

statements of condition

DECEMBER 31,

(IN THOUSANDS-EXCEPT PAR VALUE)

2001

2000

ASSETS

Cash and due from banks	\$ 1,889	\$ 4,584
Interest-bearing deposits in banks	4,487,000	2,698,000
Securities purchased under agreements to resell	2,150,000	400,000
Federal funds sold	8,445,000	8,376,000
Held-to-maturity securities (\$1,222,976 and \$360,636, respectively, were pledged as collateral)	16,543,889	15,524,693
Held-at-fair-value securities (\$226,461 was pledged as collateral)	527,870	—
Advances	102,254,552	110,031,641
Loans to other Federal Home Loan Banks	25,000	—
Accrued interest receivable	418,606	3,136,776
Premises and equipment, net	5,529	4,326
Derivative assets	479,860	—
Other assets	16,543	13,988
Total Assets	\$ 135,355,738	\$ 140,190,008

LIABILITIES AND CAPITAL

Liabilities:

Deposits:

Demand and overnight	\$ 715,617	\$ 347,613
Term	36,000	28,800
Total deposits	751,617	376,413

Other borrowings

200,000 —

Consolidated obligations, net:

Bonds	104,657,132	97,365,608
Discount notes	21,282,619	32,097,431
Total consolidated obligations	125,939,751	129,463,039

Accrued interest payable	1,080,127	3,888,254
Affordable Housing Program	127,038	109,630
Payable to REFCORP	36,875	25,315
Derivative liabilities	372,812	—
Other liabilities	38,054	35,212
Total Liabilities	128,546,274	133,897,863

Commitments and Contingencies: Note 16

Capital:

Capital stock (\$100 par value) issued and outstanding shares:

67,519 shares in 2001 and 62,679 shares in 2000	6,751,941	6,267,859
Retained earnings	62,269	24,286

Accumulated other comprehensive loss:

Unrecognized net loss related to hedging activities	(4,746)	—
Total Capital	6,809,464	6,292,145
Total Liabilities and Capital	\$ 135,355,738	\$ 140,190,008

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

statements of income

	FOR THE YEARS ENDED DECEMBER 31,		
(IN THOUSANDS)	2001	2000	1999
INTEREST INCOME:			
Advances	\$4,735,896	\$6,431,349	\$3,970,075
Interest-bearing deposits in banks	142,429	131,077	68,466
Securities purchased under agreements to resell	63,861	93,891	110,954
Federal funds sold	349,341	549,093	354,522
Held-to-maturity securities	828,862	898,047	524,809
Held-at-fair-value securities	27,704	—	—
Loans to other Federal Home Loan Banks	843	662	400
Total Interest Income	6,148,936	8,104,119	5,029,226
INTEREST EXPENSE:			
Consolidated obligations	5,578,339	7,523,902	4,628,253
Deposits	15,994	13,514	11,552
Securities sold under agreements to repurchase	—	11,887	2,046
Borrowings from other Federal Home Loan Banks	78	82	72
Other borrowings	218	161	347
Total Interest Expense	5,594,629	7,549,546	4,642,270
NET INTEREST INCOME	554,307	554,573	386,956
OTHER INCOME:			
Prepayment fees	5,953	392	2,099
Services to members	904	899	852
Gain on the spin-off/termination involving the Bank's Cash Balance Plan	—	—	10,507
Net gain on held-at-fair-value securities	7,653	—	—
Net gain on derivatives and hedging activities	63,951	—	—
Other, net	3,616	4,020	6,587
Total Other Income	82,077	5,311	20,045
OTHER EXPENSE:			
Operating expense	48,803	42,818	38,832
Federal Housing Finance Board and Office of Finance expenses	6,660	5,833	5,311
Total Other Expense	55,463	48,651	44,143
INCOME BEFORE ASSESSMENTS, EXTRAORDINARY ITEMS, AND CUMULATIVE EFFECT OF ADOPTING SFAS 133	580,921	511,233	362,858
REFCORP assessments	106,147	94,147	—
Affordable Housing Program assessments	47,177	41,843	31,651
Total Assessments	153,324	135,990	31,651
INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF ADOPTING SFAS 133	427,597	375,243	331,207
Extraordinary (losses)/gains on early retirement of debt	(555)	1,346	1,346
Cumulative effect of adopting SFAS 133	(2,453)	—	—
Net Income	\$ 424,589	\$ 376,589	\$ 332,553

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

statements of capital accounts

(IN THOUSANDS)	CAPITAL STOCK		RETAINED EARNINGS			ACCUMULATED OTHER COMPREHENSIVE	TOTAL
	SHARES	PAR VALUE	RESTRICTED	UNRESTRICTED	TOTAL	INCOME/(LOSS)	CAPITAL
Balance, December 31, 1998	44,016	\$4,401,591	\$30,654	\$ 3,057	\$ 33,711	\$ —	\$ 4,435,302
Issuance of capital stock	12,938	1,293,784					1,293,784
Redemption of capital stock	(5,755)	(575,494)					(575,494)
Net income				332,553	332,553		332,553
Transfers to restricted retained earnings			7,978	(7,978)	—		—
Dividends on capital stock (5.36%)							
Cash payment				(52)	(52)		(52)
Stock issued	2,545	254,478		(254,478)	(254,478)		—
Capital distribution to REFCORP				(47,694)	(47,694)		(47,694)
Balance, December 31, 1999	53,744	5,374,359	38,632	25,408	64,040	—	5,438,399
Issuance of capital stock	9,763	976,356					976,356
Redemption of capital stock	(4,991)	(499,141)					(499,141)
Net income				376,589	376,589		376,589
Transfers from restricted retained earnings			(14,453)	14,453	—		—
Dividends on capital stock (7.17%)							
Cash payment				(58)	(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	—	6,292,145
Issuance of capital stock	6,655	665,502					665,502
Redemption of capital stock	(5,680)	(567,965)					(567,965)
Comprehensive income:							
Net income				424,589	424,589		424,589
Other comprehensive income:							
Cumulative effect of adopting SFAS 133						(17,065)	(17,065)
Net amounts recognized as earnings						12,217	12,217
Net change in period relating to hedging activities						102	102
Total comprehensive income							419,843
Transfers to restricted retained earnings			38,015	(38,015)	—		—
Dividends on capital stock (5.99%)							
Cash payment				(61)	(61)		(61)
Stock issued	3,865	386,545		(386,545)	(386,545)		—
Balance, December 31, 2001	67,519	\$6,751,941	\$62,194	\$ 75	\$ 62,269	\$(4,746)	\$ 6,809,464

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

statements of cash flows

FOR THE YEARS ENDED DECEMBER 31,

(IN THOUSANDS)

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 424,589	\$ 376,589	\$ 332,553
Extraordinary losses/(gains) on early retirement of debt	555	(1,346)	(1,346)
Cumulative effect of adopting SFAS 133	2,453	—	—
Income before extraordinary items and cumulative effect of adopting SFAS 133	427,597	375,243	331,207
Adjustments to reconcile net income before extraordinary items and cumulative effect of adopting SFAS 133 to net cash provided by operating activities:			
Depreciation and amortization:			
Net discounts on consolidated obligations and investments	(77,561)	(252,512)	(130,137)
Concessions on consolidated obligations	50,326	14,032	7,949
Bank premises and equipment	1,602	1,163	2,203
Deferred net losses on interest rate exchange agreements	9,712	13,830	13,255
Affordable Housing Program (AHP) liability and discount on AHP advances	17,260	18,493	9,956
Increase in REFCORP liability	11,560	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)	—
Gain due to change in net fair value adjustment on derivative and hedging activities	(45,527)	—	—
Increase in securities held at fair value, net of transfers and transition adjustments	(7,653)	—	—
Increase in derivative asset accrued interest	(231,041)	—	—
Decrease in derivative liability accrued interest	143,690	—	—
Decrease/(increase) in accrued interest receivable	2,718,170	(1,037,154)	(577,640)
(Decrease)/increase in accrued interest payable	(2,808,127)	1,281,713	786,821
(Increase)/decrease in other assets	(2,555)	(54)	26,290
Increase/(decrease) in other liabilities	2,287	915	(5,288)
Total adjustments	(217,857)	54,114	119,330
Net cash provided by operating activities	209,740	429,357	450,537
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net increase in interest-bearing deposits in banks	(1,789,000)	(996,000)	(1,300,000)
Net (increase)/decrease in Federal funds sold	(69,000)	260,000	(3,742,000)
Net (increase)/decrease in securities purchased under agreements to resell	(1,750,000)	2,158,885	(332,260)
Net decrease/(increase) in short-term investments held to maturity	1,593,196	(1,129,643)	(867,413)
Purchases of mortgage-backed securities	(7,907,250)	(5,555,607)	(3,000,359)
Maturities of mortgage-backed securities	4,922,365	1,843,641	1,613,926
Principal collected on advances	343,437,997	316,900,500	195,964,633
Advances made to members	(334,746,482)	(336,419,740)	(222,489,710)
Net increase in loans to other FHLBanks	(25,000)	—	—
Proceeds from sale of building	—	—	92,661
Net increase to premises and equipment	(2,805)	(1,165)	(1,840)
Net cash provided by/(used for) investing activities	3,664,021	(22,939,129)	(34,062,362)

statements of cash flows

(IN THOUSANDS)	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase/(decrease) in deposits	375,204	49,460	(151,262)
Net decrease in securities sold under agreements to repurchase	—	—	(150,000)
Net decrease in loans from other FHLBanks	—	—	(150,000)
Net increase/(decrease) in other borrowings	200,000	—	(6,111)
Net proceeds from sale of consolidated obligations:			
Bonds	92,897,300	54,749,561	50,945,749
Discount notes	196,443,370	252,743,176	159,964,172
Payments for maturing and retiring consolidated obligations:			
Bonds	(86,605,000)	(34,165,950)	(36,689,650)
Discount notes	(207,284,806)	(251,340,472)	(140,822,323)
Proceeds from issuance of capital stock	665,502	976,356	1,293,784
Payments for redemption of capital stock	(567,965)	(499,141)	(575,494)
Cash dividends paid	(61)	(58)	(52)
Capital distribution to REFCORP	—	—	(48,271)
Net cash (used for)/provided by financing activities	(3,876,456)	22,512,932	33,610,542
Net (decrease)/increase in cash and cash equivalents	(2,695)	3,160	(1,283)
Cash and cash equivalents at beginning of year	4,584	1,424	2,707
Cash and cash equivalents at end of year	\$ 1,889	\$ 4,584	\$ 1,424
SUPPLEMENTAL DISCLOSURES:			
Interest paid during the year	\$ 7,134,631	\$ 6,197,314	\$ 3,810,217
Stock dividends issued during the year	\$ 386,545	\$ 416,285	\$ 254,478
Non-monetary transfer of advances	\$ —	\$ 180,000	\$ —

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

notes to financial statements

YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999
(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). 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, 2001. The FHLBanks serve 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 their 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, including "community financial institutions," and insurance companies engaged in residential housing finance are eligible to apply for membership. Community financial institutions are defined as FDIC-insured depository institutions with average total assets over the preceding three-year period of less than \$517 million for 2001 (to be adjusted each year by the annual percentage increase in the Consumer Price Index). All members are required to purchase stock in the Bank.

The Federal Housing Finance Board (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 the FHLBanks' 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 to 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 2001, meeting fees totaled \$233 and reimbursed travel and related expenses totaled \$112.

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.

Investments. Held-to-maturity securities and securities purchased under agreements to resell (resale agreements) are carried at cost, adjusted for the amortization of premiums and accretion of discounts using methods that approximate the level-yield method. These 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 Note 2, on January 1, 2001, the Bank transferred certain held-to-maturity securities to "trading" ("held-at-fair-value securities" for the Bank's purposes) as allowed under the transition provisions contained in Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement No. 133*, and as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* (together referred to as "SFAS 133"). Held-at-fair-value securities are carried at fair value based on quoted prices, market rates, or replacement rates for similar financial instruments. 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 fees and discounts on advances for the Affordable Housing Program (AHP), as discussed below. In addition, prior to the adoption of SFAS 133 in 2001, the Bank adjusted the carrying value of advances for the unamortized balance of deferred net gains and losses from associated interest rate exchange agreements. Interest on advances is credited to income as earned. 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 7, the Bank may also accept secured small business, small farm, and small agribusiness loans as collateral from members that are community financial institutions. The Bank has never experienced any 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.

notes to financial statements

Affordable Housing Program. As more fully discussed in Note 8, the FHLB Act requires each FHLBank 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 FHLBanks' 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. Prior to January 1, 2001, gains and losses on terminated or redesignated interest rate exchange agreements associated with advances that had been prepaid were netted with prepayment fees in the Statements of Income. As of January 1, 2001, the resulting gains and losses were recognized in accordance with SFAS 133 (see Note 2).

Other Fees. Other 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. Issuance fees for letters of credit are recorded as other income when received.

Derivatives. All derivatives are recognized on the balance sheet at their fair value and those not used for intermediary purposes are designated as (1) a hedge of the fair value of (a) a recognized asset or liability or (b) an unrecognized firm commitment (a "fair value" hedge); (2) a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge); or (3) a non-SFAS 133-qualifying hedge of an asset or liability (an "economic" hedge) for asset-liability management purposes. Changes in the fair value of a derivative that is effective as and is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (including changes that reflect losses or gains on firm commitments), are recorded in current period earnings. Changes in the fair value of a derivative that is effective as and 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 (i.e., until periodic settlements of a variable rate asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the change in the fair value of the derivative differs from the change in the fair value of the hedged item or the variability in the cash flows of the forecasted transaction) is recorded in current period earnings. Changes in the fair value of a stand-alone derivative designated as an economic hedge are recorded in current period earnings with no fair value adjustment to an

asset or liability. Hedge ineffectiveness and changes in the fair value of stand-alone derivatives are recorded in other income as "Net gain on derivatives and hedging activities."

The Bank occasionally purchases financial instruments in which a derivative instrument is "embedded" and that are not remeasured at fair value with changes in fair value reported in earnings as they occur. Upon purchasing the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (the host contract) and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative 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 earnings (such as an investment security classified as "trading" under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), or if the Bank 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.

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

The Bank discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (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 Bank determines that the derivative no longer qualifies as an effective fair value hedge, the Bank will continue to carry the derivative on the balance sheet at its fair value, cease to adjust the hedged asset or liability for changes in fair value, and begin amortizing the cumulative basis adjustment on the hedged item into earnings over the remaining life of the hedged item. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Bank will continue to carry the derivative on the balance sheet at its fair value, removing from the balance sheet any asset or liability that was recorded to recognize the firm commitment and recording it as a gain or loss in current period earnings. When the Bank discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is 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 two months thereafter, the gains and losses that were accumulated in other comprehensive income are recognized immediately in earnings. When hedge accounting is discontinued because the Bank determines that the derivative no longer qualifies as an effective cash flow hedge of an existing hedged item, the Bank will continue to carry the derivative on the balance sheet at its fair value and will amortize the cumulative other comprehensive income adjustment to earnings when earnings are affected by the original forecasted transaction. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value of the derivative in current period earnings.

Derivatives assets and liabilities, comprising derivatives fair values and related net accrued interest, are reported on a net-by-counterparty basis on the Statements of Condition because management has determined a legal right of setoff exists under an enforceable netting agreement. Prior to January 1, 2001, the date of the adoption of SFAS 133 and Financial Accounting Standards Board Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, accrued interest receivable and payable on interest rate exchange agreements were reported on a gross basis.

Hedging Activities.

General – The Bank enters into interest rate swaps, swaptions, interest rate cap and floor agreements, calls, and puts (collectively, interest rate exchange agreements) to manage its 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 characteristics of financial instruments to achieve risk management objectives. The Bank uses interest

rate exchange agreements in three ways: as a fair value or cash flow hedge of an underlying financial instrument or a forecasted transaction, as an economic hedge for general asset liability management, or when acting as an intermediary. For example, the Bank uses interest rate exchange agreements in its overall management of interest rate risk to adjust the interest rate sensitivity of consolidated obligations to approximate more closely the interest rate sensitivity of assets (advances and investments), and/or to adjust the interest rate sensitivity of advances or investments to approximate more closely the interest rate sensitivity of liabilities. In addition to using interest rate exchange agreements to manage mismatches of interest rates between assets and liabilities, the Bank also uses interest rate exchange agreements to manage embedded options in assets and liabilities, to hedge the market value of existing assets and liabilities and anticipated transactions, to hedge the prepayment risk of prepayable instruments, and to reduce funding costs.

The Bank is not a derivatives dealer and does not trade derivatives for profit.

The Bank is subject to credit risk as a result of the risk of non-performance by counterparties to the derivative agreements. The degree of counterparty risk on derivative agreements depends on the extent to which master netting arrangements are included in such contracts to mitigate the risk. The Bank manages counterparty credit risk through credit analyses and collateral requirements and by following the requirements of the Finance Board's Financial Management Policy. Based on the master netting arrangements, its credit analyses, and the collateral requirements in place with each counterparty, management of the Bank does not anticipate any credit losses on its agreements.

Advances – With issuances of puttable advances, the Bank purchases from the member a put option that enables the Bank to convert the advance from fixed rate to floating rate or to terminate the advance and extend replacement credit on new terms, at the Bank's option on specified put dates. The Bank may hedge a puttable advance by entering into a cancelable interest rate exchange agreement under which the Bank pays a fixed rate and receives a variable rate. This type of hedge is treated as a fair value hedge under SFAS 133. The swap counterparty can cancel the interest rate exchange agreement on the put date, which would normally occur in a rising rate environment, and the Bank can convert the advance to a floating rate advance or terminate it depending on the terms of the advance.

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

notes to financial statements

Consolidated Obligations – The Bank manages the risk arising from changing market prices and the volatility of a consolidated obligation by matching the cash inflow on the interest rate exchange agreement with the cash outflow on the consolidated obligation. In addition, the Bank requires collateral agreements on all interest rate exchange agreements. While consolidated obligations are the joint and several obligations of the FHLBanks, FHLBanks individually are counterparties to interest rate exchange agreements associated with specific debt issues.

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

Anticipated Debt Issuance – The Bank may enter into swaps on the anticipated issuance of debt to “lock in” a spread between the earning asset and the cost of funding. The swap is terminated upon issuance of the debt instrument, and amounts reported in accumulated other comprehensive income are recognized as earnings in the periods in which earnings are affected by the cash flows of the debt that was issued.

Intermediation – As an additional service to its members, the Bank enters into offsetting interest rate exchange agreements, acting as an intermediary between members and other counterparties. This intermediation allows members indirect access to the swap 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 Bank.

Premises and Equipment. The Bank records premises and equipment at cost less accumulated depreciation and amortization, which totaled approximately \$5,529 and \$4,326 at December 31, 2001 and 2000, 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 of the gain immediately upon the sale in 1999 and is deferring

and amortizing the remainder over the remaining term of the Bank's 10-year leaseback of the space the Bank occupies. The unamortized amount of the deferred gain outstanding at December 31, 2001, was \$15,373.

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 estimated life of the bonds. The amount of the concession is allocated to the Bank by the Office of Finance based on the percentage of the debt issued for which the Bank is the primary obligor. 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 because of their short-term maturities. 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 bonds or estimated life of the bonds.

Resolution Funding Corporation Assessments. The FHLBanks are required to make payments to the Resolution Funding Corporation (REFCORP). Through 1999, the FHLBanks charged the \$300 million annual capital distribution to REFCORP directly to retained earnings (see Note 12). 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 issuance 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 purpose of determining estimated fair values. Thus, the fair values may not represent the 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 15.

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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.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE AND RECENTLY ISSUED ACCOUNTING STANDARD

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

In accordance with the transition provisions of SFAS 133, the Bank reported the transition adjustment for each derivative designated as a fair value hedge as a cumulative effect adjustment of net income. Concurrently, any fair value gain or loss on the hedged item was recognized as an adjustment of the hedged item's carrying amount, but only to the extent of the offsetting transition adjustment of the derivative, and was also reported as a cumulative effect adjustment of net income.

The transition provisions also provided that at the date of initial implementation an entity was permitted to transfer any security classified as "held-to-maturity" to "trading" ("held-at-fair-value" securities). In accordance with the transition provisions of SFAS 133, the Bank recorded the following cumulative effect adjustments to increase or (decrease) earnings as of January 1, 2001:

Net adjustments related to (1) fair value hedges, (2) derivative transactions not designated as hedges under SFAS 133, and (3) derivative transactions not meeting the requirements for fair value or cash flow hedges	\$ (9,587)
Unrealized net gains on investments transferred from "held-to-maturity" to "held-at-fair-value"	7,134
Total cumulative effect on earnings of adopting SFAS 133	\$ (2,453)

The Bank also recorded cumulative effect adjustments to increase or (decrease) other comprehensive income as of January 1, 2001, and recorded changes in other comprehensive income for the year ended December 31, 2001, as follows:

Total cumulative effect of adopting SFAS 133 on accumulated other comprehensive income at January 1, 2001, resulting from previously deferred hedging losses	\$(17,065)
Net amounts recognized as earnings for the year ended December 31, 2001	12,217
Net change associated with hedging activities for the year ended December 31, 2001	102
Net change during period related to hedging activities	12,319
Total cumulative effect of adopting SFAS 133 on other comprehensive income at January 1, 2001, less net change during the year ended December 31, 2001, related to hedging activities	\$ (4,746)

On January 1, 2001, the Bank transferred held-to-maturity securities with an amortized cost of \$664,274 and an estimated fair value of \$671,408 into the held-at-fair-value securities category. The unrealized net gain related to the transfer of certain held-to-maturity securities into the held-at-fair-value securities category was \$7,134 and was shown as an increase to the Bank's results of operations in 2001 as a cumulative effect of adopting SFAS 133. The remaining cumulative effect of adjustments related to fair value hedges and derivative transactions either not designated as hedges under SFAS 133 or not meeting the requirements for fair value or cash flow hedges was shown as a charge to the Bank's results of operations in 2001 as part of the cumulative effect of adopting SFAS 133, decreasing net income by \$9,587. These factors combined resulted in a net SFAS 133 transaction loss on January 1, 2001, totaling \$2,453. In addition, the Bank recognized a loss of \$17,065 in accumulated other comprehensive income as part of the cumulative effect of adopting SFAS 133 at transition, decreasing capital.

As a result of SFAS 133, for the year ended December 31, 2001, the Bank recorded a net gain on derivatives and hedging activities of \$63,951 in other income. In addition, the Bank recorded derivative assets of \$479,860 and derivative liabilities of \$372,812 at December 31, 2001. For the year ended December 31, 2001, all cash flow hedges were highly effective. For fair value hedges and their related hedged items, the Bank recognized a net gain of \$70,400 in earnings, which represents the amount of the hedge's ineffectiveness, classified as "Net gain on derivatives and hedging activities" on the Statements of Income. For derivatives transactions not meeting the requirements for fair value or cash flow hedges, including those derivatives associated with held-at-fair-value securities, the Bank recognized a net loss of \$6,449 in earnings, which is included in "Net gain on derivatives and hedging activities" on the Statements of Income. In addition, there were no amounts for the year ended December 31, 2001, that were recognized as 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 two months thereafter. Nearly all of the deferred net loss on derivative instruments accumulated in other comprehensive income as of December 31, 2001, is expected to be recognized in earnings in 2002.

Certain notes included herein are adjusted to accommodate the effect of SFAS 133. In accordance with the transition provisions of SFAS 133, comparative information presented for prior years that is no longer relevant is not disclosed for 2001. Other disclosures for 2001 resulting from the implementation of SFAS 133 have been added, and comparative information for prior years that is not relevant is not disclosed.

Adoption of SFAS 140. In September 2000, Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140) was issued. SFAS 140 provides accounting and reporting requirements for all transfers and the servicing

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of financial assets and the extinguishment of liabilities, effective for all transfers and extinguishments beginning after March 31, 2001. SFAS 140 is also effective for the recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The Bank has adopted SFAS 140 and its adoption did not affect the financial condition or results of operations. In accordance with SFAS 140, the carrying value of assets pledged as collateral is disclosed on the Statements of Condition.

NOTE 3 – 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, 2001 and 2000, were approximately \$1,686 and \$5,735, respectively.

In addition, the Bank maintained average collected balances with the Federal Reserve Bank of San Francisco 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 this account for the years ended December 31, 2001 and 2000, were approximately \$4,261 and \$1,480, respectively.

NOTE 4 – 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, 2001	\$ 2,150,000	\$ —	\$ —	\$ 2,150,000
December 31, 2000	\$ 400,000	\$ —	\$ —	\$ 400,000

Redemption Terms. The amortized cost and estimated fair value of resale agreements by contractual maturity as of December 31, 2001 and 2000, are shown below.

YEAR OF MATURITY	2001		2000	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	\$ 2,150,000	\$ 2,150,000	\$ 400,000	\$ 400,000

The Bank engages in resale agreements with 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. If the market value of the underlying securities decreases 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, 2001 and 2000.

Resale agreements averaged \$1,544,875 and \$1,523,936 during 2001 and 2000, respectively. The maximum amounts outstanding at any monthend during 2001 and 2000 were \$2,350,000 and \$4,379,091, respectively.

Interest Rate Payment Terms. The amortized cost of resale agreements, all with fixed rate interest payment terms, were \$2,150,000 and \$400,000 with average yields of 1.91% and 4.86% at December 31, 2001, and 2000, respectively.

NOTE 5 – HELD-TO-MATURITY SECURITIES

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

DECEMBER 31, 2001	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Commercial paper	\$ 2,465,646	\$ —	\$ —	\$ 2,465,646
Housing finance agency bonds	837,080	—	(1,219)	835,861
Subtotal	3,302,726	—	(1,219)	3,301,507
Mortgage-backed securities	13,241,163	154,676	(1,273)	13,394,566
Total	\$16,543,889	\$154,676	\$(2,492)	\$16,696,073

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

Redemption Terms. The amortized cost and estimated fair value of held-to-maturity securities, excluding associated interest rate exchange agreements, as of December 31, 2001 and 2000, are shown below. Expected maturities of certain securities and mortgage-backed securities will differ from contractual maturities because borrowers generally have the right to prepay obligations without prepayment fees.

YEAR OF MATURITY	2001		2000	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	\$ 2,465,646	\$ 2,465,646	\$ 4,558,154	\$ 4,557,521
Due after ten years	837,080	835,861	204,000	207,460
Subtotal	3,302,726	3,301,507	4,762,154	4,764,981
Mortgage-backed securities	13,241,163	13,394,566	10,762,539	10,803,094
Total	\$16,543,889	\$16,696,073	\$15,524,693	\$15,568,075

The average yields on held-to-maturity securities due in one year or less were 2.09% and 6.52%, due after 10 years were 2.64% and 6.85%, and on mortgage-backed securities were

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5.47% and 6.78% for the years ended December 31, 2001 and 2000, respectively. The amortized cost of the Bank's mortgage-backed securities classified as held-to-maturity included net discounts of \$20,211 and \$44,578 at December 31, 2001 and 2000, 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, 2001 and 2000, are detailed in the following table:

	2001	2000
Amortized cost of held-to-maturity securities other than mortgage-backed securities:		
Fixed rate	\$ 2,465,646	\$ 4,558,154
Adjustable rate	837,080	204,000
Subtotal	3,302,726	4,762,154
Amortized cost of held-to-maturity mortgage-backed securities:		
Passthrough securities:		
Fixed rate	984,694	1,263,601
Adjustable rate	522,636	1,380,819
Collateralized mortgage obligations:		
Fixed rate	8,505,740	3,435,035
Adjustable rate	3,228,093	4,683,084
Subtotal	13,241,163	10,762,539
Total	\$16,543,889	\$15,524,693
Notional principal of associated interest rate swaps	\$ —	\$ 664,274

The effect of these interest rate swaps on interest income is disclosed in Note 14.

NOTE 6 - HELD-AT-FAIR-VALUE SECURITIES

In accordance with the provisions of SFAS 133, the interest rate exchange agreements associated with held-to-maturity securities are non-hedge qualifying. The transition provisions of SFAS 133 allowed the Bank to transfer any securities classified as "held-to-maturity" to "held-at-fair-value" (see Note 2). At December 31, 2001, held-at-fair-value securities, consisting of mortgage-backed securities, totaled \$527,870. The notional principal of interest rate swaps associated with these securities was \$513,084 at December 31, 2001. The effect of these interest rate swaps on interest income is disclosed in Note 14.

NOTE 7 - ADVANCES

Redemption Terms. At December 31, 2001 and 2000, the Bank had advances outstanding, including AHP advances (see Note 8), at interest rates ranging from 1.51% to 8.75% and 3.30% to 8.80%, respectively, as summarized below.

DECEMBER 31, 2001	AMOUNT OUTSTANDING	WEIGHTED AVERAGE INTEREST RATE
YEAR OF MATURITY		
Overdrawn demand deposit accounts	\$ 13,053	3.52%
2002	55,334,607	3.03
2003	29,084,048	3.51
2004	10,740,979	3.83
2005	1,565,130	4.24
2006	1,622,270	3.80
Thereafter	2,979,770	5.61
Subtotal	101,339,857	3.36%
Discount on AHP advances	(461)	
SFAS 133 valuation adjustments	914,278	
Deferred net loss on terminated interest rate exchange agreements	878	
Total	\$102,254,552	

DECEMBER 31, 2000	AMOUNT OUTSTANDING	WEIGHTED AVERAGE INTEREST RATE
YEAR OF MATURITY		
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
2006	113,657	6.59
Thereafter	2,694,250	6.15
Subtotal	110,031,485	6.46%
Discount on AHP advances	(609)	
Deferred net loss on interest rate exchange agreements	765	
Total	\$110,031,641	

Many of the Bank's advances are prepayable at the member's option. However, when advances are prepaid, the member is generally charged a prepayment fee that makes the Bank financially indifferent to the prepayment. Some fixed rate advances may be repaid on pertinent call dates without incurring prepayment fees (Callable Advances). At December 31, 2001 and 2000, the Bank had Callable Advances outstanding totaling \$1,443,079 and \$2,025,850, respectively.

The following table summarizes advances at December 31, 2001 and 2000, 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	2001	2000
Overdrawn demand deposit accounts	\$ 13,053	\$ 124
2001	—	60,674,225
2002	56,761,607	24,172,784
2003	27,716,048	16,830,658
2004	10,740,979	4,086,171
2005	1,525,130	1,478,616
2006	1,622,270	114,757
Thereafter	2,960,770	2,674,150
Total par value	\$ 101,339,857	\$110,031,485

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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 (Putable Advance/Termination Option) or convert the advance to an Adjustable Rate Credit advance of predetermined index and spread for the remaining term to maturity (Putable Advance/Conversion Option). The Bank's advances at December 31, 2001 and 2000, included \$2,037,700 and \$1,786,000, respectively, of Putable Advances/Termination Option. There were no Putable Advances/Conversion Option outstanding as of December 31, 2001 and 2000.

The following table summarizes advances to members at December 31, 2001 and 2000, by the earlier of the year of contractual maturity or next put date for Putable Advances:

EARLIER OF YEAR OF CONTRACTUAL MATURITY OR NEXT PUT DATE	2001	2000
Overdrawn demand deposit accounts	\$ 13,053	\$ 124
2001	—	60,399,975
2002	56,476,107	24,441,284
2003	29,443,948	17,991,908
2004	10,680,479	3,998,671
2005	1,422,130	1,305,616
2006	1,514,670	113,657
Thereafter	1,789,470	1,780,250
Total par value	\$101,339,857	\$110,031,485

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. The Bank may also accept secured small business loans, small farm, and small agribusiness 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 \$517 million for 2001 (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, 2001 and 2000, the Bank had a security interest in collateral with an estimated value in excess of outstanding advances for each member. Based on the financial condition of the borrowing member, the Bank may either (1) allow the member to physically retain mortgage collateral assigned to the Bank, provided that the member agrees to hold the collateral for the benefit of the Bank, or (2)

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, except 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, nor does management of the Bank anticipate any credit losses on advances outstanding as of December 31, 2001. 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, 2001, the Bank had a concentration of advances totaling \$79,007,521 outstanding to three members, representing 78% of total outstanding advances (45%, 22%, and 11%, respectively). The interest income from advances to these members amounted to approximately \$3,986,831 during 2001. 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, 2001 and 2000, are detailed below:

	2001	2000
Par amount of advances:		
Fixed rate	\$ 61,696,838	\$ 60,014,081
Adjustable rate	39,643,019	50,017,404
Total	\$101,339,857	\$110,031,485
Notional principal of interest rate exchange agreements associated with advances:		
Interest rate swaps	\$ 43,437,024	\$ 44,702,747
Interest rate caps purchased	1,380,110	1,178,610
Total	\$ 44,817,134	\$ 45,881,357

The effect of these interest rate exchange agreements on interest income is disclosed in Note 14.

Prepayment Fees, Net. During 2001, 2000, and 1999, 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, prior to January 1, 2001, 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 were netted with the prepayment fees on the Statements of Income. Starting January 1, 2001, the resulting gains or losses were recognized in accordance with SFAS 133 (see Note 2). These transactions during the years ended December 31, 2001, 2000, and 1999, are summarized in the following table:

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	2001	2000	1999
Prepayment fees received	\$ 5,953	\$ 811	\$ 1,398
Net (losses)/gains on interest rate exchange agreements associated with prepaid advances	—	(419)	701
Prepayment fees, net	\$ 5,953	\$ 392	\$ 2,099
Advance principal prepaid	\$1,859,685	\$ 854,135	\$ 537,000

NOTE 8 – 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 households. 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 12). 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 2001, 2000, or 1999. The Bank set aside \$47,177, \$41,843, and \$31,651, during 2001, 2000, and 1999, 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 9 – DEPOSITS

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

Interest Rate Payment Terms. Interest rate payment terms for deposits at December 31, 2001 and 2000, are detailed in the following table:

	2001	2000
Deposits:		
Fixed rate	\$ 36,000	\$ 28,800
Adjustable rate	715,617	347,613
Total	\$ 751,617	\$ 376,413

NOTE 10 – BORROWINGS

At times the Bank enters into sales of securities under agreements to repurchase (repurchase agreements) with 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 during 2000, and the maximum amount outstanding at any monthend during

2000 was \$400,000. There were no repurchase agreements outstanding during 2001 or at December 31, 2000.

The Bank had other borrowings due to a member at December 31, 2001, of \$200,000, bearing interest at the overnight Federal funds rate.

NOTE 11 – 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 obligation 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 obligation 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 discontinued issuing debt on behalf of the FHLBanks; instead, all new debt is jointly issued by the FHLBanks through the Office of Finance, which serves as their agent.

The par amount of the outstanding consolidated obligations of all the FHLBanks, including consolidated obligations held by other FHLBanks, was approximately \$637,331,833 and \$614,064,795 at December 31, 2001 and 2000, 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 credit rating at least equivalent to the current assessment or credit 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 FHLBanks' outstanding consolidated obligations and other unsecured senior liabilities above 20 times the FHLBanks' total capital. The Finance Board's Financial Management Policy also applied these limits on an FHLBank-by-FHLBank basis. The final rule generally limits each FHLBank's assets to no more than 21 times its capital. Nevertheless, an FHLBank whose non-mortgage assets, after deducting deposits and capital, do not exceed 11% of its assets may have total assets in an amount not greater than 25 times its capital. At December 31, 2001, the Bank's total assets to capital and non-mortgage assets to total assets ratios were 19.9x and 8.07%, respectively.

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To provide the holders of consolidated obligations issued prior to January 29, 1993 (prior bondholders), protection equivalent to that provided under the FHLBanks' previous leverage limit of 12 times the FHLBanks' aggregate 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, 2001 and 2000, was 5.2% and 5.0%, respectively, of the par value of consolidated obligations outstanding, and the SAA balance was approximately \$28,343 and \$37,100 respectively. The Bank's share of this SAA balance was approximately \$5,899 and \$8,000 at December 31, 2001 and 2000, respectively. Further, each FHLBank is required 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 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; "zero-coupon bonds," which are long-term discounted instruments that earn a fixed yield to maturity or to the optional principal redemption date, and for which all principal and interest are paid at maturity or at the optional principal redemption date, if exercised prior to maturity; and "index amortizing notes," which repay principal according to predetermined amortization schedules that are linked to the level of a certain index. As of December 31, 2001, most of the index amortizing notes had fixed rate coupon payment terms. Usually, as market interest rates fall, the maturity of the index amortizing notes contracts.

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

DECEMBER 31, 2001		
YEAR OF MATURITY	AMOUNT OUTSTANDING	WEIGHTED AVERAGE INTEREST RATE
2002	\$ 36,128,780	3.96%
2003	31,208,625	3.46
2004	15,110,800	4.73
2005	6,389,600	5.29
2006	8,048,200	5.06
Thereafter	6,768,890	5.72
Index amortizing notes	180,000	5.30
Total par value	103,834,895	4.21%
Concessions	(27,700)	
Bond premiums	17,860	
Bond discounts	(61,968)	
SFAS 133 valuation adjustments	894,045	
Total	\$ 104,657,132	

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
2006	409,500	6.46
Thereafter	1,096,075	6.14
Total par value	97,426,225	6.06%
Concessions	(6,914)	
Bond premiums	18,425	
Bond discounts	(72,117)	
Deferred net loss on terminated interest rate exchange agreements	(11)	
Total	\$ 97,365,608	

The Bank's participation in consolidated obligation bonds outstanding at December 31, 2001 and 2000, includes callable bonds of \$36,859,640 and \$39,487,850, respectively. Contemporaneous with such callable bond 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 bond (a sold callable swap). The combined sold callable swap and callable bond 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 fixed rate callable advances (see Note 7) and fixed rate mortgage-backed securities.

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

	2001	2000
Par amount of consolidated obligation bonds:		
Non-callable	\$ 66,975,255	\$ 57,938,375
Callable	36,859,640	39,487,850
Total	\$ 103,834,895	\$ 97,426,225

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The following is a summary of the Bank's participation in consolidated obligation bonds outstanding at December 31, 2001 and 2000, 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, 2001	DECEMBER 31, 2000
2001	\$ —	\$68,373,000
2002	56,575,120	19,548,950
2003	33,408,800	6,717,800
2004	9,968,500	1,265,000
2005	618,900	490,900
2006	2,062,500	204,500
Thereafter	1,021,075	826,075
Index amortizing notes	180,000	—
Total	\$103,834,895	\$97,426,225

Interest Rate Payment Terms. Interest rate payment terms for consolidated obligations at December 31, 2001 and 2000, and the notional principal of the interest rate exchange agreements associated with consolidated obligations at December 31, 2000, are detailed in the following table:

	2001	2000
Par amount of consolidated obligations:		
Bonds:		
Fixed rate	\$ 73,477,155	\$ 78,276,775
Adjustable rate	25,205,000	17,320,000
Step-up	2,805,000	537,550
Comparative index	1,777,740	301,900
Zero-coupon	390,000	825,000
Index amortizing notes	180,000	—
Inverse floating	—	165,000
Total bonds, par	103,834,895	97,426,225
Discount notes, par	21,362,047	32,477,869
Total consolidated obligations, par	\$125,196,942	\$129,904,094
Notional principal of associated interest rate swaps	\$ 98,570,192	\$109,230,995

The effect of these interest rate swaps on interest expense is disclosed in Note 14.

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

	2001		2000	
	AMOUNT OUTSTANDING	WEIGHTED AVERAGE INTEREST RATE	AMOUNT OUTSTANDING	WEIGHTED AVERAGE INTEREST RATE
Par value	\$21,362,047	2.37%	\$32,477,869	6.25%
Discounts	(82,882)		(362,774)	
Concessions	(433)		(612)	
SFAS 133 valuation adjustments	3,887		—	
Deferred net loss on terminated interest rate exchange agreements	—		(17,052)	
Total	\$21,282,619		\$32,097,431	

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, 2001.

Extraordinary Item - Early Retirement of Debt. During 2001, 2000, and 1999, 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. Prior to January 1, 2001, the resulting gain or loss, if material, was netted with the gain or loss on the early retirement of debt. Starting January 1, 2001, the resulting gain or loss is recognized in accordance with SFAS 133 (see Note 2). The 2001, 2000, and 1999 transactions are summarized in the following table:

	2001	2000	1999
(Loss)/gain on sale of consolidated obligations to other FHLBanks	\$ —	\$ (73)	\$ 772
(Loss)/gain on retirement of consolidated obligations	(555)	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 (loss)/gain	\$ (555)	\$ 1,346	\$ 1,346
Par value retired	\$110,000	\$1,237,450	\$533,650

NOTE 12 - CAPITAL

The Gramm-Leach-Bliley Act (GLB Act) will lead to a number of changes in the capital structure of the FHLBanks. On January 30, 2001, the Finance Board published a final capital rule requiring each FHLBank to submit a capital plan to the Finance Board for approval. The Bank submitted its proposed capital plan on October 29, 2001. Until an FHLBank fully implements its new capital plan, 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 GLB 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 an FHLBank's capital 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

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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 GLB 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 GLB 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 reapply 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 \$6,496, \$7,079, and \$10,716, at December 31, 2001, 2000, and 1999, respectively.

In accordance with the retained earnings policy of the Bank, effective January 1, 2001, the Bank retains in restricted retained earnings any cumulative net gains in earnings (net of applicable assessments) resulting from SFAS 133. Retained earnings restricted in accordance with this policy totaled \$50,805 at December 31, 2001. The Bank's retained earnings in the future may not be sufficient to offset the full impact of SFAS 133. As a result, the effect of SFAS 133 may lead to increased volatility in future earnings and dividends.

The Bank's Board of Directors may declare and pay, either in cash or capital stock, dividends only from retained earnings or current net earnings.

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 FHLBanks' 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 FHLBanks' aggregate 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.

Effective January 1, 2000, the GLB 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 and 2001 defeased all future benchmark annuity payments after the second quarter of 2023 and \$51,289 of the \$75,000 benchmark annuity payment for the second quarter of 2023.

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 \$363,390 and \$367,624 in surplus capital stock in 2001 and 2000, respectively. At December 31, 2001, surplus capital stock subject to mandatory redemption in January 2002 was \$285,994.

As of December 31, 2001, the Bank had a concentration of capital stock totaling 49.5 million shares outstanding to three members, representing 74% of total capital stock outstanding (41%, 22%, and 11%, respectively).

NOTE 13 - 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 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 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 \$4,466 and \$1,132, respectively, at December 31, 2001, and \$4,044 and \$2,329, respectively, at December 31, 2000. The periodic pension cost for the years ended December 31, 2001 and 2000, totaled \$843 and \$769, respectively.

Prior to January 1, 2002, the Bank participated in the Financial Institutions Thrift Plan, a defined contribution savings plan. Contributions to this plan consisted of elective participant contributions and a Bank matching contribution of up to 6% of those participant contributions (based on compensation). The Bank contributed approximately \$634, \$572, and \$521, in 2001, 2000, and 1999, respectively, to the plan. Effective January 1, 2002, the Bank withdrew its participation in the Financial Institutions Thrift Plan and implemented a successor defined contribution savings plan, the Federal Home Loan Bank of San Francisco Savings Plan. Contributions to the successor plan also consist of elective participant contributions and a Bank matching contribution of up to 6% of those participant contributions (based on compensation).

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, 2001 and 2000, was \$8,082 and \$7,045, respectively.

NOTE 14 – INTEREST RATE EXCHANGE AGREEMENTS

The contractual or notional amounts of interest rate exchange agreements reflect the extent of the Bank's involvement in particular classes of financial instruments. 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 and on the Bank's netting arrangements and 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, 2001 and 2000, the Bank's maximum credit risk, as defined above, was approximately \$479,860 and \$137,000, respectively, including \$231,041 and \$102,307 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 investment grade securities with a fair value of \$421,000 and \$67,000 as collateral from counterparties as of December 31, 2001 and 2000, respectively. This collateral has not been sold or pledged.

A significant number of the Bank's interest rate exchange agreements are transacted with financial institutions such as major banks and broker-dealers. 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 16.

The notional principal by class type of designated interest rate exchange agreements associated with held-at-fair-value securities, advances, and consolidated obligations outstanding at December 31, 2001 and 2000, is detailed in Notes 6, 7, and 11, 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 exchange agreements in which the Bank is an intermediary at December 31, 2001 and 2000, was \$820,200 and \$1,145,400, 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. As mentioned in Note 2, as a result of the adoption of SFAS 133, the remaining unamortized balance of the deferred losses at December 31, 2000, was recognized in accumulated other comprehensive income in January 2001 as part of the cumulative effect of adopting SFAS 133. The unamortized balance of these deferred losses at December 31, 2001, is \$4,848 and is reflected in accumulated other comprehensive loss.

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Income Effect. The effect of the Bank's interest rate exchange agreements for the years ended December 31, 2001, 2000, and 1999, was to increase or (decrease) interest income and interest expense as follows:

	2001	2000	1999
Interest income:			
Advances	\$(534,604)	\$ 151,402	\$ (68,651)
Held-to-maturity securities	—	(179)	(7,549)
Held-at-fair-value securities	(12,655)	—	—
Resale agreements	—	—	(16)
Interest expense:			
Consolidated obligations	(995,627)	312,218	(143,583)
Net Interest Income	\$ 448,368	\$(160,995)	\$ 67,367

NOTE 15 – 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.

Held-to-Maturity and Held-at-Fair-Value 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.

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

Deposits. 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, 2001 and 2000.

The estimated fair values of the Bank's financial instruments at December 31, 2001 and 2000, were as follows:

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FAIR VALUE OF FINANCIAL INSTRUMENTS – 2001

	CARRYING VALUE	NET UNREALIZED GAINS/(LOSSES)	ESTIMATED FAIR VALUE
ASSETS			
Cash and due from banks	\$ 1,889	\$ —	\$ 1,889
Interest-bearing deposits in banks	4,487,000	—	4,487,000
Securities purchased under agreements to resell	2,150,000	—	2,150,000
Federal funds sold	8,445,000	—	8,445,000
Held-to-maturity securities	16,543,889	152,184	16,696,073
Held-at-fair-value securities	527,870	—	527,870
Advances	102,254,552	115,123	102,369,675
Loans to other Federal Home Loan Banks	25,000	—	25,000
Accrued interest receivable	418,606	—	418,606
Derivative assets	479,860	—	479,860
Other assets	22,072	—	22,072
Total	\$ 135,355,738	\$ 267,307	\$ 135,623,045
LIABILITIES			
Deposits	\$ 751,617	\$ (8)	\$ 751,625
Other borrowings	200,000	—	200,000
Consolidated obligations:			
Bonds	104,657,132	(80,036)	104,737,168
Discount notes	21,282,619	(27,301)	21,309,920
Accrued interest payable	1,080,127	—	1,080,127
Derivative liabilities	372,812	—	372,812
Other liabilities	201,967	—	201,967
Total	\$ 128,546,274	\$ (107,345)	\$ 128,653,619

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FAIR VALUE OF FINANCIAL INSTRUMENTS – 2000

	CARRYING VALUE	NET UNREALIZED GAINS/(LOSSES)	ESTIMATED FAIR VALUE
ASSETS			
Cash and due from banks	\$ 4,584	\$ —	\$ 4,584
Interest-bearing deposits in banks	2,698,000	(11,684)	2,686,316
Securities purchased under agreements to resell	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
Total	\$ 140,190,008	\$ 161,806	\$ 140,351,814
LIABILITIES			
Deposits	\$ 376,413	\$ —	\$ 376,413
Consolidated obligations:			
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
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
Total	\$ 133,897,863	\$ (32,691)	\$ 133,930,554

FAIR VALUE SUPPLEMENTAL TABLE

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 table categorizes interest rate swap agreements as non-cancelable, cancelable by the counterparty, and cancelable by the Bank as of December 31, 2000.

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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)

NOTE 16 – COMMITMENTS AND CONTINGENCIES

As indicated in Note 11, 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 on to repay all or a portion of such obligations.

Commitments that legally bind and obligate the Bank for additional advances totaled approximately \$67,786 and \$445,000 at December 31, 2001 and 2000, respectively. Commitments are generally for periods up to 12 months. Outstanding standby letters of credit were approximately \$841,483 and \$682,713 at December 31, 2001 and 2000, 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 7).

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 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 long-term credit ratings of single-A or better from both Standard & Poor's and Moody's Investors Service. The Bank enters into bilateral security agreements with all counterparties. As of December 31, 2001 and 2000, the Bank had pledged as collateral securities with a carrying value of \$290,302 and \$360,636, respectively, to broker-dealers that have credit risk exposure to the Bank related to interest rate exchange agreements. In addition, as of December 31, 2001,

the Bank had pledged securities with a carrying value of \$1,159,135 as collateral to the Federal Reserve Bank of San Francisco as part of the Bank's contingent borrowing plans at that time.

The Bank charged operating expenses for net rental costs of approximately \$3,382, \$3,004, and \$2,047 for the years ending December 31, 2001, 2000, and 1999, respectively. Future minimum rentals at December 31, 2001, were as follows:

YEAR	PREMISES	EQUIPMENT	TOTAL
2002	\$ 2,945	\$ 56	\$ 3,001
2003	2,938	36	2,974
2004	3,072	21	3,093
2005	3,171	20	3,191
2006	3,192	1	3,193
Thereafter	8,059	—	8,059
Total	\$23,377	\$134	\$23,511

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 operations.

The Bank is subject to various pending legal proceedings arising in the normal course of business. In June 2001, a Bank member obtained an arbitration award of \$7.9 million plus \$2.0 million in interest and costs in a dispute relating to certain advance transactions. The arbitration agreement provided either party with the right to seek independent review of the legal issues by the federal district court, and the Bank exercised that right. The Bank expects the district court to issue a decision in early 2002. After consultation with legal counsel, management believes that although an unfavorable outcome is reasonably possible, it is not probable at this time.

Other commitments and contingencies are discussed in Notes 8, 11, 12, and 14.