(2)	$(2)

The accumulated benefit obligation for the supplemental retirement plans was $100 million and $87 million at December 31, 2008 and 2007.

Components of the net periodic benefit cost and other amounts recognized in other comprehensive income for the FHLBanks' supplemental retirement plans and postretirement benefit plans were (dollar amounts in millions):

	Supplemental Retirement Plans			Postretirement Benefit Plans		
	2008	2007	2006	2008	2007	2006
Net Periodic Benefit Cost						
Service cost	$ 7	$ 6	$ 6	$ 2	$ 2	$3
Interest cost	7	6	5	2	2	2
Expected return on plan assets	(1)	(1)	(1)			
Amortization of prior service cost				(2)		
Amortization of net loss (gain)	3	4	4	1	1	1
Settlement loss	1	4	4			
Net periodic benefit cost	17	19	$18	3	5	$6
Other Changes in Benefit Obligations Recognized in Other Comprehensive Income						
Net loss (gain)	13	2		(1)	(1)	
Prior service cost (benefit)		1			(5)	
Amortization of net (loss) gain	(3)	(4)		(1)	(1)	
Amortization of prior service (cost) benefit				2		
Total recognized in other comprehensive income	10	(1)			(7)	
Total recognized in net periodic benefit cost and other comprehensive income	$27	$18		$ 3	$(2)	

The estimated net actuarial loss and prior service benefit that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are (dollar amounts in millions):

	Supplemental Retirement Plans	Postretirement Benefit Plans
Net actuarial loss	$4	$
Prior service benefit		(1)
	$4	$(1)

The measurement date used to determine the current year's benefit obligation was December 31, 2008. In accordance with SFAS 158, the FHLBank of San Francisco remeasured its plan assets and benefit obligations as of the beginning of 2008 and recognized an adjustment to the opening balance of its retained earnings. The adoption of the change in the measurement date did not have a material effect on the FHLBank of San Francisco's results of operations, financial condition, or cash flows.

Key assumptions used for the actuarial calculations to determine benefit obligations for the FHLBanks' supplemental retirement plans and postretirement benefit plans were (displayed as a range from low to high):

	Supplemental Retirement Plans		Postretirement Benefit Plans	
	2008	2007	2008	2007
Discount rate	5.85% - 6.50%	5.76% - 6.64%	5.75% - 6.96%	6.00% - 6.60%
Salary increases	4.34% - 5.50%	4.50% - 5.50%		

Key assumptions used for the actuarial calculations to determine net periodic benefit cost for the FHLBanks' supplemental retirement plans and postretirement benefit plans were (displayed as a range from low to high):

	Supplemental Retirement Plans			Postretirement Benefit Plans		
	2008	2007	2006	2008	2007	2006
Discount rate	5.76% - 6.64%	5.50% - 6.13%	5.50% - 5.75%	6.00% - 6.60%	5.65% - 6.60%	5.50% - 5.75%
Salary increases	4.50% - 5.50%	4.50% - 5.50%	4.50% - 5.50%			
Expected return on plan assets	8.00%	8.00%	8.00%			

Each FHLBank has its own method of setting the discount rates related to its supplemental retirement plans, which may include the use of published pension discount curves, pension liability indices, and/or corporate bond indices as the primary factor in determining the discount rates.

Assumed health care cost trend rates for the FHLBanks' postretirement benefit plans were:

	2008	2007
Health care cost trend rates:*		
Assumed for next year	5.00% - 11.00%	6.00% - 11.00%
Ultimate rate	5.00% - 5.50%	4.50% - 5.50%
Year that ultimate rate is reached	2009-2017	2009-2017

* Table excludes certain postretirement health benefit plan assumptions for the FHLBank of San Francisco because this plan's costs are capped at 1998 levels. As a result, changes in the health care cost trend rates will have no effect on the FHLBank of San Francisco's accumulated postretirement benefit obligation or service or interest costs.

The effect of a percentage point increase in the assumed healthcare cost trend rates would be an increase in postretirement benefit expense of $1 million and an increase in accumulated postretirement benefit obligation (APBO) of $5 million. The effect of a percentage point decrease in the assumed healthcare trend cost rates would be a decrease in postretirement benefit expense of $1 million and a decrease in APBO of $4 million.

The supplemental retirement plans and postretirement benefit plans are not funded; therefore, no contributions will be made in 2009 except for the payment of benefits, except for the FHLBank of San Francisco, which expects to contribute $4 million to its supplemental retirement plan.

The weighted-average asset allocations for the FHLBank of San Francisco by asset category were as follows:

	Supplemental Retirement Plans	
	2008	2007
Cash and cash equivalents	5%	6%
Equities mutual funds	55%	62%
Fixed income mutual funds	38%	32%
Other	2%	
Total	100%	100%

Estimated future benefit payments reflecting expected future services were as follows (dollar amounts in millions):

Years	Payments
2009	$15
2010	7
2011	9
2012	12
2013	9
2014-2018	65

Note 19—Estimated Fair Values

As discussed in Note 2, the FHLBanks adopted SFAS 157 and SFAS 159 on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. SFAS 157 applies whenever other accounting pronouncements require or permit assets or liabilities to be measured at fair value. Accordingly, SFAS 157 does not expand the use of fair value in any new circumstances. SFAS 159 provides entities with an option to report selected financial assets and financial liabilities at fair value. The FHLBanks do not necessarily use the same dealer prices, models and assumptions in determining the fair values of their respective assets, liabilities and derivatives.

The FHLBanks record trading securities, available-for-sale securities, derivative assets, and derivative liabilities as well as certain advances and certain consolidated bonds at fair value. Fair value is a market-based measurement and is defined 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. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. In general, the transaction price will equal the exit price and, therefore, represents the fair value of the asset or liability at initial recognition. In determining whether a transaction price represents the fair value of the asset or liability at initial recognition, each reporting entity is required to consider factors specific to the asset or liability, the principal or most advantageous market for the asset or liability, and market participants with whom the entity would transact in that market.

Fair Value Option. SFAS 159 provides an 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 statement of condition. Under SFAS 159, 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. The FHLBanks adopted SFAS 159 on January 1, 2008. The FHLBank of San Francisco was the only FHLBank that elected the fair value option for certain financial assets and financial liabilities at the time of adoption. Upon adoption of SFAS 159, the FHLBank of San Francisco elected certain advances and consolidated bonds that are economically hedged to transition to the fair value option, as follows:

- adjustable rate credit advances with embedded options;
- callable fixed rate credit advances;
- putable fixed rate credit advances;
- putable fixed rate credit advances with embedded options;
- fixed rate credit advances with partial prepayment symmetry;
- callable or non-callable capped floater consolidated bonds;
- convertible consolidated bonds;
- variable or fixed rate range accrual consolidated bonds; and
- ratchet consolidated bonds.

In addition to the items transitioned to the fair value option on January 1, 2008, the FHLBank of San Francisco has elected that any new transactions in these categories will be accounted for in accordance with SFAS 159. In general, transactions elected for the fair value option in accordance with SFAS 159 are in economic hedge relationships.

During the third quarter of 2008, the FHLBanks of New York and Chicago also elected the fair value option for certain newly acquired financial assets and financial liabilities. The FHLBanks of New York, Chicago and San Francisco have elected the fair value option in accordance with SFAS 159 for certain additional categories, not listed above, for new transactions entered into after their respective election date, including, but not limited to, adjustable rate credit advances, fixed-rate short term consolidated bonds and adjustable rate consolidated bonds indexed to Federal funds, Treasury Bill, CMT, Constant Maturity Swap, 12-month Moving Treasury Average of a one-year CMT and Prime Rate. Each of the FHLBanks of New York, Chicago and San Francisco has elected some or all of these items for the fair value option in accordance with SFAS 159 to allow it to fair value the financial asset or financial liability to assist in mitigating potential income statement volatility that can arise from economic hedging relationships. This risk associated with using fair value only for the derivative is the FHLBanks of New York, Chicago and San Francisco's primary driver for electing the fair value option for financial assets and financial liabilities that do not qualify for hedge accounting under the provisions of SFAS 133 or for items that have not previously met or may be at risk for not meeting the SFAS 133 hedge effectiveness requirements.

Fair Value Hierarchy. SFAS 157 established a fair value hierarchy to prioritize the inputs of valuation techniques used to measure fair value. The inputs are evaluated and an overall level for the fair value measurement is determined. This overall level is an indication of the market observability of the fair value measurement is. SFAS 157 clarifies fair value in terms of the price in an orderly transaction between market participants to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability at the measurement date (an exit price). In order to determine the fair value or the exit price, entities 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.

Outlined below is the application of the fair value hierarchy established by SFAS 157 to the FHLBanks' financial assets and financial liabilities that are carried at fair value.

Level 1—inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. An active market for the asset or liability is a market in which the transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The types of assets and liabilities carried at Level 1 fair value generally include certain types of derivative contracts that are traded in an open exchange market, investments such as U.S. Treasury securities and publicly-traded mutual funds.

Level 2—inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. The types of assets and liabilities carried at Level 2 fair value generally include investment securities, including U.S. government, agency and private-label mortgage-backed securities, derivative contracts, certain advances and certain consolidated bonds.

Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are supported by little or no market activity and reflect the entity's own assumptions. The types of assets and liabilities carried at Level 3 fair value generally include certain types of investment securities that are backed by non-traditional mortgage loans or certain state or local housing agency obligations and an inverse variable-rate consolidated bond along with the derivative hedging that consolidated bond.

The FHLBanks utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Fair value is first determined based on quoted market prices or market-based prices, where available. If quoted market prices or market-based prices are not available, fair value is determined based on valuation models that use market-based information available to the FHLBanks as inputs to the models. For a discussion of an individual FHLBank's fair value measurement techniques, see that FHLBank's periodic report filed with the SEC.

Fair Value on a Recurring Basis. The following table presents, for each SFAS 157 hierarchy level, the FHLBanks' assets and liabilities that are measured at fair value on the Combined Statement of Condition (dollar amounts in millions):

	Fair Value Measurements at December 31, 2008				
	Total	Level 1	Level 2	Level 3	Netting Adjustment (1)
Assets					
Trading securities	$ 12,150	$ 9	$ 12,141	$	$
Available-for-sale securities	14,559		14,436	123	
Advances (2)	41,800		41,800		
Derivative assets	902	1	12,366	46	(11,511)
Other assets	16	16			
Total assets at fair value	$ 69,427	$26	$ 80,743	$169	$(11,511)
Liabilities					
Consolidated bonds (3)	$(33,334)	$	$(33,243)	$ (91)	$
Derivative liabilities	(7,732)	(3)	(29,893)		22,164
Total liabilities at fair value	$(41,066)	$ (3)	$(63,136)	$ (91)	$ 22,164

(1) Amounts represent the effect of legally enforceable master netting agreements that allow the FHLBanks to net settle positive and negative positions and also cash collateral and related accrued interest held or placed with the same counterparties.

(2) Includes $38,774 million of advances recorded under the fair value option in accordance with SFAS 159 and $3,026 million of advances recorded at fair value in accordance with SFAS 133.

(3) Includes $31,285 million of consolidated bonds recorded under the fair value option in accordance with SFAS 159 and $2,049 million of consolidated bonds recorded at fair value in accordance with SFAS 133.

For instruments carried at fair value, the FHLBanks review the fair value hierarchy classifications on a quarterly basis. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in/out of Level 3 at fair value in the quarter in which the changes occur.

The following table presents a reconciliation of all assets and liabilities that are measured at fair value on the Combined Statement of Condition using significant unobservable inputs (Level 3) (dollar amounts in millions):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Available-for-Sale Securities	Derivative Assets	Consolidated Bonds
Balance at December 31, 2007	$247	$20	$(69)
Effect of SFAS 157 and SFAS 159 adoption			
Balance at January 1, 2008	247	20	(69)
Total gains or losses (realized/unrealized):			
Included in net (losses) gains on changes in fair value	(62)	26	(22)
Included in other comprehensive income	(63)		
Purchases, issuances and settlements	(4)		
Transfers into Level 3	5		
Balance at December 31, 2008	$123	$46	$(91)
Total amount of (losses) gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets and liabilities still held at December 31, 2008	$ (62)	$26	$(22)

The following table presents the changes in fair values for items measured at fair value pursuant to the election of the fair value option (dollar amounts in millions):

	Interest Income/ (Interest Expense)	Net Gains (Losses) on Changes in Fair Value Under Fair Value Option	Total Changes in Fair Value Included in Current Period Earnings
For the year ended December 31, 2008:			
Advances	$1,003	$915	$1,918
Consolidated bonds	(461)	(32)	(493)
Total		$883	

For items recorded under the fair value option, the related contractual interest income and contractual interest expense is recorded as part of net interest income on the Combined Statement of Income. The remaining changes in fair value for instruments in which the fair value option has been elected is recorded as "Net gains on advances and consolidated bonds held at fair value" in the Combined Statement of Income. The change in fair value, as shown in the table above, does not include changes in instrument-specific credit risk. The FHLBanks of New York, Chicago and San Francisco, the FHLBanks that have elected to record certain financial assets and financial liabilities at fair value in accordance with SFAS 159 as of December 31, 2008, determined that no adjustments to the fair values of instruments recorded under the fair value option for instrument-specific credit risk were necessary.

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of December 31, 2008, for advances and consolidated bonds for which the fair value option has been elected (dollar amounts in millions):

	Aggregate Unpaid Principal Balance	Aggregate Fair Value	Fair Value Over Aggregate Unpaid Principal balance
Advances (1)	$37,474	$38,774	$1,300
Consolidated bonds	31,219	31,285	66

(1) At December 31, 2008, none of these advances were 90 days or more past due or had been placed on nonaccrual status.

Fair Value on a Nonrecurring Basis. The FHLBanks measure certain held-to-maturity securities and mortgage loans at fair value on a nonrecurring 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).

In accordance with the provisions of SFAS 115, as amended by FSP No. 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FSP 115-1), the following FHLBanks recognized OTTI charges during the three months ended December 31, 2008, which were included in other non-interest income.

- The FHLBank of Boston's held-to-maturity securities with a carrying amount of $728 million prior to write-down were written down to their fair value of $346 million, resulting in an OTTI charge of $382 million.
- The FHLBank of Pittsburgh's held-to-maturity securities with a carrying amount of $594 million were written down to their fair value of $331 million, resulting in an OTTI charge of $263 million.
- The FHLBank of Atlanta's held-to-maturity securities with a carrying amount of $260 million were written down to their fair value of $162 million, resulting in an OTTI charge of $99 million.
- The FHLBank of Chicago's held-to-maturity investment securities with a previous carrying amount of $391 million were written down to their fair value of $230 million, resulting in an OTTI charge of $161 million.
- The FHLBank of Topeka's held-to-maturity securities with a carrying amount of $8 million were written down to their fair value of $3 million, resulting in an OTTI charge of $5 million.
- The FHLBank of San Francisco's held-to-maturity securities with a carrying amount of $1,514 million were written down to their fair value of $924 million, resulting in an OTTI charge of $590 million.
- The FHLBank of Seattle's held-to-maturity securities with a carrying amount of $414 million were written down to their fair value of $159 million, resulting in an OTTI charge of $255 million.

The following table presents these investment securities and mortgage loans by level within the SFAS 157 valuation hierarchy at December 31, 2008, for which a nonrecurring change in fair value has been recorded in the three months ended December 31, 2008 (dollar amounts in millions):

	Fair Value Measurements at December 31, 2008 Using				For the Three Months Ended December 31, 2008
	Total	Level 1	Level 2	Level 3	Loss
Held-to-maturity securities	$2,155	$	$	$2,155	$(1,755)
Mortgage loans held for portfolio	12			12	*
Total non-recurring assets at fair value	$2,167	$	$	$2,167	$(1,755)

* The effect of impaired mortgage loans held for portfolio was less than $1 million.

Estimated Fair Values. The following estimated fair value amounts have been determined by the FHLBanks using available market information and each FHLBank's best judgment of appropriate valuation methods. These estimates are based on pertinent information available to the FHLBanks at December 31, 2008 and 2007. Although an FHLBank uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique or valuation methodology. For example, because an active secondary market does not exist for a portion of the FHLBanks' financial instruments, in certain cases, fair values are not subject to precise quantification or verification and may change as economic and market factors and evaluation of those factors change. Therefore, these estimated fair values are not necessarily indicative of the amounts that would be realized in current market transactions, although they do reflect the FHLBank's judgment of how a market participant would estimate the fair values. The Fair Value Summary Tables do not represent an estimate of the overall market value of the FHLBanks as going concerns, which would take into account future business opportunities and the net profitability of assets versus liabilities.

Subjectivity of estimates. Estimates of the fair value of advances with options, mortgage instruments, derivatives with embedded options and consolidated bonds with options using the methods described below and other methods 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, methods to determine possible distributions of future interest rates used to value options, and the selection of discount rates that appropriately reflect market and credit risks. Changes in these judgments often have a material effect on the fair value estimates. Since these estimates are made as of a specific point in time, they are susceptible to material near term changes.

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

Interest-bearing deposits and investment securities. The estimated fair value is determined based on each security's quoted price or prices obtained from a pricing services, excluding accrued interest, at the last business day of the year for instruments with more than three months to maturity. When quoted prices are not available, the estimated fair value is determined by calculating the present value of the expected future cash flows and reducing the amount for accrued interest receivable. For certain FHLBanks, the estimated fair value approximates the recorded book balance 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 estimated fair value is determined by calculating the present value of the future cash flows for instruments with more than three months to maturity. The discount rates used in these calculations are the rates for securities with similar terms. For certain FHLBanks, the estimated fair value approximates the recorded book balance 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 estimated fair value of overnight Federal funds approximates the recorded book balances. The estimated fair value of term Federal Funds is determined by calculating the present value of the expected future cash flows for instruments with more than three months to maturity. The discount rates used in these calculations are the rates for Federal funds with similar terms.

Advances and other loans. The FHLBanks generally determine the estimated fair value of advances by calculating the present value of expected future cash flows from the advances and excluding the amount of the accrued interest receivable. The discount rates used in these calculations are the replacement advance rates for advances with similar terms. In accordance with the Finance Agency's advances regulations, advances with a maturity or repricing period greater than six months require a prepayment fee sufficient to make the FHLBanks financially indifferent to the borrower's decision to prepay the advances. Therefore, the estimated fair value of advances does not assume prepayment risk.

Mortgage loans held for portfolio. The estimated fair values for mortgage loans are determined based on quoted market prices of similar mortgage loans available in the market or modeled prices. The modeled prices start with prices for new mortgage-backed securities issued by U.S. government-sponsored enterprises or similar new mortgage loans. Prices are then adjusted for differences in coupon, average loan rate, seasoning and cash flow remittance between the FHLBank's mortgage loans and the 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 assumptions priced in the secondary market. Changes in the prepayment rates often have a material effect on the fair value estimates. Since these underlying prepayment assumptions are made at a specific point in time, they are susceptible to material changes in the near term.

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

Derivative assets/liabilities. The FHLBanks base the estimated fair values of derivatives with similar terms on available market prices including accrued interest receivable and payable. However, active markets do not exist for certain types of financial instruments. Consequently, fair values for these instruments must be estimated using techniques such as discounted cash-flow analysis and comparisons to similar instruments. Estimates developed using these methods are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows, volatility of interest rates, and the selection of discount rates that appropriately reflect market and credit risks. Changes in these judgments often have a material effect on the fair value estimates. Because these estimates are made 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 potential nonperformance by the derivatives counterparties. To mitigate this risk, the FHLBanks enter into master-netting agreements for interest-rate-exchange agreements with highly-rated institutions. In addition, the FHLBanks have entered into bilateral security agreements with all active derivatives dealer counterparties that provide for delivery of collateral at specified levels tied to counterparty credit ratings to limit the FHLBanks' net unsecured credit exposure to these counterparties. Each FHLBank has evaluated the potential for the fair value of the instruments to be impacted by counterparty credit risk and has determined that no adjustments were significant or necessary to the overall fair value measurements. If these netted amounts are positive, they are classified as an asset and if negative, a liability.

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

Securities Sold Under Agreements to Repurchase. The FHLBanks determine the estimated fair value 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.

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

Consolidated obligations. The FHLBanks estimate fair values based on: the cost of raising comparable term debt, independent market-based prices received from a third-party pricing service, or internal valuation models. The FHLBanks' internal valuation models determine fair values of consolidated bonds and consolidated discount notes without embedded options using market-based yield curve inputs obtained from the Office of Finance. For fair values of consolidated obligations with embedded options, the internal valuation models use market-based inputs obtained from the Office of Finance and derivative dealers. The fair value is then estimated by calculating the present value of expected cash flows using discount rates that are based on replacement funding rates for liabilities with similar terms.

Adjustments may be necessary to reflect the FHLBanks' credit quality when valuing consolidated bonds measured at fair value. Due to the joint and several liability of consolidated obligations, each FHLBank monitors its own creditworthiness and the creditworthiness of the other FHLBanks to determine whether any credit adjustments are necessary in its fair value measurement of consolidated bonds. The credit ratings of the FHLBanks and any changes to these credit ratings are the basis for the FHLBanks to determine whether the fair values of consolidated bonds have been significantly affected during the reporting period by changes in the instrument-specific credit risk. For applicable FHLBanks, either no adjustment or an immaterial adjustment was made during the year ended December 31, 2008, as deemed appropriate by each FHLBank.

Subordinated notes. The FHLBank of Chicago determines the fair values based on internal valuation models which use market-based yield curve inputs obtained from a third party.

Mandatorily redeemable capital stock. The fair value of capital subject to mandatory redemption is generally at par value as indicated by member contemporaneous purchases and sales at par value. Fair value also includes estimated dividend earned at the time of reclassification from equity to liabilities, until such amount is paid, and any subsequently declared stock dividend. FHLBank stock can only be acquired by members at par value and redeemed at par value. FHLBank stock is not traded and no market mechanism exits for the exchange of stock outside the cooperative structure.

Commitments. The estimated fair value of the FHLBanks' commitments to extend credit for advances, letters of credit, and standby bond purchase agreements was immaterial at December 31, 2008 and 2007.

Commitments to extend credit for mortgage loans. Certain mortgage loan purchase commitments are recorded as derivatives at their fair value.

The estimated fair value of the FHLBanks' commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The estimated fair value of these fixed-rate loan commitments also takes into account the difference between current and committed interest rate and was immaterial at December 31, 2008 and 2007.

The carrying values and estimated fair values of the FHLBanks' financial instruments were as follows (dollar amounts in millions):

2008 FAIR VALUE SUMMARY TABLE

	December 31, 2008		
Financial Instruments	Carrying Value	Net Unrealized Gains/(Losses)	Estimated Fair Value
Assets:			
Cash and due from banks	$ 20,820	$	$ 20,820
Interest-bearing deposits	47,486		47,486
Securities purchased under agreements to resell	6,895	2	6,897
Federal funds sold	40,299		40,299
Trading securities	12,150		12,150
Available-for-sale securities	14,559		14,559
Held-to-maturity securities	184,524	(18,875)	165,649
Advances	928,638	350	928,988
Mortgage loans held for portfolio, net	87,361	1,822	89,183
Accrued interest receivable	4,261		4,261
Derivative assets	902		902
Other assets	16		16
Liabilities:			
Deposits	(15,496)	(2)	(15,498)
Securities sold under repurchase agreements	(1,200)	(43)	(1,243)
Consolidated obligations:			
Discount notes	(439,895)	(993)	(440,888)
Bonds	(818,372)	(8,448)	(826,820)
Mandatorily redeemable capital stock	(6,136)		(6,136)
Accrued interest payable	(6,331)		(6,331)
Derivative liabilities	(7,732)		(7,732)
Subordinated notes	(1,000)	(83)	(1,083)

2007 FAIR VALUE SUMMARY TABLE

Financial Instruments	December 31, 2007 Carrying Value	Net Unrealized Gains/(Losses)	Estimated Fair Value
Assets:			
Cash and due from banks	$ 320	$	$ 320
Securities purchased under agreements to resell	800		800
Federal funds sold	85,818	5	85,823
Trading securities	6,809		6,809
Available-for-sale securities	5,813		5,813
Held-to-maturity securities	197,818	(2,041)	195,777
Advances	875,061	1,212	876,273
Mortgage loans held for portfolio, net	91,610	(926)	90,684
Accrued interest receivable	5,614		5,614
Derivative assets	1,306		1,306
Liabilities:			
Deposits	(20,893)	1	(20,892)
Securities sold under repurchase agreements	(1,400)	(72)	(1,472)
Other borrowings	(100)		(100)
Consolidated obligations:			
Discount notes	(376,342)	(25)	(376,367)
Bonds	(802,574)	(3,460)	(806,034)
Mandatorily redeemable capital stock	(1,107)		(1,107)
Accrued interest payable	(8,187)		(8,187)
Derivative liabilities	(3,789)		(3,789)
Subordinated notes	(1,000)	(75)	(1,075)

Note 20—Commitments and Contingencies

As described in Note 13, as provided by the FHLBank Act or Finance Agency regulation, consolidated obligations are backed only by the financial resources of the FHLBanks. The joint and several liability regulation of the Finance Agency authorizes it to require any FHLBank to repay all or a portion of the principal and interest on consolidated obligations for which another FHLBank is the primary obligor. No FHLBank has ever been asked or required to repay the principal or interest on any consolidated obligation on behalf of another FHLBank, and as of December 31, 2008, and through the filing date of this report, the FHLBanks do not believe that it is probable that they will be asked to do so.

The FHLBanks considered the guidance under FIN 45, and determined it was not necessary to recognize a liability for the fair value of the FHLBanks' joint and several liability for all of the consolidated obligations. The joint and several obligations are mandated by Finance Agency regulations and are not the result of arms-length transactions among the FHLBanks. The FHLBanks have no control over the amount of the guaranty or the determination of how each FHLBank would perform under the joint and several obligations. Because the FHLBanks are subject to the authority of the Finance Agency as it relates to decisions involving the allocation of the joint and several liability for the FHLBanks' consolidated obligations, the FHLBanks' joint and several obligation is excluded from the initial recognition and measurement provisions of FIN 45. Accordingly, the FHLBanks have not recognized a liability for the joint and several obligations related to other FHLBanks' consolidated obligations at December 31, 2008 and 2007. The par amounts of the outstanding consolidated obligations for which the FHLBanks are jointly and severally liable were approximately $1.3 trillion and $1.2 trillion at December 31, 2008 and 2007. In addition, the FHLBank of Chicago has $1 billion (par amount) outstanding related to subordinated notes that are not the joint and several obligation of the other 11 FHLBanks (see Note 16).

During the third quarter of 2008, each FHLBank entered into a lending agreement with the U.S. Treasury in connection with the U.S. Treasury's establishment of the Government Sponsored Enterprise Credit Facility (GSECF), as authorized by the Housing Act. The GSECF is designed to serve as a contingent source of liquidity for the housing government-sponsored enterprises, including each of the 12 FHLBanks. Any borrowings by one or more of the FHLBanks under the GSECF are considered consolidated obligations with the same joint and several liability as all other consolidated obligations. The terms of any borrowings are agreed to at the time of issuance. Loans under the lending agreement are to be secured by collateral acceptable to the U.S. Treasury, which consists of FHLBank advances to members that have been collateralized in accordance with regulatory standards and mortgage-backed securities issued by Fannie Mae or Freddie Mac. Each FHLBank is required to submit to the Federal Reserve Bank of New York, acting as fiscal agent of the U.S. Treasury a list of eligible collateral updated on a weekly basis. As of December 31, 2008, the FHLBanks had provided the U.S. Treasury listings of advance collateral amounting to $228.5 billion. The amount of collateral can be increased or decreased (subject to the approval of the U.S. Treasury) at any time through the delivery of an updated listing of collateral. As of December 31, 2008, no FHLBank had drawn on this available source of liquidity.

Commitments that legally bind and unconditionally obligate the FHLBanks for additional advances totaled approximately $1,806 million and $7,730 million at December 31, 2008 and 2007. Commitments generally are for periods up to 12 months. Standby letters of credit are executed for members for a fee. A standby letter of credit is a short-term financing arrangement between the FHLBank and its member. If the FHLBank is required to make payment for a beneficiary's draw, the payment amount is converted into a collateralized advance to the member. Outstanding standby letters of credit at December 31, were as follows:

	2008	2007
Outstanding notional (dollar amounts in millions)	$49,426	$29,168
Original terms	less than one month to 20 years	
Final expiration year	2024	2024

Unearned fees for transactions prior to 2003, as well as the value of the guarantees related to standby letters of credit entered into after 2002, are recorded in other liabilities and amount to $88 million and $35 million at December 31, 2008 and 2007. Based on credit analyses performed by each FHLBank's management as well as collateral requirements, the FHLBanks have not deemed it necessary to record any additional liability on these commitments. Commitments are fully collateralized at the time of issuance (see Note 8).

Each FHLBank monitors the creditworthiness of its standby letters of credit based on an evaluation of its members. Each FHLBank has established parameters for the measurement, review, classification, and monitoring of credit risk related to these standby letters of credit.

Certain FHLBanks have entered into standby bond purchase agreements with state housing authorities within their district whereby the FHLBank, for a fee, agrees as a liquidity provider if required, to purchase and hold the authorities' bonds until the designated marketing agent can find a suitable investor or the housing authority repurchases the bond according to a schedule established by the standby agreement. Each standby agreement dictates the specific terms that would require the FHLBank to purchase the bond. The bond purchase commitments entered into by these FHLBanks have expiration periods up to 7 years, currently no later than 2015, although some are renewable at the option of an FHLBank. Total commitments for standby bond purchases were $2,538 million at December 31, 2008, with 12 state housing authorities. Total commitments for standby bond purchases were $1,982 million at December 31, 2007, with eight state housing authorities. During 2008, the FHLBanks purchased $375 million of bonds under these agreements. During 2007, the FHLBanks were not required to purchase any bonds under these agreements.

Commitments that unconditionally obligate the FHLBanks to fund or purchase mortgage loans totaled $1,846 million and $240 million at December 31, 2008 and 2007. Commitments are generally for periods not to exceed 365 days. Of these amounts, $1,481 million and $214 million at December 31, 2008 and 2007 represent commitments that obligate the FHLBanks to purchase closed mortgage loans from their members, which are recorded at fair value as derivatives under SFAS 149 (see Note 10). The remaining balances of $365 million and $26 million represent commitments related to MPF Xtra product as well as commitments that obligate the FHLBanks to table fund mortgage loans that are not considered derivatives under SFAS 149. At December 31, 2008, the FHLBank of Chicago had $347 million of delivery commitment to purchase MPF Xtra mortgage loans from its PFIs, which it has concurrent commitment to resell these loans to Fannie Mae.

Unused lines of credit and other commitments totaled $20,848 million and $21,151 million at December 31, 2008 and 2007.

The FHLBanks generally execute derivatives with large banks and major broker-dealers and generally enter into bilateral pledge (collateral) agreements. At December 31, 2008, the FHLBanks had pledged, as collateral, securities with a carrying value of $602 million, which cannot be sold or repledged, and $4,028 million, which can be sold or repledged to counterparties who have market risk exposure from the FHLBanks related to derivatives.

The FHLBanks committed to issue $9,823 million (par value) of consolidated bonds of which $5,975 million were hedged with associated interest rate swaps, and $666 million (par value) of consolidated discount notes that had traded but not settled at December 31, 2008.

The FHLBanks charged to operating expenses net rental costs of approximately $26 million for the each year ended December 31, 2008, 2007 and 2006 Future minimum rentals are as follows (dollar amounts in millions):

Year	Premises	Equipment	Total
Year 1	$ 24	$2	$ 26
Year 2	24	1	25
Year 3	22	1	23
Year 4	19	1	20
Year 5	12		12
Thereafter	64	—	64
Total	$165	$5	$170

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

The FHLBanks are subject to legal proceedings arising in the normal course of business. After consultation with legal counsel, management of each FHLBank does not anticipate that the ultimate liability, if any, arising out of these matters will have a material effect on its FHLBank's financial condition or results of operations.

Notes 1, 8, 10, 13, 14, 16, 17, 19 and 21 discuss other commitments and contingencies.

Note 21—Subsequent Events

FHLBank of Seattle. FHLBank of Seattle reported a deficiency in its risk-based capital requirement as of December 31, 2008. A subsequent increase in the market values of its private-label mortgage-backed securities corrected its risk-based deficiency as of January 31, 2009, and in February 2009, FHLBank of Seattle redeemed $669 thousand of Class B capital stock owned by a former member following the five-year redemption period. Due to rating agency downgrades of a number of its private-label mortgage-backed securities, FHLBank of Seattle again had a risk-based capital deficiency as of February 28, 2009. Because an FHLBank that fails to meet any regulatory capital requirement may not declare a dividend or redeem or repurchase capital stock, FHLBank of Seattle is unable to redeem or repurchase any Class A or Class B stock outstanding or declare dividends until such time as it has corrected such deficiency.

FHLBank of Topeka. The FHLBank of Topeka's largest advance borrower as of December 31, 2008, U.S. Central Federal Credit Union, received a paid-in capital contribution from the National Credit Union Share Insurance Fund (NCUSIF) on January 30, 2009 after the member reported that it expected to post a net loss for the year ended December 31, 2008. On March 20, 2009, the National Credit Union Administration announced that U.S. Central Federal Credit Union had been placed under conservatorship. Based on the FHLBank of Topeka's collateral practices and the collateral held by the FHLBank of Topeka to secure the member's advances, management of the FHLBank of Topeka has concluded that there is no reason to record an allowance for losses related to the member's outstanding advances with the FHLBank of Topeka.

There is a general expectation that U.S. Central Federal Credit Union's unsecured borrowings are eligible for NCUSIF guarantee under National Credit Union Administration's Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP). Accordingly U.S. Central Federal Credit Union would have access to these guaranteed borrowings and could access the TCCULGP in lieu of FHLBank of Topeka advances.

U.S. Central Federal Credit Union was one of the FHLBank of Topeka's largest advance borrowers during 2007 and 2008. The loss of this advance business would have a negative effect on the FHLBank of Topeka's financial position and operating results. As of March 20, 2009, it had one advance outstanding for $872 million and that advance matured on March 31, 2009. At this time, the FHLBank of Topeka cannot predict the level of U.S. Central Federal Credit Union's advance business with the FHLBank of Topeka for the remainder of 2009 and beyond. The following is a summary of its average advance balances and percentage of advance income for 2008 and 2007 (dollar amounts in thousands):

	2008		2007	
Quarter Ended	Average Advances	Percentage of Total Advance Income	Average Advances	Percentage of Total Advance Income
March 31	$3,189,560	10.1%	$3,005,556	11.8%
June 30	2,113,736	4.5	2,604,396	10.3
September 30	5,245,652	10.7	5,432,065	18.6
December 31	7,186,154	10.1	6,679,348	20.5
Year ended December 31	$4,443,514	9.0%	$4,443,151	15.6%

The following is a summary of U.S. Central Federal Credit Union's average advance balances and percentage of advance income for the first two months of 2009 (dollar amounts in thousands):

Month	Average Advances	Percentage of Total Advance Income
January	$5,810,529	4.3%
February	2,491,029	1.7%
Two-month total	$4,235,173	3.2%

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CONDITION
DECEMBER 31, 2008

(Dollar amounts in millions except per share amounts)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
ASSETS						
Cash and due from banks	$ 20,820	$ (3)	$ 6	$ 19	$ 68	$ 28
Interest-bearing deposits	47,486		3,279	12,169	5,101	
Deposits with other FHLBanks		(6)			3	3
Securities purchased under agreements to resell	6,895		2,500			
Federal funds sold	40,299		2,540		1,250	10,769
Trading securities	12,150	(617)	63		507	4,486
Available-for-sale securities	14,559		1,214	2,862	19	
Held-to-maturity securities	184,524		9,268	11,334	14,918	23,118
Advances	928,638		56,926	109,153	62,153	165,856
Mortgage loans held for portfolio	87,376		4,154	1,459	6,169	3,252
Less: allowance for credit losses on mortgages loans	15			2	4	1
Mortgage loans held for portfolio, net	87,361		4,154	1,457	6,165	3,251
Accrued interest receivable	4,261	(8)	289	493	434	775
Premises, software, and equipment, net	199		6	14	23	29
Derivative assets	902		29	20	29	91
Other assets	959	4	79	19	136	158
Total assets	$1,349,053	$(630)	$80,353	$137,540	$90,806	$208,564
LIABILITIES						
Deposits:						
Interest-bearing:						
Demand and overnight	$ 13,260	$	$ 529	$ 1,332	$ 1,452	$ 3,573
Term	1,885		67	117	16	
Deposits from other FHLBanks		(9)				
Other	38		4	2		
Total interest-bearing	15,183	(9)	600	1,451	1,468	3,573
Non-interest-bearing:						
Demand and overnight	129			1	19	
Other	184		11			
Total non-interest-bearing	313		11	1	19	
Total deposits	15,496	(9)	611	1,452	1,487	3,573
Borrowings:						
Securities sold under agreements to repurchase	1,200					
Total borrowings	1,200					
Consolidated obligations, net:						
Discount notes	439,895		42,472	46,330	22,864	55,195
Bonds	818,372	(577)	32,254	82,257	61,399	138,181
Total consolidated obligations, net	1,258,267	(577)	74,726	128,587	84,263	193,376
Mandatorily redeemable capital stock	6,136		93	143	4	44
Accrued interest payable	6,331	(8)	259	426	494	1,039
Affordable Housing Program	808		35	122	43	139
Payable to REFCORP	37			5		
Derivative liabilities	7,732		1,174	862	355	1,414
Other liabilities	696		25	76	25	86
Subordinated notes	1,000					
Total liabilities	1,297,703	(594)	76,923	131,673	86,671	199,671
CAPITAL						
Capital Stock:						
Capital stock Class B putable ($100 par value per share) issued and outstanding	46,413		3,585	5,585	3,982	8,463
Capital stock Class A putable ($100 par value per share) issued and outstanding	752					
Capital stock Pre-conversion putable ($100 par value per share) issued and outstanding	2,386					
Total capital stock	49,551		3,585	5,585	3,982	8,463
Retained earnings	2,936	(33)	(20)	383	170	435
Accumulated other comprehensive income:						
Net unrealized (losses) gains on available-for-sale securities	(410)		(131)	(64)	(14)	
Net unrealized losses on held-to-maturity securities transferred from available-for-sale securities	(76)					
Net unrealized losses relating to hedging activities	(612)	(3)		(30)	(1)	
Pension and postretirement benefits	(39)		(4)	(7)	(2)	(5)
Total capital	51,350	(36)	3,430	5,867	4,135	8,893
Total liabilities and capital	$1,349,053	$(630)	$80,353	$137,540	$90,806	$208,564
Supplemental Disclosures:						
Advances held at fair value under fair value option included in Advances total	$ 38,774	$	$	$	$	$
Consolidated obligations — bonds held at fair value under fair value option included in consolidated obligations — bonds total	$ 31,285	$	$	$ 999	$	$

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 3	$ 871	$ 130	$ 44	$ 21	$	$ 19,632	$ 1
19,906				3,683	3,348		
		495					3,900
	7,223	1,085	3,425	1,872	384	9,431	2,320
3		866	2,151	3	4,653	35	
2,512	1,842	2,142	3,840	128			
12,904	6,692	16,595	5,952	11,702	11,051	51,205	9,785
53,916	31,249	38,140	41,897	60,920	35,820	235,664	36,944
8,632	8,780	32,092	10,685	328	3,025	3,713	5,087
		5		1	1	1	
8,632	8,780	32,087	10,685	327	3,024	3,712	5,087
275	153	367	93	145	139	865	241
10	10	26	9	21	17	20	14
17	1	102	3	77	34	467	32
28	39	94	30	34	87	213	38
$98,206	$56,860	$92,129	$68,129	$78,933	$58,557	$321,244	$58,362
$ 1,074	$ 573	$ 564	$ 925	$ 1,239	$ 1,119	$ 491	$ 389
94	46	29	464	186	570	103	193
		9					
24						8	
1,192	619	602	1,389	1,425	1,689	602	582
		2	107				
1	2	153			15	2	
1	2	155	107		15	2	
1,193	621	757	1,496	1,425	1,704	604	582
		1,200					
		1,200					
49,336	23,466	29,466	20,061	16,746	26,261	91,819	15,879
42,393	28,697	55,305	42,723	56,614	27,422	213,114	38,590
91,729	52,163	84,771	62,784	73,360	53,683	304,933	54,469
111	539	401	11	90	35	3,747	918
394	284	567	320	514	254	1,451	337
103	36	23	40	43	28	180	16
14	17		1				
286	1,060	1,067	435	2	404	437	236
94	49	56	25	61	54	107	38
		1,000					
93,924	54,769	89,842	65,112	75,495	56,162	311,459	56,596
3,962	1,879		2,781	3,224	1,606	9,616	1,730
					634		118
		2,386					
3,962	1,879	2,386	2,781	3,224	2,240	9,616	1,848
326	283	540	382	216	157	176	(79)
	(67)	12	(144)	(2)			
		(76)					
		(577)				(1)	
(6)	(4)	2	(2)		(2)	(6)	(3)
4,282	2,091	2,287	3,017	3,438	2,395	9,785	1,766
$98,206	$56,860	$92,129	$68,129	$78,933	$58,557	$321,244	$58,362
$	$	$ 201	$	$	$	$ 38,573	$
$	$	$	$	$	$	$ 30,286	$

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CONDITION
DECEMBER 31, 2007

(Dollar amounts in millions except per share amounts)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
ASSETS						
Cash and due from banks	$ 320	$	$ 7	$ 8	$ 67	$ 19
Deposits with other FHLBanks		(9)			4	4
Securities purchased under agreements to resell	800		500			
Federal funds sold	85,818		2,908	4,381	4,725	14,835
Trading securities	6,809	(522)	113		8	4,628
Available-for-sale securities	5,813	(42)	1,064	13	42	
Held-to-maturity securities	197,818	(2,525)	13,278	20,585	19,912	22,060
Advances	875,061		55,680	82,090	68,798	142,867
Mortgage loans held for portfolio	91,618		4,091	1,493	6,221	3,527
Less: allowance for credit losses on mortgages loans	8			1	1	1
Mortgage loans held for portfolio, net	91,610		4,091	1,492	6,220	3,526
Loans to other FHLBanks		(955)		55	500	
Accrued interest receivable	5,614	(39)	457	562	529	825
Premises, software, and equipment, net	208		6	13	25	31
Derivative assets	1,306		67	29	47	43
Other assets	623	4	29	17	59	100
Total assets	$1,271,800	$(4,088)	$78,200	$109,245	$100,936	$188,938
LIABILITIES						
Deposits:						
Interest-bearing:						
Demand and overnight	$ 19,912	$	$ 673	$ 1,585	$ 2,235	$ 7,115
Term	749		31	17		
Deposits from other FHLBanks		(9)				
Other	24		3	1		
Total interest-bearing	20,685	(9)	707	1,603	2,235	7,115
Non-interest-bearing:						
Demand and overnight	84			3	21	20
Other	124		6			
Total non-interest-bearing	208		6	3	21	20
Total deposits	20,893	(9)	713	1,606	2,256	7,135
Borrowings:						
Loans from other FHLBanks		(955)				
Securities sold under agreements to repurchase	1,400					
Other	100					
Total borrowings	1,500	(955)				
Consolidated obligations, net:						
Discount notes	376,342		42,988	34,791	34,685	28,348
Bonds	802,574	(3,055)	30,422	66,326	58,613	142,237
Total consolidated obligations, net	1,178,916	(3,055)	73,410	101,117	93,298	170,585
Mandatorily redeemable capital stock	1,107		31	239	4	55
Accrued interest payable	8,187	(39)	280	656	557	1,460
Affordable Housing Program	893		49	119	60	156
Payable to REFCORP	212		16	24	16	31
Derivative liabilities	3,789		287	672	431	1,306
Other liabilities	1,706		26	61	29	188
Subordinated notes	1,000					
Total liabilities	1,218,203	(4,058)	74,812	104,494	96,651	180,916
CAPITAL						
Capital Stock:						
Capital stock Class B putable ($100 par value per share) issued and outstanding	46,701		3,164	4,368	3,995	7,556
Capital stock Class A putable ($100 par value per share) issued and outstanding	891					
Capital stock Pre-conversion putable ($100 par value per share) issued and outstanding	2,661					
Total capital stock	50,253		3,164	4,368	3,995	7,556
Retained earnings	3,689	(26)	226	418	296	469
Accumulated other comprehensive income:						
Net unrealized losses on available-for-sale securities	(41)				(2)	
Net unrealized losses on held-to-maturity securities transferred from available-for-sale securities	(138)					
Net unrealized (losses) gains relating to hedging activities	(137)	(4)	1	(30)	(3)	
Pension and postretirement benefits	(29)		(3)	(5)	(1)	(3)
Total capital	53,597	(30)	3,388	4,751	4,285	8,022
Total liabilities and capital	$1,271,800	$(4,088)	$78,200	$109,245	$100,936	$188,938

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 53	$ 7	$ 17	$ 59	$ 75	$ 2	$ 5	$ 1
				1			
300							
10,136	11,261	10,286	1,805	7,100	5,150	11,680	1,551
4		863		3	1,654	58	
		941	3,433	362			
14,238	8,375	11,481	4,005	8,535	13,712	53,175	10,987
53,310	26,770	30,221	40,412	46,298	32,057	251,034	45,524
8,928	9,397	34,625	10,802	382	2,353	4,133	5,666
		2		1	1	1	
8,928	9,397	34,623	10,802	381	2,352	4,132	5,666
				400			
305	193	364	130	189	197	1,590	312
8	9	40	7	23	18	16	12
28	3	111	61	65	78	642	132
25	40	80	22	26	85	114	22
$87,335	$56,055	$89,027	$60,736	$63,458	$55,305	$322,446	$64,207
$ 911	$ 556	$ 840	$ 802	$ 2,877	$ 1,333	$ 223	$ 762
117		114	40	211	1	16	202
		9					
18						2	
1,046	556	963	842	3,088	1,334	241	964
		19	21				
	1	107			7	3	
	1	126	21		7	3	
1,046	557	1,089	863	3,088	1,341	244	964
						955	
		1,200	200				
						100	
		1,200	200			1,055	
35,437	22,171	19,057	21,501	24,120	19,896	78,368	14,980
46,179	30,254	62,642	34,564	32,855	31,213	225,328	44,996
81,616	52,425	81,699	56,065	56,975	51,109	303,696	59,976
118	163	22	46	82	36	229	82
431	319	605	301	341	321	2,432	523
103	30	45	43	48	42	175	23
17	10	10	6	8	11	58	5
161	305	232	138	23	109	102	23
88	47	56	22	288	38	828	35
		1,000					
83,580	53,856	85,958	57,684	60,853	53,007	308,819	61,631
3,473	2,003		2,717	2,394	1,487	13,403	2,141
					604		287
		2,661					
3,473	2,003	2,661	2,717	2,394	2,091	13,403	2,428
287	202	659	361	212	209	227	149
		(13)	(25)	(1)			
		(138)					
		(99)				(2)	
(5)	(6)	(1)	(1)		(2)	(1)	(1)
3,755	2,199	3,069	3,052	2,605	2,298	13,627	2,576
$87,335	$56,055	$89,027	$60,736	$63,458	$55,305	$322,446	$64,207

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2008

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
INTEREST INCOME						
Advances	$29,643	$	$1,980	$3,009	$2,141	$4,722
Prepayment fees (credits) on advances, net	92		5	22	10	7
Interest-bearing deposits	90			28	10	29
Securities purchased under agreements to resell	47		12			
Federal funds sold	1,737		34	78	77	239
Trading securities	406	(37)	5			284
Available-for-sale securities	338	(2)	32	81	1	
Held-to-maturity securities	8,744	(23)	443	763	797	1,169
Mortgage loans held for portfolio	4,495		209	78	316	183
Other	3					
Total interest income	45,595	(62)	2,720	4,059	3,352	6,633
INTEREST EXPENSE						
Consolidated obligations — Discount notes	9,912		1,154	698	686	988
Consolidated obligations — Bonds	29,856	(55)	1,214	2,620	2,349	4,686
Deposits	411		17	37	35	110
Securities sold under agreements to repurchase	64					2
Subordinated notes	57					
Mandatorily redeemable capital stock	50		1	9		2
Other borrowings	2		1			
Total interest expense	40,352	(55)	2,387	3,364	3,070	5,788
NET INTEREST INCOME	5,243	(7)	333	695	282	845
Provision for credit losses	11			1	7	
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	5,232	(7)	333	694	275	845
OTHER (LOSS) INCOME						
Service fees	29		4	3	3	2
Net gains (losses) on trading securities	260		(1)		(1)	200
Net realized losses gains on available-for-sale securities	(53)				(3)	
Net realized (losses) gains on held-to-maturity securities	(1,959)		(382)	1	(263)	(186)
Net gains (losses) on advances and consolidated obligations — bonds held at fair value	883			(8)		
Net (losses) gains on derivatives and hedging activities	(1,559)		(11)	(199)	66	(229)
Other, net	49	(5)	(3)	2	5	(1)
Total other (loss) income	(2,350)	(5)	(393)	(201)	(193)	(214)
OTHER EXPENSE						
Operating	732		51	66	50	104
Finance Agency/Finance Board	41		2	4	3	6
Office of Finance	34		2	3	3	4
Provision for derivative counterparty credit losses	252			66		170
Other, net	17	(5)	1			2
Total other expense	1,076	(5)	56	139	56	286
INCOME (LOSS) BEFORE ASSESSMENTS	1,806	(7)	(116)	354	26	345
Affordable Housing Program	188			30	2	28
REFCORP	412			65	5	63
Total assessments	600			95	7	91
NET INCOME (LOSS)	$ 1,206	$ (7)	$ (116)	$ 259	$ 19	$ 254

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$1,893	$ 998	$1,147	$1,418	$1,810	$1,044	$ 8,186	$1,295
2		18	1	7	2	(4)	22
15				2	6		
14		2					19
145	271	139	72	96	73	318	195
		43	1		108	2	
1	30	52	133	10			
682	351	717	209	349	519	2,315	453
437	467	1,654	534	20	134	200	263
					3		
3,189	2,117	3,772	2,368	2,294	1,889	11,017	2,247
947	498	429	617	522	605	2,266	502
1,844	1,314	3,009	1,481	1,563	1,008	7,282	1,541
26	15	19	22	58	27	24	21
		56	2		1		3
		57					
8	12		1	1	1	14	1
					1		
2,825	1,839	3,570	2,123	2,144	1,643	9,586	2,068
364	278	202	245	150	246	1,431	179
		3					
364	278	199	245	150	246	1,431	179
1	1	1	2	4	5	1	2
		18	1	(1)	45	(1)	
		(49)		(1)			
		(233)	2		(5)	(590)	(303)
		1				890	
2	12	45	(33)	7	(215)	(1,008)	4
6	2	25	5	15	2	18	(22)
9	15	(192)	(23)	24	(168)	(690)	(319)
39	36	112	40	61	34	95	44
3	2	3	2	2	2	10	2
3	2	2	2	2	2	7	2
			5	1			10
6	1	9			2		1
51	41	126	49	66	40	112	59
322	252	(119)	173	108	38	629	(199)
27	22		14	9	3	53	
59	46		32	20	7	115	
86	68		46	29	10	168	
$ 236	$ 184	$ (119)	$ 127	$ 79	$ 28	$ 461	$ (199)

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2007

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
INTEREST INCOME						
Advances	$37,453	$	$2,304	$3,491	$2,864	$6,270
Prepayment fees on advances, net	23		3	4	2	2
Interest-bearing deposits	27			4		9
Securities purchased under agreements to resell	134		59			
Federal funds sold	4,465		205	193	195	697
Trading securities	339	(21)	8			266
Available-for-sale securities	367	(3)	47		3	
Held-to-maturity securities	9,362	(110)	522	1,005	876	996
Mortgage loans held for portfolio	4,849		218	79	338	176
Other	5					
Total interest income	57,024	(134)	3,366	4,776	4,278	8,416
INTEREST EXPENSE						
Consolidated obligations — Discount notes	10,720		1,280	938	1,106	671
Consolidated obligations — Bonds	40,581	(134)	1,731	3,216	2,728	6,748
Deposits	949		41	111	75	267
Securities sold under agreements to repurchase	139				2	14
Subordinated notes	57					
Mandatorily redeemable capital stock	57		1	12		11
Other borrowings	4					1
Total interest expense	52,507	(134)	3,053	4,277	3,911	7,712
NET INTEREST INCOME	4,517		313	499	367	704
Provision for credit losses	3				2	
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	4,514		313	499	365	704
OTHER INCOME (LOSS)						
Service fees	29		4	3	4	2
Net gains on trading securities	147					107
Net realized gains (losses) on available-for-sale securities	1				2	
Net realized (losses) gains on held-to-maturity securities	(6)					
Net (losses) gains on derivatives and hedging activities	(53)		8	19	11	(97)
Other, net	9	13	(1)	(8)	1	1
Total other income (loss)	127	13	11	14	18	13
OTHER EXPENSE						
Operating	714		49	67	56	98
Finance Agency/Finance Board	34		2	3	2	5
Office of Finance	30		2	2	3	4
Other, net	14	(5)	1			3
Total other expense	792	(5)	54	72	61	110
INCOME BEFORE ASSESSMENTS	3,849	18	270	441	322	607
Affordable Housing Program	318		22	37	26	51
REFCORP	704		50	81	59	111
Total assessments	1,022		72	118	85	162
NET INCOME	$ 2,827	$ 18	$ 198	$ 323	$ 237	$ 445

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$2,589	$1,243	$1,271	$1,312	$2,111	$1,540	$10,718	$1,740
3	2		1	2		1	3
2			1	7	4		
37			12			13	13
309	486	571	189	277	347	660	336
		36		1	45	4	
36		144	111	27	2		
905	381	618	273	437	685	2,160	614
467	510	1,839	562	23	122	215	300
				1	4		
4,348	2,622	4,479	2,461	2,886	2,749	13,771	3,006
1,235	675	704	424	556	784	2,038	309
2,632	1,690	3,295	1,786	1,958	1,681	10,772	2,478
51	43	47	52	144	48	22	48
		98	25				
		57					
9	7		3	5	2	7	
					2	1	
3,927	2,415	4,201	2,290	2,663	2,517	12,840	2,835
421	207	278	171	223	232	931	171
		1					
421	207	277	171	223	232	931	171
1	1	1	2	4	4	1	2
		22			18		
		1			(2)		
			1		(1)		(6)
(12)	(1)	(25)	4		(10)	52	(2)
5	2	6	3	6	1	2	(22)
(6)	2	5	10	10	10	55	(28)
38	37	120	39	52	32	84	42
3	1	3	2	2	1	8	2
3	2	2	1	2	2	6	1
4	2	6			2		1
48	42	131	42	56	37	98	46
367	167	151	139	177	205	888	97
31	14	12	12	15	17	73	8
67	31	28	26	32	38	163	18
98	45	40	38	47	55	236	26
$ 269	$ 122	$ 111	$ 101	$ 130	$ 150	$ 652	$ 71

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2006

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
INTEREST INCOME						
Advances	$32,411	$	$1,990	$3,283	$2,434	$5,254
Prepayment fees on advances, net	44		1	19	1	1
Interest-bearing deposits	40			3		8
Deposits with other FHLBanks		(1)				1
Securities purchased under agreements to resell	197		66			
Federal funds sold	3,456		160	145	219	535
Trading securities	365	(20)	11			283
Available-for-sale securities	298	(3)	45		7	
Held-to-maturity securities	8,569	(167)	455	878	729	953
Mortgage loans held for portfolio	5,156		238	76	373	152
Loans to other FHLBanks		(1)				
Other	5					
Total interest income	50,541	(192)	2,966	4,404	3,763	7,187
INTEREST EXPENSE						
Consolidated obligations — Discount notes	7,873		1,177	902	655	353
Consolidated obligations — Bonds	37,315	(197)	1,457	2,944	2,703	5,911
Deposits	813		28	85	58	219
Deposits from other FHLBanks		(1)				
Borrowings from other FHLBanks		(1)	1			
Securities sold under agreements to repurchase	152				1	23
Subordinated notes	31					
Mandatorily redeemable capital stock	60		1	3	2	9
Other borrowings	4					1
Total interest expense	46,248	(199)	2,664	3,934	3,419	6,516
NET INTEREST INCOME	4,293	7	302	470	344	671
(Reversal) provision for credit losses	(1)		(2)		2	
NET INTEREST INCOME AFTER (REVERSAL) PROVISION FOR CREDIT LOSSES	4,294	7	304	470	342	671
OTHER INCOME (LOSS)						
Service fees	28		3	3	5	2
Net losses on trading securities	(127)		(2)			(99)
Net realized losses on available-for-sale securities	(3)					
Net realized losses on held-to-maturity securities	(6)					
Net gains (losses) on derivatives and hedging activities	83		11	10	7	91
Other, net	28	16		(26)	2	2
Total other income (loss)	3	16	12	(13)	14	(4)
OTHER EXPENSE						
Operating	671		45	63	57	92
Finance Agency/Finance Board	32		1	3	2	4
Office of Finance	25		2	3	2	3
Other	15	(4)	1			3
Total other expense	743	(4)	49	69	61	102
INCOME BEFORE ASSESSMENTS	3,554	27	267	388	295	565
Affordable Housing Program	295		22	32	25	47
REFCORP	647		49	71	54	104
Total assessments	942		71	103	79	151
NET INCOME	$ 2,612	$ 27	$ 196	$ 285	$ 216	$ 414

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$2,290	$1,175	$1,189	$1,136	$2,182	$1,413	$ 8,776	$1,289
6	3	8		2	1	1	1
2			3	18	6		
54		15	15			35	12
309	337	428	139	197	217	522	248
	1	45		2	37	6	
60		122	22	42	3		
781	360	536	281	417	649	2,058	639
430	510	2,023	615	28	124	243	344
1							
				1	4		
3,933	2,386	4,366	2,211	2,889	2,454	11,641	2,533
925	439	745	269	390	671	980	367
2,566	1,682	3,034	1,721	2,124	1,525	9,799	2,046
43	56	52	35	146	38	18	35
		1					
		91	29				8
		31					
13	4	5	3	13	3	4	
					2	1	
3,547	2,181	3,959	2,057	2,673	2,239	10,802	2,456
386	205	407	154	216	215	839	77
			(1)				
386	205	407	155	216	215	839	77
1	1	1	2	3	4	1	2
	(1)	(17)		(1)	(7)		
		(3)					
							(6)
2	(4)	(28)	2	(5)	11	(14)	
3	2	14	5	4	(4)	3	7
6	(2)	(33)	9	1	4	(10)	3
36	38	109	39	46	28	78	40
3	2	3	2	2	1	7	2
2	1	2	1	1	2	5	1
5	2	4			2		2
46	43	118	42	49	33	90	45
346	160	256	122	168	186	739	35
30	13	21	10	15	16	61	3
63	29	47	23	31	34	136	6
93	42	68	33	46	50	197	9
$ 253	$ 118	$ 188	$ 89	$ 122	$ 136	$ 542	$ 26

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Shares in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
CAPITAL STOCK CLASS B PUTABLE SHARES						
BALANCE, DECEMBER 31, 2005	377		25	36	31	57
Proceeds from sale of capital stock	185		5	35	49	41
Repurchase/redemption of capital stock	(168)		(7)	(33)	(45)	(39)
Net shares reclassified to mandatorily redeemable capital stock	(13)			(2)	(1)	(1)
Transfer between Class B and Class A shares	(1)					
Capital stock dividends	9					
BALANCE, DECEMBER 31, 2006	389		23	36	34	58
Proceeds from sale of capital stock	279		12	33	65	61
Repurchase/redemption of capital stock	(179)		(3)	(23)	(59)	(42)
Net shares reclassified to mandatorily redeemable capital stock	(27)			(2)		(1)
Transfer between Class B and Class A shares	(2)					
Capital stock dividends	8					
BALANCE, DECEMBER 31, 2007	468		32	44	40	76
Proceeds from sale of capital stock	295		10	51	46	64
Repurchase/redemption of capital stock	(232)		(5)	(38)	(45)	(55)
Net shares reclassified to mandatorily redeemable capital stock	(71)		(1)	(1)	(1)	
Transfer between Class B and Class A shares	(3)					
Capital stock dividends	8					
BALANCE, DECEMBER 31, 2008	465		36	56	40	85
CAPITAL STOCK CLASS A PUTABLE SHARES						
BALANCE, DECEMBER 31, 2005	5					
Proceeds from sale of capital stock						
Repurchase/redemption of capital stock						
Net shares reclassified to mandatorily redeemable capital stock	(1)					
Transfer between Class B and Class A shares	1					
Capital stock dividends						
BALANCE, DECEMBER 31, 2006	5					
Proceeds from sale of capital stock	3					
Repurchase/redemption of capital stock						
Net shares reclassified to mandatorily redeemable capital stock	(1)					
Transfer between Class B and Class A shares	2					
Capital stock dividends						
BALANCE, DECEMBER 31, 2007	9					
Proceeds from sale of capital stock	6					
Repurchase/redemption of capital stock	(6)					
Net shares reclassified to mandatorily redeemable capital stock	(5)					
Transfer between Class B and Class A shares	3					
Capital stock dividends						
BALANCE, DECEMBER 31, 2008	7					

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
35	22		19	23	13	95	21
1	1		7	4	7	35	
	(3)		(7)	(6)		(28)	
(1)	(2)				(5)	(1)	
					(1)		
2	—		—	1	1	5	—
37	18		19	22	15	106	21
4	2		20	10	19	53	
			(12)	(9)	(1)	(30)	
(6)					(17)	(1)	
					(2)		
—	—		—	1	1	6	—
35	20		27	24	15	134	21
4	3		56	20	20	17	4
			(55)	(12)	(1)	(21)	
	(4)			(1)	(16)	(39)	(8)
					(3)		
1	—		—	1	1	5	—
40	19		28	32	16	96	17
					5		
					(1)		
					1		
—	—		—	—	—	—	—
					5		
							3
					(1)		
					2		
—	—		—	—	—	—	—
					6		3
							6
							(6)
					(3)		(2)
					3		
—	—		—	—	—	—	—
—	—		—	—	6	—	1

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Shares in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
CAPITAL STOCK PRE-CONVERSION PUTABLE SHARES						
BALANCE, DECEMBER 31, 2005	38					
Proceeds from sale of capital stock						
Repurchase/redemption of capital stock						
Net shares reclassified to mandatorily redeemable capital stock	(12)					
Conversion to Class B or Class A shares						
Capital stock dividends						
BALANCE, DECEMBER 31, 2006	26					
Proceeds from sale of capital stock	1					
Repurchase/redemption of capital stock						
Net shares reclassified to mandatorily redeemable capital stock						
Conversion to Class B or Class A shares						
Capital stock dividends						
BALANCE, DECEMBER 31, 2007	27					
Proceeds from sale of capital stock	1					
Repurchase/redemption of capital stock						
Net shares reclassified to mandatorily redeemable capital stock	(4)					
Conversion to Class B or Class A shares						
Capital stock dividends						
BALANCE, DECEMBER 31, 2008	24					
TOTAL CAPITAL STOCK PUTABLE SHARES						
BALANCE, DECEMBER 31, 2005	420		25	36	31	57
Proceeds from sale of capital stock	185		5	35	49	41
Repurchase/redemption of capital stock	(168)		(7)	(33)	(45)	(39)
Net shares reclassified to mandatorily redeemable capital stock	(26)			(2)	(1)	(1)
Capital stock dividends	9					
BALANCE, DECEMBER 31, 2006	420		23	36	34	58
Proceeds from sale of capital stock	283		12	33	65	61
Repurchase/redemption of capital stock	(179)		(3)	(23)	(59)	(42)
Net shares reclassified to mandatorily redeemable capital stock	(28)			(2)		(1)
Capital stock dividends	8					
BALANCE, DECEMBER 31, 2007	504		32	44	40	76
Proceeds from sale of capital stock	302		10	51	46	64
Repurchase/redemption of capital stock	(238)		(5)	(38)	(45)	(55)
Net shares reclassified to mandatorily redeemable capital stock	(80)		(1)	(1)	(1)	
Capital stock dividends	8					
BALANCE, DECEMBER 31, 2008	496		36	56	40	85

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
		38					
		(12)					
		26					
		1					
		27					
		1					
		(4)					
		24					
35	22	38	19	23	18	95	21
1	1		7	4	7	35	
	(3)		(7)	(6)		(28)	
(1)	(2)	(12)			(6)	(1)	
2				1	1	5	
37	18	26	19	22	20	106	21
4	2	1	20	10	19	53	3
			(12)	(9)	(1)	(30)	
(6)					(18)	(1)	
				1	1	6	
35	20	27	27	24	21	134	24
4	3	1	56	20	20	17	10
			(55)	(12)	(1)	(21)	(6)
	(4)	(4)		(1)	(19)	(39)	(10)
1				1	1	5	
40	19	24	28	32	22	96	18

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL (continued)
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
CAPITAL STOCK CLASS B PUTABLE PAR VALUE						
BALANCE, DECEMBER 31, 2005	$ 37,786	$	$2,532	$ 3,590	$ 3,079	$ 5,753
Proceeds from sale of capital stock	18,372		540	3,470	4,877	4,060
Repurchase/redemption of capital stock	(16,826)		(722)	(3,283)	(4,540)	(3,894)
Net shares reclassified to mandatorily redeemable capital stock	(1,273)		(7)	(231)	(32)	(147)
Transfer between Class B and Class A shares	(127)					
Capital stock dividends	950					
BALANCE, DECEMBER 31, 2006	38,882		2,343	3,546	3,384	5,772
Proceeds from sale of capital stock	27,875		1,130	3,254	6,522	6,120
Repurchase/redemption of capital stock	(17,852)		(273)	(2,245)	(5,911)	(4,245)
Net shares reclassified to mandatorily redeemable capital stock	(2,825)		(36)	(187)		(91)
Transfer between Class B and Class A shares	(168)					
Capital stock dividends	789					
BALANCE, DECEMBER 31, 2007	46,701		3,164	4,368	3,995	7,556
Proceeds from sale of capital stock	29,484		965	5,131	4,547	6,411
Repurchase/redemption of capital stock	(23,216)		(456)	(3,849)	(4,506)	(5,455)
Net shares reclassified to mandatorily redeemable capital stock	(7,079)		(88)	(65)	(54)	(49)
Transfer between Class B and Class A shares	(307)					
Capital stock dividends	830					
BALANCE, DECEMBER 31, 2008	$ 46,413	$	$3,585	$ 5,585	$ 3,982	$ 8,463
CAPITAL STOCK CLASS A PUTABLE PAR VALUE						
BALANCE, DECEMBER 31, 2005	$ 498	$	$	$	$	$
Proceeds from sale of capital stock	6					
Repurchase/redemption of capital stock						
Net shares reclassified to mandatorily redeemable capital stock	(99)					
Transfer between Class B and Class A shares	127					
Capital stock dividends						
BALANCE, DECEMBER 31, 2006	532					
Proceeds from sale of capital stock	325					
Repurchase/redemption of capital stock	(32)					
Net shares reclassified to mandatorily redeemable capital stock	(102)					
Transfer between Class B and Class A shares	168					
Capital stock dividends						
BALANCE, DECEMBER 31, 2007	891					
Proceeds from sale of capital stock	614					
Repurchase/redemption of capital stock	(615)					
Net shares reclassified to mandatorily redeemable capital stock	(445)					
Transfer between Class B and Class A shares	307					
Capital stock dividends						
BALANCE, DECEMBER 31, 2008	$ 752	$	$	$	$	$

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$3,503	$2,156	$	$ 1,932	$ 2,299	$ 1,290	$ 9,520	$2,132
38	54		680	457	673	3,511	12
	(252)		(703)	(609)	(31)	(2,792)	
(92)	(165)		(3)	(9)	(431)	(153)	(3)
					(127)		
209				110	101	530	
3,658	1,793		1,906	2,248	1,475	10,616	2,141
356	222		2,004	1,025	1,887	5,342	13
			(1,211)	(918)	(74)	(2,975)	
(541)	(12)		18	(68)	(1,747)	(148)	(13)
					(168)		
				107	114	568	
3,473	2,003		2,717	2,394	1,487	13,403	2,141
375	256		5,580	2,014	2,082	1,720	403
			(5,513)	(1,186)	(117)	(2,134)	
(33)	(380)		(3)	(73)	(1,619)	(3,901)	(814)
					(307)		
147				75	80	528	
$3,962	$1,879	$	$ 2,781	$ 3,224	$ 1,606	$ 9,616	$1,730
$	$	$	$	$	$ 498	$	$
					6		
					(99)		
					127		
					532		
					6		319
							(32)
					(102)		
					168		
					604		287
					4		610
							(615)
					(281)		(164)
					307		
$	$	$	$	$	$ 634	$	$ 118

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL (continued)
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
CAPITAL STOCK PRE-CONVERSION PUTABLE PAR VALUE						
BALANCE, DECEMBER 31, 2005	$ 3,759	$	$	$	$	$
Proceeds from sale of capital stock	34					
Repurchase/redemption of capital stock						
Net shares reclassified to mandatorily redeemable capital stock	(1,206)					
Conversion to Class B or Class A shares						
Capital stock dividends						
BALANCE, DECEMBER 31, 2006	2,587					
Proceeds from sale of capital stock	88					
Repurchase/redemption of capital stock						
Net shares reclassified to mandatorily redeemable capital stock	(14)					
Conversion to Class B or Class A shares						
Capital stock dividends						
BALANCE, DECEMBER 31, 2007	2,661					
Proceeds from sale of capital stock	115					
Repurchase/redemption of capital stock						
Net shares reclassified to mandatorily redeemable capital stock	(390)					
Conversion to Class B or Class A shares						
Capital stock dividends						
BALANCE, DECEMBER 31, 2008	$ 2,386	$	$	$	$	$
TOTAL CAPITAL STOCK PUTABLE PAR VALUE						
BALANCE, DECEMBER 31, 2005	$ 42,043	$	$2,532	$ 3,590	$ 3,079	$ 5,753
Proceeds from sale of capital stock	18,412		540	3,470	4,877	4,060
Repurchase/redemption of capital stock	(16,826)		(722)	(3,283)	(4,540)	(3,894)
Net shares reclassified to mandatorily redeemable capital stock	(2,578)		(7)	(231)	(32)	(147)
Capital stock dividends	950					
BALANCE, DECEMBER 31, 2006	42,001		2,343	3,546	3,384	5,772
Proceeds from sale of capital stock	28,288		1,130	3,254	6,522	6,120
Repurchase/redemption of capital stock	(17,884)		(273)	(2,245)	(5,911)	(4,245)
Net shares reclassified to mandatorily redeemable capital stock	(2,941)		(36)	(187)		(91)
Capital stock dividends	789					
BALANCE, DECEMBER 31, 2007	50,253		3,164	4,368	3,995	7,556
Proceeds from sale of capital stock	30,213		965	5,131	4,547	6,411
Repurchase/redemption of capital stock	(23,831)		(456)	(3,849)	(4,506)	(5,455)
Net shares reclassified to mandatorily redeemable capital stock	(7,914)		(88)	(65)	(54)	(49)
Capital stock dividends	830					
BALANCE, DECEMBER 31, 2008	$ 49,551	$	$3,585	$ 5,585	$ 3,982	$ 8,463

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$	$	$ 3,759	$	$	$	$	$
		34					
		(1,206)					
		2,587					
		88					
		(14)					
		2,661					
		115					
		(390)					
$	$	$ 2,386	$	$	$	$	$
$3,503	$2,156	$ 3,759	$ 1,932	$ 2,299	$ 1,788	$ 9,520	$2,132
38	54	34	680	457	679	3,511	12
	(252)		(703)	(609)	(31)	(2,792)	
(92)	(165)	(1,206)	(3)	(9)	(530)	(153)	(3)
209				110	101	530	
3,658	1,793	2,587	1,906	2,248	2,007	10,616	2,141
356	222	88	2,004	1,025	1,893	5,342	332
			(1,211)	(918)	(74)	(2,975)	(32)
(541)	(12)	(14)	18	(68)	(1,849)	(148)	(13)
				107	114	568	
3,473	2,003	2,661	2,717	2,394	2,091	13,403	2,428
375	256	115	5,580	2,014	2,086	1,720	1,013
			(5,513)	(1,186)	(117)	(2,134)	(615)
(33)	(380)	(390)	(3)	(73)	(1,900)	(3,901)	(978)
147				75	80	528	
$3,962	$1,879	$ 2,386	$ 2,781	$ 3,224	$ 2,240	$ 9,616	$1,848

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL (continued)
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
RETAINED EARNINGS						
BALANCE, DECEMBER 31, 2005	$ 2,601	$(71)	$ 135	$ 291	$ 189	$ 329
Net income	2,612	27	196	285	216	414
Dividends on capital stock:						
Cash	(1,122)		(144)	(208)	(150)	(336)
Stock	(947)					
BALANCE, DECEMBER 31, 2006	3,144	(44)	187	368	255	407
Net income	2,827	18	198	323	237	445
Dividends on capital stock:						
Cash	(1,492)		(159)	(273)	(196)	(383)
Stock	(790)					
BALANCE, DECEMBER 31, 2007	3,689	(26)	226	418	296	469
Adjustment to opening balance relating to SFAS 158 and 159	16					
Net income (loss)	1,206	(7)	(116)	259	19	254
Dividends on capital stock:						
Cash	(1,144)		(130)	(294)	(145)	(288)
Stock	(831)					
BALANCE, DECEMBER 31, 2008	$ 2,936	$(33)	$ (20)	$ 383	$ 170	$ 435
ACCUMULATED OTHER COMPREHENSIVE INCOME						
BALANCE, DECEMBER 31, 2005	$ (163)	$ (6)	$ 11	$ 4	$ (8)	$
Net unrealized (losses) gains on available-for-sale securities	(4)		(5)		1	
Reclassification adjustment for losses included in net income relating to available-for-sale securities	2					
Net unrealized gains (losses) relating to hedging activities	23			(10)		
Reclassification adjustment for losses (gains) included in net income relating to hedging activities	8	1	(2)		3	
Pension and postretirement benefits	2			2	1	
Adjustment to initially apply SFAS 158	(27)		(2)	(6)	(2)	(5)
BALANCE, DECEMBER 31, 2006	(159)	(5)	2	(10)	(5)	(5)
Net unrealized (losses) gains on available-for-sale securities	(32)		(3)		(2)	
Reclassification adjustment for gains included in net income relating to available-for-sale securities	(1)				(2)	
Net unrealized losses on held-to-maturity securities transferred from available-for-sale securities	(138)					
Reclassification adjustment for (gains) losses included in net income relating to held-to-maturity securities transferred from available-for-sale securities						
Net unrealized losses relating to hedging activities	(36)			(25)		
Reclassification adjustment for losses (gains) included in net income relating to hedging activities	13	1	(1)		2	
Pension and postretirement benefits	8				1	2
BALANCE, DECEMBER 31, 2007	(345)	(4)	(2)	(35)	(6)	(3)
Net unrealized losses on available-for-sale securities	(422)		(131)	(64)	(15)	
Reclassification adjustment for losses included in net income relating to available-for-sale securities	53				3	
Net unrealized gains (losses) on held-to-maturity securities transferred from available-for-sale securities						
Reclassification adjustment for losses included in net income relating to held-to-maturity securities transferred from available-for-sale securities	62					
Net unrealized losses relating to hedging activities	(532)					
Reclassification adjustment for losses (gains) included in net income relating to hedging activities	57	1	(1)		2	
Pension and postretirement benefits	(10)		(1)	(2)	(1)	(2)
BALANCE, DECEMBER 31, 2008	$(1,137)	$ (3)	$(135)	$(101)	$ (17)	$ (5)

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 208	$ 149	$ 525	$ 330	$ 178	$ 138	$ 131	$ 69
253	118	188	89	122	136	542	26
	(99)	(107)	(75)				(3)
(205)	(1)			(110)	(101)	(530)	
256	167	606	344	190	173	143	92
269	122	111	101	130	150	652	71
(238)	(87)	(58)	(84)				(14)
				(108)	(114)	(568)	
287	202	659	361	212	209	227	149
						16	
236	184	(119)	127	79	28	461	(199)
(49)	(103)		(106)				(29)
(148)				(75)	(80)	(528)	
$ 326	$ 283	$ 540	$ 382	$ 216	$ 157	$ 176	$ (79)
$ (2)	$ (2)	$(146)	$ (1)	$ (3)	$ (7)	$ (3)	$
(3)		(1)		3	1		
		2					
		33					
		5				1	
	(1)						
(2)	(2)	(3)		1	(1)	(3)	(2)
(7)	(5)	(110)	(1)	1	(7)	(5)	(2)
1		(4)	(25)	(1)	2		
		(1)			2		
		(138)					
		(11)					
		11					
1	(1)	2		(1)	1	2	1
(5)	(6)	(251)	(26)	(1)	(2)	(3)	(1)
	(67)	(24)	(119)	(2)			
		49		1			
		62					
		(532)					
		54				1	
(1)	2	3	(1)			(5)	(2)
$ (6)	$ (71)	$(639)	$(146)	$ (2)	$ (2)	$ (7)	$ (3)

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CAPITAL (continued)
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
TOTAL CAPITAL						
BALANCE, DECEMBER 31, 2005	$ 44,481	$(77)	$2,678	$ 3,885	$ 3,260	$ 6,082
Proceeds from sale of capital stock	18,412		540	3,470	4,877	4,060
Repurchase/redemption of capital stock	(16,826)		(722)	(3,283)	(4,540)	(3,894)
Net shares reclassified to mandatorily redeemable capital stock	(2,578)		(7)	(231)	(32)	(147)
Comprehensive income:						
Net income	2,612	27	196	285	216	414
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale securities	(4)		(5)		1	
Reclassification adjustment for losses included in net income relating to available-for-sale securities	2					
Net unrealized gains (losses) relating to hedging activities	23			(10)		
Reclassification adjustment for losses (gains) included in net income relating to hedging activities	8	1	(2)		3	
Pension and postretirement benefits	2			2	1	
Total comprehensive income	2,643	28	189	277	221	414
Adjustment to initially apply SFAS 158	(27)		(2)	(6)	(2)	(5)
Dividends on capital stock:						
Cash	(1,122)		(144)	(208)	(150)	(336)
Stock	3					
BALANCE, DECEMBER 31, 2006	44,986	(49)	2,532	3,904	3,634	6,174
Proceeds from sale of capital stock	28,288		1,130	3,254	6,522	6,120
Repurchase/redemption of capital stock	(17,884)		(273)	(2,245)	(5,911)	(4,245)
Net shares reclassified to mandatorily redeemable capital stock	(2,941)		(36)	(187)		(91)
Comprehensive income:						
Net income	2,827	18	198	323	237	445
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale securities	(32)		(3)		(2)	
Reclassification adjustment for (gains) losses included in net income relating to available-for-sale securities	(1)				(2)	
Net unrealized losses on held-to-maturity securities transferred from available-for-sale securities	(138)					
Reclassification adjustment for (gains) losses included in net income relating to held-to-maturity securities transferred from available-for-sale securities						
Net unrealized losses relating to hedging activities	(36)			(25)		
Reclassification adjustment for losses (gains) included in net income relating to hedging activities	13	1	(1)		2	
Pension and postretirement benefits	8				1	2
Total comprehensive income	2,641	19	194	298	236	447
Dividends on capital stock:						
Cash	(1,492)		(159)	(273)	(196)	(383)
Stock	(1)					
BALANCE, DECEMBER 31, 2007	53,597	(30)	3,388	4,751	4,285	8,022
Adjustment to opening balances relating to SFAS 158 and 159	16					
Proceeds from sale of capital stock	30,213		965	5,131	4,547	6,411
Repurchase/redemption of capital stock	(23,831)		(456)	(3,849)	(4,506)	(5,455)
Net shares reclassified to mandatorily redeemable capital stock	(7,914)		(88)	(65)	(54)	(49)
Comprehensive income:						
Net income (loss)	1,206	(7)	(116)	259	19	254
Other comprehensive income:						
Net unrealized losses on available-for-sale securities	(422)		(131)	(64)	(15)	
Reclassification adjustment for losses included in net income relating to available-for-sale securities	53				3	
Net unrealized gains (losses) on held-to-maturity securities transferred from available-for-sale securities						
Reclassification adjustment for losses included in net income relating to held-to-maturity securities transferred from available-for-sale securities	62					
Net unrealized losses relating to hedging activities	(532)					
Reclassification adjustment for losses (gains) included in net income relating to hedging activities	57	1	(1)		2	
Pension and postretirement benefits	(10)		(1)	(2)	(1)	(2)
Total comprehensive income	414	(6)	(249)	193	8	252
Dividends on capital stock:						
Cash	(1,144)		(130)	(294)	(145)	(288)
Stock	(1)					
BALANCE, DECEMBER 31, 2008	$ 51,350	$(36)	$3,430	$ 5,867	$ 4,135	$ 8,893

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$3,709	$2,303	$ 4,138	$ 2,261	$ 2,474	$ 1,919	$ 9,648	$2,201
38	54	34	680	457	679	3,511	12
	(252)		(703)	(609)	(31)	(2,792)	
(92)	(165)	(1,206)	(3)	(9)	(530)	(153)	(3)
253	118	188	89	122	136	542	26
(3)		(1)		3	1		
		2					
		33					
		5				1	
	(1)						
250	117	227	89	125	137	543	26
(2)	(2)	(3)		1	(1)	(3)	(2)
	(99)	(107)	(75)				(3)
4	(1)						
3,907	1,955	3,083	2,249	2,439	2,173	10,754	2,231
356	222	88	2,004	1,025	1,893	5,342	332
			(1,211)	(918)	(74)	(2,975)	(32)
(541)	(12)	(14)	18	(68)	(1,849)	(148)	(13)
269	122	111	101	130	150	652	71
1		(4)	(25)	(1)	2		
		(1)			2		
		(138)					
		(11)					
		11					
1	(1)	2		(1)	1	2	1
271	121	(30)	76	128	155	654	72
(238)	(87)	(58)	(84)				(14)
				(1)			
3,755	2,199	3,069	3,052	2,605	2,298	13,627	2,576
						16	
375	256	115	5,580	2,014	2,086	1,720	1,013
			(5,513)	(1,186)	(117)	(2,134)	(615)
(33)	(380)	(390)	(3)	(73)	(1,900)	(3,901)	(978)
236	184	(119)	127	79	28	461	(199)
	(67)	(24)	(119)	(2)			
		49		1			
		62					
		(532)					
		54				1	
(1)	2	3	(1)			(5)	(2)
235	119	(507)	7	78	28	457	(201)
(49)	(103)		(106)				(29)
(1)							
$4,282	$2,091	$ 2,287	$ 3,017	$ 3,438	$ 2,395	$ 9,785	$1,766

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2008

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
OPERATING ACTIVITIES:						
Net income (loss)	$ 1,206	$ (7)	$ (116)	$ 259	$ 19	$ 254
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	(423)	7	(216)	(64)	(285)	407
Change in net fair value adjustment on derivatives and hedging activities	1,304		120	(122)	28	254
Other adjustments	2,272		385	64	273	356
Net change in fair value adjustments on trading securities	(297)		1			(236)
Change in fair value adjustments on advances and consolidated obligations — bonds held at fair value	(883)			8		
Net change in:						
Trading securities	(499)				(499)	
Accrued interest receivable	1,183	(31)	169	69	95	43
Other assets	(255)		(8)	(67)	(46)	(25)
Accrued interest payable	(1,825)	31	(22)	(222)	(64)	(421)
Other liabilities	(384)		(72)	(12)	(78)	(53)
Total adjustments	193	7	357	(346)	(576)	325
Net cash provided by (used in) operating activities	1,399		241	(87)	(557)	579
INVESTING ACTIVITIES:						
Net change in:						
Interest-bearing deposits	(59,398)		(3,279)	(15,609)	(6,473)	(5,533)
Securities purchased under agreements to resell	(6,095)		(2,000)			
Federal funds sold	45,519		368	4,381	3,475	4,066
Deposits to other FHLBanks		(3)			2	1
Loans to FHLBanks		(955)		55	500	
Premises, software and equipment	(51)		(1)	(6)	(3)	(8)
Trading securities:						
Proceeds	3,903	(19)	49			2,450
Purchases	(9,358)	113				(2,979)
Available-for-sale securities:						
Proceeds	5,896	(42)	72	336	7	
Purchases	(14,571)		(92)	(3,244)		
Held-to-maturity securities:						
Net decrease (increase) in short-term	34,972		4,765	9,097	3,059	800
Proceeds from long-term	26,961	(2,525)	2,293	2,437	3,059	3,472
Purchases of long-term	(51,365)		(3,438)	(2,284)	(1,372)	(5,505)
Advances:						
Proceeds	8,518,268		955,150	596,335	1,382,585	218,998
Made	(8,551,560)		(955,595)	(619,123)	(1,374,295)	(235,046)
Mortgage loans held for portfolio:						
Principal collected	12,022		547	170	773	441
Purchases	(7,700)		(622)	(138)	(736)	(165)
Proceeds from sales of foreclosed assets	46		5			
Principal collected on other loans	1					
Net cash (used in) provided by investing activities	(52,510)	(3,431)	(1,778)	(27,593)	10,581	(19,008)

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 236	$ 184	$ (119)	$ 127	$ 79	$ 28	$ 461	$ (199)
26	(21)	41	48	20	(75)	(279)	(32)
(133)	(70)	(30)	80	(136)	195	753	365
5		277	(3)	(6)	6	591	324
		(18)	(1)		(44)	1	
		(1)				(890)	
30	41	(8)	37	44	58	565	71
	3	(64)	(1)	1		(48)	
(37)	(34)	(39)	19	172	(68)	(954)	(186)
5	16	(30)	(5)	(29)	(21)	(76)	(29)
(104)	(65)	128	174	66	51	(337)	513
132	119	9	301	145	79	124	314
(20,490)	(297)		(268)	(3,804)	(3,563)		(82)
300		(495)					(3,900)
10,136	4,038	9,201	(1,620)	5,228	4,766	2,249	(769)
				400			
(4)	(1)	(7)	(3)	(2)	(2)	(10)	(4)
		838			563	22	
		(825)	(2,150)		(3,517)		
909		954	2,882	582	194		2
(3,421)	(1,680)	(2,181)	(3,407)	(350)	(194)		(2)
2,065	1,660	1,114	(85)	992	5,765	6,988	(1,248)
2,127	1,669	1,553	704	1,679	1,082	5,827	3,584
(2,844)	(1,627)	(7,957)	(2,565)	(6,055)	(4,187)	(12,105)	(1,426)
1,576,272	57,373	276,114	329,770	897,403	586,006	1,486,351	155,911
(1,576,116)	(60,947)	(283,597)	(330,411)	(911,508)	(589,136)	(1,468,936)	(146,850)
1,299	1,099	5,031	1,295	54	322	427	564
(1,038)	(498)	(2,320)	(1,184)		(999)		
		41					
					1		
(10,805)	789	(2,536)	(7,042)	(15,381)	(2,899)	20,813	5,780

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS (continued) FOR THE YEAR ENDED DECEMBER 31, 2008

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
FINANCING ACTIVITIES:						
Net change in:						
Deposits and pass-through reserves	$ (3,826)	$	$ (119)	$ (142)	$ (952)	$ (3,493)
Borrowings	166			471		
Loans from FHLBanks		955				
Net proceeds (payments) on derivative contracts with financing element	1,665		35		278	832
Net proceeds from issuance of consolidated obligations:						
Discount notes	10,848,109		1,221,134	686,114	746,659	357,998
Bonds	554,624	(113)	23,756	62,036	32,261	118,775
Bonds transferred from other FHLBanks		(1,556)			314	613
Payments for maturing and retiring consolidated obligations:						
Discount notes	(10,784,163)		(1,221,517)	(674,496)	(758,394)	(331,324)
Bonds	(547,180)	2,579	(22,106)	(47,119)	(30,031)	(125,457)
Bonds transferred to other FHLBanks		1,563				
Proceeds from issuance of capital stock	30,213		965	5,131	4,547	6,411
Payments for redemption of mandatorily redeemable capital stock	(2,912)		(26)	(161)	(54)	(60)
Payments for repurchase/redemption of capital stock	(23,831)		(456)	(3,849)	(4,506)	(5,455)
Cash dividends paid	(1,254)		(130)	(294)	(145)	(402)
Net cash provided by (used in) financing activities	71,611	3,428	1,536	27,691	(10,023)	18,438
Net increase (decrease) in cash and cash equivalents	20,500	(3)	(1)	11	1	9
Cash and cash equivalents at beginning of the year	320		7	8	67	19
Cash and cash equivalents at end of the year	$ 20,820	$ (3)	$ 6	$ 19	$ 68	$ 28
Supplemental Disclosures:						
Interest paid	$ 41,073	$	$ 2,553	$ 2,821	$ 2,716	$ 5,184
AHP payments, net	$ 269	$	$ 11	$ 26	$ 19	$ 45
REFCORP assessments paid	$ 785	$	$ 57	$ 84	$ 61	$ 108
Transfers of mortgage loans to real estate owned	$ 99	$	$ 8	$ 1	$ 8	$ 2

	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
	$ 183	$ 54	$ (330)	$ 603	$ (1,435)	$ 381	$ 1,840	$ (416)
				(200)		(5)	(100)	
							(955)	
	214	168	116	25	10	118	(131)	
	942,960	1,010,820	1,229,174	1,143,298	592,181	1,030,058	755,490	1,132,223
	31,582	27,147	22,685	21,122	52,859	21,809	114,692	26,013
	287	39			139		164	
	(929,052)	(1,009,503)	(1,218,752)	(1,144,772)	(599,584)	(1,023,668)	(741,792)	(1,131,309)
	(35,832)	(28,917)	(29,568)	(13,273)	(29,262)	(25,942)	(129,707)	(32,545)
			(789)		(487)			(287)
	375	256	115	5,580	2,014	2,086	1,720	1,013
	(45)	(9)	(11)	(38)	(67)	(1,902)	(397)	(142)
				(5,513)	(1,186)	(117)	(2,134)	(615)
	(49)	(99)		(106)				(29)
	10,623	(44)	2,640	6,726	15,182	2,818	(1,310)	(6,094)
	(50)	864	113	(15)	(54)	(2)	19,627	
	53	7	17	59	75	2	5	1
	$ 3	$ 871	$ 130	$ 44	$ 21	$	$ 19,632	$ 1
	$ 2,851	$ 1,364	$ 3,615	$ 2,061	$ 2,023	$ 1,774	$ 11,857	$ 2,254
	$ 28	$ 16	$ 22	$ 17	$ 13	$ 17	$ 48	$ 7
	$ 62	$ 38	$ 10	$ 38	$ 45	$ 34	$ 224	$ 24
	$	$	$ 64	$ 12	$	$ 2	$ 2	$

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
OPERATING ACTIVITIES:						
Net income	$ 2,827	$ 18	$ 198	$ 323	$ 237	$ 445
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation and amortization	1,632		290	124	111	141
Change in net fair value adjustment on derivative and hedging activities	(463)		(2)	56	10	(35)
Other adjustments	32	(13)	1			
Net change in fair value adjustments on trading securities	(125)					(107)
Net change in:						
Trading securities	184	193			(8)	
Accrued interest receivable	(1,272)	(20)	(243)	(156)	(113)	(136)
Other assets	(82)		(3)		4	(16)
Accrued interest payable	(355)	20	(77)	(79)	(8)	73
Other liabilities	175		14	5	15	61
Total adjustments	(274)	180	(20)	(50)	11	(19)
Net cash provided by (used in) operating activities	2,553	198	178	273	248	426
INVESTING ACTIVITIES:						
Net change in:						
Interest-bearing deposits	(1,254)			(397)	(61)	(717)
Securities purchased under agreements to resell	4,105		2,750			
Federal funds sold	(8,763)		(302)	(720)	(1,355)	(4,303)
Deposits to other FHLBanks		(3)			1	1
Loans to FHLBanks		955		(55)	(500)	
Premises, software and equipment	(48)		(2)	(6)	(8)	(5)
Trading securities:						
Proceeds	903		38			
Purchases	(2,064)					
Available-for-sale securities:						
Proceeds	44,912	(15)	55		22	
Purchases	(45,632)		(97)	(14)		
Held-to-maturity securities:						
Net (decrease) increase in short-term	(12,799)		(4,390)	(4,709)	(1,804)	(92)
Proceeds from long-term	26,203	(1,700)	2,382	2,045	2,391	2,709
Purchases of long-term	(33,496)		(3,024)	(1,080)	(3,920)	(4,638)
Advances:						
Proceeds	7,339,019		725,395	397,682	854,663	183,072
Made	(7,564,733)		(743,421)	(419,285)	(873,125)	(221,387)
Mortgage loans held for portfolio:						
Principal collected	11,852		574	165	867	388
Purchases	(5,522)		(174)	(175)	(134)	(910)
Proceeds from sales of foreclosed assets	51		4			
Principal collected on other loans	1					
Net cash used in investing activities	(247,265)	(763)	(20,212)	(26,549)	(22,963)	(45,882)

	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
	$ 269	$ 122	$ 111	$ 101	$ 130	$ 150	$ 652	$ 71
	42	66	23	71	80	69	521	94
	56	29	(161)	(47)	69	(9)	(429)	
		1	(3)		5	6	7	28
						(18)		
					(1)			
	(5)	(57)	18	(37)	(1)	(21)	(512)	11
	(4)		(45)	1	(2)		(18)	1
	(129)	(65)	(84)	1	(102)	(15)	154	(44)
	19	5	(20)	(1)	10	8	55	4
	(21)	(21)	(272)	(12)	58	20	(222)	94
	248	101	(161)	89	188	170	430	165
	(182)			11	55	37		
	850			305			200	
	(494)	(3,937)	(3,816)	(180)	(1,605)	2,905	3,763	1,281
							1	
					(400)			
	(3)		(8)	(2)	(2)	(2)	(8)	(2)
	1		701		22	122	19	
			(1,010)			(1,054)		
	37,981		678	5,735	354	102		
	(36,756)		(135)	(8,630)				
	4,464	(1,266)	343	1,020	(992)	(1,238)	(6,300)	2,165
	2,089	993	1,578	762	1,242	1,365	5,430	4,917
	(2,528)	(1,152)	(16)	(70)	(1,363)	(1,203)	(12,277)	(2,225)
	1,732,023	80,015	255,253	93,836	510,505	514,730	1,910,806	81,039
	(1,743,033)	(84,049)	(259,057)	(112,007)	(515,458)	(518,117)	(1,977,387)	(98,407)
	1,027	1,087	4,867	1,340	67	278	498	694
	(1,505)	(468)	(1,530)	(371)		(255)		
			47					
						1		
	(6,066)	(8,777)	(2,105)	(18,251)	(7,575)	(2,329)	(75,255)	(10,538)

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS (continued) FOR THE YEAR ENDED DECEMBER 31, 2007

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
FINANCING ACTIVITIES:						
Net change in:						
Deposits and pass-through reserves	$ 3,123	$	$ (351)	$ (684)	$ 1,022	$ 2,515
Deposits from other FHLBanks		3				
Borrowings	(788)			(83)		(500)
Loans from FHLBanks		(955)				
Net proceeds from issuance of consolidated obligations:						
Discount notes	8,839,550		1,091,339	441,179	610,513	711,091
Bonds	495,029	(209)	24,817	42,535	30,474	126,663
Bonds transferred from other FHLBanks		(1,271)				
Payments for maturing and retiring consolidated obligations:						
Discount notes	(8,622,055)		(1,066,286)	(418,708)	(593,701)	(687,797)
Bonds	(476,151)	1,723	(30,167)	(38,181)	(26,015)	(107,793)
Bonds transferred to other FHLBanks		1,274		(491)		
Proceeds from issuance of capital stock	28,288		1,130	3,254	6,522	6,120
Payments for redemption of mandatorily redeemable capital stock	(2,945)		(17)	(58)	(4)	(252)
Payments for repurchase/redemption of capital stock	(17,884)		(273)	(2,245)	(5,911)	(4,245)
Cash dividends paid	(1,465)		(159)	(273)	(196)	(356)
Net cash provided by financing activities	244,702	565	20,033	26,245	22,704	45,446
Net (decrease) increase in cash and cash equivalents	(10)		(1)	(31)	(11)	(10)
Cash and cash equivalents at beginning of the year	330		8	39	78	29
Cash and cash equivalents at end of the year	$ 320	$	$ 7	$ 8	$ 67	$ 19
Supplemental Disclosures:						
Interest paid	$ 48,858	$	$ 2,851	$ 3,419	$ 2,753	$ 6,899
AHP payments, net	$ 229	$	$ 13	$ 20	$ 16	$ 25
REFCORP assessments paid	$ 656	$	$ 47	$ 74	$ 57	$ 104
Transfers of mortgage loans to real estate owned	$ 86	$	$ 5	$	$ 6	$

	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
	$ 127	$ (353)	$ (370)	$ (48)	$ 771	$ 282	$ 218	$ (6)
			(3)					
				(300)		(5)	100	
							955	
	625,424	992,129	1,185,970	619,804	885,769	865,622	303,381	507,329
	34,774	18,524	18,902	8,682	22,143	20,561	110,375	36,788
	120				326		732	93
	(611,987)	(980,496)	(1,178,070)	(603,019)	(869,943)	(862,495)	(255,637)	(493,916)
	(42,149)	(21,271)	(24,108)	(7,636)	(31,192)	(21,761)	(87,636)	(39,965)
			(85)		(462)			(236)
	356	222	88	2,004	1,025	1,893	5,342	332
	(560)		(6)	(1)	(153)	(1,862)	(32)	
				(1,211)	(918)	(74)	(2,975)	(32)
	(238)	(87)	(58)	(84)				(14)
	5,867	8,668	2,260	18,191	7,366	2,161	74,823	10,373
	49	(8)	(6)	29	(21)	2	(2)	
	4	15	23	30	96		7	1
	$ 53	$ 7	$ 17	$ 59	$ 75	$ 2	$ 5	$ 1
	$ 3,938	$ 1,824	$ 4,210	$ 2,240	$ 2,627	$ 2,488	$ 12,730	$ 2,879
	$ 24	$ 10	$ 30	$ 14	$ 11	$ 13	$ 45	$ 8
	$ 68	$ 28	$ 26	$ 25	$ 32	$ 36	$ 144	$ 15
	$	$	$ 61	$ 9	$	$ 2	$ 2	$ 1

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2006

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
OPERATING ACTIVITIES:						
Net income	$ 2,612	$ 27	$ 196	$ 285	$ 216	$ 414
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation and amortization	442	(7)	100	(36)	137	52
Change in net fair value adjustment on derivative and hedging activities	(854)		(101)	(173)	(145)	(150)
Other adjustments	27	5	(1)		2	
Net change in fair value adjustments on trading securities	110		2			99
Net change in:						
Accrued interest receivable	(621)	(9)	(24)	(29)	(112)	(71)
Other assets	(74)		2			(4)
Accrued interest payable	2,231	9	81	237	130	320
Other liabilities	71		12	28	11	37
Total adjustments	1,332	(2)	71	27	23	283
Net cash provided by (used in) operating activities	3,944	25	267	312	239	697
INVESTING ACTIVITIES:						
Net change in:						
Interest-bearing deposits	699			245	1	61
Securities purchased under agreements to resell	(1,610)		(3,250)			
Federal funds sold	3,502		2,169	(736)	(1,050)	2,497
Deposits to other FHLBanks		(1)			1	
Premises, software and equipment	(63)		(2)	(4)	(9)	(5)
Trading securities:						
Proceeds	2,201		63			651
Purchases	(831)					
Available-for-sale securities:						
Proceeds	111,513				266	
Purchases	(112,557)					
Held-to-maturity securities:						
Net (increase) decrease in short-term	(1,212)		1,190	2,863	(533)	(608)
Proceeds from long-term	26,799	(1,050)	2,460	2,311	1,611	3,769
Purchases of long-term	(31,824)		(3,440)	(4,000)	(3,326)	(3,473)
Advances:						
Proceeds	7,075,488		695,115	580,752	652,740	174,424
Made	(7,096,633)		(694,425)	(578,048)	(654,623)	(174,662)
Mortgage loans held for portfolio:						
Principal collected	13,505		637	167	1,048	356
Purchases	(6,297)		(261)	(185)	(383)	(500)
Proceeds from sales of foreclosed assets	60		1			
Principal collected on other loans	1					
Net cash (used in) provided by investing activities	(17,259)	(1,051)	257	3,365	(4,257)	2,510

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 253	$ 118	$ 188	$ 89	$ 122	$ 136	$ 542	$ 26
(36)	16	118	54	38	33	(2)	(25)
(75)	(17)	90	(20)	(103)	(76)	98	182
13		(10)	(1)	10	8	2	(1)
	1				8		
(62)	(17)	(41)	7	3	(25)	(169)	(72)
(2)	(5)	(59)			(1)	(6)	1
122	55	137	(16)	47	86	832	191
18	(7)	(18)	(49)	4	2	40	(7)
(22)	26	217	(25)	(1)	35	795	(95)
231	144	405	64	121	171	1,337	(69)
100	3		54	210	25		
(150)		390				550	850
(2,154)	(2,669)	85	1,360	2,401	(3,551)	1,554	3,596
(2)	(1)	(19)	(5)	(4)	(4)	(6)	(2)
2	42	1,359	9	21	3	51	
		(831)					
108,395		1,692	875	285			
(108,375)		(2,993)	(1,189)				
(358)	517	131	357		(889)	(3,341)	(541)
2,142	1,032	1,231	1,047	1,585	1,360	6,674	2,627
(1,576)	(743)	(5,391)	(495)	(575)	(1,345)	(5,822)	(1,638)
1,974,813	89,061	(94,810)	96,519	508,840	444,820	1,854,536	98,678
(1,976,598)	(85,521)	93,520	(96,139)	(503,538)	(446,209)	(1,875,178)	(105,212)
1,106	1,138	5,641	1,596	92	276	603	845
(1,164)	(1,633)	(1,565)	(359)		(229)	(18)	
		59					
					1		
(3,819)	1,226	(1,501)	3,630	9,317	(5,742)	(20,397)	(797)

FEDERAL HOME LOAN BANKS

COMBINING SCHEDULES—STATEMENTS OF CASH FLOWS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

(Dollar amounts in millions)

	Combined	Combining Adjustments	Boston	New York	Pittsburgh	Atlanta
FINANCING ACTIVITIES:						
Net change in:						
Deposits and pass-through reserves	(106)		523	(389)	343	(614)
Deposits from other FHLBanks		1				
Borrowings	(282)			117		
Net proceeds from issuance of consolidated obligations:						
Discount notes	7,038,295		729,039	592,280	158,314	493,373
Bonds	323,371	9	17,116	32,547	19,054	55,097
Bonds transferred from other FHLBanks		(1,453)	20			68
Payments for maturing and retiring consolidated obligations:						
Discount notes	(7,060,576)		(735,686)	(600,579)	(155,108)	(498,049)
Bonds	(285,873)	1,022	(11,179)	(26,696)	(18,744)	(52,842)
Bonds transferred to other FHLBanks		1,447		(780)		
Net proceeds from issuance of subordinated notes	994					
Proceeds from issuance of capital stock	18,412		540	3,470	4,877	4,060
Payments for redemption of mandatorily redeemable capital stock	(2,965)		(3)	(139)	(41)	(74)
Payments for repurchase/redemption of capital stock	(16,826)		(722)	(3,283)	(4,540)	(3,894)
Cash dividends paid	(1,155)		(174)	(208)	(174)	(316)
Net cash provided by (used in) financing activities	13,289	1,026	(526)	(3,660)	3,981	(3,191)
Net (decrease) increase in cash and cash equivalents	(26)		(2)	17	(37)	16
Cash and cash equivalents at beginning of the year	356		10	22	115	13
Cash and cash equivalents at end of the year	$ 330	$	$ 8	$ 39	$ 78	$ 29
Supplemental Disclosures:						
Interest paid	$ 40,003	$	$ 2,584	$ 2,643	$ 2,326	$ 5,791
AHP payments, net	$ 226	$	$ 11	$ 21	$ 12	$ 23
REFCORP assessments paid	$ 675	$	$ 49	$ 68	$ 54	$ 101
Transfers of mortgage loans to real estate owned	$ 62	$	$ 2	$	$ 6	$ 1

Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
17	120	632	76	(1,388)	217	154	203
		(1)					
					(5)		(394)
821,870	852,748	701,308	738,751	572,533	824,872	202,008	351,199
20,411	7,699	21,696	5,858	13,808	10,959	93,614	25,503
		562				803	
(817,495)	(851,664)	(706,911)	(738,144)	(575,554)	(821,606)	(199,490)	(360,290)
(20,870)	(9,941)	(15,041)	(10,126)	(18,471)	(8,963)	(78,655)	(15,367)
		(667)					
		994					
38	54	34	680	457	679	3,511	12
(384)	(58)	(1,414)	(23)	(180)	(551)	(98)	
	(252)		(703)	(609)	(31)	(2,792)	
	(99)	(106)	(75)				(3)
3,587	(1,393)	1,086	(3,706)	(9,404)	5,571	19,055	863
(1)	(23)	(10)	(12)	34		(5)	(3)
5	38	33	42	62		12	4
$ 4	$ 15	$ 23	$ 30	$ 96	$	$ 7	$ 1
$ 3,467	$ 1,654	$ 3,824	$ 2,017	$ 2,643	$ 2,044	$ 8,744	$ 2,266
$ 24	$ 14	$ 36	$ 12	$ 11	$ 11	$ 40	$ 11
$ 62	$ 30	$ 50	$ 67	$ 30	$ 38	$ 124	$ 2
$	$	$ 40	$ 10	$ 1	$ 2	$	$

SUPPLEMENTAL INFORMATION

ADDITIONAL INFORMATION ON FHLBANKS' REGULATOR AND BUSINESS

FHLBanks' Regulator

Effective July 30, 2008, the FHLBanks are supervised and regulated by the Finance Agency. Prior to this date, the Finance Board served as the FHLBanks' regulator. On July 30, 2008 the Housing Act was enacted and is designed to, among other things, address the current housing finance crisis, expand the FHA's financing authority and address GSE reform issues. (See "Financial Discussion and Analysis of Combined Financial Condition and Combined Results of Operations—Legislative and Regulatory Developments—Changes to Regulation of GSEs".)

The Finance Agency is headed by a single Director appointed by the President of the United States, by and with the advice and consent of the Senate, to serve a five-year term. The Director 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. James B. Lockhart, III, is the Director (Chief Executive Officer) of the Finance Agency and Chairman of the Federal Housing Finance Oversight Board.

The Federal Housing Finance Oversight Board is established to advise the Director with respect to overall strategies and policies in carrying out the duties of the Director, including promotion of a stable and liquid mortgage market, affordable housing and community investment through safety and soundness oversight of Fannie Mae, Freddie Mac and the FHLBanks. The Federal Housing Finance Oversight Board is comprised of four board members. The members of the board are the Secretary of Treasury, the Secretary of the U.S. Department of Housing and Urban Development (HUD), the Chairman of the Securities and Exchange Commission (SEC) and the Director, who serves as the Chairman of the board. The Finance Agency is financed by assessments from the regulated entities, including FHLBanks. No tax dollars or other appropriations support the operations of the Finance Agency or the FHLBanks. To assess the safety and soundness of the FHLBanks, the Finance Agency conducts annual on-site examinations of each FHLBank and the Office of Finance, as well as periodic off-site reviews. In addition, each FHLBank is required to submit monthly financial information on its financial condition and results of operations to the Finance Agency. This information is available to all FHLBanks.

The Finance Agency has broad regulatory authority over the FHLBanks. The Director may issue and serve a notice of charges upon any FHLBank or executive officer or director of an FHLBank under certain circumstances. The Director may take such action if it determines that the FHLBank, executive officer or director is engaging or has engaged in an unsafe or unsound practice in conducting the business of that FHLBank, or in any conduct that violates any provision of the FHLBank Act or any law, order, rule or regulation or any written condition imposed by the Finance Agency, or any written agreement entered into by the FHLBank with the Finance Agency. The Director may also issue any order requiring a regulated entity, executive officer, director, or entity-affiliated party to take affirmative action to correct or remedy any condition resulting from violations or practices with respect to which such order is issued.

The Director has the authority to:

- require a regulated entity make restitution to, or provide reimbursement, indemnification, or guarantee against loss, if such entity was unjustly enriched in connection with such practice or violation; or the violation or practice involved a reckless disregard for the law or any applicable regulations or prior order of the Director;
- require a regulated entity to seek restitution, or to obtain reimbursement, indemnification, or guarantee against loss;
- restrict the growth of the regulated entity;
- require the regulated entity to dispose of any loan or asset involved;
- require the regulated entity to rescind agreements or contracts;

- require the regulated entity to employ qualified officers or employees (who may be subject to approval by the Director at the direction of the Director); and
- require the regulated entity to take such other action as the Director determines appropriate.

The Finance Agency is located at 1700 G Street, N.W., 4th Floor, Washington, DC 20552, and its web site is www.fhfa.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.

Finance Agency Information

The following table reflects the duration of equity reported by the FHLBanks to the Finance Agency in accordance with the Regulator's guidance. This information is being provided at the request of the Finance Agency.

Duration of Equity
(In Years)

	December 31, 2008			December 31, 2007		
FHLBank	Down*	Base	Up**	Down*	Base	Up**
Boston	(6.2)	(2.4)	3.8	(0.4)	0.9	2.9
New York	0.0	(2.1)	1.4	(4.8)	(0.6)	1.5
Pittsburgh	9.1	26.8	0.6	(2.8)	4.2	4.0
Atlanta	21.3	21.3	22.2	(3.1)	1.2	0.3
Cincinnati	(4.2)	(3.1)	6.4	(7.2)	1.5	5.2
Indianapolis	0.6	0.6	4.2	(5.3)	3.4	2.2
Des Moines	(96.5)	(23.8)	6.1	(2.3)	(1.5)	(0.8)
Dallas	6.4	6.4	14.4	0.3	2.2	4.4
Topeka	(0.3)	7.8	3.2	(1.1)	3.0	1.9
San Francisco	9.2	12.4	4.7	0.5	3.6	3.3
Seattle	0.0	23.6	60.3	(9.4)	0.7	1.0

* Applicable regulation restricts the down rate from assuming a negative interest rate. Therefore, each FHLBank adjusts the down rate accordingly.

** Up = 200 basis points

Please see "Risk Management—Quantitative and Qualitative Disclosures about Market Risk—Quantitative Disclosure about Market Risk" for the FHLBank of Chicago's duration of equity information.

Mortgage Partnership Finance® (MPF®) Program[1] and Mortgage Purchase Program (MPP)

MPF Program

This description of the MPF Program was provided by the FHLBank of Chicago.

Introduction

The MPF Program is a secondary mortgage market structure under which the MPF FHLBanks purchase and fund eligible mortgage loans from or through participating financial institution members (PFIs) and purchase participations in pools of eligible mortgage loans from other FHLBanks (collectively, MPF Loans), which until the addition of the MPF Xtra product on September 23, 2008, had been retained in portfolio by the MPF FHLBanks. MPF Loans are conforming conventional and Government fixed-rate mortgage loans secured by one-to-four family residential properties with maturities ranging from 5 years to 30 years or participations in such mortgage loans.

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

The MPF Program portfolio products, which do not include MPF Xtra, are designed to allocate the risks of MPF Loans among the MPF FHLBanks and PFIs and to take advantage of their respective strengths in managing these risks. PFIs originate MPF Loans, whether through retail or wholesale operations, and typically retain the servicing of MPF Loans, which functions most affect credit quality. The MPF FHLBanks manage the interest rate risk, prepayment risk, and liquidity risk associated with portfolio MPF Loans.

Different MPF Loan conventional portfolio products were developed for sharing the credit risk associated with MPF Loans with PFIs and to comply with the requirements of the Finance Agency's Acquired Member Assets (AMA) regulation. MPF Government Loans also qualify as AMA and are insured or guaranteed by one of the following government agencies: the Federal Housing Administration (FHA); the Department of Veterans Affairs (VA); the Rural Housing Service of the Department of Agriculture (RHS); or HUD.

There are currently six MPF Loan products, five portfolio products and the MPF Xtra off-balance sheet product. Five of these 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. However, under the MPF 100 product, the MPF FHLBank "table funds" MPF Loans; that is, the MPF FHLBank provides the funds for the PFI as its agent to make the MPF Loan to the borrower and therefore the MPF FHLBank is considered the originator of the MPF Loan for accounting purposes. The PFI performs all the traditional loan origination functions under this and all other MPF products. (See MPF product table on page 11.)

The FHLBank of Chicago has entered into agreements with other MPF FHLBanks under which they acquire MPF Loans from their member PFIs and the FHLBank of Chicago provides programmatic and operational support to the other MPF FHLBanks and their PFIs in its role as "MPF Provider." The current MPF FHLBanks are the FHLBanks of Boston, Chicago, Des Moines, New York, Pittsburgh and Topeka.

MPF FHLBanks generally acquire whole loans from their respective PFIs but may also acquire them from a member PFI of another MPF FHLBank with permission of the PFI's respective MPF FHLBank. Alternatively, they may acquire participations from another MPF FHLBank.

In connection with the FHLBank of Chicago's current business strategy to reduce its on-balance sheet MPF Loan portfolio, it ceased purchasing participation interests in MPF Loans during 2007. Effective August 1, 2008, the FHLBank of Chicago no longer accepts delivery commitments to acquire MPF Loans for investment except for non-material amounts of MPF loans that are primarily guaranteed by RHS or insured by HUD. MPF Loans purchased from the FHLBank of Chicago's PFIs starting August 1, 2008 are primarily held for investments by other FHLBanks participating in the MPF Program and for Master Commitments entered into after October 23, 2008, are concurrently sold to Fannie Mae under the MPF Xtra product which was announced by the FHLB of Chicago on September 23, 2008. Unlike other conventional MPF products, under the MPF Xtra product PFIs are not required to provide credit enhancement and do not receive credit enhancement fees. In the first quarter of 2009, each of the FHLBanks of Boston, Pittsburgh and Des Moines began offering the MPF Xtra product to its members. The other FHLBanks participating in the MPF Program continue to have the ability to purchase and fund loans through the MPF infrastructure.

MPF Provider

In its role as MPF Provider, the FHLBank of Chicago establishes the structure of MPF Loan products, the eligibility rules for MPF Loans and publishes and maintains the MPF Origination Guide and MPF Servicing Guide (together MPF Guides), which detail the requirements PFIs must follow in originating or selling and servicing MPF Loans. In addition, the MPF Provider maintains the infrastructure through which MPF FHLBanks acquire MPF Loans, including pricing, and the back-office processing of MPF Loans in its role as master servicer and master custodian. The MPF Provider has engaged Wells Fargo Bank N.A. as its vendor for master servicing and as the primary custodian for the MPF Program. The MPF Provider has also contracted with other custodians meeting MPF Program eligibility standards at the request of certain PFIs. These other custodians are typically affiliates of PFIs and in some cases a PFI acts as self-custodian. In exchange for providing these services, the MPF Provider receives a fee from each of the other MPF FHLBanks.

PFI Eligibility

Members and eligible housing associates may apply to become a PFI of their respective MPF FHLBank. If a member is an affiliate of a holding company which has another affiliate that is an active PFI, the member is only eligible to become a PFI if it is a member of the same MPF FHLBank as the existing PFI. The member and its MPF FHLBank sign an MPF Program Participating Financial Institution Agreement (PFI Agreement) that provides the terms and conditions for the sale or funding of MPF Loans, including required credit enhancement, and establishes the terms and conditions for servicing MPF Loans. All of the PFI's obligations under the PFI Agreement are secured in the same manner as the other obligations of the PFI under its regular advances agreement with the MPF FHLBank.

PFI Responsibilities

For conventional portfolio MPF Loan products, PFIs assume or retain a portion of the credit risk on the MPF Loans acquired by MPF FHLBanks by providing credit enhancement (CE Amount) either through a direct liability to pay credit losses up to a specified amount or through a contractual obligation to provide supplemental mortgage guaranty insurance (SMI). The PFI's CE Amount covers losses for MPF Loans under a Master Commitment in excess of the MPF FHLBank's first loss account (FLA), which is a memo account used to track the MPF FHLBank's losses until the CE Amount starts covering losses. PFIs are paid a credit enhancement fee (CE Fee) for managing credit risk and in some instances, all or a portion of the CE Fee may be performance based.

PFIs are required to comply with the MPF Program policies contained in the PFI Agreement and the MPF Guides which include eligibility requirements for PFIs such as maintaining errors and omissions insurance and a fidelity bond; anti-predatory lending policies; loan eligibility and underwriting requirements; customary representations and warranties, loan documentation and custodian requirements. The MPF Guides also detail the PFI's servicing duties and responsibilities for reporting, remittances, default management, and disposition of properties acquired by foreclosure or deed in lieu of foreclosure.

Mortgage Standards

The current underwriting and eligibility guidelines under the MPF Guides with respect to MPF Loans, which may be waived for individual PFIs with respect to specified provisions of the MPF Guides, are broadly summarized as follows:

- *Mortgage characteristics.* MPF Loans must be qualifying 5-year to 30-year conforming conventional or Government fixed-rate, fully amortizing mortgage loans, secured by first liens on owner-occupied one-to-four unit single-family residential properties and single unit second homes. Conforming loan size, which is established annually as required by Finance Agency regulations, may not exceed the loan limits permitted to be set by the Finance Agency each year.
- *Loan-to-Value (LTV) Ratio and Primary Mortgage Insurance.* The maximum LTV for conventional MPF Loans must not exceed 95 percent, though FHLBank AHP mortgage loans may have LTVs up to 100 percent (but may not exceed 105 percent total LTV, which compares the property value to the total amount of all mortgages outstanding against a property). Government MPF Loans may not exceed the LTV limits set by the applicable government agency. Conventional MPF Loans with LTVs greater than 80 percent require certain amounts of primary mortgage insurance (PMI) from a mortgage guaranty insurance (MI) company acceptable for use in S&P's LEVELS® modeling software which is used to calculate the PFI's CE Amount.
- *Ineligible Mortgage Loans.* The following types of mortgage loans are not eligible for delivery under the MPF Program: (1) mortgage loans which must be excluded from securities rated by S&P; (2) mortgage loans not meeting the MPF Program eligibility requirements as set forth in the MPF Guides and agreements; (3) mortgage loans that are classified as high cost, high rate, high

risk, Home Ownership and Equity Protection Act (HOEPA) loans or loans in similar categories defined under predatory lending or abusive lending laws, and (4) subprime or non-traditional mortgage loans.

MPF Loan Delivery Process

Outlined below is the MPF Loan delivery process:

- The PFI and its MPF FHLBank enter into a best effort Master Commitment which identifies the MPF product and provides the general terms for delivery of mortgage loans to an MPF FHLBank, including a maximum loan delivery amount, maximum credit enhancement obligation, if applicable, and expiration date.
- PFIs may then request one or more mandatory funding or purchase commitments (each, a Delivery Commitment), which specifies the interest rate, loan term and business days for delivery.
- Each MPF Loan under a Delivery Commitment is linked to a Master Commitment so that the cumulative CE Amount can be determined for each Master Commitment, and a price adjustment fee assessed if the sum of MPF Loans delivered by the PFI under a Delivery Commitment exceeds the amount specified in the Delivery Commitment.
- Pair-off fees are charged to a PFI for failing to deliver the amount of loans specified in a Delivery Commitment and extension fees are charged to a PFI for extending the time deadline to deliver loans on a Delivery Commitment.
- Once an MPF Loan is funded or purchased, the PFI must deliver a qualifying promissory note and certain other required documents to the designated custodian, who reports to the MPF Provider whether the documentation package matches the funding information transmitted to the MPF Provider and otherwise meets MPF Program requirements.

Quality Assurance Process

The MPF Provider conducts an initial quality assurance review of a selected sample of conventional MPF Loans from each PFI's initial MPF Loan delivery. Subsequently, the MPF Provider performs periodic reviews of a sample of conventional MPF Loans to determine whether the reviewed MPF Loans complied with the MPF Program requirements at the time of acquisition. The MPF Provider does not currently conduct quality assurance reviews of MPF Government Loans. When a PFI fails to comply with the requirements of the PFI Agreement, MPF Guides, including servicing breaches, applicable law or terms of mortgage documents, the PFI may be required to provide an indemnification covering related losses or to repurchase the MPF Loans which are affected by such failure if it cannot be cured.

MPF Loan Participations

The FHLBank of Chicago ceased purchasing participation interests in MPF Loans from other MPF FHLBanks in 2007. In order to accommodate its PFIs from the time the FHLBank of Chicago no longer issued new delivery commitments on August 1, 2008, until it was able to enter into MPF Xtra master commitments, the FHLBanks of Des Moines, Pittsburgh and Topeka acquired 100 percent participations from the FHLBank of Chicago of MPF Loans delivered during that interim period which totaled $565 million through December 31, 2008. Participation percentages for MPF Loans may range from 1 percent to 100 percent and the participation percentages in MPF Loans may vary by each Master Commitment, by agreement of the MPF FHLBank selling the participation interests (the Owner Bank), the FHLBank of Chicago, in its role as MPF Provider, and other MPF FHLBanks purchasing a participation interest.

The Owner Bank is responsible for the following:

- reporting to any participant MPF FHLBank initially, and at least annually thereafter on the creditworthiness of the PFI;

- ensuring that adequate collateral is available from each of its PFIs to secure any direct obligation portion of the PFI's CE Amount; and
- enforcing the PFI's obligations under its PFI Agreement

The risk sharing and rights of the Owner Bank and participating MPF FHLBank(s) are as follows:

- each pays its respective pro rata share of each MPF Loan based upon its specified participation percentage;
- each receives its respective pro rata share of principal and interest payments and is responsible for CE Fees based upon its participation percentage for each MPF Loan, and for the Original MPF product, each is responsible for monthly allocations to the FLA based upon the unpaid principal balance of, and its participation percentage for, each MPF Loan;
- each is responsible for its respective pro rata share of FLA exposure and losses incurred with respect to the Master Commitment based upon the overall risk sharing percentage for the Master Commitment, except that for the Original MPF product, each shares in exposure to loss based on its respective percentage of the FLA at the time the loss is allocated; and
- each may economically hedge its share of Delivery Commitments as they are issued under a Master Commitment.

The FLA and CE Amount apply to all the MPF Loans in a Master Commitment regardless of participation arrangements, so an MPF FHLBank's share of credit losses is based on its respective participation interest in the entire Master Commitment. In the case where an MPF FHLBank changes its initial percentage in the Master Commitment, the risk sharing percentage will also change. For example, if an MPF FHLBank were to acquire 25 percent of the first $50 million and 50 percent of the second $50 million of MPF Loans delivered under a $100 million Master Commitment, the MPF FHLBank would share in 37.5 percent of the credit losses for that Master Commitment, while it would receive either 25 percent or 50 percent of the principal and interest payments depending on its percentage ownership of each MPF Loan.

The arrangement is slightly different for the Original MPF product because each MPF FHLBank's participation percentage in the FLA is based upon its share of each MPF Loan as the FLA increases over time. If the percentage participations differ for various MPF Loans, each MPF FHLBank's percentage of the FLA will be affected by those differences because MPF Loans are acquired and repaid at different times. For example, if a Master Commitment had a total FLA of $100,000 (as of the date of a given loss), and one participant MPF FHLBank's FLA is $25,000 and the other MPF FHLBank's FLA is $75,000, then the first MPF FHLBank would incur 25 percent of such loss and the other MPF FHLBank would incur 75 percent.

MPF Servicing

The PFI or its servicing affiliate generally retains the right and responsibility for servicing MPF Loans it delivers. The PFI is responsible for collecting the borrower's monthly payments and otherwise dealing with the borrower with respect to the MPF Loan and the mortgaged property. Based on monthly reports the PFI is required to provide the master servicer, appropriate withdrawals are made from the PFI's deposit account with the applicable MPF FHLBank. In some cases, the PFI has agreed to advance principal and interest payments on the scheduled remittance date when the borrower has failed to pay, provided that the property securing the MPF Loan is sufficient to reimburse the PFI for advanced amounts. The PFI recovers the advanced amounts either from future collections or upon the liquidation of the property securing the MPF Loans.

If an MPF Loan becomes delinquent, the PFI is required to contact the borrower to determine the cause of the delinquency and whether the borrower will be able to cure the default. The MPF Guides permit certain types of forbearance plans. Upon any MPF Loan becoming 90 days or more delinquent, the master servicer monitors and reviews the PFI's default management activities for that MPF Loan and compliance with the MPF Guides. Upon liquidation of any MPF Loan, the master servicer reviews the realized loss calculation submitted by the PFI for conformity with the primary mortgage insurance requirements, if applicable, and conformity with the standards of the MPF Guides. If there is a loss on a conventional portfolio MPF Loan, the MPF Provider allocates the loss to the Master Commitment in accordance with the risk sharing structure for that particular Master Commitment. The servicer pays any gain on sale of real-estate owned property to the MPF FHLBank, or in the case of a participation, the gain is paid to the MPF FHLBanks based upon their respective interest in the MPF Loan. However, the amount of the gain is available to reduce subsequent losses incurred under the Master Commitment.

The MPF Provider monitors the PFI's compliance with MPF Program requirements throughout the servicing process, and the MPF Provider brings any material concerns to the attention of the MPF FHLBank. Major lapses in servicing could result in a PFI's servicing rights being terminated for cause and the servicing of the particular MPF Loans being transferred to a new, qualified servicing PFI. Although PFIs generally retain servicing of the MPF Loans they deliver, certain PFIs choose to sell the servicing rights on a concurrent basis (servicing released) or in a bulk transfer to another PFI which is permitted with the consent of the MPF FHLBank(s) involved. One PFI has been designated to acquire servicing under the MPF Program's concurrent sale of servicing option. In addition, several PFIs have acquired servicing rights on a concurrent servicing released basis or bulk transfer basis without the direct support from the MPF Program.

MPF Shared Funding® Program

In 2003, the FHLBank of Chicago invested in AMA eligible securities through the MPF Shared Funding program and concurrently sold some of the securities to two other FHLBanks. No residual interest is created or retained on the FHLBank of Chicago's balance sheet. The investments are classified as held-to-maturity securities and are reported at amortized cost on a combined basis of $398 million and $439 million at December 31, 2008 and 2007. These securities, which are rated AA, are not publicly traded and are not guaranteed by any of the FHLBanks.

Credit Enhancement Structure

Overview

The MPF FHLBank and PFI share the risk of credit losses on conventional MPF Loans held in portfolio by structuring potential losses into layers with respect to each Master Commitment. The MPF FHLBank is obligated to incur the first layer of credit losses, which is called the FLA and which varies by MPF product. Losses in excess of the FLA, up to the CE Amount, are covered by the PFI directly or indirectly The FLA is not a cash collateral account. For MPF products with performance based CE Fees, the MPF FHLBank may withhold CE Fees to recover losses at the FLA level, which results in the first layer of loss being allocated to the PFI.

The PFI's CE Amount represents either or both the PFI's direct liability to pay credit losses incurred with respect to a Master Commitment or the requirement of the PFI to obtain and pay for an SMI policy insuring a portion of the credit losses arising from the Master Commitment. Losses generally classified as special hazard losses are either the PFI's direct liability or the MPF FHLBank's responsibility.

CE Fees are paid monthly based on the remaining unpaid principal balance of the MPF Loans under the Master Commitment. The CE Fees and CE Amount vary by MPF product selected. CE Fees, which are payable to a PFI as compensation for assuming credit risk, are recorded as an offset to MPF Loan interest income when paid by the MPF FHLBank. To the extent that losses in the current month exceed performance CE Fees accrued, the remaining losses may be recovered by the MPF FHLBank by withholding future performance CE Fees.

Loss Allocation

Credit losses on conventional portfolio MPF Loans not absorbed by the borrower's equity in the mortgaged property, property insurance or primary mortgage insurance are allocated first, to the MPF FHLBank, up to the agreed upon amount of the FLA as follows:

Original MPF. The FLA starts out at zero but increases monthly over the life of the Master Commitment at a rate that ranges from 0.03 percent to 0.05 percent (3 to 5 basis points) per annum based on the month-end outstanding aggregate principal balance of the MPF Loans in the Master Commitment.

MPF 100 and MPF 125. The FLA is equal to one percent (100 basis points) of the aggregate principal balance of the MPF Loans delivered under the Master Commitment; however, the CE Fees are performance based, which allows the MPF FHLBank to recover a portion of losses incurred under the FLA.

MPF Plus. The FLA is equal to an agreed-upon percentage of the aggregate principal balance of the MPF Loans purchased under the Master Commitment but not less than the amount of expected losses on the Master Commitment. The CE Fees are performance based which allows the MPF FHLBank to recover a portion of losses incurred under the FLA.

Losses in excess of the FLA are allocated to the PFI under its credit enhancement obligation, if any, up to the CE Amount. Any losses in excess of the CE Amount are absorbed by the MPF FHLBank.

With respect to participation interests, MPF Loan losses allocable to the MPF FHLBank are allocated amongst the participating MPF FHLBanks pro ratably based upon their respective participation interests in the related Master Commitment.

Setting Credit Enhancement Levels

The S&P LEVELS® model is used to determine the required CE Amount, which is calculated to equal the difference between the amount needed for the Master Commitment to have a rating equivalent to an "AA" rated mortgage-backed security and an MPF FHLBank's initial FLA exposure (which is zero for the Original MPF product). An MPF FHLBank determines its FLA exposure by taking the initial FLA and reducing it by the estimated value of any performance CE Fees that would be payable to the PFI.

In determining the rating equivalent for Master Commitments with an FLA equal to 100 basis points (all MPF 100, MPF 125 and some MPF Plus Master Commitments), the MPF FHLBank only partially relies on its ability to reduce performance based CE Fees when measuring the effective FLA exposure. As a result, an MPF FHLBank can either hold additional risk-based capital or in the case of the FHLBank of Chicago, additional retained earnings against the related Master Commitments in accordance with the AMA regulations, or purchase SMI to upgrade the estimated rating of the Master Commitment to the equivalent of an "AA" rated mortgage-backed security.

For MPF Plus, the PFI is required to provide an SMI policy covering the MPF Loans in the Master Commitment and having a deductible initially equal to the FLA. Depending upon the amount of the CE Fees it is paid, the PFI may or may not have any direct liability on the CE Amount.

An MPF FHLBank is required to recalculate the estimated credit rating of a Master Commitment if there is evidence of a decline in credit quality of the related MPF Loans.

The MPF Products were designed to allow for periodic resets of the CE Amount for each Master Commitment because the balance of MPF Loans is reduced over time due to amortization and repayment and because credit risk diminishes as LTVs decrease with amortization and with property appreciation. The required amount of credit enhancement for any Master Commitment is less both when the outstanding balance of the MPF Loans is reduced and the borrowers' equity grows over time. Original MPF, MPF 100 and MPF 125 products are initially reset 10 years from the date of the Master Commitment, while the SMI policy for the MPF Plus product is reset after five years and annually thereafter, with any PFI direct CE 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 CE 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 CE Amount.

Credit Enhancement Fees

The type of the CE Fee depends upon the product selected. For Original MPF, the PFI is paid a CE Fee between 0.07 percent and 0.11 percent (7 to 11 basis points) per annum, paid monthly based on the aggregate outstanding principal balance of the MPF Loans in the Master Commitment.

For MPF 100 and MPF 125, the PFI is paid a performance CE Fee between 0.07 percent and 0.10 percent (7 and 10 basis points) per annum, paid monthly on the aggregate outstanding principal balance of the MPF Loans in the Master Commitment. The CE Fee is fixed for the first two or three years of each MPF 100 Master Commitment and thereafter it is performance based. The CE Fee for MPF 125 is performance based for the entire life of the Master Commitment.

For MPF Plus, the PFI is paid a CE Fee of 0.13 percent or 0.14 percent (13 or 14 basis points) per annum, which is split into fixed and performance based portions. The performance CE Fee is typically 0.07 percent (7 basis points) per annum paid monthly on the aggregate outstanding balance of the MPF Loans in the Master Commitment. The performance CE Fee is reduced by losses charged to the FLA and is paid one year after accrued based on monthly outstanding balances. The fixed portion of the CE Fee is typically between 0.06 percent and 0.07 percent (6 and 7 basis points) per annum paid monthly on the aggregate outstanding principal balance of the MPF Loans in the Master Commitment.

At December 31, 2008 and 2007, the amount of FLA remaining for losses for all MPF FHLBanks, excluding amounts that may be recovered by the withholding of performance CE Fees, was $571 million and $549 million, respectively. Except with respect to Original MPF, an MPF FHLBank's losses incurred under the FLA can be recovered by withholding future performance CE Fees otherwise paid to its PFIs. For the years ended December 31, 2008, 2007 and 2006, of the $74 million, $79 million and $87 million of total CE Fees paid by the MPF FHLBanks, $35 million, $37 million and $44 million were performance CE Fees.

For MPF Government Loans, the PFI provides and maintains insurance or a guaranty from the applicable government agency (i.e., the FHA, VA, RHS or HUD). The PFI is responsible for compliance with all government agency requirements. For Master Commitments issued prior to February 2, 2007, the PFI is paid a monthly government loan fee equal to 0.02 percent (2 basis points) per annum based on the month end outstanding aggregate principal balance of the Master Commitment. This amount is in addition to the customary 0.44 percent (44 basis points) per annum servicing fee that is paid for all Government Master Commitments. PFIs must be licensed or qualified to originate and service MPF Government Loans to be eligible to sell and service MPF Government Loans under the MPF Program.

Credit Risk Exposure on MPF Loans

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 protection (CEP Amount). Under the MPF Program, the PFI's CEP Amount may take the form of a contingent performance based CE Fee as well as the CE Amount (which is a direct liability to pay credit losses or the requirement for the PFI to pay for an SMI policy insuring a portion of the credit losses). The PFI Agreement provides that the PFI's obligations under the PFI Agreement are secured along with other obligations of the PFI under its regular advances agreement and further, that the MPF FHLBank may request additional collateral to secure the PFI's obligations.

The table below summarizes the average PFI CE Amount of all Master Commitments funded or purchased by the MPF FHLBanks for each MPF Product:

Average PFI CE Amount by Product as a Percentage of Master Commitments Funded or Purchased by the MPF FHLBanks

	December 31, 2008	December 31, 2007	December 31, 2006
Original MPF	1.84%	1.80%	1.76%
MPF 100	1.57%	0.53%	0.52%
MPF 125	2.12%	0.95%	0.91%
MPF Plus (1)	1.69%	1.33%	1.33%
MPF Government (2)	N/A	N/A	N/A

(1) CE amount includes SMI policy coverage.

(2) Formerly called Original MPF for FHA/VA.

The MPF FHLBanks also face credit risk of loss on MPF Loans to the extent such losses are not recoverable from PMI, from the PFI either directly or indirectly through the CEP Amount, 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 not recoverable from these sources was approximately $56 billion, $58 billion and $63 billion at December 31, 2008, 2007 and 2006. 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 because the fair value of all underlying properties is not readily determinable. However, because the typical MPF Loan-to-value ratio is less than 100 percent and PMI covers loan-to-value ratios in excess of 80 percent, a significant decline in value of the underlying property would have to occur before the MPF FHLBanks are exposed to credit losses. The credit risk assumed by an MPF FHLBank is driven by its percentage interest in each Master Commitment.

See "Risk Management—Credit Risk—Mortgage Loans Held for Portfolio" for information on MI provider concentration.

Mortgage Purchase Program (MPP)

This description of the MPP was provided by the MPP FHLBanks.

Overview. MPP is offered by the FHLBanks of Atlanta, Cincinnati, and Indianapolis and was also offered by the FHLBank of Seattle until early 2006. MPP, which was introduced in 2000, enables these FHLBanks to purchase directly from members both their qualifying conforming fixed-rate conventional one-to-four family mortgages and residential mortgages insured by the FHA. Each MPP FHLBank has approved members, known as PFIs, which sell them mortgage loans. A PFI may also be a third-party servicer (subject to MPP FHLBank approval) of loans sold to an MPP FHLBank by other member PFIs. The PFIs may retain or sell servicing to third parties. The MPP FHLBanks do not service the loans, nor do they own any servicing rights. The MPP FHLBank must approve any servicer, including a member-servicer, and any transfers of servicing to third parties. The PFIs or servicers are responsible for servicing loans, for which they receive a servicing fee, in accordance with the MPP guide. The MPP FHLBanks have engaged Washington Mutual Mortgage Securities Corp., which was acquired by JPMorgan Chase, as the MPP master servicer.

A "conforming" mortgage refers to the maximum amount permissible to be lent as a regular prime (i.e., non-jumbo, non-subprime) mortgage. Established each year by OFHEO based on data published by the Finance Agency on average home prices, that amount was $417,000 in 2008. A "conventional" mortgage refers to non- government-guaranteed/insured mortgages. The FHLBanks are permitted to purchase qualifying mortgage loans within any state or territory of the United States. The FHLBanks do not use any trust or intermediary to purchase mortgage loans from members under this program.

Each MPP FHLBank holds purchased mortgage loans on their balance sheet. Finance Agency regulations do not specifically authorize these FHLBanks to sell loans purchased in the MPP, either directly or by securitization, or to purchase any mortgage loans other than those identified in the paragraph above. Prior to engaging in any such business, an FHLBank would need to obtain Finance Agency approval of the new business activity. While the FHLBanks have considered the feasibility and economic benefits of selling mortgage loan assets from time to time to third parties as a risk management tool, they have no plans to request the authority to sell or securitize their mortgage loan portfolio.

MPP directly supports the FHLBanks' public policy mission of supporting housing finance. By selling mortgage loans to these FHLBanks, members increase their balance sheet liquidity and remove from their balance sheet assets that carry interest rate and prepayment risk. The MPP FHLBanks believe the MPP, along with the similar programs at other FHLBanks, promotes a greater degree of competition among mortgage investors, which should benefit households. A primary reason these FHLBanks established the MPP was to enable small- and medium-sized community-based financial institutions to participate more effectively in the secondary mortgage market. Secondarily, these FHLBanks believe the MPP enhances their long-term profitability on a risk-adjusted basis which should augment the return on stockholders' capital investment in the MPP FHLBanks.

The four MPP FHLBanks had agreed to share the cost of system development and will share the cost for maintaining the computer systems that support loan acquisition. Each MPP FHLBank is responsible for operating its own program, for marketing the program to its members and for funding and hedging any loans acquired through the program. Each MPP FHLBank is responsible for the development and maintenance of the program guide governing origination, underwriting and servicing of the loans sold to it through its MPP, and each MPP FHLBank establishes its own origination, underwriting and servicing criteria, including eligibility standards for loans that may be sold to it, as well as other requirements for its MPP. Each MPP FHLBank provides the systems and back office support for its program, including transaction processing. In some circumstances, an MPP FHLBank may grant its PFI a waiver exempting it from complying with specified provisions of the MPP FHLBank's program requirements.

Management of Credit Risk. 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 AMA Regulation, and mortgage loans purchased from PFIs under the program also carry sufficient credit enhancements to give them a quasi-credit risk exposure equivalent to "AA" rated assets based upon the S&P LEVELS® rating methodology at the time of purchase. The MPP mortgage loans are not, however, rated by S&P or any other rating agency. The MPP FHLBanks' primary management of credit risk in MPP involves the mortgage assets themselves (i.e., homeowners' equity) and additional layers of CEs. In order of priority, CEs include:

- *PMI* (when applicable).
- *Lender Risk Account* (LRA, as described further below for conventional loans only).
- *SMI.* The participating member's SMI, purchased by the PFI for conventional loans from a third party provider naming the FHLBank as the beneficiary, absorbs losses beyond the LRA and enhances the credit of the underlying pool of mortgages to an investment-grade equivalent. On April 25, 2008, after the credit downgrade of its SMI provider, the FHLBank of Seattle exercised its contractual right and cancelled its SMI policies.

As of December 31, 2008, ten percent of acquired mortgage loans through MPP are U.S. government-guaranteed or -insured; therefore, the MPP FHLBanks do not require either an LRA or SMI coverage for these loans.

For conventional loans, PMI, if applicable, covers losses or exposure down to approximately a loan-to-value ratio of between 65 and 80 percent based upon the original appraisal, original loan-to-value ratio, term, amount of PMI coverage, and characteristics of the loan.

The LRA is a key feature that helps protect the participating MPP FHLBanks against credit losses on conventional mortgage loans. Funds are available to cover credit losses in excess of the borrower's equity and PMI on any loans in the pool these FHLBanks have purchased. Generally, after five years, if the balance of the funds in the LRA exceeds the required balance, the excess amounts are distributed to the PFI based on a pre-determined schedule set forth in the Master Commitment contract that establishes the LRA. Once an MPP pool has been outstanding for more than 11 years, a balance is not required to be maintained in the LRA with respect to that pool.

After the LRA is exhausted, the FHLBanks with SMI coverage are protected against credit losses down to approximately a 50 percent loan-to-value level, subject, in certain cases, to an aggregate stop-loss feature in the SMI policy. The stop-loss is equal to the total initial principal balance of mortgage loans purchased under the Master Commitment contract multiplied by the stop-loss percentage, currently in effect, and represents the maximum aggregate amount payable by the SMI provider under the SMI policy for that pool. The FHLBanks would assume the credit exposure if the severity of losses were to exceed the SMI coverage, or in the case of the FHLBank of Seattle, the LRA coverage.

Since the inception of the MPP, the participating FHLBanks have experienced no significant credit losses ($68 thousand in total) on any purchased loan. In addition to the MPP FHLBanks' CEs, the credit quality characteristics of the loans indicate a portfolio of high credit quality. Because of these factors, the participating MPP FHLBanks believe their exposure to credit risk on conventional loans is de minimis and that it is probable they will be able to collect all principal and interest amounts due according to contractual terms. Therefore, the FHLBanks have not established a loan loss reserve for their MPP, and they believe they have no mortgage loans that are considered to be impaired.

Under Finance Agency regulations and existing program requirements, the combination of mortgage loan collateral and CEs must be sufficient to raise the implied credit ratings on pools of conventional mortgage loans to at least an investment-grade rating of AA. The MPP FHLBanks analyze all pools using a credit assessment model licensed from an NRSRO and each meets this requirement when the pool is closed. If the implied rating falls below AA, regulations currently require that risk-based capital be held to help mitigate the perceived additional credit risk.

The participating MPP FHLBanks use an NRSRO credit risk model to assign the LRA percentage to each Master Commitment and to manage the credit risk of committed and purchased conventional loans. This model evaluates the characteristics of the loans the PFIs commit to deliver and the loans actually delivered to the FHLBanks for the likelihood of timely payment of principal and interest. The NRSRO model results are based on numerous standard borrower and loan attributes, such as the loan-to-value ratio, loan purpose, such as purchase of home, refinance, or cash-out refinance, type of documentation, income and debt expense ratios, and credit scores.

In the current market, the FHLBanks generally consider a FICO score of over 660, and a loan-to-value ratio of 80 percent or lower, as benchmarks indicating an increased probability of collection/payment. As of December 31, 2008, outstanding conventional loans with FICO scores at origination under 660 totaled $738 million (3.6 percent of the portfolio). These measures have been relatively stable in the last two years. The FHLBanks believe these measures are another indication that the MPP loans have a decreased risk of default. Based on the available data, the FHLBanks believe they have very little exposure to loans in the MPP that are considered to have characteristics of subprime or Alt-A loans. Further, they do not knowingly purchase any loan that violates the terms of their Anti-Predatory Lending Policy. See "Risk Management—Credit Risk—Mortgage Loans Held for Portfolio" for information on the weighted-average FICO scores and LTV at origination for MPP Loans outstanding, geographic concentration and concentration by state of MPP loans at December 31, 2008 and 2007.

In addition to the LRAs, the participating MPP FHLBanks with SMI coverage are protected from credit losses to approximately 50 percent of the property's original value for conventional loans, in certain cases subject to an aggregate stop-loss provision in the SMI policy. The stop-loss is equal to the total initial principal balance of loans purchased under the Master Commitment contract multiplied by the stop-loss percentage, and represents the maximum aggregate amount payable by the SMI provider under the SMI policy for that pool. Even with the stop-loss provision, the aggregate of the LRA and the amount payable by the SMI provider under an SMI stop-loss contract will be equal to or greater than the amount of CE required for the pool to have an implied S&P credit rating of at least AA at the time of purchase. See “Risk Management—Credit Risk—Mortgage Loans Held for Portfolio” for information on MI provider concentration.

The FHLBanks perform periodic reviews of their portfolio to identify the losses expected in the portfolio and to determine the likelihood of collection of loans in the portfolio. Based on the FHLBanks’ analysis, and after consideration of LRA, SMI, and other CEs, there was no allowance for credit losses on real estate mortgage loans at December 31, 2008, and 2007. Should they have losses in excess of the collateral held, PMI (if applicable), LRA and SMI (if applicable), these would be recognized credit losses for financial reporting purposes.

Earnings from the Mortgage Purchase Program. Earnings from the MPP come from monthly interest payments due to the MPP FHLBank. Reported interest income on each loan is computed as the mortgage note rate multiplied by the loan’s principal balance outstanding, adjusted for the following:

- minus servicing costs;
- minus the cost of SMI (required for conventional loans only);
- plus the net amortization of purchase premiums or accretion of purchase discounts; and
- plus the net amortization or accretion of fair value adjustments for purchase commitments.

These FHLBanks consider the cost of the LRA and SMI when they establish prices of conventional loans. Each of these credit enhancement structures is accounted for in the valuation of an FHLBank’s expected return on acquired mortgage loans and in a credit risk review performed during the pooling process at which time the dollar amount specified in the PFI’s Master Commitment Contract is fulfilled and the commitment is closed. The pricing of each structure depends on a number of factors and is PFI-specific. These FHLBanks do not receive any guarantee or other fees for retaining the risk of losses in excess of the LRA and SMI.

FHLBANK MANAGEMENT AND COMPENSATION

FHLBank Directors. The following persons are currently serving as chair or vice chair of the FHLBanks:

Jan A. Miller, 58, has been elected to serve as chair of the board of the FHLBank of Boston in 2009, and his term as a director expires on December 31, 2009. Mr. Miller has served as a director since January 1, 2004. Mr. Miller serves as president, chief executive officer and director of Wainwright Bank & Trust Company, located in Boston, Massachusetts, he is also a director of Heritage Capital Management, Inc., a wholly owned subsidiary of Wainwright Bank & Trust Company. He became president and chief executive officer of Wainwright Bank & Trust Company in 1997. Prior to joining Wainwright Bank in 1994, he spent 19 years in various senior management positions at Shawmut Bank, N.A. and he is the past chairman of the Massachusetts Bankers Association and a member of the American Bankers Association Government Relations Council Administration Committee.

Jay F. Malcynsky, 55, was appointed to serve as a director of the FHLBank of Boston on March 30, 2007, and he had previously served as a director from 2002 to 2004. Mr. Malcynsky’s current term as a director will expire on December 31, 2012, and he has been elected to serve a vice chair of the board for 2009. Mr. Malcynsky serves as president and managing partner of Gaffney, Bennett and Associates, Inc., a Connecticut-based corporation specializing in government relations and political consulting. Mr. Malcynsky is also a practicing lawyer in Connecticut and Washington D.C., specializing in administrative law and regulatory compliance.

Michael M. Horn, 69, was FHLBank of New York’s Board of Directors Vice Chair from January 1, 2008 through May 7, 2008 and currently serves as Chair, effective May 13, 2008. Mr. Horn has been a partner in the law firm of McCarter & English, LLP since 1990. He was a member of the New Jersey State Assembly, a member of the Assembly Banking Committee, Commissioner of Banking, New Jersey State Treasurer, on the Executive Commission on Ethical Standards both as its vice chair and chairman, appointed as a State Advisory Member of the Federal Financial Institutions Examination Council, and a member of the Municipal Securities Rulemaking Board. Mr. Horn is counsel to the New Jersey League of Community Bankers, Inc., chairman of the Bank Regulatory Committee of the Banking Law Section of the New Jersey State Bar Association, a member of the Board of Directors of the Community Foundation of New Jersey, a Fellow of the American Bar Foundation, and served as a director for Ryan Beck & Co. through December 2006.

José Ramon González, 54, was elected FHLBank of New York's Board of Directors Vice Chair on June 19, 2008, thus filling the unexpired portion of the Vice Chair term that was scheduled to run through December 31, 2008. The Board later elected him to serve as Vice Chair for the years 2009 and 2010. Mr. González was President and Chief Executive Officer of Santander BanCorp and Banco Santander Puerto Rico from October 2002 until August 2008. Since 2000, he has served as a Director of Santander BanCorp and he has served as a Director of Banco Santander Puerto Rico since 2002. 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 in April 2002 was named President and Chief Operating Officer. 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, 66, has served on the Board of Directors of the FHLBank of Pittsburgh since November 2002. Mr. Marlo is currently Managing Director of Sanctuary Group LTD, a financial and executive advisory firm located in Malvern, Pennsylvania. In addition, he is an Executive Vice President of Sovereign Bank, representing Sovereign Bank in various community, bank industry and Sovereign Bank related activities. Mr. Marlo serves as a Director on the Board of NOVA Bank as well. Formerly, Mr. Marlo served as the Chief Risk Management Officer, Chief Financial Officer, Treasurer and President of the Pennsylvania Retail Banking Division of Sovereign Bancorp, Inc. (SOV—NYSE) and its wholly owned subsidiary, Sovereign Bank from 1998 to 2004. He came to Sovereign in 1998 through a merger with ML Bancorp, Inc. Previously, Mr. Marlo served as the President and Chief Executive Officer of ML Bancorp, Inc. (MLBC —NASDAQ) and its wholly owned subsidiary, Main Line Bank, as well as Chief Financial Officer from 1989 to 1998. Prior to his association with ML Bancorp, he was employed for 25 years at KPMG Peat Marwick 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 a member of the Board of Trustees of Harcum College in Bryn Mawr, Pennsylvania; the Board of Directors of EnerSys (ENS-NYSE) in Reading, Pennsylvania; the Board of Directors of Main Line Health Real Estate, LP; the Lankenau Hospital Foundation Board of Trustees in Wynnewood, Pennsylvania; and a member of 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 on its national board of directors. He is an active licensed Certified Public Accountant in the Commonwealth of Pennsylvania.

H. Charles Maddy, III, 45, joined the board of directors of the FHLBank of Pittsburgh in January 2002 and currently serves as its vice chairman. Mr. Maddy is president and chief executive officer of Summit Financial Group, Inc. in Moorefield, West Virginia. He is also a member of the boards of directors for Summit Financial Group and its banking subsidiary: Summit Community Bank. Mr. Maddy is also a director for the West Virginia Bankers Association and the Hardy County Child Care Center. He is a past president and past director of the West Virginia Association of Community Bankers, and a CPA certified by the West Virginia Board of Accountancy. Mr. Maddy graduated magna cum laude from Concord College in Athens, West Virginia, earning a bachelor of science degree in business administration with a concentration in accounting.

Scott C. Harvard, 54, was elected chair of FHLBank of Atlanta effective January 1, 2007. He previously served as vice chair from January 1, 2005 through December 31, 2006. Mr. Harvard has served as president and chief executive officer and a director of Shore Bank since 1985. He served as president and chief executive officer of its parent, Shore Financial Corporation, from 1997 to 2008. Mr. Harvard has served as a director of Hampton Roads Bankshares and as an executive vice president of its banking subsidiary, Bank of Hampton Roads, since June 2008.

J. Thomas Johnson, 62, was elected vice chair of FHLBank of Atlanta effective January 1, 2008. Mr. Johnson is vice chairman of the board of First Community Bank, N.A., of Lexington, South Carolina, a position he has held since October 2004. From 2000 to 2004, Mr. Johnson was chairman, and from 1984 to 2004 was chief executive officer, of Newberry Federal Savings Bank in Newberry, South Carolina, which merged with First Community Bank in 2004. Mr. Johnson had been with Newberry Federal since 1977. Mr. Johnson is chairman of Business Carolina Inc., a statewide economic development lender, and has served on the boards of the South Carolina Bankers Association and a number of other civic and professional organizations.

Carl F. Wick, 69, 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. Mr. Wick was employed by NCR Corporation from 1966 to 1994, when he retired. He currently is the owner of Wick and Associates, a business consulting firm, and is a member of the Ohio Board of Education.

B. Proctor Caudill, Jr., 59, 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 37 years. He served as President and Chief Executive Officer of Peoples Bank, Morehead, Kentucky, from 1981 until his retirement in July 2006. Mr. Caudill now is the Vice President of Business Development of Kentucky Bank in Paris, Kentucky and serves on their board of directors.

Paul C. Clabuesch, 60, is chair of the FHLBank of Indianapolis and has served as a member of the board of directors since January 2003. He is the chairman, president and chief executive officer of Thumb Bancorp, Inc., a bank holding company, and Thumb National Bank and Trust, located in Pigeon, Michigan. Mr. Clabuesch also serves as the chairman of the board of trustees of Scheurer Hospital, in Pigeon, Michigan, and has served on that board since 1975.

Charles L. Crow, 65, is vice chair of the FHLBank of Indianapolis and has served as a member of the board of directors since January 2002. He is the chairman, president and chief executive officer of Community Bank, in Noblesville, Indiana and chairman of Community Bancshares, Inc. a bank holding company in Noblesville, Indiana.

P. David Kuhl, 59, was elected chair of the FHLBank of Chicago on December 12, 2006, and has served in that capacity since January 1, 2007. Mr. Kuhl served as vice chair of the FHLBank of Chicago during 2006. Mr. Kuhl has served as a Chairman of the Board of Freestar Bank in Pontiac, Illinois since September of 2007. From 1979 to 2007, he held numerous positions with Busey Bank in Urbana, Illinois. From September 2006 to September 2007, Mr. Kuhl served as director of Busey Bank and also served as a director for First Busey Securities Inc. and First Busey Trust and Investment Company. From 2001 to 2006, Mr. Kuhl served as Chairman of the Board and CEO of Busey Bank. From 1993 to 2001 he served as President, CEO and Director and from 1979 to 1993 as Executive Vice President. Mr. Kuhl previously served as a director for First Busey Corporation, First Busey Insurance Services and First Busey Resources. First Busey Corporation is the holding company for Busey Bank, First Busey Securities and First Busey Trust and Investment Company. Prior to his employment with First Busey Bank, Mr. Kuhl was Executive Vice President of First National Bank of Rantoul from 1973 to 1979. He currently is the immediate past Chairman of the Illinois Bankers Association.

James F. McKenna, 64, was elected vice chair of the FHLBank of Chicago on December 12, 2006, and has served in that capacity since January 1, 2007. Mr. McKenna joined North Shore Bank in 1970 and has served as President and Chief Executive Officer since 1975. He previously served as Chairman of the Wisconsin League of Financial Institutions. Mr. McKenna served as a Director of the FHLBank of Chicago from 1986 to 1991. He served as a member of the Thrift Institution Advisory Committee to the Federal Reserve Board from 2001 to 2002. Locally, Mr. McKenna has served as Chairman of the

Zoological Society of Milwaukee County, Chairman of the Milwaukee Public Museum, and Chairman of the Junior Achievement of Wisconsin. He presently is a member of the Greater Milwaukee Committee. Nationally, he has served as a Director of the America's Community Bankers and chaired many of its committees. He presently serves as a Director of the American Bankers Association.

Michael K. Guttau, 62, the chair of the board of directors of the FHLBank of Des Moines, has served as president, chairman, and chief executive officer (CEO) of Treynor State Bank in Treynor, Iowa, since 1978. Currently, Mr. Guttau is the chairman of the Council of FHLBanks, which is the non-profit trade association for the twelve FHLBanks located in Washington, D.C. He is co-chair of fund raising for Southwest Iowa Hospice and serves on the Good News Jail and Prison Ministry, and chair of Deaf Missions. Mr. Guttau received the Allegiant Southwest Iowa Heritage Award for 2008. 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. Mr. Guttau serves on the following FHLBank of Des Moines committees: Executive and Governance Committee (chair), Risk Management Committee, Finance, Planning, and Technology Committee, and the Human Resources and Compensation Committee (Compensation Committee).

Dale E. Oberkfell, 53, the vice chair of the board of directors of the FHLBank of Des Moines, has served in a variety of banking positions during his nearly 30 years in the financial services industry. Since May 2005, Mr. Oberkfell has served as the president and chief operating officer (COO) of Reliance Bank in Des Peres, Missouri. Mr. Oberkfell also currently serves as executive vice president and chief financial officer (CFO) of Reliance Bancshares, Inc. in Des Peres, Missouri, and as an executive officer of Reliance Bank, FSB in Fort Myers, Florida. Prior to joining Reliance Bank, Mr. Oberkfell was a partner at the Certified Public Accounting firm of Cummings, Oberkfell & Ristau, P.C. in St. Louis, Missouri. Mr. Oberkfell is a licensed CPA and is active in the American Institute of Certified Public Accountants. Mr. Oberkfell has held board positions for several organizations, including the West County YMCA, St. Louis Children's Choir, and Young Audiences. Mr. Oberkfell serves on the following FHLBank of Des Moines committees: Executive and Governance Committee (vice chair), Audit Committee, and the Finance, Planning, and Technology Committee (chair), and the Compensation Committee.

Lee R. Gibson, 52, 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 as Executive Vice President and Chief Financial Officer of 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 Executive Vice President of Southside Bancshares, Inc. since 1990 and as chief financial officer of both Southside Bank and Southside Bancshares, Inc. since 2000. Mr. Gibson 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 on the Council of Federal Home Loan Banks, the Executive Board of the East Texas Area Council of Boy Scouts, and the Foundation of the East Texas Boy Scouts. Mr. Gibson also serves as Chairman of the Executive Committee of the FHLBank of Dallas' Board of Directors. He is a Certified Public Accountant.

Mary E. Ceverha, 64, is vice chairman of the board of directors of the FHLBank of Dallas and has served in that capacity since December 2005. From January 2005 to December 2005, she served as acting vice chairman of the board of directors of the FHLBank of Dallas. From 2001 to 2005, Ms. Ceverha served as a director and president of Trinity Commons, Inc. From 2001 to 2004, she also served as a director and president of Trinity Commons Foundation, Inc. Founded by Ms. Ceverha in 2001, these not-for-profit enterprises were organized to coordinate fundraising and other activities relating to the construction of the Trinity River Project in Dallas, Texas. She currently serves as Vice Chair of the foundation's Government Relations Committee and remains active in its fundraising efforts. Ms. Ceverha also serves on the Council of Federal Home Loan Banks and on the Community Advisory Board of the Dallas Heart Disease Prevention Project. 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 a former board member and president of Friends of Fair Park, a non-profit citizens group dedicated to the preservation of Fair Park, a national historic landmark in Dallas, Texas. From 1995 to 2004, she served on the Texas State Board of Health. Ms. Ceverha also serves as Vice Chairman of the Executive Committee of the FHLBank of Dallas' board of directors.

Ronald K. Wente, 58, was recently elected to a four-year member directorship for the FHLBank of Topeka commencing January 1, 2009. Prior to his election as a member director, Mr. Wente had served as an elected director of the FHLBank since January 1996. He currently serves as and has served as chairman of the FHLBank of Topeka's board of directors since 2000. Mr. Wente has been president and CEO of Golden Belt Bank, FSA, Ellis, Kansas, since 1974.

Lindel E. Pettigrew, 66, became an elected director of the FHLBank of Topeka in January 2002, was re-elected to a term commencing January 2005 through December 2007, and was re-elected again for a term commencing January 2008 through December 2010. He is currently serving as the vice chairman of the FHLBank of Topeka's board of directors commencing January 2007 through December 2008. Mr. Pettigrew has been president and CEO of Chickasha Bank and Trust Company, Chickasha, Oklahoma, since 1974.

Timothy R. Chrisman, 62, 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 National Bank, San Diego, 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. From 2005 through February 2008, he served as chairman of the Council of Federal Home Loan Banks. Since 2005, he has served as chairman of the chair-vice chair committee of the FHLBank System.

James P. Giraldin, 56, has served as the vice chairman of the board of directors of the FHLBank of San Francisco since 2006. Mr. Giraldin has been chief operating officer of First Federal Bank of California, Santa Monica, California, since 1997 and president since 2002. He joined the company in 1992 as executive vice president and chief financial officer. Prior to joining First Federal Bank of California, Mr. Giraldin served as chief executive officer of Irvine City Bank, Irvine, California, for five years. He previously served as chief financial officer for two other savings and loan associations and was a certified public accountant with KPMG LLP.

Mike C. Daly, 57, has served as a director of the FHLBank of Seattle since 2002 and as chairman since 2005. In 1981, Mr. Daly opened First State Bank in Wheatland, Wyoming, an independent community bank, where he serves as chairman. Since 1985, Mr. Daly has served as chairman and chief executive officer of Wheatland Bankshares, Inc., a single bank holding company that owns 100 percent of First State Bank. Mr. Daly currently serves as one of three FHLBank of Seattle representatives on the Council of Federal Home Loan Banks.

Craig E. Dahl, 59, 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, federally chartered savings banks.

FHLBank Presidents. The following persons are currently serving as presidents of the FHLBanks:

Michael A. Jessee, 62, has been president and chief executive officer of the FHLBank of Boston since May 1989. Before that, he served 12 years with the FHLBank of San Francisco as executive vice president and chief operating officer; executive vice president, economics and corporate policy; senior vice president and chief economist; and assistant vice president and director of research. Mr. Jessee also worked as an economist with the Federal Reserve Bank of New York and in corporate planning and correspondent banking with the Bank of Virginia. He currently serves as chairman, board of trustees, State Street Navigator Securities Lending Trust; trustee, Randolph-Macon College; and director, Pentegra Defined Benefit Plan for Financial Institutions. He holds a PhD., M.A. and M.B.A. from the Wharton School at the University of Pennsylvania, and a B.A. from Randolph-Macon College. On January 7, 2009, the FHLBank of Boston announced that Mr. Jessee would retire effective April 30, 2009.

Alfred A. DelliBovi, 62, 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 293 neighborhood-based lenders. Mr. DelliBovi is a member of the Pentegra Group Defined Contribution Plan Board of Directors. Previously, Mr. DelliBovi served as Deputy Secretary of the U.S. Department of Housing and Urban Development, from 1989 until 1992. 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.

John R. Price, 70, became president and chief executive officer of the FHLBank of Pittsburgh on January 2, 2006. Prior to joining the FHLBank of Pittsburgh, Mr. Price was a senior advisor to the Institute of International Finance. Mr. Price also held several senior-level positions at JP Morgan Chase & Co. in New York (formerly Manufacturers Hanover Trust Co. which later merged into Chemical Bank and Chase Manhattan Bank). Mr. Price was responsible for the mortgage banking and consumer finance subsidiaries, led the team advising the U.S. government on the securitization on $5 billion of community development and rural low-income housing loans, and earlier served as corporate secretary. Mr. Price graduated from Grinnell College in Iowa, was named a Rhodes Scholar, earned advanced degrees in Development Economics and Diplomatic History from Queens College at Oxford University and received his law degree from Harvard Law School. Mr. Price was a member of the board and chair of the audit committee of the Principal Financial Corporation, is a life trustee of Grinnell College and was the founding chairman of Americans for Oxford. Mr. Price also served as president of the Bankers Association for Finance and Trade.

Richard A. Dorfman, 63, began serving as president and CEO of the FHLBank of Atlanta on June 20, 2007. From 2005 to 2007, he served as an independent consultant, providing strategic and operational consulting and advisory work to several organizations, including certain other FHLBanks and the Office of Finance. Prior to that time, he was the Managing Director and Head of U.S. Agencies and Mortgages at ABN Amro, Inc. from 1997 until 2005. He held a succession of senior positions in the mortgage and GSE businesses as a managing director of Lehman Brothers from 1983 to 1997, and was president of Columbia Group Advisors from 1981 to 1983. He holds a J.D. from Syracuse University and B.A. in European History from Hofstra University.

David H. Hehman, 60, 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 as chair of the Financing Corporation (FICO). 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.

Milton J. Miller, II, 53, 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 was appointed to the board of the Resolution Funding Corporation on September 12, 2007, and was appointed to the board of Pentegra Retirement Services on January 15, 2008. Pentegra Retirement Services is a not-for-profit cooperative that is a national provider of full-service community bank retirement programs, 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 (CFA) designation in 1986.

Matthew R. Feldman, 55, 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.

Richard S. Swanson, 59, has been president and CEO of the FHLBank of Des Moines since June 2006. 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. He is currently serving as chair of the FHLBank Presidents' Conference for the twelve FHLBanks, as well as director for the Imitative for Global Development.

Terry Smith, 52, serves as president and chief executive officer of the FHLBank of Dallas and has served in such capacity since August 2000. Prior to that, he served as executive vice president and chief operating officer of the FHLBank of Dallas, responsible for the financial and risk management, credit and collateral, financial services, accounting, and information systems functions. Mr. Smith joined the FHLBank of Dallas in January 1986 to coordinate the hedging and asset/liability management functions, and was promoted to chief financial officer in 1988. He served in that capacity until his appointment as chief operating officer in 1991. Mr. Smith currently serves as vice chairman of the board of directors of the FHLBanks Office of Finance and as chairman of the audit committee of the FHLBanks Office of Finance. He also serves on the Council of Federal Home Loan Banks and the board of directors of the Pentegra Defined Benefit Plan for Financial Institutions. Mr. Smith currently serves as Chairman of the Investment Committee for the Pentegra Defined Benefit Plan for Financial Institutions.

Andrew J. Jetter, 53, became president and chief executive officer of FHLBank of Topeka in September 2002. He also served as executive vice president and chief operating officer from January 1998 to September 2002. He joined the FHLBank 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, 62, 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 issues and services debt 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.

Richard M. Riccobono, 51, has served as president and chief executive officer of the FHLBank of Seattle since May 2007. From August 2005 until May 2007, Mr. Riccobono served as executive vice president, chief operating officer of the FHLBank of Seattle. From 1989 until July 2005, Mr. Riccobono served at the Office of Thrift Supervision (OTS) including as deputy director from 1998 until July 2005. Prior to his tenure at the OTS, he served in various positions at the FHLBank of Atlanta and FHLBank of Boston. Mr. Riccobono is a certified public accountant and an attorney at law.

Chief Executive Officer, FHLBanks Office of Finance.

John D. Fisk, 52, 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 current directors of the FHLBanks Office of Finance are Terry Smith, the president of the FHLBank of Dallas, and Dean Schultz, the president of the FHLBank of San Francisco. Terry Smith was reappointed to a three-year term in April 2009. Dean Schultz was appointed in April 2008 to a three-year term.

Charles A. Bowsher, 77, was appointed to serve as the private citizen director on the Office of Finance Board of Directors on April 11, 2007 and resigned on March 23, 2009.

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. The Finance Agency exercises similar supervisory and examination authority over the Office of Finance and its board of directors as it exercises over an FHLBank and its board of directors. Finance Agency regulations require the Office of Finance board of directors to select, employ, determine the compensation for, and assign the duties of the chief executive officer.

Compensation Discussion and Analysis. Each FHLBank's board of directors and management are 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 "Available Information on Individual FHLBanks.")

Overview and Objectives of FHLBank and Office of Finance Executive Compensation Programs

The practice of each FHLBank is 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, consisting of base salary, cash incentive compensation, and other benefits as described in the Summary Compensation Table.

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.

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, 2008, 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.

FHLBank Presidents and Office of Finance CEO

Summary Compensation Table

FHLBank Name	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	Michael A. Jessee	2008(1)	630,000			1,437,000	110,847	2,177,847
		2007	600,000	22,500	350,880	742,000	100,646	1,816,026
		2006	569,250	38,045	261,955	539,000	98,043	1,506,293
New York	Alfred A. DelliBovi	2008(2)	603,054		379,938	1,092,000	76,327	2,151,319
		2007	583,539		421,964	479,000	75,855	1,560,358
		2006	560,018		349,364	294,000	73,047	1,276,429
Pittsburgh	John R. Price	2008(3)	550,000			242,000	59,811	851,811
		2007	550,000		541,750	167,000	48,015	1,306,765
		2006	500,004		250,001	111,000	499,005	1,360,010
Atlanta	Richard A. Dorfman	2008(4)	737,500	700,148	276,563	54,000	72,675	1,840,886
		2007	371,538	148			183,605	555,291
Cincinnati	David H. Hehman	2008(5)	600,023		575,923	1,034,000	67,106	2,277,052
		2007	561,481		550,588	668,000	57,042	1,837,111
		2006	530,266	50,000	339,219	744,000	50,354	1,713,839
Indianapolis	Milton J. Miller, II	2008(6)	500,006		350,004	748,000	32,390	1,630,400
		2007	176,928		80,957	1,358,000	81,889	1,697,774
Chicago	Matthew R. Feldman	2008(7)	576,903			136,000	10,530	723,433
Chicago	J. Mikesell Thomas	2008(8)	255,000			5,000	1,221,160	1,481,160
		2007	703,040		300,000	225,000	48,499	1,276,539
		2006	676,000		676,000	281,000	41,215	1,674,215
Des Moines	Richard S. Swanson	2008(9)	584,100		416,172	182,000	41,627	1,223,899
		2007	561,600		278,460	69,000	227,638	1,136,698
		2006	315,000	118,125			35,606	468,731
Dallas	Terry Smith	2008(10)	680,000		376,788	195,000	391,804	1,643,592
		2007	649,750		348,136	127,000	347,215	1,472,101
		2006	565,000		118,090	111,000	244,192	1,038,282
Topeka	Andrew J. Jetter	2008(11)	584,255		482,010	584,383	49,241	1,699,889
		2007	560,269		278,815	152,048	53,514	1,044,646
		2006	533,750		285,347	371,117	59,859	1,250,073
San Francisco	Dean Schultz	2008(12)	725,000			532,468	58,484	1,315,952
		2007	682,500	348,500	259,200	499,049	56,205	1,845,454
		2006	650,000	329,500	244,200	407,092	53,952	1,684,744
Seattle	Richard M. Riccobono	2008(13)	514,100		192,857	318,593	37,502	1,063,052
		2007	445,251		341,688	251,581	37,275	1,075,795
Office of Finance	John D. Fisk	2008(14)	540,000		505,863	147,000	23,829	1,216,692

* Compensation in this column is further described below in the "All Other Compensation Table."

(1) The FHLBank of Boston does not have any arrangements that provide for payments upon termination or a change in control. There is a severance policy where all employees are eligible. Under the severance policy if Mr. Jessee's employment is terminated, either involuntarily or by mutual agreement, for reasons other than "cause" (for example poor performance, poor attendance, insubordination), Mr. Jessee is entitled to receive an amount equal to one year's salary. The severance policy does not constitute a contractual relationship between the FHLBank of Boston and Mr. Jessee, and the FHLBank of Boston reserves the right to modify, revoke, suspend, terminate, or change the severance policy at any time without notice.

(2) 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 (a) cash compensation (i.e., (i) base salary, and (ii) "variable" or "at risk" short-term incentive compensation); (b) retirement-related benefits (i.e., qualified and nonqualified defined benefit and defined contribution plans); and (c) 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, 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.

(3) 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

(CIC) agreement) for the CEO, Mr. Price is eligible for severance payments under his CIC Agreement. Such severance is in lieu of severance under the Severance Policy. Mr. Price's separate severance agreement continues to apply to employment terminations excluding those resulting from an FHLBank of Pittsburgh merger. Benefits under the CIC Agreement for Mr. Price are as follows: two years base salary; two times the VIP 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 the FHLBank of Pittsburgh contributes to medical insurance for its then-active employees; individualized outplacement for up to 12 months; payment equal to the additional benefit amount Mr. Price would receive for 2 additional years of credited service under the qualified and nonqualified defined benefit plans; and payment equal to two times 6 percent of his annual compensation in the year of separation from service. This amount is intended to replace the FHLBank of Pittsburgh matching contribution under the FHLBank of Pittsburgh's qualified and nonqualified defined contribution plans. The CIC agreement was executed in November 2007.

(4) The FHLBank of Atlanta entered into an Employment Agreement with Mr. Dorfman in connection with his appointment as President and Chief Executive Officer. The Agreement contains a severance arrangement such that upon the termination of Mr. Dorfman for any reason other than "cause," (as defined in the Agreement) or if Mr. Dorfman terminates employment for "good reason," (as defined in the Agreement) then the FHLBank of Atlanta is required to pay a total of the base salary in effect at the date of termination plus an amount equal to the amount which would have been payable pursuant to Mr. Dorfman's short-term incentive compensation award for the year in which the date of termination occurs, payable at the time such incentive compensation awards are paid to other executives.

(5) Other than normal pension benefits and eligibility to participate in the FHLBank of Cincinnati's retiree medical and retiree life insurance programs, 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.

(6) Mr. Miller was named President—CEO of the FHLBank of Indianapolis effective July 16, 2007. Mr. Miller, in the absence of a key employee severance agreement, would receive severance under the FHLBank of Indianapolis' Severance Pay Plan approved by the board on November 17, 2006. The Severance Pay Plan pays a senior officer up to a maximum 52 weeks of base pay computed at the rate of four weeks of severance pay for each year of service with a minimum of 10 weeks' of base pay to be paid. In addition, the plan pays a lump sum payment equal to the employee's cost to maintain health insurance coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") for the time period applicable under the severance pay schedule. Mr. Miller would receive the maximum payout of 52 weeks of base pay and twelve months of COBRA. The benefit of this severance to Mr. Miller, if triggered as of December 31, 2008, would be $516,118. The Severance Pay Plan may be amended or eliminated by the board at any time.

(7) In connection with his appointment to President and CEO, Mr. Feldman and the FHLBank of Chicago entered into an employment agreement on June 4, 2008, which canceled and superseded his prior employment agreement. The June 4, 2008 employment agreement provides for an employment term beginning on the effective date of May 5, 2008 and ending on May 31, 2011, unless terminated earlier as provided for in the agreement. The agreement provides for automatic one-year extensions until such date as the Board of Directors or Mr. Feldman gives notice and terminates the automatic extension provision. The agreement provides for an initial base salary of $650,000 effective retroactively to April 14, 2008, and may not be increased prior to June 1, 2011. Mr. Feldman is entitled to receive termination payments in the event that his employment with the FHLBank of Chicago is terminated either by him for good reason (as defined in the agreement) or by the FHLBank of Chicago other than for cause (as defined in the agreement) as follows: (1) all accrued and unpaid salary for time worked as of the date of termination; (2) all accrued but unutilized vacation time as of the date of termination; (3) salary continuation (at the base salary in effect at the time of termination) for a one year period beginning on the date of termination; and (4) continued participation in the FHLBank of Chicago's employee health care benefit plans in accordance with the terms of the FHLBank of Chicago's then-current severance plan that would be applicable to the executive 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.

(8) Mr. Thomas held the position of President and CEO from August 30, 2004 through April 11, 2008. Mr. Thomas and the FHLBank of Chicago entered into a Separation Agreement and General Release of Claims which became effective on April 13, 2008. The agreement provided for: (1) a lump sum severance payment of $1,131,000, which is equal to 50 percent of the total severance payments outlined in Mr. Thomas' employment agreement dated August 30, 2004; (2) accrued vacation and (3) reimbursement of legal fees incurred in connection with the negotiation and documentation of the release agreement.

(9) Mr. Swanson's employment agreement will be terminated upon the occurrence of any one of the following events: his death, he is incapacitated from illness, accident, or other disability, and is unable to perform his normal duties for a period of ninety consecutive days, upon 30 days' written notice, or the expiration of the term of the employment agreement, or any extension or renewal thereof. Additionally, Mr. Swanson's employment agreement may be terminated by the FHLBank of Des Moines for cause or by Mr. Swanson for good reason, or by the FHLBank of Des Moines or Mr. Swanson without cause upon thirty days written notice to the other party. If Mr. Swanson's employment is terminated by the FHLBank of Des Moines without cause or by Mr. Swanson with good reason, he shall be entitled to (1) severance payments equal to two times his base salary for the calendar year in which the

termination occurs, (2) the minimum total incentive compensation for the calendar year in which the termination occurs prorated as of such date, and (3) the benefit to which he would be entitled to receive beginning June 1, 2009 under the benefit equalization plan, which shall automatically vest. No severance shall be paid in connection with the expiration or non-renewal of the employment agreement. The total value of the change in control provisions at December 31, 2007 was $1.3 million.

(10) 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, Mr. Smith shall be entitled to receive 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 he 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 him 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.

(11) 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 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 Topeka is eligible to receive severance pay under the policy if the FHLBank 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 Topeka an enforceable release, the president will receive severance pay equal to 52 weeks of the president's final base salary.

(12) The FHLBank of San Francisco president is employed on an at-will basis. Mr. Schultz may receive severance benefits in the event that Mr. Schultz's employment is terminated because the job or position is eliminated or substantially modified, equal to the greater of: (i) 12 weeks of the president's base salary, or (ii) the sum of three weeks of the president's base salary plus three weeks of the president's base salary for each full year of service and three weeks of base salary prorated for each partial year of service at the FHLBank of San Francisco to a maximum of 52 weeks. The FHLBank of San Francisco's current severance policy also provides one month of continued health and life insurance benefits and, at the FHLBank's discretion, outplacement assistance. A decision by the Board of the FHLBank of San Francisco regarding any awards under the 2008 annual short-term and 2006 to 2008 long-term incentive compensation plans may be made at the end of March 2009, and, if a decision is made to grant any awards, the information will be submitted to the Finance Agency for its review and disclosed by the FHLBank of San Francisco in a Form 8-K filed with the SEC.

(13) If Mr. Riccobono's employment is terminated as a result of a change of control due to the merger or consolidation of the FHLBank of Seattle with or into another FHLBank, or the liquidation of the FHLBank of Seattle, Mr. Riccobono will be entitled to receive a lump sum severance payment in an amount equal to 24 months of his then-current base salary. In addition, the FHLBank of Seattle would pay Mr. Riccobono's premiums for continued health insurance benefits for a period of 18 months. No other named executive officers have change in control arrangements with the FHLBank of Seattle.

(14) Mr. Fisk's non-equity incentive compensation consists of $295,313 awarded under the Office of Finance's annual short-term incentive compensation and $210,550 awarded under the Office of Finance's long-term incentive plan for the three-year plan ended December 31, 2008, which were paid in February 2009.

All Other Compensation Table

FHLBank Name	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 ($)	Gross-ups or other amounts reimbursed for the payment of taxes ($)	Perquisites and Other Personal Benefits* ($)	Other ($)	Total ($)
Boston	Michael A. Jessee	2008(1)		60,203	7,960		42,684		110,847
		2007		54,000	7,110		39,536		100,646
		2006		38,634	6,510		39,279	13,620	98,043
New York	Alfred A. DelliBovi	2008(2)		36,183	12,754		27,390		76,327
		2007		34,985	12,403		28,467		75,855
		2006		33,600	12,102		12,432	14,913	73,047
Pittsburgh	John R. Price	2008(3)		49,005			10,782	24	59,811
		2007		48,000				15	48,015
		2006		30,000		201,732	267,273		499,005
Atlanta	Richard A. Dorfman	2008(4)		44,250			28,425		72,675
		2007		21,000			162,605		183,605
Cincinnati	David H. Hehman	2008		56,967			10,139		67,106
		2007		57,042					57,042
		2006		50,354					50,354
Indianapolis	Milton J. Miller, II	2008		30,000	200			2,190	32,390
		2007(5)		10,615	71	819	68,984	1,400	81,889
Chicago	Matthew R. Feldman	2008		10,530					10,530
Chicago	J. Mikesell Thomas	2008(6)	1,131,000			22,243	67,917		1,221,160
		2007					43,098	5,401	48,499
		2006					41,215		41,215
Des Moines	Richard S. Swanson	2008(7)		25,627			16,000		41,627
		2007		9,828		77,635	140,175		227,638
		2006					35,606		35,606
Dallas	Terry Smith	2008(8)		288,623		12,101	28,264	62,816	391,804
		2007		249,229		10,276	24,626	63,084	347,215
		2006		154,544		10,249	24,666	54,733	244,192
Topeka	Andrew J. Jetter	2008(9)		29,784	1,830		16,243	1,384	49,241
		2007		36,181	1,697		14,463	1,173	53,514
		2006		43,643	1,606		13,379	1,231	59,859
San Francisco	Dean Schultz	2008(10)		43,500	4,080		9,981	923	58,484
		2007		40,950	4,080		10,252	923	56,205
		2006		39,000	3,727		10,075	1,150	53,952
Seattle	Richard M. Riccobono	2008		37,502					37,502
		2007		37,275					37,275
Office of Finance	John D. Fisk	2008(11)		14,850			8,979		23,829

* Only individual amounts greater than $25,000 are disclosed in the footnotes.

(1) Perquisites and other benefits amount for 2008 for Mr. Jessee includes the following perquisites: financial planning services, personal use of FHLBank-provided vehicles, club membership dues, medical expense reimbursements until March 14, 2008, and spousal travel expenses. Perquisites and other benefits amount for 2007 and 2006 for Mr. Jessee includes the following: financial planning services, personal use of FHLBank-provided vehicles, club membership dues medical expense reimbursements, and spousal travel expenses.

(2) Perquisites and other benefits amount for 2008, 2007 and 2006 for Mr. DelliBovi includes the following: personal use of FHLBank-provided vehicle and payment of vision insurance premium.

(3) Perquisites and other benefits amount for 2008 Mr. Price include parking benefits, spousal travel and child care expenses, personal miles on a company vehicle, financial planning/tax preparation benefits, and non-business travel expenses. Perquisites and other benefits amount for 2006 for Mr. Price includes the following: $258,000 for relocation assistance, and other personal benefits.

(4) Perquisites and other benefits amount for Mr. Dorfman includes the following: personal use of FHLBank-provided vehicle, financial planning services, club membership dues, and other personal benefits.

(5) Perquisites and other benefits amount for Mr. Miller includes a vacation payout. A payout under the SERP of $1,550,513 was previously included in the Other column in the 2007 Combined Financial Report.

(6) Perquisites and other benefit amounts for 2008 for Mr. Thomas include $53,286 for reimbursement of legal fees, reimbursement of independent medical plan premiums and parking benefits. Perquisites and other benefits amount for 2007 for Mr. Thomas includes the following: $37,728 for reimbursement of independent medical plan premiums, and the remainder for commuting expenses. Perquisites and other benefits amount for 2006 for Mr. Thomas includes the following: $37,625 for reimbursement of independent medical plan premiums, and the remainder for commuting expenses.

(7) Perquisites and other benefits amount for 2008 for Mr. Swanson includes the following: personal use of FHLBank-provided vehicle and financial planning allowance. Perquisites and other benefits amount for 2007 for Mr. Swanson includes the following: $131,175 in relocation expenses and a car allowance. Perquisites and other benefits amount for 2006 for Mr. Swanson includes the following: personal use of FHLBank-provided vehicle, and $30,356 for housing and other living expenses including relocation assistance and payments for the president to stay at his personal residence.

(8) Perquisites and other benefits amount for 2008 for Mr. Smith includes the following: personal use of FHLBank-provided vehicle and spousal travel and meal cost reimbursements in connection with board meetings. Perquisites and other benefits amount for 2007 for Mr. Smith includes the following: personal use of FHLBank-provided vehicle and spousal travel expenses. Perquisites and other benefits amount for 2006 for Mr. Smith includes the following: personal use of FHLBank-provided vehicle, use of FHLBank-owned computer and spousal travel expenses.

(9) Perquisites and other benefits amount for 2008 for Mr. Jetter includes the following: personal use of FHLBank-provided vehicle, club membership, financial planning and tax advice, spousal travel expenses, life insurance premiums and long term disability premiums. Perquisites and other benefits amount for 2007 and 2006 for Mr. Jetter includes the following: personal use of FHLBank-provided vehicle, club membership and spousal travel expenses.

(10) Perquisites and other benefits amount for 2008, 2007 and 2006 for Mr. Schultz includes the following: personal use of FHLBank-provided vehicle, health club membership dues and commuting expenses.

(11) Perquisites and other benefits amount for 2008 for Mr. Fisk includes the personal use of OF-provided vehicle.

Grants of Plan Based Awards for Year 2008

				Estimated Future Payouts Under Non-Equity Incentive Plan Awards		
FHLBank Name	President/CEO Name		Grant Date	Threshold ($)	Target ($)	Maximum ($)
Boston	Michael A. Jessee			157,500	315,000	472,500
New York	Alfred A. DelliBovi		2/26/2008	135,439	246,253	467,881
Pittsburgh	John R. Price			178,750	302,500	550,000
Atlanta	Richard A. Dorfman	(1)	1/1/2008	221,250	331,875	479,375
		(2)	1/1/2008	105,000	210,000	348,600
Cincinnati	David H. Hehman		1/17/2008	141,775	311,905	425,325
			2/24/2008	76,545	170,100	280,665
Indianapolis	Milton J. Miller, II	(1)	1/24/2008	150,002	250,003	350,004
		(2)	5/22/2008	75,001	150,002	225,003
Chicago	Matthew R. Feldman	(3)	7/22/2008		390,000	650,000
		(4)	7/22/2008			1,950,000
Des Moines	Richard S. Swanson		2/26/2009	146,025	219,038	292,050
			2/26/2009	73,013	146,025	219,038
Dallas	Terry Smith			193,800	346,800	408,000
Topeka	Andrew J. Jetter		1/1/2008	31,186	62,372	93,558
			4/1/2008	32,450	64,900	97,350
			7/1/2008	32,450	64,900	97,350
			10/1/2008	64,584	129,168	193,752
San Francisco	Dean Schultz	(5)	2/1/2008	181,300	362,500	725,000
Seattle	Richard M. Riccobono	(1)	1/1/2008	102,820	179,935	308,460
		(2)	1/1/2008	77,115	154,230	231,345
Office of Finance	John D. Fisk	(1)	1/24/2008	135,000	270,000	405,000
		(2)	1/24/2008	135,000	270,000	405,000

(1) Represents estimate of annual short-term incentive compensation for January 1, 2008 through December 31, 2008.

(2) Represents estimate of long-term incentive compensation for the three-year performance cycle beginning January 1, 2008 and ending December 31, 2010.

(3) Represents the potential payouts under the Mr. Feldman's Incentive Compensation Plan for the period from April 14, 2008 though December 31, 2008. Pursuant to Mr. Feldman's employment agreement, payments under this plan are 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.

(4) Represents the potential payout under the Key Employee Long Term Incentive Compensation for the period from January 1, 2008 to December 31, 2010. Pursuant to Mr. Feldman's employment agreement, payments under this plan are 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.

(5) Represents estimate of long-term incentive compensation for the three-year performance cycle beginning January 1, 2008 and ending December 31, 2010. No information is provided for the 2008 annual short-term incentive plan because the award range as a percentage of base salary was not included in this plan, and therefore, the estimated payout range of this plan is not available.

Pension Benefits for Year 2008

FHLBank Name	President/CEO Name		Plan Name*	Number of Years Credited Service	Present Value of Accumulated Benefit ($)	Payments During 2008 ($)
Boston	Michael A. Jessee	(1)	Pentegra DBP	31.3	1,440,000	
			BEP	31.9	5,712,000	
New York	Alfred A. DelliBovi	(2)	Pentegra DBP	15.75	932,000	
			BEP	15.75	3,248,000	
Pittsburgh	John R. Price	(3)	Pentegra DBP	2.4	123,000	
			SERP	3.0	397,000	
Atlanta	Richard A. Dorfman	(4)	Pentegra DBP	0.5	17,000	
			BEP	0.5	37,000	
Cincinnati	David H. Hehman	(5)	Pentegra DBP	30.9	1,538,000	
			BEP	30.9	4,967,000	
Indianapolis	Milton J. Miller, II	(6) (7)	Pentegra DPB	31.0	92,000	
			SERP	31.0	1,185,000	
Chicago	Matthew R. Feldman	(8)	Pentegra DBP	4.75	151,000	
			BEP	4.75	156,000	
Chicago	J. Mikesell Thomas		Pentegra DBP	3.17		74,000
			BEP	3.17		460,374
Des Moines	Richard S. Swanson		Pentegra DBP	1.6	62,000	
			BEP	1.6	189,000	
Dallas	Terry Smith	(9)	Pentegra DBP	23.0	1,171,000	
Topeka	Andrew J. Jetter	(10)	Pentegra DBP	20.6	532,000	
			BEP	20.6	1,563,000	
San Francisco	Dean Schultz	(11)	Cash Balance Plan	23.75	255,272	
			FIRF	11.0	436,059	
			BEP	23.75	2,045,584	
			Deferred Compensation Plan	23.75	48,736	
			SERP	6.0	776,579	
Seattle	Richard M. Riccobono	(12)	Pentegra DBP	22.6	531,000	
			BEP	22.6	1,292,848	
Office of Finance	John D. Fisk	(13)	Pentegra DPB	4.1	107,000	
			SERP	4.1	399,000	

* Pentegra DBP = Pentegra Defined Benefit Plan for Financial Institutions

BEP = Benefit Equalization Plan

SERP = Supplemental Executive Retirement Plan

FIRF = Financial Institutions Retirement Fund

(1) • Formula: 2.375 percent × high three-year average compensation × credited years of service, subject to a maximum annual benefit amount not to exceed 80 percent of high three-year average compensation.

- Compensation is the highest three-year compensation (salary and incentive) paid in the year.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

Mr. Jessee's credited years of service for the Pentegra DBP includes 11.8 years of service at a previous employer that participated in the Pentegra DBP, and the credited years of service for the Pension BEP includes 12.4 years of service at that previous employer.

(2) • Formula: 2.5 percent × years of benefit service (not to exceed 30) × high three-year average compensation.
- Three-year average compensation is comprised of salary and incentive payments as such terms are used in the Summary Compensation table. The benefit calculation is based on the average annual compensation for the three consecutive years of highest compensation during the years of credited service.
- The regular form of the retirement benefit is a straight-life annuity with a death benefit equal to 12 times the annual benefit less the amount of benefits paid before death.

(3) • Formula: 2 percent × years of benefit service × high three-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) • Formula: 1.5 percent × years of service (not to exceed 30 years) × high consecutive five-year average compensation.
- Compensation used for retirement plan calculations includes the high consecutive five-year average of regular salary at January 1. Incentive compensation paid in the prior calendar year is not included in the calculation.
- The regular form of all retirement benefits provides for an annual retirement benefit, expressed as a single, straight life annuity, plus a death benefit.

(5) • Formula: 2.5 percent × years of benefit service × high three-year average salary.
- Salary 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 the Summary Compensation Table.
- The regular form of retirement benefits is a straight-life annuity including a lump-sum retirement death benefit.

(6) The years of credited service for Mr. Miller in the table above 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 percent × 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 percent 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 percent for each year under age 65.

(8) • Formula: 2.25 percent × the number of years credit service × highest five-year average salary.
- Compensation is the average annual salary (base and short-term incentive compensation) for the five consecutive years of highest salary during the benefit service.
- The regular form of retirement benefits is an annuity or a lump-sum retirement death benefit.

(9) • Formula: (3 percent × years of service credited prior to July 1, 2003 × high three-year average compensation (consecutive years)) plus (2 percent × 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 (both prior to July 1, 2003 and on or after July 1, 2003) 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 2008 IRS limitation of $230,000 per year. For 2009, the IRS increased the maximum compensation limit to $245,000 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, the above table reflects the estimated pension benefits payable to Mr. Smith based solely on the IRS compensation limit as his compensation exceeded such limit.

(10) • Formula: Starting September 2003 Pentegra Defined Plan Benefit = 2.0 percent × 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 percent × 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 without regard to IRS limitations.
- The regular form of retirement benefits provides a straight-life annuity with 10 years certain.

(11) ***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 a minimum of six months of service, including the president. Each year, eligible employees accrue benefits equal to 6 percent of their total annual compensation (which includes base salary and short-term cash incentive compensation) plus interest equal to 6 percent 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.

- ***Benefit Equalization Plan***

The Benefit Equalization Plan is a non-qualified plan that is designed to restore retirement benefits lost under the Cash Balance Plan and the FHLBank of San Francisco's 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 Benefit Equalization Plan and the credits accrue interest at an annual rate of 6 percent until paid. The amounts credited or accrued under the Benefit Equalization Plan vest according to the corresponding provisions of the Cash Balance Plan and the Savings Plan.

- ***Deferred Compensation Plan***

The FHLBank of San Francisco's Deferred Compensation Plan is a non-qualified plan, consisting of three components: (1) employee deferral of current compensation; (2) make-up matching contributions that would have been made by the FHLBank of San Francisco under the Savings Plan had the 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.

- ***Supplemental Executive Retirement Plan***

Effective January 1, 2003, the FHLBank of San Francisco began providing a Supplemental Executive Retirement Plan to the FHLBank of San Francisco's senior officers, including the president. This plan is a 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 Supplemental Executive Retirement Plan 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.

(12) Mr. Riccobono was entitled to carry his years of credited service earned at other employers that participate in the Pentegra DBP over to the BEP. Mr. Riccobono joined the BEP on January 1, 2006.

(13) • Formula: Starting April 2003—2.25 percent × years of benefit service × high three-year average compensation.

Non-Qualified Deferred Compensation for Year 2008

FHLBank Name	President/CEO Name	President/CEO Contributions ($)	FHLBank Contributions ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Earnings ($)	Aggregate Balance at 12/31/08 ($)
Boston	Michael A. Jessee	264,528	46,403		(451,397)	1,230,389
New York	Alfred A. DelliBovi	39,805	23,407		(347,090)	880,261
Pittsburgh	John R. Price	391,225	47,630		(64,060)	1,082,251
Atlanta	Richard A. Dorfman	30,450	30,450		(17,628)	58,250
Cincinnati	David H. Hehman	440,562	52,375		(703,291)	1,939,861
Indianapolis	Milton J. Miller, II	184,957	16,200	50,151	(209,850)	564,440
Chicago	Matthew R. Feldman	19,260			584	42,464
Des Moines	Richard S. Swanson	51,754	18,977		3,223	164,696
Dallas	Terry Smith	40,000	274,823	68,544	(123,929)	930,616
Topeka	Andrew J. Jetter	13,278	15,984		43,310	703,542
San Francisco	Dean Schultz				(158,418)	346,801
Seattle	Richard M. Riccobono	14,210	26,990		(22,719)	18,481
Office of Finance	John D. Fisk	35,912	36,562		(127,624)	393,603

Office of Finance CEO 2008 Compensation Discussion and Analysis

This compensation discussion and analysis provides information on the Office of Finance compensation program for John Fisk, CEO effective January 1, 2008. The information describes, among other things, the objectives of the Office of Finance's compensation program and the elements of compensation provided by the Office of Finance.

Compensation Program Overview (Philosophy and Objectives)

The Office of Finance's Board of Directors (Office of Finance Board) is responsible for determining the philosophy and objectives of the Office of Finance's compensation program. The philosophy of the compensation program is 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. To achieve this, 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 program are to communicate short- and long-term goals and standards of performance for the successful achievement of Office of Finance's mission and to recognize, motivate and reward the CEO commensurate with his contribution.

The Office of Finance Board believes that its compensation philosophy, as expressed through the program, is objective and non-discriminatory in theory, application and practice and that the program is effective in attracting, retaining and motivating a highly qualified individual. The Office of Finance Board annually reviews the compensation program to insure that it is consistent with and supports the Office of Finance's business strategies and objectives.

The Office of Finance Human Resources Director provides compensation data to the Office of Finance Board, which is responsible for approving all forms of compensation provided to the CEO. Additionally, the Office of Finance Board reviews the CEO's decisions for compensation of the senior executive officers of the Office of Finance. To insure the independence of Office of Finance's Internal Audit function, the Office of Finance Board is responsible for reviewing and approving all forms of compensation for the Director of Internal Audit.

Because individuals are not permitted to own FHLBank capital stock, all compensation is paid in cash and the Office of Finance has no equity compensation plans or arrangements.

Competition and Compensation Benchmarking

The Office of Finance's CEO compensation program is designed to provide market competitive compensation, comparable to the compensation opportunity found at those financial institutions from which the Office of Finance expects to recruit executive officers. The Office of Finance considers the FHLBanks and other federal housing GSEs, as well as private sector financial institutions including both mortgage and commercial banks, as competitors for executive talent.

In determining market competitive compensation, the Office of Finance and the Office of Finance Board utilized a compensation study by McLagan Partners, a nationally recognized compensation consulting and benchmarking firm for the financial services industry. The Office of Finance and Office of Finance Board of Directors strive to create a program that generally delivers compensation for the CEO near the 75th percentile of the blended survey data when the Office of Finance meets or exceeds its performance goals. The McLagan survey covered three groups: corporate banking, fixed income originators (debt capital markets), and treasury & asset-liability management. In addition, the McLagan study for the Office of Finance includes the compensation of the 12 FHLBank Presidents. The McLagan study was comprised from data provided by over 60 companies.

Elements of Total Compensation Program

Salary.

Base salary is a key component the Office of Finance's total CEO compensation program. Factors affecting executive base salary include length of time in position or experience, individual achievement, and the scope of assigned responsibilities. Base salary increases are traditionally granted by the Office of Finance Board at the beginning of each calendar year and are based on a review of the individual's performance and contributions to the achievement of the Office of Finance's annual business plan goals and strategic long-term objectives and changes in the cost of living.

Effective January 1, 2008, the Office of Finance Board appointed John Fisk (formerly COO) to serve as CEO upon the retirement of John K. Darr on December 31, 2007. Additionally, the Office of Finance Board approved a 30 percent base salary increase to $540,000 for John Fisk commensurate with his new responsibilities.

Short-Term Non-Equity Incentive Plan Compensation.

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-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 impact on the Office of Finance's strategic initiatives and annual business plan, and each is assigned a quantitative threshold, target and maximum level of performance.

When establishing the annual Office of Finance goals, corresponding performance levels and difficulty of achieving each goal, the Office of Finance Board anticipates that the Office of Finance will successfully achieve threshold level of performance the majority of the time. The target level is aligned with expected performance and is anticipated to be reasonably achievable. The maximum level is designed to be an overall stretch goal. Four 2008 goals based on Customer Service (25 percent), Cost of Funds (25 percent), creation of a Q&A with regards to Advances issued in conjunction with the Combined Financial Report (25 percent), and ongoing development of the Funding Management System (FMS 4.0) (25 percent) were established for the CEO. The basis for the Customer Service goal is an annual survey distributed to the 12 FHLBanks eliciting input on the performance of each of Office of Finance's functions. The cost of funds goal is a four-segment measurement of the price of FHLBank debt as compared to the market. The Q&A goal was established to address topical issues in the marketplace. The FMS 4.0 goal refers to completion of specific components of an Information Technology initiative supporting debt issuance.

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. The incentive award opportunity for the 2008 plan year was: Threshold 25 percent, Target 50 percent and Maximum 75 percent.

The authorization for payment of ICP awards is generally provided following review of the year-end performance results by the Office of Finance Board at its first annual meeting. 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 executive.

At its February 4, 2009 meeting, the Office of Finance Board authorized an ICP distribution of $295,313 (54.69 percent) for John Fisk based on the following results: target performance on the FHLBank Survey goal, the following performance on the four-segment funding goal: below threshold for Callables, threshold for Discount Notes, maximum for 2 and 3 year Globals, and maximum for 5 and 10 year Globals, maximum performance on the Q&A goal, and target performance on the FMS 4.0 goal.

Long-Term Non-Equity Incentive Plan Compensation.

The Office of Finance's Long-Term Incentive Compensation Plan (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. The Office of Finance Board approves LTI goals for the CEO that reflect desired performance, operational and public mission objectives for the Office of Finance as measured over a three-year performance period. Each approved LTI goal is assigned an incentive weight reflecting its relative importance and potential impact on the strategic long-term initiatives, and each is assigned a quantitative threshold, target and maximum level of performance 25 percent, 50 percent, 75 percent respectively for the 2006-2008 plan.

The LTI Plan was initially established in 2004 with a performance period of January 1, 2004 through December 31, 2006. At the Office of Finance Board's first meeting each subsequent year, new three-year performance periods were established. The Office of Finance expects to continue establishing a new three-year performance period commencing each January 1.

LTI incentive awards are calculated based on the actual performance or achievement level for each LTI goal at the end of each three-year performance period, with interpolations made for results between achievement levels. The achievement level for each LTI 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.

The Office of Finance made an LTI payment to John Fisk of $210,550 for the 2006-2008 Plan on February 28, 2009, as approved by the Office of Finance Board.

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, designed to restore benefits limited by IRS regulation. The following narrative describes the four plans:

Qualified Defined Benefit Pension Plan. The Pentegra Defined Benefit Plan for Financial Institutions (Pentegra DB) is a funded tax-qualified plan that is maintained on a non-contributory basis, i.e., no employee contributions. Participants' pension benefits are 100 percent vested upon completion of six years of service. The pension benefits payable under the Pentegra DB plan 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 is 2.25 percent 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 DB plan in all material respects. In the event that benefits payable from the Pentegra DB plan 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 percent 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. The STP restores benefits that participants would have received absent IRS limits on contributions to the Pentegra DC Plan. The STP mirrors the Pentegra DC plan in all material respects. Under the STP, participants may elect to contribute up to 50 percent of base salary and up to 100 percent 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 6 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 2008, 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.

Additionally, the CEO is eligible for annual reimbursement of personal financial counseling not to exceed $10,000.

Compensation of Directors

In accordance with the regulations of the Finance Agency, the GLB Act, and the Housing Act, the FHLBanks have established formal policies governing the compensation and travel reimbursement provided their directors. The goal of the policies is to compensate members of the board of directors for work performed on behalf of the FHLBanks. Under these policies, compensation consists of per-meeting fees, which were subject to an annual cap until the passage of the Housing Act on July 30, 2008. The fees compensate directors for:

- time spent reviewing materials sent to them on a periodic basis by the FHLBanks;
- preparation for meetings;

• participation in any other activities for the FHLBanks; and

• actual time spent attending the meetings of the board or its committee.

Directors are also reimbursed for reasonable FHLBank-related travel expenses, which are not included in the table below. The compensation limits prior to the enactment of the Housing Act were $31,232 for a chair, $24,986 for a vice chair and $18,739 for all other directors. The Housing Act removed the maximum statutory annual limit on director compensation. Total directors' fees and other travel expense paid by the FHLBanks during 2008, 2007 and 2006 were $6.5 million, $5.8 million, and $4.6 million.

Director Compensation for Year 2008

FHLBank Name	Director Name	Position	Fees Earned or Paid in Cash ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Boston	Robert F. Verdonck	Chair	60,000				60,000
Boston	Jay. F. Malcynsky	Vice-chair	40,350				40,350
New York	Michael M. Horn (1)	Chair	31,232				31,232
New York	Jose R. Gonzalez (2)	Vice-chair	24,986				24,986
New York	David W. Lindstrom (3)	Chair	19,520				19,520
Pittsburgh	Dennis S. Marlo	Chair	31,232			24	31,256
Pittsburgh	H. Charles Maddy, III	Vice-chair	24,986			24	25,010
Atlanta	Scott C. Harvard	Chair	45,000				45,000
Atlanta	J. Thomas Johnson	Vice-chair	45,000				45,000
Cincinnati	Carl F. Wick	Chair	31,232				31,232
Cincinnati	Richard C. Baylor	Vice-chair	19,800				19,800
Indianapolis	Paul C. Clabuesch	Chair	31,232				31,232
Indianapolis	Charles L. Crow	Vice-chair	24,986				24,986
Chicago	P. David Kuhl	Chair	29,944				29,944
Chicago	James F. McKenna	Vice-chair	23,955				23,955
Des Moines	Michael K. Guttau	Chair	31,232				31,232
Des Moines	Dale E. Oberkfell	Vice-chair	24,986				24,986
Dallas	Lee R. Gibson	Chair	31,232				31,232
Dallas	Mary E. Ceverha	Vice-chair	24,986				24,986
Topeka	Ronald K. Wente	Chair	31,232		7,810		39,042
Topeka	Lindel E. Pettigrew	Vice-chair	24,986				24,986
San Francisco	Timothy R. Chrisman	Chair	31,232				31,232
San Francisco	James P. Giraldin	Vice-chair	24,986				24,986
Seattle	Mike C. Daly	Chair	31,232				31,232
Seattle	Craig E. Dahl	Vice-chair	24,986				24,986
Office of Finance	Charles Bowsher	Chair	33,482				33,482

(1) Mr. Horn, who had served as vice-chair of the FHLBank of New York board since January 1, 2008, became acting board chair on May 8, 2008 and board chair on May 13, 2008, thus filling the unexpired portion of the chair term that is scheduled to expire on December 31, 2009.

(2) Mr. Gonzalez became vice-chair of the FHLBank of New York board on June 19, 2008, thus filling the unexpired portion of the vice-chair term that was scheduled to run through December 31, 2008. The FHLBank of New York board later elected him to serve as vice-chair for the years 2009 and 2010.

(3) Mr. Lindstrom's service as a director on the FHLBank of New York board ended on May 7, 2008 (prior to the end of his scheduled term, which was December 31, 2008) as a result of the end of his employment with FHLBank of New York member Franklin Bank; under Finance Agency regulations, one must be an officer or director of a member in order to serve as a member director on the FHLBank of New York's board. He served as FHLBank of New York board chair from January 1 through May 7, 2008.

FIVE LARGEST REGULATORY CAPITAL STOCKHOLDERS OF AND BORROWERS FROM EACH FHLBANK

Each FHLBank describes its risk management policies, including disclosures about its concentration risk, if any, in its periodic reports filed with the SEC. (See "Available Information on Individual FHLBanks.")

The following table presents information on the five largest regulatory capital stockholders by FHLBank at December 31, 2008. The information presented on capital stock in the table is for individual FHLBank members. The data is not aggregated to the holding-company level. Some of the institutions listed are affiliates of the same holding company, and some of the institutions listed may have affiliates that are members but that are not listed in the tables.

Top 5 Regulatory Capital Stockholders by FHLBank at December 31, 2008 (Dollar amounts in millions)

District	Name	City	State	Capital Stock	Percent of FHLBank Capital Stock(1)
Boston	Bank of America Rhode Island, N.A.	Providence	RI	$1,083	29.4%
	RBS Citizens, N.A.	Providence	RI	515	14.0%
	New Alliance Bank	New Haven	CT	121	3.3%
	Webster Bank, National Association	Waterbury	CT	93	2.5%
	T.D Banknorth, Inc	Portland	ME	86	2.3%
				$1,898	51.5%
New York	Hudson City Savings Bank*	Paramus	NJ	$ 866	15.1%
	Metropolitan Life Insurance Company	New York	NY	831	14.5%
	Manufacturers and Traders Trust Company	Buffalo	NY	433	7.6%
	New York Community Bank*	Westbury	NY	393	6.9%
	Astoria Federal Savings and Loan Assn.	Long Island City	NY	212	3.7%
				$2,735	47.8%
Pittsburgh	Sovereign Bank*	Reading	PA	$ 644	16.2%
	GMAC Bank	Midvale	UT	496	12.4%
	ING Bank, FSB	Wilmington	DE	479	12.0%
	PNC Bank, NA	Pittsburgh	PA	442	11.1%
	Chase Bank, USA, N.A.	Newark	DE	242	6.1%
				$2,303	57.8%
Atlanta	Countrywide Bank, FSB	Alexandria	VA	$1,947	22.9%
	SunTrust Bank, Atlanta	Atlanta	GA	483	5.7%
	Branch Banking and Trust Company*	Winston Salem	NC	479	5.6%
	Regions Bank	Birmingham	AL	449	5.3%
	Navy Federal Credit Union	Vienna	VA	376	4.4%
				$3,734	43.9%
Cincinnati	U.S. Bank, N.A.	Cincinnati	OH	$ 841	20.7%
	National City Bank	Cleveland	OH	404	9.9%
	Fifth Third Bank	Cincinnati	OH	383	9.4%
	The Huntington National Bank	Columbus	OH	241	5.9%
	AmTrust Bank	Cleveland	OH	223	5.5%
				$2,092	51.4%

District	Name	City	State	Capital Stock	Percent of FHLBank Capital Stock(1)
Indianapolis	Flagstar Bank, FSB*	Troy	MI	$ 373	15.4%
	LaSalle Bank Midwest NA (2)	Troy	MI	335	13.8%
	Fifth Third Bank	Grand Rapids	MI	150	6.2%
	Citizens Bank	Flint	MI	123	5.1%
	Jackson National Life Insurance Co.	Lansing	MI	118	4.9%
				$1,099	45.4%
Chicago	Lasalle National Bank (3)	Chicago	IL	$ 230	8.2%
	One Mortgage Partners Corp. (4)	Chicago	IL	172	6.2%
	Mid America Bank, FSB (5)	Clarendon Hills	IL	146	5.3%
	Associated Bank, N.A.	Green Bay	WI	146	5.2%
	Harris National Association	Chicago	IL	140	5.0%
				$ 834	29.9%
Des Moines	Superior Guaranty Insurance Company (6)	Minneapolis	MN	$ 450	16.2%
	Transamerica Life Insurance Company (7)	Cedar Rapids	IA	253	9.1%
	Aviva Life and Annuity Company	Des Moines	IA	149	5.4%
	ING USA Annuity and Life Insurance Company	Des Moines	IA	143	5.1%
	TCF National Bank	Wayzata	MN	120	4.3%
				$1,115	40.1%
Dallas	Wachovia Bank, FSB	Houston	TX	$1,078	32.5%
	Comerica Bank	Dallas	TX	354	10.7%
	International Bank of Commerce	Laredo	TX	108	3.2%
	Guaranty Bank	Austin	TX	100	3.0%
	Franklin Bank, S.S.B. (8)	Houston	TX	57	1.7%
				$1,697	51.1%
Topeka	U.S. Central Credit Union	Lenexa	KS	$ 271	11.9%
	Midfirst Bank	Oklahoma City	OK	262	11.5%
	Security Life of Denver Insurance	Denver	CO	142	6.2%
	Capitol Federal Savings Bank	Topeka	KS	131	5.8%
	Pacific Life Insurance Company	Omaha	NE	87	3.8%
				$ 893	39.2%
San Francisco	Citibank, N.A.* (9)	Las Vegas	NV	$3,877	29.0%
	Washington Mutual Bank, F.A.*	Henderson	NV	2,995	22.4%
	Wachovia Mortgage, FSB*	North Las Vegas	NV	1,572	11.8%
	Bank of America California, N.A.	Walnut Creek	CA	706	5.3%
	Bank of The West	Walnut Creek	CA	496	3.7%
				$9,646	72.2%
Seattle	Washington Mutual Bank FSB* (10)	Salt Lake City	UT	$ 772	27.9%
	Merrill Lynch Bank USA	Salt Lake City	UT	353	12.8%
	Bank of America Oregon, N.A.	Portland	OR	249	9.0%
	Washington FS & LA	Seattle	WA	143	5.2%
	American Savings Bank, F.S.B.*	Honolulu	HI	98	3.5%
				$1,615	58.4%

* An asterisk indicates that an officer or director of the member was an FHLBank director at December 31, 2008.

(1) For consistency with the individual FHLBank's presentation of its top 5 capital stockholders at December 31, 2007, amounts used to calculate percentages of FHLBank regulatory capital stock are based on numbers in thousands. Accordingly, recalculations using the amounts in millions as disclosed in this report may not produce the same results.

(2) As of October 17, 2008, the North American bank holding company of the LaSalle Bank charter was consolidated into a Bank of America Corporation charter located in another FHLBank district. Therefore, Bank of America is a non-member borrower with respect to FHLBank of Indianapolis.

(3) On October 17, 2008, LaSalle Bank, N.A. was merged into Bank of America, N.A. and became ineligible for membership in the FHLBank of Chicago because Bank of America, N.A. has its principal place of business in Charlotte, North Carolina, outside the FHLBank of Chicago's membership district.

(4) One Mortgage Partners Corp. is a subsidiary of JPMorgan Chase Co.

(5) MidAmerica Bank, FSB became ineligible for membership in the FHLBank of Chicago due to an out-of-district merger with National City Bank, effective February 9, 2008. Effective December 31, 2008, National City Corporation merged with PNC Financial Services Group, Inc.

(6) Superior Guaranty Insurance Company is an affiliate of Wells Fargo Bank, N.A.

(7) Transamerica Occidental Life Insurance Company merged into Transamerica Life Insurance Company on October 1, 2008.

(8) On November 7, 2008, the Texas Department of Savings and Mortgage Lending closed Franklin Bank, S.S.B., and the FDIC was named receiver. At that time, Franklin Bank, S.S.B. had outstanding advances totaling $1.0 billion. On November 12, 2008, these advances were fully repaid. As of December 31, 2008, all of the stock held by the FDIC, as receiver of Franklin Bank, S.S.B., was classified as mandatorily redeemable capital stock.

(9) On October 1, 2006, Citibank (West), FSB, was reorganized into its affiliate Citibank, N.A., and Citibank, N.A., assumed the outstanding advances of Citibank (West), FSB.

(10) On September 25, 2008, the OTS closed Washington Mutual Bank and appointed the FDIC as receiver for Washington Mutual Bank. On the same day, JP Morgan Chase Bank, a non-member, assumed Washington Mutual Bank's outstanding FHLBank of Seattle advances and acquired the associated FHLBank of Seattle capital stock. JPMorgan Chase Bank, National Association, remains obligated for all of Washington Mutual Bank's outstanding advances and continues to hold the FHLBank of Seattle capital stock it acquired from the FDIC as receiver for Washington Mutual Bank.

Top 5 Advance Holding Borrowers by FHLBank at December 31, 2008 (Dollar amounts in millions)

District	Name	City	State	Advances(1)	Percent of FHLBank Advances(2)
Boston	Bank of America Rhode Island, N.A.	Providence	RI	$ 14,200	25.4%
	RBS Citizens, N.A.	Providence	RI	11,409	20.4%
	NewAlliance Bank	New Haven	CT	2,185	3.9%
	Webster Bank	Waterbury	CT	1,331	2.4%
	Washington Trust Company	Westerly	RI	830	1.5%
				$ 29,955	53.6%
New York	Hudson City Savings Bank*	Paramus	NJ	$ 17,525	17.0%
	Metropolitan Life Insurance Company	New York	NY	15,105	14.6%
	Manufacturers and Traders Trust Company	Buffalo	NY	8,000	7.7%
	New York Community Bank*	Westbury	NY	7,797	7.5%
	Astoria Federal Savings and Loan Assn.	Long Island City	NY	3,738	3.6%
				$ 52,165	50.4%
Pittsburgh	Sovereign Bank*	Reading	PA	$ 12,657	21.2%
	GMAC Bank	Midvale	UT	9,303	15.6%
	PNC Bank, N.A.	Pittsburgh	PA	8,800	14.8%
	Chase Bank USA, N.A.	Newark	DE	4,300	7.2%
	ING Bank, FSB	Wilmington	DE	2,563	4.3%
				$ 37,623	63.1%

District	Name	City	State	Advances(1)	Percent of FHLBank Advances(2)
Atlanta	Countrywide Bank, FSB	Alexandria	VA	$ 42,700	27.3%
	SunTrust Bank	Atlanta	GA	10,180	6.5%
	Branch Banking and Trust Company	Winston-Salem	NC	10,083	6.5%
	Regions Bank	Birmingham	LA	9,432	6.0%
	Navy Federal Credit Union	Vienna	VA	7,810	5.0%
				$ 80,205	51.3%
Cincinnati	U.S. Bank, N.A.	Cincinnati	OH	$ 14,856	28.1%
	National City Bank	Cleveland	OH	6,435	12.2%
	Fifth Third	Cincinnati	OH	5,289	10.0%
	The Huntington National Bank	Columbus	OH	2,590	4.9%
	AmTrust Bank	Cleveland	OH	2,338	4.4%
				$ 31,508	59.6%
Indianapolis	Flagstar Bank*	Troy	MI	$ 5,200	17.3%
	LaSalle Bank Midwest, N.A. (3)	Troy	MI	5,000	16.7%
	Jackson National Life Insurance Company	Lansing	MI	1,900	6.3%
	Citizens Bank	Flint	MI	1,624	5.4%
	M&I (Marshall & Ilsley) (4)	Milwaukee	WI	800	2.7%
				$ 14,524	48.4%
Chicago	LaSalle, N.A. (5)	Chicago	IL	$ 4,416	11.8%
	One Mortgage Partners Corp. (6)	Chicago	IL	2,900	7.7%
	Associated Bank, National Association	Green Bay	WI	2,718	7.2%
	M & I Marshall & Ilsley Bank	Milwaukee	WI	2,600	6.9%
	Harris National Association	Chicago	IL	2,375	6.3%
				$ 15,009	39.9%
Des Moines	Transamerica Life Insurance Company (7)	Cedar Rapids	IA	$ 5,450	13.4%
	Aviva Life and Annuity Company	Des Moines	IA	3,131	7.7%
	ING USA Annuity and Life Insurance Company	Des Moines	IA	2,994	7.4%
	TCF National Bank	Wayzata	MN	2,475	6.1%
	Superior Guaranty Insurance Company (8)	Minneapolis	MN	2,250	5.5%
				$ 16,300	40.1%
Dallas	Wachovia Bank, FSB	Houston	TX	$ 22,263	37.0%
	Comerica Bank	Dallas	TX	8,000	13.3%
	International Bank of Commerce	Laredo	TX	2,290	3.8%
	Guaranty Bank	Austin	TX	2,157	3.6%
	Southside Bank	Tyler	TX	885	1.5%
				$ 35,595	59.2%
Topeka	U.S. Central Federal Credit Union	Lenexa	KS	$ 5,370	15.4%
	MidFirst Bank	Oklahoma City	OK	5,020	14.3%
	Security Life of Denver Insurance	Denver	CO	2,825	8.1%
	Capitol Federal Savings Bank	Topeka	KS	2,596	7.4%
	Pacific Life Insurance Co.	Omaha	NE	1,650	4.7%
				$ 17,461	49.9%

District	Name	City	State	Advances(1)	Percent of FHLBank Advances(2)
San Francisco	Citibank, N.A.* (9)	Las Vegas	NV	$ 80,026	34.4%
	JPMorgan Chase Bank, National Association (10)	Henderson	NV	57,528	24.7%
	Wachovia Mortgage, FSB	North Las Vegas	NV	24,015	10.3%
	Bank of The West	Walnut Creek	CA	10,041	4.3%
	Bank of America California, N.A.	San Francisco	CA	9,539	4.1%
				$181,149	77.8%
Seattle	Washington Mutual Bank FSB* (10)	Salt Lake City	UT	$ 12,705	35.0%
	Bank of America Oregon, NA	Portland	OR	4,140	11.4%
	Merrill Lynch Bank USA	Salt Lake City	UT	3,750	10.3%
	Washington Federal Savings	Seattle	WA	2,700	7.4%
	Sterling Savings Bank*	Spokane	WA	1,544	4.3%
				$ 24,839	68.4%

* An asterisk indicates that an officer or director of the member was an FHLBank director at December 31, 2008.

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

(2) For consistency with the individual FHLBank's presentation of its top 5 advance holders at December 31, 2008, amounts used to calculate percentages of FHLBank advances are based on numbers in thousands. Accordingly, recalculations using the amounts in millions as disclosed in this report may not produce the same results.

(3) The parent company of Bank of America, N.A. purchased FHLBank of Indianapolis member, La Salle Bank Midwest, N.A. on October 1, 2007. As of October 17, 2008, the North American bank holding company of the LaSalle Bank charter was consolidated into a Bank of America Corporation charter located in another FHLBank district. Therefore, Bank of America is a non-member borrower with respect to FHLBank of Indianapolis.

(4) On January 2, 2008, M&I acquired FHLBank of Indianapolis former member, First Indiana. M&I does not have a charter in its district and is not a member of FHLBank of Indianapolis.

(5) On October 17, 2008, LaSalle Bank, N.A. was merged into Bank of America, N.A. and became ineligible for membership because Bank of America, N.A. has its principal place of business in Charlotte, North Carolina, outside the FHLBank of Chicago's membership district.

(6) One Mortgage Partners Corp is a subsidiary of JP Morgan Chase & Co.

(7) Transamerica Occidental Life Insurance Company merged into Transamerica Life Insurance Company on October 1, 2008.

(8) Superior Guaranty Insurance Company is an affiliate of Wells Fargo Bank, N.A.

(9) On October 1, 2006, Citibank (West), FSB, was reorganized into its affiliate Citibank, N.A., and Citibank, N.A., assumed the outstanding advances of Citibank (West), FSB.

(10) On September 25, 2008, the OTS closed Washington Mutual Bank and appointed the FDIC as receiver for Washington Mutual Bank. On the same day, JP Morgan Chase Bank, a non-member, assumed Washington Mutual Bank's outstanding FHLBank of Seattle advances and acquired the associated FHLBank of Seattle capital stock. JPMorgan Chase Bank, National Association, remains obligated for all of Washington Mutual Bank's outstanding advances and continues to hold the FHLBank of Seattle capital stock it acquired from the FDIC as receiver for Washington Mutual Bank.

AUDIT FEES

The following table sets forth the aggregate fees billed to the FHLBanks by their principal independent public accountant, PricewaterhouseCoopers LLP (dollar amounts in millions):

	2008	2007
Audit fees	$11.9	$ 9.9
Audit-related fees	0.7	1.7
All other fees	0.1	0.1
Total fees	$12.7	$11.7

The ***audit fees*** for the years ended December 31, 2008 and 2007 were for professional services rendered for the annual audits and quarterly reviews of the individual and combined financial statements of the FHLBanks, and for review of financial information related to the FHLBanks' SEC filings.

The ***audit-related fees*** for the years ended December 31, 2008 and 2007 were for assurance and related services primarily related to accounting consultations, FHLBank capital plan conversions and internal control reviews.

All ***other fees*** for the years ended December 31, 2008 and 2007 were for services rendered for non-financial information system related consulting. No fees were paid to the principal independent public accountant for financial information system design and implementation.

The FHLBanks' audit committees and the board of directors of the Office of Finance, acting as the audit committee for the combined financial reports, pre-approve audit and non-audit services provided by the principal independent public accountant. Also, they annually consider whether the services identified under the caption "all other fees" are compatible with maintaining the principal accountants' independence.

AUDIT COMMITTEE CHARTER, COMBINED FINANCIAL REPORTS

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.