

# Statements of Condition

(In thousands-except par value)	December 31,	
	2000	1999
<b>ASSETS</b>		
Cash and due from banks	\$ 4,584	\$ 1,424
Interest-bearing deposits in banks	2,698,000	1,702,000
Securities purchased under agreements to resell	400,000	2,558,885
Federal funds sold	8,376,000	8,636,000
Held-to-maturity securities	15,524,693	10,382,029
Advances	110,031,641	90,513,829
Accrued interest receivable	3,136,776	2,099,622
Premises and equipment, net	4,326	4,324
Other assets	13,988	13,934
Total Assets	<u>\$140,190,008</u>	<u>\$115,912,047</u>
<b>LIABILITIES AND CAPITAL</b>		
<i>Liabilities:</i>		
Consolidated obligations, net:		
Bonds	\$ 97,365,608	\$ 76,725,689
Discount notes	32,097,431	30,676,746
Total consolidated obligations	<u>129,463,039</u>	<u>107,402,435</u>
Deposits:		
Demand and overnight	347,613	303,143
Term	28,800	23,810
Total deposits	<u>376,413</u>	<u>326,953</u>
Accrued interest payable	3,888,254	2,606,541
Affordable Housing Program	109,630	90,892
Payable to REFCORP	25,315	11,184
Other liabilities	35,212	35,643
Total Liabilities	<u>133,897,863</u>	<u>110,473,648</u>
Commitments and Contingencies: Note 14		
<i>Capital:</i>		
Capital stock (\$100 par value) issued and outstanding		
62,679 shares in 2000 and 53,744 in 1999.	6,267,859	5,374,359
Retained earnings (subject to restrictions)	24,286	64,040
Total Capital	<u>6,292,145</u>	<u>5,438,399</u>
Total Liabilities and Capital	<u>\$140,190,008</u>	<u>\$115,912,047</u>

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

# Statements of Income

(In thousands)	For the Years Ended December 31,		
	2000	1999	1998
<b>INTEREST INCOME:</b>			
Advances	\$6,431,349	\$3,970,075	\$2,987,482
Interest-bearing deposits in banks	131,077	68,466	11,436
Securities purchased under agreements to resell	93,891	110,954	67,864
Federal funds sold	549,093	354,522	258,426
Held-to-maturity securities	898,047	524,809	486,508
Loans to other Federal Home Loan Banks	662	400	551
<b>Total Interest Income</b>	<b>8,104,119</b>	<b>5,029,226</b>	<b>3,812,267</b>
<b>INTEREST EXPENSE:</b>			
Consolidated obligations	7,523,902	4,628,253	3,465,076
Deposits	13,514	11,552	14,921
Securities sold under agreements to repurchase	11,887	2,046	174
Borrowings from other Federal Home Loan Banks	82	72	22
Other borrowings	161	347	793
<b>Total Interest Expense</b>	<b>7,549,546</b>	<b>4,642,270</b>	<b>3,480,986</b>
<b>NET INTEREST INCOME</b>	<b>554,573</b>	<b>386,956</b>	<b>331,281</b>
<b>OTHER INCOME:</b>			
Prepayment fees, net	392	2,099	24,726
Services to members	899	852	702
Gain on the spin-off/termination involving the Bank's Cash Balance Plan	—	10,507	—
Other, net	4,020	6,587	5,017
<b>Total Other Income</b>	<b>5,311</b>	<b>20,045</b>	<b>30,445</b>
<b>OTHER EXPENSE:</b>			
Operating expense	42,818	38,832	35,244
Federal Housing Finance Board and Office of Finance expenses	5,833	5,311	5,064
<b>Total Other Expense</b>	<b>48,651</b>	<b>44,143</b>	<b>40,308</b>
<b>INCOME BEFORE EXTRAORDINARY ITEMS AND ASSESSMENTS</b>	<b>511,233</b>	<b>362,858</b>	<b>321,418</b>
REFCORP assessments	94,147	—	—
Affordable Housing Program assessments	41,843	31,651	27,352
<b>Total Assessments</b>	<b>135,990</b>	<b>31,651</b>	<b>27,352</b>
<b>INCOME BEFORE EXTRAORDINARY ITEMS</b>	<b>375,243</b>	<b>331,207</b>	<b>294,066</b>
Extraordinary gains on early retirement of debt	1,346	1,346	—
<b>NET INCOME</b>	<b>\$ 376,589</b>	<b>\$ 332,553</b>	<b>\$ 294,066</b>

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

## Statements of Capital Accounts

(In thousands)	Capital Stock		Retained Earnings		Total
	Shares	Par Value	Restricted	Unrestricted	
Balance, December 31, 1997	35,359	\$3,535,858	\$ 3,053	\$ 5,969	\$ 9,022
Issuance of capital stock	7,806	780,594			
Redemption of capital stock	(1,357)	(135,689)			
Net income				294,066	294,066
Transfers to restricted retained earnings			27,601	(27,601)	—
Dividends on capital stock (5.76%)					
Cash payment				(46)	(46)
Stock issued	2,208	220,828		(220,828)	(220,828)
Capital distribution to REFCORP				(48,503)	(48,503)
Balance, December 31, 1998	44,016	4,401,591	30,654	3,057	33,711
Issuance of capital stock	12,938	1,293,784			
Redemption of capital stock	(5,755)	(575,494)			
Net income				332,553	332,553
Transfers to restricted retained earnings			7,978	(7,978)	—
Dividends on capital stock (5.36%)					
Cash payment				(52)	(52)
Stock issued	2,545	254,478		(254,478)	(254,478)
Capital distribution to REFCORP				(47,694)	(47,694)
Balance, December 31, 1999	53,744	5,374,359	38,632	25,408	64,040
Issuance of capital stock	9,763	976,356			
Redemption of capital stock	(4,991)	(499,141)			
Net income				376,589	376,589
Transfers from restricted retained earnings			(14,453)	14,453	
Dividends on capital stock (7.17%)					
Cash payment				(58)	(58)
Stock issued	4,163	416,285		(416,285)	(416,285)
Balance, December 31, 2000	62,679	\$6,267,859	\$ 24,179	\$ 107	\$ 24,286

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

# Statements of Cash Flows

(In thousands)	For the Years Ended December 31,		
	2000	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income	\$ 376,589	\$ 332,553	\$ 294,066
Extraordinary gains on early retirement of debt	(1,346)	(1,346)	—
Income before extraordinary items	375,243	331,207	294,066
Adjustments to reconcile net income before extraordinary items to net cash provided by operating activities:			
Depreciation and amortization:			
Net premiums and discounts on consolidated obligations and investments	(252,512)	(130,137)	(126,648)
Concessions on consolidated obligations	14,032	7,949	2,689
Bank premises and equipment	1,163	2,203	4,480
Deferred net losses on interest rate exchange agreements	13,830	13,255	6,776
Affordable Housing Program (AHP) liability and discount on AHP advances	18,493	9,956	11,026
Increase in REFCORP liability	14,131	—	—
Gain on sale of building	—	(3,572)	—
Gain on spin-off/termination of Cash Balance Plan	—	(10,507)	—
Gain on non-monetary transfer of advances	(443)	—	—
Increase in accrued interest receivable	(1,037,154)	(577,640)	(325,015)
Increase in accrued interest payable	1,281,713	786,821	354,151
(Increase) decrease in other assets	(54)	26,290	(2,992)
Increase (decrease) in other liabilities	915	(5,288)	(25,153)
Total adjustments	54,114	119,330	(100,686)
Net cash provided by operating activities	429,357	450,537	193,380
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net increase in interest-bearing deposits in banks	(996,000)	(1,300,000)	(303,000)
Net decrease (increase) in Federal funds sold	260,000	(3,742,000)	(2,565,000)
Net decrease (increase) in securities purchased under agreements to resell	2,158,885	(332,260)	(1,051,705)
Net increase in short-term investments held to maturity	(1,129,643)	(867,413)	(1,151,284)
Purchases of mortgage-backed securities	(5,555,607)	(3,000,359)	(1,766,428)
Maturities of mortgage-backed securities	1,843,641	1,613,926	1,726,628
Principal collected on advances	316,900,500	195,964,633	101,722,700
Advances made to members	(336,419,740)	(222,489,710)	(116,439,905)
Proceeds from sale of building	—	92,661	—
Net increase to premises and equipment	(1,165)	(1,840)	(2,155)
Net cash used in investing activities	(22,939,129)	(34,062,362)	(19,830,149)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net increase (decrease) in deposits	49,460	(151,262)	161,731
Net (decrease) increase in securities sold under agreements to repurchase	—	(150,000)	150,000
Net (decrease) increase in loans from other FHLBanks	—	(150,000)	150,000
Net increase in other borrowings	—	(6,111)	—
Proceeds from sale of consolidated obligations:			
Bonds	54,749,561	50,945,749	75,641,248
Discount notes	252,743,176	159,964,172	133,102,425
Payments for maturing and retiring consolidated obligations:			
Bonds	(34,165,950)	(36,689,650)	(59,382,516)
Discount notes	(251,340,472)	(140,822,323)	(130,783,654)
Proceeds from issuance of capital stock	976,356	1,293,784	780,594
Payments for redemption of capital stock	(499,141)	(575,494)	(135,689)
Cash dividends paid	(58)	(52)	(46)
Capital distribution to REFCORP	—	(48,271)	(48,816)
Net cash provided by financing activities	22,512,932	33,610,542	19,635,277
Net increase (decrease) in cash and cash equivalents	3,160	(1,283)	(1,492)
Cash and cash equivalents at beginning of year	1,424	2,707	4,199
Cash and cash equivalents at end of year	\$ 4,584	\$ 1,424	\$ 2,707
<b>SUPPLEMENTAL DISCLOSURES:</b>			
Interest paid during the year	\$ 6,197,314	\$ 3,810,217	\$ 3,118,914
Stock dividends issued during the year	\$ 416,285	\$ 254,478	\$ 220,828
Non-monetary transfer of advances	\$ 180,000	\$ —	\$ —

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

Years Ended December 31, 2000, 1999, and 1998  
(Dollars in thousands)

#### BACKGROUND INFORMATION

The Federal Home Loan Bank of San Francisco (Bank), a federally chartered corporation, exempt from all federal, state and local taxation except for real property taxes, is one of 12 District Federal Home Loan Banks (FHLBanks), which together with their member institutions and the Office of Finance, operating under the supervision of the Federal Housing Finance Board (Finance Board), compose the FHLBank System (Bank System). The Bank is the largest of the 12 FHLBanks, and its assets and capital are each approximately one fifth of the combined assets and combined capital of the 12 FHLBanks as of December 31, 2000. The Bank System serves the public by enhancing the availability of credit for residential mortgages and targeted community development by providing a readily available, low-cost source of funds to its member institutions. The Bank is a cooperative whose member institutions own the capital stock of the Bank and receive dividends on their investments. Regulated financial depositories and insurance companies engaged in residential housing finance are eligible to apply for membership. All members are required to purchase stock in the Bank.

The Finance Board, an independent federal agency in the executive branch of the United States Government, supervises and regulates the FHLBanks. The Finance Board ensures that the FHLBanks operate in a safe and sound manner, carry out their housing finance mission, remain adequately capitalized, and can raise funds in the capital markets. Also, the Finance Board establishes policies and regulations governing the operations of the FHLBanks. Each FHLBank is operated as a separate entity with its own management, employees, and board of directors.

A primary source of funds for the FHLBanks is the proceeds from the sale to the public of Bank System debt instruments (consolidated obligations), which are the joint and several obligations of all FHLBanks. Other funds are provided by deposits, other borrowings, and the issuance of capital stock. All stock is owned by the FHLBanks' members.

In accordance with the Finance Board's regulations, the Bank has established a formal policy governing the compensation and expense reimbursement provided its directors. Directors are compensated based on the level of responsibility assumed. Fees are paid for attendance at certain meetings. Directors are also reimbursed for reasonable and necessary Bank-related travel, subsistence, and other related expenses under a policy similar to the Bank's travel policy for employees. During 2000, meeting fees totaled \$226 and reimbursed travel and related expenses totaled \$142.

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Use of Estimates.** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

**Held-to-Maturity Securities and Securities Purchased Under Agreements to Resell.** Held-to-maturity securities and securities purchased under agreements to resell (resale agreements) are carried at cost, adjusted for amortization of premiums and accretion of discounts using methods that approximate the level-yield method. All investments are classified as held-to-maturity securities because management has the positive intent and ability to hold these securities until maturity. As more fully discussed in "Recently Issued Accounting Standard" on page 28, on January 1, 2001, the Bank transferred certain held-to-maturity securities to "trading" ("investments held at fair value" for the Bank's purposes) as allowed under the transition provisions contained in Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Purchases of securities under agreements to resell the same securities are recorded as collateralized investments. Sales of securities under agreements to repurchase the same or substantially the same securities are treated as financings.

**Advances.** The Bank presents advances, net of unearned commitment fees and discounts on advances for the Affordable Housing Program (AHP), as discussed below. In addition, the carrying value of advances is adjusted for the unamortized cost of deferred net gains and losses from associated interest rate exchange agreements, as well as overdrawn demand deposit accounts. Interest on advances is credited to income as earned. Deferred gains and losses are recognized over the life of the underlying advance. Following the requirements of the Federal Home Loan Bank Act of 1932, as amended (FHLB Act), the Bank obtains sufficient collateral for advances to protect the Bank from losses. The FHLB Act limits eligible collateral to secure advances to certain investment securities, residential mortgage loans, deposits with the Bank, and other selected real-estate-related assets. As more fully discussed in Note 5, in accordance with the Federal Home Loan Bank System Modernization Act of 1999 (Modernization Act), the Bank may also accept secured small business and agriculture loans as collateral from members that are "community financial institutions," defined as FDIC-insured depository institutions with average total assets over the preceding three-year period of less than \$500 million (to be adjusted each year by the annual percentage increase in the Consumer Price Index). The Bank has never experienced any losses on advances since its inception.

Based on the collateral held as security for advances, management's credit analyses, and prior repayment history, no allowance for losses on advances is deemed necessary by management.

**Affordable Housing Program.** As more fully discussed in Note 6, the FHLB Act requires each Bank to establish and fund an AHP. The Bank charges the required funding to earnings and establishes an offsetting liability. AHP funds provide direct subsidies to members to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. Advances that qualify under the Bank's AHP are made at interest rates below the customary interest rate for non-subsidized advances. When an AHP advance is made, the net present value of the difference in the cash flows attributable to the difference between the interest rate of the AHP advance and the Bank System's related cost of funds for comparable maturity funding is charged against the AHP liability and recorded as a discount on the AHP advance.

**Prepayment Fees.** The Bank charges its members a prepayment fee when certain advances are paid prior to original maturity. Such fees are credited to income when received. Gains and losses on terminated or redesignated interest rate exchange agreements associated with advances that have been prepaid are netted with prepayment fees in the Statements of Income.

**Commitment Fees.** Commitment fees for advances are deferred and amortized to interest income using the straight-line method. The Bank defers refundable fees until the commitment expires or until the advance is funded if material. Commitment fees for letters of credit are recorded as a deferred credit when received and amortized to other income over the term of the letter of credit.

**Interest Rate Exchange Agreements.** As more fully discussed in Notes 12 and 13, the Bank enters into interest rate swap, cap, and floor agreements (interest rate exchange agreements) to manage the Bank's exposure to changes in interest rates. These interest rate exchange agreements, when linked with a designated financial instrument, effectively alter the financial characteristics of the designated instrument. They may adjust the effective maturity, repricing frequency, or option-related characteristics of certain financial instruments to achieve certain risk management objectives. Interest rate exchange agreements are used by the Bank to hedge an underlying financial instrument or when acting as an intermediary for members.

The differentials between accruals to interest receivable and payable resulting from designated interest rate exchange agreements associated with financial instruments are recognized as adjustments to the interest yield or interest expense of the underlying financial instrument. The differentials between accruals to interest receivable and payable resulting from interest rate exchange agreements in which the Bank acts as an intermediary are recognized when incurred as other income. The intermediated interest rate exchange agreements are classified as other assets

and other liabilities and measured at fair value in the Statements of Condition, if material. In addition, the Bank recognizes changes in fair value and realizes gains and losses on these interest rate exchange agreements as other income in the period when incurred, if material.

A designated interest rate exchange agreement's association with a designated underlying financial instrument ceases upon termination of the designated underlying financial instrument or when high correlation between these instruments has not been met. Upon termination of the underlying financial instrument, the interest rate exchange agreement is marked to market (and the resulting gain or loss is included with the gain or loss on the termination of the underlying financial instrument) and is either terminated or redesignated as a hedge of other financial instruments. The Bank may also enter into new interest rate exchange agreements and designate them to the original interest rate exchange agreements to offset the economic effects of the original interest rate exchange agreements. Gains and losses on terminated interest rate exchange agreements and redesignated interest rate exchange agreements that were linked with a designated underlying financial instrument are deferred as long as the related underlying financial instrument remains outstanding. These deferred gains and losses are reported as adjustments to the carrying value of the designated underlying financial instrument. Deferred gains and losses related to interest rate exchange agreements are amortized over the shorter of the remaining life of the underlying financial instrument or the period ending on the original maturity date of the interest rate exchange agreement had it not been terminated. Unamortized costs, such as premiums paid for interest rate caps and floors and deferred gains and losses on these agreements, are reported as adjustments to the carrying value of the designated financial instrument and amortized, using a method approximating the level-yield method, over the remaining life of the interest rate exchange agreements.

**Premises and Equipment.** The Bank records premises and equipment at cost less accumulated depreciation and amortization, which totaled approximately \$4,326 and \$4,324 at December 31, 2000 and 1999, respectively. Depreciation is computed on the straight-line method over the estimated useful lives of assets ranging from 3 to 10 years, and leasehold improvements are amortized on the straight-line method over the estimated useful life of the improvement or the remaining term of the lease, whichever is shorter. Improvements and major renewals are capitalized; ordinary maintenance and repairs are expensed as incurred. Gains and losses on disposal are included in other income. In May 1999, the Bank sold its San Francisco office building and realized a gain of \$24,099. The Bank recognized \$3,572 immediately upon the sale in 1999 and will defer and amortize the remainder over the remaining term of the Bank's 10-year leaseback of the space the Bank occupies. The unamortized amount outstanding at December 31, 2000, was \$17,446.

**Concessions on Consolidated Obligations.** The amounts paid to dealers in connection with the sale of consolidated obligation bonds are deferred and amortized using a method approximating the level-yield method over the term of the obligations or through the first call date for callable bonds. The amount of the concession is allocated to the Bank by the Office of Finance based upon the percentage of the debt issued that is assumed by the Bank. Concessions applicable to the sale of consolidated obligation discount notes are generally charged to interest expense as incurred because of the short-term maturities of these notes.

**Discounts and Premiums on Consolidated Obligations.** The discounts on consolidated obligation discount notes are amortized to expense using a method approximating the level-yield method over the term to maturity. The discounts and premiums on consolidated obligation bonds are amortized to expense using a method approximating the level-yield method over the term to maturity of the consolidated obligation bond or through the first call date for callable bonds.

**Resolution Funding Corporation Assessments.** Through 1999, the FHLBanks charged the \$300 million annual capital distribution to the Resolution Funding Corporation (REFCORP) directly to retained earnings (see Note 10). Effective January 1, 2000, each FHLBank is required to pay 20% of net earnings (after AHP contributions) to REFCORP. The FHLBanks will expense these amounts until the aggregate amounts actually paid by all 12 FHLBanks are equivalent to a \$300 million annual annuity whose final maturity date is April 15, 2030, at which point the required payment of each FHLBank to REFCORP will be fully satisfied.

**Other Expenses.** Each FHLBank is assessed a share of the cost of operating the Finance Board and the Office of Finance, which manages the sale and servicing of consolidated obligations.

**Estimated Fair Values.** Many of the Bank's financial instruments lack an available liquid trading market as characterized by frequent transactions between a willing buyer and willing seller engaging in an exchange transaction. Therefore, significant assumptions and present value calculations have been used by the Bank for the purposes of disclosing estimated fair values. Thus, the fair values may not represent actual values of the financial instruments that could have been realized as of yearend or that will be realized in the future.

Carrying value is assumed to approximate fair value for financial instruments with three months or less to repricing or maturity. Fair values are based on quoted prices, market rates, or replacement rates for similar financial instruments as of the last business day of the year. The estimated fair values of the Bank's financial instruments and related assumptions are detailed in Note 13.

**Cash Flows.** For purposes of the Statements of Cash Flows, the Bank considers cash on hand and due from banks as cash and cash equivalents.

**Recently Issued Accounting Standard.** In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133," which amended SFAS No. 133, deferring its effective date. SFAS No. 133 is now effective for all fiscal quarters of all fiscal years beginning after June 15, 2000 (January 1, 2001, for the Bank). SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income (a component of capital), depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The gains and losses on the derivative instrument that will be reported in other comprehensive income will be reclassified into earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged items. The ineffective portion of all hedges will be recognized in current-period earnings. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which addressed a limited number of implementation issues arising from SFAS No. 133.

The FHLBanks adopted SFAS No. 133, as amended by SFAS No. 138, on January 1, 2001. The transition provisions contained in SFAS No. 133, as amended, provide that at the date of initial application, an entity may transfer any security classified as "held-to-maturity" to "available-for-sale" or "trading" and any security classified as "available-for-sale" to "trading." On the initial adoption date of SFAS No. 133, as amended, the Bank transferred held-to-maturity securities with an amortized cost of \$664,274 and an estimated fair value of \$671,408 into the "trading" category (investments held at fair value, with changes in fair value recognized in earnings). The unrealized net gain as of the transfer date related to the transfer of these held-to-maturity securities into the investments held at fair value category was \$7,134 and was shown as additional income in the Bank's results of operations in January 2001 as a cumulative effect of a change in accounting principle, increasing net income. The remaining cumulative effect of adjustments related to fair value hedges and derivative transactions either not designated as hedges under SFAS No. 133 or not meeting the requirements for fair value or cash flow hedges was shown as a charge to the Bank's results of operations in January 2001 as part of the cumulative effect of a change in accounting principle, decreasing

net income by \$9,587. These factors combined resulted in a net charge to January 2001 results of operations totaling \$2,453, or \$1,802 after applicable assessments.

In January 2001, the Bank also recognized in accumulated other comprehensive income, a component of capital, the remaining unamortized balance of the deferred losses from certain interest rate swap agreements terminated by the Bank in 1998, as part of the cumulative effect of a change in accounting principle, decreasing capital by \$17,065. The Bank's Board of Directors had previously retained \$17,100 in restricted retained earnings to offset this effect on capital.

The ongoing impact of SFAS No. 133 on the Bank cannot be predicted, and the Bank's retained earnings in the future may not be sufficient to offset the full impact of SFAS No. 133. As a result, the effect of SFAS No. 133 may lead to increased volatility in future earnings and dividends.

**Reclassification.** Certain amounts in the 1999 and 1998 financial statements have been reclassified to conform with the 2000 presentation.

#### NOTE 2 - CASH AND DUE FROM BANKS

**Compensating Balances.** The Bank maintains average collected cash balances with several commercial banks in consideration for certain services. There are no legal restrictions under these agreements as to the withdrawal of these funds. The average compensating balances for the years ended December 31, 2000 and 1999, were approximately \$5,735 and \$5,253, respectively.

In addition, the Bank maintained average collected balances with various Federal Reserve Banks as required clearing balances and to facilitate the movement of funds to support the Bank's activities. There are regulations governing the withdrawal of these funds; however, earnings credits on these balances may be used to pay for services received. The average balances for these accounts for the years ended December 31, 2000 and 1999, were approximately \$1,480 and \$999, respectively.

#### NOTE 3 - SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

Securities purchased under agreements to resell (resale agreements) were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2000	\$ 400,000	\$ —	\$ —	\$ 400,000
December 31, 1999	\$ 2,558,885	\$ 1,144	\$ —	\$ 2,560,029

**Redemption Terms.** The amortized cost and estimated fair value of resale agreements by contractual maturity as of December 31, 2000 and 1999, are shown below.

Year of Maturity	2000		1999	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 400,000	\$ 400,000	\$ 2,558,885	\$ 2,560,029

The Bank engages in resale agreements with a limited number of securities dealers, all of which are "primary dealers" as designated by the Federal Reserve Bank of New York. The amounts advanced under these agreements represent short-term loans and are reflected as assets in the Statements of Condition. The collateral from resale agreements, all of which is highly rated, is held by the Bank's safekeeping custodian. Should the market value of the underlying securities decrease below the market value required as collateral, the counterparty is required to place additional securities in safekeeping in the name of the Bank. The Bank had rights to securities collateral with an estimated value in excess of the resale agreements outstanding at December 31, 2000 and 1999.

Resale agreements averaged \$1,523,936 and \$2,098,691 during 2000 and 1999, respectively. The maximum amounts outstanding at any monthend during 2000 and 1999 were \$4,379,091 and \$4,318,410, respectively.

**Interest Rate Payment Terms.** Interest rate payment terms for resale agreements at December 31, 2000 and 1999, are detailed in the following table:

	2000	1999
Amortized cost of resale agreements:		
Fixed rate	\$ 400,000	\$ 1,000,000
Adjustable rate	—	1,558,885
Total	\$ 400,000	\$ 2,558,885

#### NOTE 4 - HELD-TO-MATURITY SECURITIES

**Major Security Types.** Held-to-maturity securities were as follows:

December 31, 2000	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	\$ 4,558,154	\$ —	\$ (633)	\$ 4,557,521
Housing finance agency bonds	204,000	3,460	—	207,460
Subtotal	4,762,154	3,460	(633)	4,764,981
Mortgage-backed securities	10,762,539	49,004	(8,449)	10,803,094
Subtotal	15,524,693	52,464	(9,082)	15,568,075
Associated interest rate swaps	—	101	(9,292)	(9,191)
Total	\$ 15,524,693	\$ 52,565	\$ (18,374)	\$ 15,558,884

## Notes to Financial Statements

December 31, 1999	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	\$ 3,333,236	\$ 1,787	\$ —	\$ 3,335,023
Mortgage-backed securities	7,048,793	—	(115,162)	6,933,631
Subtotal	10,382,029	1,787	(115,162)	10,268,654
Associated interest rate swaps	—	11,638	(1,343)	10,295
<b>Total</b>	<b>\$10,382,029</b>	<b>\$13,425</b>	<b>\$ (116,505)</b>	<b>\$10,278,949</b>

**Redemption Terms.** The amortized cost and estimated fair value of held-to-maturity securities, excluding associated interest rate exchange agreements, by contractual maturity as of December 31, 2000 and 1999, are shown below. Expected maturities of certain securities and mortgage-backed securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment fees.

Year of Maturity	2000		1999	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 4,558,154	\$ 4,557,521	\$ 3,333,236	\$ 3,335,023
Due after ten years	204,000	207,460	—	—
Subtotal	4,762,154	4,764,981	3,333,236	3,335,023
Mortgage-backed securities	10,762,539	10,803,094	7,048,793	6,933,631
<b>Total</b>	<b>\$ 15,524,693</b>	<b>\$15,568,075</b>	<b>\$10,382,029</b>	<b>\$10,268,654</b>

The amortized cost of the Bank's mortgage-backed securities, all of which are classified as held to maturity, included net discounts of (\$44,578) and net premiums of \$2,629 at December 31, 2000 and 1999, respectively.

**Interest Rate Payment Terms.** Interest rate payment terms for held-to-maturity securities and the notional principal of the interest rate exchange agreements associated with these securities at December 31, 2000 and 1999, are detailed in the following table:

	2000	1999
Amortized cost of held-to-maturity securities other than mortgage-backed securities:		
Fixed rate	\$ 4,558,154	\$ 3,333,236
Adjustable rate	204,000	—
Subtotal	4,762,154	3,333,236
Amortized cost of held-to-maturity mortgage-backed securities:		
Passthrough securities:		
Fixed rate	1,263,601	1,644,129
Adjustable rate	1,380,819	1,244,192
Collateralized mortgage obligations:		
Fixed rate	3,435,035	2,855,802
Adjustable rate	4,683,084	1,304,670
Subtotal	10,762,539	7,048,793
<b>Total</b>	<b>\$ 15,524,693</b>	<b>\$ 10,382,029</b>
Associated interest rate swaps	\$ 664,274	\$ 1,157,505

The effect of these interest rate swaps on interest income is disclosed in Note 12.

### NOTE 5 - ADVANCES

**Redemption Terms.** At December 31, 2000 and 1999, the Bank had advances outstanding, including AHP advances (see Note 6), at interest rates ranging from 3.30% to 8.80% as summarized below.

December 31, 2000 Year of Maturity	Amount Outstanding	Weighted Average Interest Rate
Overdrawn demand deposit accounts	\$ 124	7.41%
2001	59,299,475	6.56
2002	24,422,784	6.40
2003	17,936,408	6.32
2004	4,086,171	6.08
2005	1,478,616	6.67
Thereafter	2,807,907	6.17
Subtotal	110,031,485	6.46%
Discount on AHP advances	(609)	
Deferred net loss on interest rate exchange agreements	765	
<b>Total</b>	<b>\$ 110,031,641</b>	

December 31, 1999 Year of Maturity	Amount Outstanding	Weighted Average Interest Rate
Overdrawn demand deposit accounts	\$ 1,529	5.99%
2000	49,134,618	5.82
2001	20,608,737	5.97
2002	7,762,001	5.71
2003	6,578,864	5.41
2004	4,046,355	5.87
2005	187,919	5.57
Thereafter	2,194,653	5.83
Subtotal	90,514,676	5.81%
Discount on AHP advances	(854)	
Deferred net gain on interest rate exchange agreements	(176)	
Unamortized fees on interest rate caps	183	
<b>Total</b>	<b>\$ 90,513,829</b>	

Many of the Bank's advances are prepayable at the member's option. However, when certain advances are prepaid, the member is charged a prepayment fee that makes the Bank financially indifferent to the prepayment of advances. Other advances may be repaid on pertinent call dates without incurring prepayment fees (Callable Advances). At December 31, 2000 and 1999, the Bank had Callable Advances outstanding totaling \$2,025,850 and \$2,009,819, respectively.

The following table summarizes advances at December 31, 2000 and 1999, by the earlier of the year of contractual maturity or next call date for Callable Advances:

Earlier of Year of Contractual Maturity or Next Call Date	2000	1999
Overdrawn demand deposit accounts	\$ 124	\$ 1,529
2000	—	49,886,318
2001	60,674,225	20,614,037
2002	24,172,784	7,762,001
2003	16,830,658	5,825,864
2004	4,086,171	4,046,355
2005	1,478,616	187,919
Thereafter	2,788,907	2,190,653
Total par value	\$ 110,031,485	\$ 90,514,676

The Bank also provides below-market fixed rate advances in exchange for the right of the Bank to retain a "put" option. At the Bank's discretion, on pertinent put dates, the Bank may terminate the advance (Puttable Advance/Termination Option) or convert the advance to an Adjustable Rate Credit advance of predetermined index and spread for the remaining term to maturity (Puttable Advance/Conversion Option). The Bank's advances at December 31, 2000 and 1999, included \$1,786,000 and \$2,810,500, respectively, of Puttable Advances/Termination Option. There were no Puttable Advances/Conversion Option outstanding as of December 31, 2000 and 1999.

The following table summarizes advances to members at December 31, 2000 and 1999, by the earlier of the year of contractual maturity or next put date for Puttable Advances:

Earlier of Year of Contractual Maturity or Next Put Date	2000	1999
Overdrawn demand deposit accounts	\$ 124	\$ 1,529
2000	—	50,916,118
2001	60,399,975	21,005,237
2002	24,441,284	7,393,001
2003	17,991,908	5,812,364
2004	3,998,671	3,756,855
2005	1,305,616	187,919
Thereafter	1,893,907	1,441,653
Total par value	\$ 110,031,485	\$ 90,514,676

**Security Terms.** The Bank lends to member financial institutions involved in housing finance that have a principal place of business in California, Arizona, or Nevada. The Bank is required by the FHLB Act to obtain sufficient collateral for advances to protect against losses and to accept only certain U.S. government or government agency securities, residential mortgage loans or mortgage-backed securities, deposits in the Bank, and other real-estate-related assets as collateral for advances. In accordance with the Modernization Act, the Bank may also accept secured small business loans and agriculture loans as collateral from members that are "community financial institutions," defined as FDIC-insured depository institutions

with average total assets over the preceding three-year period of less than \$500 million (to be adjusted each year by the annual percentage increase in the Consumer Price Index).

The Bank requires each borrowing member to execute a written Advances and Security Agreement. The capital stock of the Bank owned by each borrowing member is pledged as additional collateral for the member's indebtedness to the Bank. The FHLB Act requires that the aggregate advances from the Bank to a member may not exceed 20 times the amount paid by the member for capital stock of the Bank. At December 31, 2000 and 1999, the Bank had a security interest in collateral with an estimated value in excess of outstanding advances for each member. Based upon the financial condition of the borrowing member, the Bank may either (i) allow the member to physically retain mortgage collateral assigned to the Bank provided that the member executes a written agreement and agrees to hold the collateral for the benefit of the Bank, or (ii) require the member to deliver physical possession of the mortgage collateral to the Bank or its safekeeping agent. All securities collateral is delivered to the Bank's safekeeping agent.

Beyond these provisions, Section 10(e) of the FHLB Act affords any security interest granted by a member to the Bank priority over claims or rights of any other party. The only two exceptions are claims that would be entitled to priority under otherwise applicable law or perfected security interests.

**Credit Risk.** The Bank has never experienced any credit losses on advances since it was founded, nor does management of the Bank anticipate any credit losses on advances. Based on the collateral held as security for advances, management's credit analyses, and prior repayment history, no allowance for losses on advances is deemed necessary by management.

The Bank's potential credit risk from advances is concentrated in savings institutions. As of December 31, 2000, the Bank had a concentration of advances totaling \$89,244,642 outstanding to three members, representing 81% of total outstanding advances (44%, 24%, and 13%, respectively). The interest income from advances to these members amounted to approximately \$5,137,317 during 2000. The Bank held collateral with an estimated value in excess of advances to these institutions, and the Bank does not expect to incur any credit losses on these advances.

**Interest Rate Payment Terms.** Interest rate payment terms for advances and the notional principal of the interest rate exchange agreements associated with advances at December 31, 2000 and 1999, are detailed below:

	2000	1999
Par amount of advances:		
Fixed rate	\$ 60,014,081	\$ 47,072,427
Adjustable rate	50,017,404	43,442,249
<b>Total</b>	<b>\$ 110,031,485</b>	<b>\$ 90,514,676</b>
Notional principal of interest rate exchange agreements associated with advances:		
Interest rate swaps	\$ 44,702,747	\$ 31,083,669
Interest rate caps purchased	1,178,610	37,360
<b>Total</b>	<b>\$ 45,881,357</b>	<b>\$ 31,121,029</b>

The effect of these interest rate exchange agreements on interest income is disclosed in Note 12.

**Prepayment Fees, Net.** During 2000, 1999, and 1998, the Bank charged its members prepayment fees when the principal on certain advances was paid prior to original maturity. In addition, some of these advances were associated with interest rate exchange agreements. Upon termination of these advances, the associated interest rate exchange agreements were either marked to market and redesignated as hedges of other advances or terminated, and the resulting gains or losses (see Note 12) were netted with the prepayment fees on the Statements of Income. These transactions during the years ended December 31, 2000, 1999, and 1998, are summarized in the following table:

	2000	1999	1998
Prepayment fees received	\$ 811	\$ 1,398	\$ 23,249
Net (losses)/gains on interest rate exchange agreements associated with prepaid advances	(419)	701	1,477
<b>Prepayment fees, net</b>	<b>\$ 392</b>	<b>\$ 2,099</b>	<b>\$ 24,726</b>
Advance principal prepaid	\$ 854,135	\$ 537,000	\$ 5,191,083

#### NOTE 6 - AFFORDABLE HOUSING PROGRAM

Section 10(j) of the FHLB 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, which use the funds to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income families. Annually, the FHLBanks must set aside for their AHPs, in the aggregate, the greater of \$100 million or 10% of the current year's income before charges for the AHP but after the assessment for REFCORP (see Note 10). To the extent that the aggregate 10% calculation is less than \$100 million, the shortfall is allocated among the FHLBanks based on the ratio of each FHLBank's income before AHP and REFCORP to the sum of the net incomes before AHP and REFCORP of the 12 FHLBanks. There was no AHP shortfall in either 2000 or 1999. The Bank set aside \$41,843, \$31,651, and \$27,352, during 2000, 1999, and 1998, respectively, for the AHP. These amounts were charged to earnings each year

and recognized as a liability. As subsidies are disbursed, the AHP liability is reduced.

#### NOTE 7 - DEPOSITS

The Bank maintains demand deposit accounts that are directly related to the extension of credit to members and offered short-term deposit programs to members and qualifying non-members.

**Interest Rate Payment Terms.** Interest rate payment terms for deposits at December 31, 2000 and 1999, are detailed in the following table:

	2000	1999
Deposits:		
Fixed rate	\$ 28,800	\$ 23,810
Adjustable rate	347,613	303,143
<b>Total</b>	<b>\$ 376,413</b>	<b>\$ 326,953</b>

#### NOTE 8 - BORROWINGS

At times the Bank enters into sales of securities under agreements to repurchase (repurchase agreements) with a limited number of securities dealers, all of which are "primary dealers" as designated by the Federal Reserve Bank of New York. The amounts received under these agreements represent short-term borrowings and are reflected as liabilities in the Statements of Condition. The securities sold under agreements to repurchase are delivered to the purchasing primary dealers or their custodians. Should the market value of the underlying securities decrease below the market value required by the repurchase agreements, the Bank is required to deliver additional securities to the dealers. Repurchase agreements averaged \$198,907 and \$40,000 during 2000 and 1999, respectively, and the maximum amount outstanding at any monthend during 2000 and 1999 was \$400,000 and \$150,000, respectively. There were no repurchase agreements outstanding at December 31, 2000, or 1999.

#### NOTE 9 - CONSOLIDATED OBLIGATIONS

Consolidated obligations are the joint and several obligations of the FHLBanks and consist of consolidated obligation bonds and discount notes. Through December 31, 2000, the Finance Board issued consolidated bonds through the Office of Finance primarily to raise intermediate- and long-term funds for the FHLBanks. Usually the maturity of consolidated bonds ranges from one year to ten years, but the maturity is not subject to any statutory or regulatory limits. Through December 31, 2000, the Finance Board issued consolidated discount notes through the Office of Finance primarily to raise short-term funds. These notes are issued at less than their face amount and redeemed at par when they mature. The Finance Board adopted final rules on June 2, 2000, to govern the issuance of debt for the FHLBanks. Effective January 1, 2001, the Finance Board will not issue new debt on behalf of the FHLBanks; instead, all new debt will be jointly issued by the FHLBanks through the Office of Finance, which will serve as their agent.

The par amount of the outstanding consolidated obligations of all the FHLBanks, including consolidated obligations held by other FHLBanks, was approximately \$614,064,795 and \$549,370,500 at December 31, 2000 and 1999, respectively. Regulations require the FHLBanks to maintain, in the aggregate, unpledged "Qualifying Assets" in an amount equal to the consolidated obligations outstanding. "Qualifying Assets" are defined as cash; secured advances; assets with an assessment or rating at least equivalent to the current assessment or rating of the consolidated obligations; obligations, participations, mortgages, or other securities of or issued by the United States or an agency of the United States; and such securities as fiduciary and trust funds may invest in under the laws of the state in which the FHLBank is located.

On June 2, 2000, the Finance Board adopted a final rule amending the FHLBanks' leverage limit requirements. Effective July 1, 2000, each FHLBank's leverage limit is based on a ratio of assets to capital, rather than a ratio of liabilities to capital. The Finance Board's former regulations prohibited the issuance of consolidated obligations if such issuance would bring the Bank System's outstanding consolidated obligations and other unsecured senior liabilities above 20 times the Bank System's total capital. In addition, this leverage limitation was temporarily increased to 25 times the Bank System's total capital through June 30, 2000, in order to facilitate Year 2000-related lending. The Finance Board's Financial Management Policy also applied these limits on an FHLBank-by-FHLBank basis. The final rule deletes the Bank System-wide leverage limit from the regulations, but generally limits each FHLBank's assets to no more than 21 times its capital. Nevertheless, an FHLBank whose non-mortgage assets (primarily non-MBS securities), after deducting deposits and capital, do not exceed 11 percent of its assets may have total assets in an amount not greater than 25 times its capital.

To provide the holders of consolidated obligations issued prior to January 29, 1993 (prior bondholders), protection equivalent to that provided under the Bank System's previous leverage limit of 12 times Bank System capital stock, prior bondholders have a claim on a certain amount of the Qualifying Assets (Special Asset Account or SAA) if the FHLBanks' aggregate capital stock is less than 8.33% of consolidated obligations outstanding. The FHLBanks' capital stock at December 31, 2000 and 1999, was 5.0% and 5.2%, respectively, of the par value of consolidated obligations outstanding, and the SAA balance was approximately \$37,100 and \$67,300, respectively. The Bank's share of this SAA balance was approximately \$8,000 and \$14,300 at December 31, 2000 and 1999, respectively. Further, each FHLBank is required to transfer Qualifying Assets in the amount of its allocated share of the Bank System's SAA to a trust for the benefit of the prior bondholders if its individual capital-to-assets ratio falls below 2.0%.

**General Terms.** Consolidated obligations are generally issued with either fixed rate payment terms or adjustable rate payment terms, which use a variety of indices for interest rate resets, including the London Interbank Offered Rate (LIBOR), Federal funds, U.S. Treasury Bill, Constant Maturity Treasury (CMT), Prime Rate, and others. In addition, to meet the specific needs of certain investors, fixed rate and adjustable rate consolidated obligation bonds may also contain certain embedded features, which may result in complex coupon payment terms and call options. Generally, when such consolidated obligations are issued, the Bank simultaneously enters into interest rate exchange agreements containing offsetting features to convert the terms of the bond, in effect, to the terms of a simple adjustable rate bond (tied to an index, such as those detailed above) or a fixed rate bond.

Consolidated obligations, in addition to having fixed rate or simple adjustable rate coupon payment terms, may also include "callable bonds," which the Bank may redeem in whole or in part at its discretion on predetermined call dates according to the terms of the bond offerings; "step-up bonds," which generally pay interest at increasing fixed rates for specified intervals over the life of the bond and can be called at the Bank's option on the step-up dates; "comparative index bonds," which have coupon rates that are determined by the difference between two or more market indices; "inverse floating bonds," which have coupons that increase as an index declines and decrease as an index rises; and "zero-coupon bonds," which are long-term discounted instruments that earn a fixed yield to maturity or to the option principal redemption date, and for which all principal and interest are paid at maturity or at the option principal redemption date, if exercised prior to maturity.

**Redemption Terms.** The following is a summary of the Bank's participation in consolidated obligation bonds:

December 31, 2000 Year of Maturity	Amount Outstanding	Weighted Average Interest Rate
2001	\$ 45,397,450	6.06%
2002	26,313,950	6.06
2003	14,731,050	5.87
2004	7,175,300	6.21
2005	2,302,900	6.86
Thereafter	1,505,575	6.23
Total par value	97,426,225	6.06%
Concessions	(6,914)	
Bond premiums	18,425	
Bond discounts	(72,117)	
Deferred net loss on interest rate exchange agreements	(11)	
Total	\$ 97,365,608	

## Notes to Financial Statements

December 31, 1999 Year of Maturity	Amount Outstanding	Weighted Average Interest Rate
2000	\$ 27,049,500	5.30%
2001	16,135,000	5.43
2002	13,091,000	5.51
2003	12,634,500	5.65
2004	6,225,000	6.10
2005	393,900	5.23
Thereafter	1,248,825	6.12
Total par value	76,777,725	5.50%
Concessions	(8,669)	
Bond premiums	14,881	
Bond discounts	(58,195)	
Deferred net loss on interest rate exchange agreements	(53)	
Total	\$ 76,725,689	

The Bank's participation in consolidated obligation bonds outstanding at December 31, 2000 and 1999, includes callable bonds of \$39,487,850 and \$31,674,000, respectively. Contemporaneous with such callable debt issuance, the Bank usually enters into an interest rate swap (in which the Bank pays a variable rate and receives a fixed rate) with a call feature that mirrors the option embedded in the debt (a sold callable swap). The combined sold callable swap and callable debt enable the Bank to meet its funding needs at costs not otherwise directly attainable solely through the issuance of non-callable debt. The Bank also uses fixed rate callable bonds to finance callable advances (see Note 5) and mortgage-backed securities.

The Bank's participation in consolidated obligation bonds was as follows:

	2000	1999
Par amount of consolidated bonds:		
Non-callable	\$ 57,938,375	\$ 45,103,725
Callable	39,487,850	31,674,000
Total par value	\$ 97,426,225	\$ 76,777,725

The following is a summary of the Bank's participation in consolidated obligation bonds outstanding at December 31, 2000 and 1999, by the earlier of the year of contractual maturity or next call date:

Earlier of Year of Contractual Maturity or Next Call Date	December 31, 2000	December 31, 1999
2000	\$ —	\$ 48,939,500
2001	68,373,000	14,920,000
2002	19,548,950	6,911,000
2003	6,717,800	4,749,500
2004	1,265,000	265,000
2005	490,900	188,900
Thereafter	1,030,575	803,825
Total	\$ 97,426,225	\$ 76,777,725

Based on the prevailing interest rates at December 31, 2000, \$6,950,000 of the Bank's callable bonds had in-the-money calls that could be exercised in 2001. However, depending on the level and volatility of interest rates and other factors, actual results may differ.

**Interest Rate Payment Terms.** Interest rate payment terms for consolidated obligations and the notional principal of the interest rate exchange agreements associated with consolidated obligations at December 31, 2000 and 1999, are detailed in the following table:

	2000	1999
Par amount of consolidated obligations:		
Consolidated bonds:		
Fixed rate	\$ 78,276,775	\$ 63,743,325
Adjustable rate	17,320,000	10,597,500
Zero-coupon	825,000	1,150,000
Step-up	537,550	910,000
Inverse floating	165,000	100,000
Comparative index	301,900	276,900
Total consolidated bonds, par	97,426,225	76,777,725
Consolidated discount notes, par	32,477,869	31,083,943
Total consolidated obligations, par	\$129,904,094	\$107,861,668
Associated interest rate swaps	\$109,230,995	\$ 90,337,556

The effect of these interest rate swaps on interest expense is disclosed in Note 12.

The Bank's participation in consolidated obligation discount notes, all of which are due within one year, was as follows:

	2000		1999	
	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
Par value	\$ 32,477,869	6.25%	\$ 31,083,943	5.54%
Discounts	(362,774)		(373,581)	
Concessions	(612)		(1,022)	
Deferred net loss on interest rate exchange agreements	(17,052)		(32,594)	
Total	\$ 32,097,431		\$ 30,676,746	

Section 11(i) of the FHLB Act authorizes the Secretary of the Treasury, at his discretion, to purchase certain obligations issued by the FHLBanks aggregating not more than \$4.0 billion; terms, conditions and interest rates are to be determined by the Secretary of the Treasury. There were no such purchases by the U.S. Treasury during the two-year period ended December 31, 2000.

**Extraordinary Item - Early Retirement of Debt.** During 2000, 1999, and 1998, the Bank retired consolidated obligations either by purchasing such obligations in the open market or by selling its participation in certain obligations to other FHLBanks. Some of these obligations were designated to interest rate exchange agreements that were marked to market and terminated at the date of retirement. The resulting gain or loss (see Note 12), if material, was netted with the gain or loss on the early retirement of debt. The 2000, 1999, and 1998 transactions are summarized in the following table:

	2000	1999	1998
(Loss)/gain on sale of consolidated obligations to other FHLBanks	\$ (73)	\$ 772	\$ —
Gain on retirement of consolidated obligations	13,584	2,063	—
Loss on interest rate exchange agreements associated with consolidated obligations sold to other FHLBanks or retired in the market	(12,165)	(1,489)	—
Extraordinary gain	\$ 1,346	\$ 1,346	\$ —
Par value retired	\$ 1,237,450	\$ 533,650	\$ 680,000

#### NOTE 10 - CAPITAL

The Modernization Act will lead to a number of changes in the capital structure of the FHLBanks. On December 20, 2000, the Finance Board approved the final rule outlining the regulations for a new capital structure for the FHLBanks, and the final rule was published on January 30, 2001. The Modernization Act requires each FHLBank to submit a capital plan to the Finance Board for approval within 270 days of the publication of the final rule (October 29, 2001) and provides a transition period to the new capital structure of up to three years from the effective date of each FHLBank's capital plan. Until such time as the FHLBanks fully implement their new capital plans, the current capital rules remain in effect. In particular, the FHLB Act requires each member to purchase capital stock equal to the greater of 1% of its mortgage-related assets or 5% of its outstanding FHLBank advances. However, the Modernization Act removed the provision that required a nonthrift member to purchase additional stock to borrow from its FHLBank if the nonthrift member's mortgage-related assets were less than 65% of its total assets. A member may, at the Bank's discretion, redeem at par value any capital stock greater than its statutory requirement or sell it to other Bank members at par value.

When each FHLBank's capital structure plan has been approved by the Finance Board and implemented by the FHLBank, the FHLBank will be subject to risk-based capital rules. Each FHLBank may offer two classes of stock. Members may redeem Class A stock by giving six months' notice, and members may redeem Class B stock by giving five years' notice. Only "permanent" capital, defined as retained earnings and Class B stock, can satisfy the risk-based capital requirement. In addition, the Modernization Act specifies a 5% minimum leverage capital ratio with a 1.5 weighting factor for permanent capital, and a 4% minimum leverage capital ratio without the 1.5 weighting factor.

The Modernization Act established voluntary membership for all members. All members may withdraw from membership and redeem their capital stock after giving the required notice. Members that withdraw from membership may not re-apply for membership for five years.

On June 22, 2000, the Finance Board rescinded its dividend policy applicable to the FHLBanks. This rescission effectively eliminated the requirement that the FHLBanks restrict retained earnings for that portion of income from prepayment fees that, if allocated on a pro-rata basis over the maturity of the advances prepaid, would be allocated to future dividend periods. Other gains and losses related to the termination of interest rate exchange agreements and early retirement of consolidated obligations have been similarly treated. The Bank's Board of Directors adopted a policy to continue the practice of restricting retained earnings generally consistent with the Finance Board's rescinded dividend policy. Retained earnings restricted in accordance with these policies totaled \$7,079, \$10,716, and \$14,366, at December 31, 2000, 1999, and 1998, respectively. The Bank's Board of Directors may declare and pay, in either cash or capital stock, dividends only from retained earnings or current net earnings.

In anticipation of the possible effect of implementing SFAS No. 133, the the Bank's Board of Directors decided to retain \$17,100 in restricted retained earnings to offset the effect on capital of recognizing in other comprehensive income, a component of capital, the remaining unamortized balance of the deferred losses from certain interest rate exchange agreements terminated by the Bank in 1998. The Bank's retained earnings in the future may not be sufficient to offset the full impact of SFAS No. 133. As a result, the effect of SFAS No. 133 may lead to increased volatility in future earnings and dividends.

Through 1999, the 12 FHLBanks combined were required to pay \$300 million annually through 2030 to fund a portion of the interest on REFCORP debt. Prior to the payment of any dividends, each FHLBank was initially assessed up to 20% of its net income (after AHP contributions) to meet the required payments.

To the extent that 20% of net income was insufficient to meet the required \$300 million assessment in any year, the shortfall was allocated among all FHLBanks based on the percentage equal to the ratio of the FHLBank's average advances to members that were members of the Savings Association Insurance Fund (SAIF) during the preceding year to the FHLBank System's total average advances to SAIF-insured members during that year. If the initial 20% assessment calculation exceeded the required \$300 million, the \$300 million was allocated among the FHLBanks based on the ratio of each FHLBank's net income after AHP contributions to the System net income after AHP contributions. Higher net earnings in 1999 for the 12 FHLBanks combined enabled the FHLBanks to pay their \$300 million annual assessment without a shortfall allocation. Retained earnings were charged \$47,694 for REFCORP interest assessments in 1999.

Effective January 1, 2000, the Modernization Act changed these required payments to 20% of net earnings for each FHLBank, with the final payment adjusted so that the aggregate payments made by all 12 FHLBanks are equivalent to a \$300 million annual annuity whose final maturity date is April 15, 2030. The cumulative amount to be paid to REFCORP by the Bank is not determinable at this time because of the uncertainty of the FHLBanks' future earnings. The FHLBanks' payments during 2000 defeased all future benchmark payments after the first quarter of 2026 and \$40,000 of the \$75,000 benchmark payment for the first quarter of 2026.

Effective April 1999, the Bank implemented its mandatory surplus capital stock redemption policy. Surplus capital stock is defined as any excess stock holdings above 115% of a member's statutory capital stock requirement, excluding stock dividends earned and credited for the current year. In accordance with this plan, the Bank redeemed \$367,624 and \$413,444 in surplus capital stock in 2000 and 1999, respectively. At December 31, 2000, surplus capital stock subject to mandatory redemption in January 2001 was \$33,746.

As of December 31, 2000, the Bank had a concentration of capital stock totaling 48.3 million shares outstanding to three members, representing 77% of total capital stock outstanding (42%, 22%, and 13%, respectively).

#### NOTE 11 - EMPLOYEE RETIREMENT PLANS

Prior to January 1, 1996, the Bank was a participant in the Financial Institutions Retirement Fund (FIRF), a defined benefit plan. The Bank funded its share of FIRF's normal cost each plan year through June 30, 1987. In the plan year beginning July 1, 1987, the "full-funding limitation" (as defined by the Employee Retirement Income Security Act) became applicable to the Bank because of favorable investment and other actuarial experience in previous years. As a result, the Bank was no longer required or permitted to make payments to FIRF in subsequent plan years.

Effective January 1, 1996, the Bank ceased to be a participating employer in FIRF, and the Bank began providing retirement benefits through a new Bank-sponsored Cash Balance Plan, a defined benefit plan. The Cash Balance Plan covers all employees who have completed six months of Bank service. Under the plan, each eligible Bank employee accrues benefits annually equal to 6% of the employee's annual pay, plus 6% interest on the benefits accrued to the employee through the prior yearend. The Cash Balance Plan is funded through a trust established by the Bank. In general, the amount to be funded by the Bank each year is determined by an independent actuary. Because of the transfer of surplus assets from FIRF, the assets of the Cash Balance Plan have substantially exceeded the amount of accrued benefits, so the Bank has not made additional payments to the Plan since its inception. The funded status of the Cash Balance Plan was \$15,878 at December 31, 1998. The unrecognized net gain amounted to \$12,355, resulting in pre-paid pension costs of \$3,523 at December 31, 1998. For the year ended December 31, 1998, the Bank recognized net periodic pension income of \$1,114, primarily from the expected return on the excess funded status and the amortization of the unrecognized net gain.

In February 1999, with approval from the Internal Revenue Service, the Bank implemented a spin-off/termination involving the Cash Balance Plan. The benefits of all inactive Cash Balance Plan participants (individuals who no longer work for the Bank) as of February 28, 1999, along with most of the surplus assets in the Cash Balance Plan (plan assets that exceeded Cash Balance Plan liabilities) net of the 2000 funding requirement for active employees, were transferred to a separate spin-off plan, which was then immediately terminated. At that time, the Bank recognized the remaining unamortized deferred gain, or \$10,507. The projected benefit obligation and the accrued pension cost of the Cash Balance Plan were \$4,044 and \$2,329, respectively, at December 31, 2000, and \$3,125 and \$1,560, respectively, at December 31, 1999. The periodic pension cost for the years ended December 31, 2000 and 1999, totaled \$769 and \$560, respectively.

The Bank also participates in the Financial Institutions Thrift Plan, a defined contribution savings plan. The Bank's contribution consists of elective participant contributions and a Bank matching contribution of up to 6% of those participant contributions (based on compensation). The Bank contributed approximately \$572, \$521, and \$472, in 2000, 1999, and 1998, respectively, to the plan.

In addition, the Bank maintains a deferred compensation plan that is available to all officers and directors. The plan liability consists of the accumulated compensation deferrals and accrued earnings on the deferrals. The Bank's obligation for this plan at December 31, 2000 and 1999, was \$7,045 and \$6,500, respectively.

## NOTE 12 – INTEREST RATE EXCHANGE AGREEMENTS

In connection with the Bank's interest rate risk management program, the Bank uses interest rate exchange agreements. When the Bank enters into interest rate exchange agreements, certain assets and liabilities are normally identified and designated as financial instruments hedged by such agreements. The interest rate exchange agreement together with the hedged item create terms that support the Bank's risk management objectives. The Bank monitors both the interest rate exchange agreements and the related hedged items to ensure that their relationship has not changed. The Bank also may act as an intermediary between members and third parties for interest rate exchange agreement transactions.

Interest rate swap transactions generally involve the contractual exchange of an adjustable rate for a fixed or another adjustable rate interest payment obligation based on a notional principal amount as defined in the agreement. Interest rate swaps associated with discount notes may effectively increase the maturity of the underlying borrowings. Interest rate caps and floors obligate one of the parties to the contract to make payments to the other if an interest rate index exceeds a specified upper "capped" level or if the index falls below a specified "floor" level. The Bank does not enter into speculative interest rate swaps, caps, or floors.

These off-balance sheet instruments may involve, to varying degrees, elements of credit and interest rate risk. The maximum credit risk may be in excess of the amount recognized in the Statements of Condition. The Bank has adopted policies related to credit and interest rate risk limits and monitors transactions and positions for adherence to these policies. The contract or notional amounts of these instruments reflect the extent of the Bank's involvement in particular classes of financial instruments. For interest rate exchange agreements, the notional amount does not represent the exposure to credit loss. The amount potentially subject to credit loss is the estimated cost of replacing the favorable interest rate exchange agreement if the counterparty defaults and is substantially less than the notional amount. The Bank is subject to credit risk relating to the nonperformance by a counterparty to a non-exchange-traded interest rate exchange agreement. However, based on management's credit analyses of its counterparties, all of which are highly rated, and on the Bank's collateral requirements, no allowance for losses is deemed necessary by management.

Maximum credit risk is defined as the estimated cost of replacement for favorable interest rate exchange agreements in the event of counterparty default if the related collateral proves to be of no value to the Bank. At December 31, 2000 and 1999, the Bank's maximum credit risk, as defined above, was approximately \$137,000 and \$153,000, respectively, including \$102,307 and \$106,427 of net accrued interest receivable, respectively. Accrued interest receivables and payables, and the legal right to offset assets and liabilities by counterparty, in

which amounts recognized for individual transactions may be offset against amounts recognized for other transactions with the same counterparty, are considered in determining the maximum credit risk. The Bank held highly rated securities with a fair value of \$67,000 and \$120,000 as collateral as of December 31, 2000 and 1999, respectively.

A significant number of the Bank's interest rate exchange agreements are transacted with financial institutions such as major banks and broker-dealers, with no single institution dominating the business. Some of these banks and dealers or their affiliates buy, sell, and distribute consolidated obligations. Assets pledged as collateral by the Bank to these counterparties are more fully discussed in Note 14. The notional principal, amortized costs, and estimated fair values by class type of all interest rate exchange agreements outstanding at December 31, 2000 and 1999, are detailed in Note 13.

The notional principal by class type of designated interest rate exchange agreements associated with held-to-maturity securities, advances, and consolidated obligations outstanding at December 31, 2000 and 1999, is detailed in Notes 4, 5, and 9, respectively. The notional principal of interest rate exchange agreements by class in which the Bank is an intermediary is detailed below.

**Intermediation.** Interest rate exchange agreements in which the Bank is an intermediary may arise when the Bank enters into offsetting interest rate exchange agreements with members and other counterparties to meet the needs of members or when the Bank enters into interest rate exchange agreements to offset the economic effect of other interest rate exchange agreements that are no longer designated to advances, investments, or consolidated obligations. The notional principal of the interest rate swap agreements in which the Bank is an intermediary at December 31, 2000 and 1999, was \$1,145,400 and \$1,436,400, respectively.

**Loss on Interest Rate Exchange Agreements, Net.** During 1999, the Bank terminated \$575,000 in notional principal of interest rate swaps, \$1,100,000 in notional principal of interest rate floors, and \$500,000 in notional principal of interest rate caps that were hedging the current and future issuance of discount notes. During 1998, the Bank terminated \$150,000 in notional principal of interest rate swaps that were hedging the future issuance of discount notes. The unamortized balance of the resulting deferred losses at December 31, 2000 and 1999, totaled \$17,052 and \$32,646, respectively, and the losses are included in the carrying amount of discount notes. These deferred losses are being amortized over the original term to maturity of the terminated interest rate swaps. As mentioned in Note 1, as a result of the adoption of SFAS No. 133, the remaining unamortized balance of the deferred losses at December 31, 2000, was recognized in accumulated other comprehensive income, a component of capital, in January 2001 as part of the cumulative effect of a change in accounting principle.

**Income Effect.** The effect of the Bank's interest rate exchange agreements for the years ended December 31, 2000, 1999, and 1998, was to increase (decrease) interest income, interest expense, and other income and to produce extraordinary gains (losses) on early retirement of debt as follows:

	2000	1999	1998
Interest income:			
Advances to members	\$151,402	\$ (68,651)	\$ (24,992)
Held-to-maturity securities	(179)	(7,549)	(7,592)
Resale agreements	—	(16)	(182)
Federal funds sold	—	—	26
Interest expense:			
Consolidated obligations	312,218	(143,583)	(100,007)
Other income:			
Prepayment fees	(419)	701	1,477
Other income	(27)	(60)	4
Extraordinary gain on early retirement of debt	\$ 12,165	\$ 1,489	\$ —

#### NOTE 13 - ESTIMATED FAIR VALUES

**Cash and Due from Banks.** The estimated fair values approximate the carrying values.

**Resale Agreements and Federal Funds Sold.** The estimated fair values of these instruments have been determined by calculating the present value of expected cash flows for instruments with more than three months to maturity or repricing. The discount rates used in these calculations are the replacement rates for securities with similar terms. For instruments with three months or less to maturity or repricing, the recorded carrying value approximates the estimated fair value.

**Interest-Bearing Deposits in Banks and Held-to-Maturity Securities.** The estimated fair value of these instruments, including mortgage-backed securities with more than three months to maturity or repricing, has been determined based on quoted prices or by calculating the present value of expected cash flows as of the last business day of the year excluding accrued interest. For instruments with three months or less to maturity or repricing, the recorded carrying value approximates the estimated fair value.

**Advances.** For advances with more than three months to maturity or repricing, the estimated fair value has been determined by calculating the present value of expected cash flows from the advances and reducing this amount for accrued interest receivable. The discount rates used in these calculations are the replacement rates for advances with similar terms. Pursuant to the Finance Board's advances regulation, advances with a maturity or repricing period greater than six months generally require a prepayment fee sufficient to make the Bank financially indifferent to the borrower's decision to prepay the advances. Therefore, the estimated fair value of advances does not assume prepayment risk. For advances with three months or less to maturity or repricing, the recorded carrying value approximates the estimated fair value.

**Accrued Interest Receivable and Payable.** The recorded carrying value approximates the estimated fair value.

**Deposits.** For deposits with more than three months to maturity or repricing, the estimated fair value has been determined 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 deposits with three months or less to maturity or repricing, the recorded carrying value approximates the estimated fair value.

**Consolidated Obligations.** The estimated fair value has been determined based on the estimated cost of raising comparable term debt. The estimated cost of issuing debt is determined daily based on the primary market for debt of government-sponsored enterprises and other indications from securities dealers; the estimated cost of issuing debt includes non-interest selling costs.

**Borrowings.** For borrowings with more than three months to maturity or repricing, the estimated fair value has been determined 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 costs of borrowings with similar terms. For borrowings with three months or less to maturity or repricing, the recorded carrying value approximates the estimated fair value.

**Commitments.** The estimated fair value of the Bank's commitments to extend credit, including letters of credit, was immaterial at December 31, 2000 and 1999.

**Interest Rate Exchange Agreements.** The estimated fair values of these agreements are based on the estimated cost of interest rate exchange agreements with similar terms or available market prices, excluding accrued interest receivable and payable. However, active markets do not exist for many types of financial instruments. Consequently, fair values for these instruments must be estimated using techniques such as discounted cash flow analysis and comparisons to similar instruments. Estimates developed using these methods are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Changes in these judgments often have a material effect on the fair value estimates. Since these estimates are made as of a specific point in time, they are susceptible to material near-term changes.

The estimated fair values of the Bank's financial instruments at December 31, 2000 and 1999, were as follows:

## Notes to Financial Statements

### Fair Value of Financial Instruments – 2000

	Carrying Value	Net Unrealized Gains (Losses)	Estimated Fair Value
<b>ASSETS</b>			
Cash and due from banks	\$ 4,584	\$ —	\$ 4,584
Interest-bearing deposits in banks	2,698,000	(11,684)	2,686,316
Resale agreements	400,000	—	400,000
Federal funds sold	8,376,000	(1,450)	8,374,550
Held-to-maturity securities	15,524,693	43,382	15,568,075
Interest rate exchange agreements associated with held-to-maturity securities	—	(9,191)	(9,191)
Held-to-maturity securities, net	15,524,693	34,191	15,558,884
Advances	110,031,641	334,439	110,366,080
Interest rate exchange agreements associated with advances	—	(193,690)	(193,690)
Advances, net	110,031,641	140,749	110,172,390
Accrued interest receivable	3,136,776	—	3,136,776
Other assets	18,314	—	18,314
<b>Total</b>	<b>\$ 140,190,008</b>	<b>\$ 161,806</b>	<b>\$ 140,351,814</b>
<b>LIABILITIES</b>			
<b>Consolidated obligations:</b>			
Bonds	\$ 97,365,608	\$ (39,428)	\$ 97,405,036
Discount notes	32,097,431	(31,125)	32,128,556
Interest rate exchange agreements associated with consolidated obligations	—	38,152	(38,152)
Consolidated obligations, net	129,463,039	(32,401)	129,495,440
Deposits	376,413	—	376,413
Accrued interest payable	3,888,254	—	3,888,254
Other liabilities	170,157	—	170,157
Interest rate exchange agreements in which the Bank is an intermediary	—	(290)	290
<b>Total</b>	<b>\$ 133,897,863</b>	<b>\$ (32,691)</b>	<b>\$ 133,930,554</b>

## Notes to Financial Statements

### Fair Value of Financial Instruments – 1999

	Carrying Value	Net Unrealized Gains (Losses)	Estimated Fair Value
<b>ASSETS</b>			
Cash and due from banks	\$ 1,424	\$ —	\$ 1,424
Interest-bearing deposits in banks	1,702,000	1,585	1,703,585
Resale agreements	2,558,885	1,144	2,560,029
Federal funds sold	8,636,000	5,028	8,641,028
Held-to-maturity securities	10,382,029	(113,375)	10,268,654
Interest rate exchange agreements associated with held-to-maturity securities	—	10,295	10,295
Held-to-maturity securities, net	10,382,029	(103,080)	10,278,949
Advances	90,513,646	(558,007)	89,955,639
Interest rate exchange agreements associated with advances	183	546,246	546,429
Advances, net	90,513,829	(11,761)	90,502,068
Accrued interest receivable	2,099,622	—	2,099,622
Other assets	18,258	—	18,258
<b>Total</b>	<b>\$ 115,912,047</b>	<b>\$ (107,084)</b>	<b>\$ 115,804,963</b>
<b>LIABILITIES</b>			
Consolidated obligations:			
Bonds	\$ 76,725,689	\$ 1,420,795	\$ 75,304,894
Discount notes	30,676,746	(38,013)	30,714,759
Interest rate exchange agreements associated with consolidated obligations	—	(1,214,172)	1,214,172
Consolidated obligations, net	107,402,435	168,610	107,233,825
Deposits	326,953	(7)	326,960
Accrued interest payable	2,606,541	—	2,606,541
Other liabilities	136,226	—	136,226
Interest rate exchange agreements in which the Bank is an intermediary	1,493	533	960
<b>Total</b>	<b>\$ 110,473,648</b>	<b>\$ 169,136</b>	<b>\$ 110,304,512</b>

## Fair Value Supplemental Tables

The Bank enters into some interest rate swap agreements that a counterparty may cancel at its option. While the counterparty generally may exercise this option to cancel at any specified cancellation date, the movement of interest rates usually determines whether the option will be exercised. If the interest rate swap

agreement has a positive fair value from the Bank's perspective, the counterparty is likely to exercise the option assuming interest rates and volatilities remain the same through the next cancellation date of the instrument. The following tables categorize interest rate swap agreements as non-cancelable, cancelable by the counterparty, and cancelable by the Bank:

## Fair Value Supplemental Table – 2000

Interest Rate Exchange Agreements (by class)	Notional Principal	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Interest rate swaps:					
Non-cancelable:					
Bank pays fixed, receives adjustable	\$ 39,208,574	\$ —	\$ 96,674	\$(256,250)	\$(159,576)
Bank pays adjustable, receives fixed	49,394,945	—	187,383	(115,682)	71,701
Bank pays adjustable, receives adjustable	28,257,747	—	3,324	(21,629)	(18,305)
Cancelable by counterparty:					
Bank pays adjustable, receives fixed	35,341,300	—	76,637	(92,693)	(16,056)
Bank pays fixed, receives adjustable	1,786,000	—	1,428	(24,943)	(23,515)
Bank pays adjustable, receives adjustable	862,550	—	1,010	(744)	266
Cancelable by Bank:					
Bank pays fixed, receives adjustable	892,300	—	149	(7,369)	(7,220)
Subtotal	155,743,416	—	366,605	(519,310)	(152,705)
Interest rate caps purchased	1,178,610	—	2	(12,316)	(12,314)
Total	\$156,922,026	\$ —	\$ 366,607	\$(531,626)	\$(165,019)

## Fair Value Supplemental Table – 1999

Interest Rate Exchange Agreements (by class)	Notional Principal	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Interest rate swaps:					
Non-cancelable:					
Bank pays fixed, receives adjustable	\$ 22,460,523	\$(1,493)	\$ 529,811	\$(12,514)	\$ 515,804
Bank pays adjustable, receives fixed	46,640,398	—	7,902	(582,596)	(574,694)
Bank pays adjustable, receives adjustable	24,008,159	—	34,169	(38,362)	(4,193)
Cancelable by counterparty:					
Bank pays adjustable, receives fixed	27,059,000	—	530	(608,870)	(608,340)
Bank pays fixed, receives adjustable	2,808,500	—	31,176	(513)	30,663
Bank pays adjustable, receives adjustable	1,025,000	—	838	(19,048)	(18,210)
Cancelable by Bank:					
Bank pays fixed, receives adjustable	13,550	—	562	—	562
Subtotal	124,015,130	(1,493)	604,988	(1,261,903)	(658,408)
Interest rate caps purchased	37,360	183	—	(183)	—
Total	\$124,052,490	\$ (1,310)	\$ 604,988	\$(1,262,086)	\$(658,408)

## NOTE 14 – COMMITMENTS AND CONTINGENCIES

As indicated in Note 9, all FHLBanks have joint and several liability for the consolidated obligations issued on their behalf. Accordingly, should one or more of the FHLBanks be unable to repay its participation in the consolidated obligations, the other FHLBanks could be called upon to repay all or a portion of such obligations.

Commitments that legally bind and obligate the Bank for additional advances totaled approximately \$445,000 and \$206,000 at December 31, 2000 and 1999, respectively. Commitments generally are for periods up to 12 months. Outstanding standby letters of credit were approximately \$682,713 and \$824,537 at December 31, 2000 and 1999, respectively. Based on management's credit analyses and collateral requirements, no allowance for losses is deemed necessary by management on these advance commitments and letters of credit. Advances funded under these advance commitments and letters of credit are fully collateralized at the time of issuance in a manner consistent with advances to members (see Note 5).

These credit-related financial instruments have off-balance sheet risk, which is essentially the same as that involved in extending advances to members. The credit risk amounts are equal to the notional amounts of the transactions assuming that the members completely fail to meet their obligations and the collateral or other security is of no value.

The Bank executes interest rate exchange agreements with major banks and broker-dealers that have a long-term credit rating of single-A or better from both Standard & Poor's and Moody's. The Bank enters into bilateral security agreements with all counterparties. As of December 31, 2000 and 1999,

the Bank had pledged as collateral securities of \$360,636 and \$638,600, respectively, to broker-dealers that have credit risk exposure to the Bank related to interest rate exchange agreements.

The Bank charged operating expenses net rental costs of approximately \$3,004, \$2,047, and \$388 for the years ending December 31, 2000, 1999, and 1998, respectively. Future minimum rentals at December 31, 2000, were as follows:

Year	Premises	Equipment	Total
2001	\$ 2,623	\$ 254	\$ 2,877
2002	2,811	31	2,842
2003	2,811	12	2,823
2004	2,942	—	2,942
2005	3,036	—	3,036
Thereafter	10,980	—	10,980
Total	\$ 25,203	\$ 297	\$ 25,500

Lease agreements for Bank 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 Bank's financial condition or results of operation.

The Bank is subject to various pending legal proceedings arising in the normal course of business. After consultation with legal counsel, management does not anticipate that the ultimate liability, if any, arising out of these matters will have a material effect on the Bank's financial condition or results of operations.

Other commitments and contingencies are discussed in Notes 6, 9, 10, and 12.