United States General Accounting Office

GAO

Report to the Congress

June 1986

FINANCIAL AUDIT

Federal Home Loan Banks' Financial Statements for 1984

GAO/AFMD-86-23

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-206830

June 10, 1986

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our reviews of independent certified public accountants' audits of the calendar year 1984 financial statements of the 12 Federal Home Loan Banks. In the auditors' opinions, the statements of each bank are presented fairly. We found the audits were conducted in accordance with generally accepted government auditing standards, and we found nothing to indicate that the auditors' opinions are inappropriate or cannot be relied on.

The banks were established under the authority of the Federal Home Loan Bank Act of 1932 (12 U.S.C. 1423) and are mixed-ownership government corporations (31 U.S.C. 9101). The banks were established to promote home ownership by serving as a lending facility for member savings institutions. The banks raise funds for this purpose primarily through the sale of consolidated debt instruments that are the obligation of all the banks. The banks are subject to oversight by the Federal Home Loan Bank Board, which was established by the Federal Home Loan Bank Act of 1932 (12 U.S.C. 1437) and is an independent agency in the executive branch.

The Bank Board contracts for an annual audit of the financial statements of the 12 banks. The Government Corporation Control Act (31 U.S.C. 9105) requires the Comptroller General to audit the financial transactions of the 12 Federal Home Loan Banks triennially. To fulfill our audit responsibilities, avoid unnecessary duplication and expense, and make the most efficient use of our available resources, we reviewed the work and reports of the independent certified public accountants who audited each of the banks. Deloitte Haskins & Sells audited the financial statements of the Federal Home Loan Banks of Atlanta, Chicago, Cincinnati, Des Moines, Dallas, San Francisco, and Topeka. Peat, Marwick, Mitchell & Co. audited the financial statements of the Federal Home Loan Banks of Boston, Indianapolis, New York, Pittsburgh, and Seattle.

We conducted our reviews of the auditors' work in accordance with generally accepted government auditing standards. To determine the reasonableness of the auditors' work and the extent to which we could rely on it, we

- interviewed Federal Home Loan Bank Board officials to obtain information about the banks' operations, including their system of financial records and the preparation of their financial statements;
- interviewed the auditors to identify the audit approach and the methods used to control the quality of audit work;
- evaluated information about the qualifications and independence of the auditors;
- reviewed the banks' financial statements and the auditors' reports for compliance with generally accepted accounting principles and generally accepted government auditing standards; and
- reviewed the auditors' working papers to determine (1) the nature, timing, and extent of audit work performed, (2) the extent of audit quality control methods used by the auditors, (3) whether there was a study and evaluation of the banks' internal controls, (4) whether the auditors tested transactions for compliance with applicable laws and regulations, and (5) whether the evidence in the working papers supports the auditors' opinions on the financial statements.

In the opinion of the independent certified public accountants auditing the banks, each bank's financial statements present fairly its financial position as of December 31, 1984, the results of its operations, and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

During our reviews, we found nothing which would indicate that the independent certified public accountants' opinions on the banks' 1984 financial statements are inappropriate or that they cannot be relied on. Also, auditors of each bank provided a report on internal controls and a report on compliance with laws and regulations to the bank's board of directors. The auditors' reports did not disclose any material internal control weaknesses or noncompliance with laws and regulations.

We believe that the financial statements, together with the independent auditors' opinions and our review of that work, constitute a dependable basis for the Congress' oversight of the banks' financial position. Each bank's comparative financial statements, and the auditor's opinion thereon, are presented in this report. We did not review the auditors' work supporting their opinions on the 1983 financial statements.

Reporting on the Combined Statements for the 12 Banks

The Bank Board prepares and publishes in its annual report "combined" financial statements for the 12 banks. According to a Board official, including the combined statements in the annual report helps satisfy the legislative requirement that the Board report annually to the Congress on its operations.

The Bank Board needs to improve its reporting of the combined financial condition of the 12 banks. These combined statements, which are unaudited, include interbank transactions, primarily interbank borrowings. In accordance with generally accepted accounting principles, these interbank transactions should be eliminated in preparing combined financial statements.

In addition, the banks need to standardize account descriptions in preparing their financial statements to further ensure the consistency and, thus, the reliability of the combined financial statements. Currently, in some instances, the accounts on an individual bank's audited financial statements have to be regrouped by staff at the Bank Board so that one set of account descriptions can be used for the combined financial statements. These adjustments increase the likelihood of inconsistencies between the individual bank's financial statements and the combined financial statements. We identified an example which demonstrates our concern during our review of the banks' notes to the financial statements. Each bank reports in the notes the total bank system consolidated debt as of December 31, 1984 and 1983. Early in the independent public accountants' reviews of the banks, the auditors were provided the total for consolidated debt by a Bank Board official. The amounts were $67,257 million and $51,209 million as of December 31, 1984 and 1983, respectively. However, as the audits were conducted, adjustments were made to individual bank's shares of the debt, which affected the total consolidated debt. The auditors were not provided the revised consolidated debt, which was not available until after the auditors had completed their work, and the individual banks reported the earlier totals provided by the Bank Board official. The revised amounts of total consolidated debt outstanding that should have been reported were $66,875 million and $51,221 million as of December 31, 1984 and 1983, respectively. The Bank Board official and the auditors have agreed to work more closely to prevent reoccurrence of this situation.

Although we accept the independent auditors' opinions that the financial statements of each of the 12 banks are presented fairly, we are not presenting the Bank Board's combined statements in our report since they were not prepared in accordance with generally accepted accounting principles. We advised the Bank Board officials that the accounting problems with the combined statements of the 12 banks need to be resolved, and if the Bank Board intends to continue using these statements for external reporting purposes, they should also be audited to ensure fair presentation. We support the preparation of these statements because, when properly prepared, they will provide the Congress and other interested parties with a more complete picture of the 12 banks' financial condition.

In response to our concerns, the Bank Board has taken action on these matters. The Board's request for proposal or bids for the 1986 audits of the banks includes a provision for assistance by the selected firm(s) in preparing the banks' combined financial statements and requires an audit of them.

Recent Major Bank Board Initiatives

In 1985, the Bank Board announced several actions or plans to aid the Federal Savings and Loan Insurance Corporation (FSLIC), which, if fully implemented, will involve the Federal Home Loan Banks. The Bank Board also delegated to the banks certain responsibilities that will affect their operations.

The Bank Board has outlined various initiatives to improve the financial condition of FSLIC, which it governs in addition to the banks. FSLIC is responsible for insuring the safety of deposits in member savings institutions (12 U.S.C. 1725). The insured institutions hold the capital stock of the banks. Some of the initiatives for FSLIC may affect the banks. For example, the Board directed the FSLIC on November 1, 1985, to establish a new entity under the authority provided in 12 U.S.C. 1729 to facilitate the liquidation of insured institutions. The Federal Asset Disposition Association was chartered by the Board on November 5, 1985, and is based in Denver. As of March 13, 1986, FSLIC capitalized the Association with $25 million in exchange for Association stock. The Bank Board approved a $50-million line of credit for the Association with the Federal Home Loan Bank of Topeka. FSLIC will guarantee any amounts borrowed.

Another option the Bank Board is considering would have FSLIC exercise its authority to borrow from the Federal Home Loan Banks. This borrowing authority is limited only by the financial capacity of the banks and their willingness to lend to FSLIC. As of September 1985, the Federal Home Loan Bank System is capitalized at $9 billion and has an unused

$4 billion line of credit from the U.S. Treasury. This option may also include passing the banks' line of credit through to FSLIC.

In another decision affecting the Federal Home Loan Banks, on July 6, 1985, the Bank Board delegated the responsibility for examinations of member institutions to the banks, and, at the same time, transferred its entire District Office staff to the banks. Henceforth, revenues and expenses related to the examination of savings institutions will be reflected on the financial statements of the banks. Bank Board officials made the transfer to improve the operational problems inherent in the administrative split between the examination and supervision functions and to provide a more effective organizational and individual work environment.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Chairman, Federal Home Loan Bank Board.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

FSLIC	Federal Savings and Loan Insurance Corporation

PEAT MARWICK

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
One Boston Place
Boston, Massachusetts 02108
617-723-7700

Federal Home Loan Bank Board
Washington, D.C.:

We have examined the statements of condition of the Federal Home Loan Bank of Boston as of December 31, 1984 and 1983 and the related statements of income, capital accounts, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions as promulgated by the Comptroller General and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Federal Home Loan Bank of Boston as of December 31, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Boston, Massachusetts
February 1, 1985

FEDERAL HOME LOAN BANK OF BOSTON

Statements of Condition

December 31, 1984 and 1983

Assets	1984	1983
	(in thousands)	
Cash (note 2)	$ 5,002	2,763
Investments (note 3)	473,299	530,367
Advances to members (note 4)	2,311,387	1,350,579
Loans guaranteed by the Agency for International Development, net of participations sold (note 5)	28,318	29,329
Advances to other Federal Home Loan Banks (note 6)	8,000	3,000
Accrued interest receivable	23,630	16,587
Investment in Federal Home Loan Mortgage Corporation (note 7 and 13)	7,350	7,350
Concessions on consolidated obligation bonds	1,987	1,800
Deferred charges - FHLBBoard cost of quarters and other capital expenditures	1,278	1,349
Other assets	1,599	864
	$ 2,861,850	1,943,988
Liabilities and Capital		
Liabilities:		
Members' deposits:		
Overnight	395,437	293,963
Term	61,542	20,985
IDEAL Way	93,811	45,159
Total deposits	550,790	360,107
Advances from other Federal Home Loan Banks (note 6)	88,000	28,000
Consolidated obligations (note 8):		
Bonds	1,684,360	1,227,390
Discount notes	139,399	-
Accrued interest payable	46,705	31,849
Other liabilities	251	548
Total liabilities	2,509,505	1,647,894
Contingencies and commitments (notes 8 and 12)		
Capital (note 10):		
Capital stock, $100 par value	313,484	264,509
Retained earnings:		
Legal reserve	34,208	27,598
Dividend stabilization reserve	1,695	1,029
Undivided profits	2,958	2,958
Total retained earnings	38,861	31,585
Total capital	352,345	296,094
	$ 2,861,850	1,943,988

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

FEDERAL HOME LOAN BANK OF BOSTON

Statements of Income

For the years ended December 31, 1984 and 1983

	1984	1983
	(in thousands)	
Income:		
Interest and fees on advances to members	$ 204,482	162,960
Income from investments	49,691	50,715
Interest on advances to other Federal Home Loan Banks	858	96
Interest on loans guaranteed by the Agency for International Development (note 5)	2,242	2,327
Income from investment in Federal Home Loan Mortgage Corporation (note 7)	4,300	1,972
Income from prepayment penalties	1,037	1,412
Other	246	151
Total income	262,856	219,633
Expenses:		
Interest and concessions on consolidated obligations	177,082	155,480
Interest on members' deposits	43,344	37,718
Interest on advances from other Federal Home Loan Banks	4,305	1,033
Administrative	4,264	3,388
FHLBBoard assessments	576	512
FHLBanks' Office of Finance assessments	238	211
Total expenses	229,809	198,342
Net income	$ 33,047	21,291

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

FEDERAL HOME LOAN BANK OF BOSTON

Statements of Capital Accounts

For the years ended December 31, 1984 and 1983

(in thousands)

	Capital Stock		Retained Earnings			
	Shares	Par Value	Legal Reserve	Dividend Stabilization Reserve	Undivided Profits	Total
Balance, December 31, 1982	2,394	$ 239,414	23,340	219	2,958	26,517
Proceeds from sale of capital stock	326	32,637	-	-	-	-
Redemption of capital stock	(75)	(7,542)	-	-	-	-
Net income for 1983	-	-	-	-	21,291	21,291
Statutory transfer (note 10)	-	-	4,258	-	(4,258)	-
Transfer to dividend stabilization reserve (note 10)	-	-	-	810	(810)	-
Dividends on capital stock - 6.50%	-	-	-	-	(16,223)	(16,223)
Balance, December 31, 1983	2,645	264,509	27,598	1,029	2,958	31,585
Proceeds from sale of capital stock	569	56,935	-	-	-	-
Redemption of capital stock	(79)	(7,960)	-	-	-	-
Net income for 1984	-	-	-	-	33,047	33,047
Statutory transfer (note 10)	-	-	6,610	-	(6,610)	-
Transfer to dividend stabilization reserve (note 10)	-	-	-	666	(666)	-
Dividends on capital stock - 8.75%	-	-	-	-	(25,771)	(25,771)
Balance, December 31, 1984	3,135	$ 313,484	34,208	1,695	2,958	38,861

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

FEDERAL HOME LOAN BANK OF BOSTON

Statements of Changes in Financial Position

For the years ended December 31, 1984 and 1983

	1984	1983
	(in thousands)	
Financial resources were provided from:		
Operations:		
Net income	$ 33,047	21,291
Non-cash charges to income:		
Depreciation and amortization of fixed assets - straight-line method	82	66
Amortization of discount on consolidated obligation discount notes	6,553	1,995
Amortization of concessions on consolidated obligation bonds	656	562
Amortization of FHLBBoard assessments	71	71
Amortization of deferred loss on hedge securities	361	67
Other	12	(3)
Total from operations	40,782	24,049
Net proceeds from issuance of consolidated obligations:		
Discount notes	237,846	19,698
Bonds	679,158	364,154
Advances repaid	2,896,666	1,454,256
Proceeds from sale of capital stock	56,935	32,637
Decrease in loans guaranteed by the Agency for International Development - net	1,011	1,336
Decrease (increase) in investments	57,068	(26,456)
Increase in Interbank advances - net	55,000	25,000
Increase (decrease) in members deposits	190,683	(130,495)
Increase (decrease) in accrued interest payable	14,856	(2,269)
Total	$ 4,230,005	1,761,910
Financial resources were used for:		
Payments on maturing consolidated obligations:		
Discount notes	105,000	73,000
Bonds	223,000	333,950
Advances made	3,856,118	1,329,247
Redemption of capital stock	7,960	7,542
Dividends on capital stock	25,771	16,223
Increase in accrued interest receivable	7,043	2,131
Decrease (increase) in other liabilities	297	(174)
Increase (decrease) in other assets	2,359	1,224
Decrease (increase) in deposits from application for membership	-	1,723
Additions to fixed assets	218	96
Increase (decrease) in cash	2,239	(3,052)
Total	$ 4,230,005	1,761,910

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

FEDERAL HOME LOAN BANK OF BOSTON

Notes to Financial Statements

December 31, 1984 and 1983

Organization and Related Agencies

The Federal Home Loan Bank of Boston (the Bank), a federally chartered corporation exempt from income taxes, is one of twelve District Federal Home Loan Banks (FHL-Banks) which, together with their member institutions, comprise the FHLBank System. The FHLBank System is designed to promote home ownership through the extension of credit to savings and home financing institutions. Member institutions include all federally chartered savings and loan associations, all federally chartered savings banks, and all institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Membership is also available to qualifying institutions such as state chartered, non-FSLIC insured savings associations, cooperative banks, and savings banks.

The FHLBanks are instrumentalities of the Federal government; they are owned by and serve as central credit banks for member institutions. A principal source of funds for the FHLBanks is sales to the public of debt instruments (consolidated obligations) which are the joint and several obligations of all FHLBanks. Other funds are provided by issuance of capital stock, all of which is owned by the Banks' members, and members' deposits.

The FHLBank System is governed and regulated by the Federal Home Loan Bank Board (Bank Board), which is an independent Federal agency in the executive branch of government. The Bank Board is the chartering and regulatory authority for Federal savings and loan associations and Federal savings banks. The Bank Board governs the Federal Home Loan Mortgage Corporation (the Mortgage Corporation) which is a secondary mortgage market facility. The principal function of the Mortgage Corporation is to promote the flow of capital into the housing markets by establishing an active secondary market in residential mortgages. Further, the Bank Board governs the insurance of accounts in savings and loan associations and Federal savings banks through the FSLIC. Bank Board expenses are met through assessments to the FHLBanks and the FSLIC and assessments to member institutions for examinations.

FEDERAL HOME LOAN BANK OF BOSTON

Notes to Financial Statements

December 31, 1984 and 1983

(1) Summary of Significant Accounting Policies

The more significant accounting policies not described elsewhere in the notes to the financial statements are as follows:

Investments

Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Gains and losses on sales of securities are included in income from investments.

Federal Home Loan Bank Board Assessments

The Bank expenses its pro-rata share of the Bank Board assessment for operating expenses during the year in which the assessment is levied.

The Bank Board has assessed the Bank for its portion of the cost of the Bank Board's office building in Washington, D.C. These payments are treated as a deferred charge and amortization is computed using the straight-line method over a period of twenty-five years ending in 2002.

The Bank Board also assesses the Bank for its portion of the cost of capital expenditures for furniture, equipment, and furnishings for the Bank Board's building. Payments against these assessments are treated as a deferred charge and amortization is computed using the straight-line method over a period of five years.

FHLBanks' Office of Finance Assessments

The FHLBanks' Office of Finance manages the Consolidated Securities Fund, the sale of consolidated obligations and certain accounting functions for the twelve FHLBanks as a group. Assessments for the Office's operating costs are charged directly to expense when billed.

Concessions on Consolidated Obligations

The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity of the obligations. However, the amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred because of their short-term maturities.

Discounts on Consolidated Obligation Discount Notes

The discounts from the issue of consolidated obligation discount notes are amortized to expense on the straight-line method to the maturity of the related notes.

(Continued)

FEDERAL HOME LOAN BANK OF BOSTON

Notes to Financial Statements

Hedging

The Bank is engaged in an asset/liability management program that includes the use of hedges in the cash and financial futures markets. Gains and losses on hedge transactions are deferred and amortized using the level yield method over the term to maturity of the related hedged assets or liabilities. Deferred gains and losses are reflected as an adjustment of the carrying value of the hedged assets or liabilities.

(2) Compensating Balances

The Bank has agreed to maintain average collected cash balances with various commercial banks and the Federal Reserve in consideration for various services. These arrangements are informal and there are no legal restrictions as to the withdrawal of funds. The average compensating balances were approximately $215,000 and $250,000 at December 31, 1984 and 1983, respectively.

(3) Investments

Investments at December 31 are as follows:

	1984		1983	
	Book Value	Market Value	Book Value	Market Value
	(in thousands)		(in thousands)	
U.S. Treasury obligations	$ 64,878	65,877	157,752	156,992
U.S. Government agencies	-	-	4,797	4,674
Federal funds sold	248,900	248,900	238,570	238,570
Bankers' acceptances	66,096	66,107	34,047	34,020
Participation in the FHLBanks' Consolidated Securities Fund	93,425	93,639	95,201	95,460
Total	$ 473,299	474,523	530,367	529,716

At December 31, 1984, certain U.S. Treasury bills having an amortized cost of approximately $370,000 were pledged as collateral on the Bank's interest rate futures contracts.

The FHLBanks' Consolidated Securities Fund (Fund) was established by the Bank Board to offer a centralized portfolio management system for the FHLBanks. The Fund is managed by the Office of Finance of the FHLBanks. The Fund invests primarily in short-term money market instruments.

(Continued)

3

FEDERAL HOME LOAN BANK OF BOSTON

Notes to Financial Statements

(4) Advances to Members

At December 31, 1984 and 1983, the Bank had advances outstanding to members at interest rates ranging from 7.75% to 16.50% and from 7.75% to 16.80%, respectively, as summarized below:

Year of Maturity	December 31, 1984 Amount (in thousands)	Weighted Average Interest Rate
1985	$ 1,152,048	10.60%
1986	267,993	11.90
1987	164,320	11.85
1988	276,402	11.31
1989	125,189	13.13
1990-1994	325,435	11.57
	$ 2,311,387	11.20%

Year of Maturity	December 31, 1983 Amount (in thousands)	Weighted Average Interest Rate
1984	$ 406,931	10.88%
1985	176,804	11.34
1986	143,903	11.43
1987	58,507	11.46
1988	215,202	11.31
1989-1993	349,232	11.90
	$ 1,350,579	11.36%

At December 31, 1984 and 1983, premiums of $2,361,000 and $1,004,000 realized from closed cash market positions entered into as anticipatory hedges have been included in the cost basis of advances and such premiums are being amortized.

Outstanding advances aggregating $2,309,026,000 at December 31, 1984 and $1,349,575,000 at December 31, 1983, were collateralized by pledged investment securities and first mortgage loans of members. The capital stock of the Bank owned by borrowing members is also pledged as additional collateral for outstanding advances. Bank regulations permit a borrowing member to physically retain collateral assigned to the Bank, and in such circumstances, the member executes a written pledge and security agreement which describes the type of collateral and agrees to hold such collateral for the benefit of and subject to the direction and control of the Bank. The Bank may, however, require an association to place physical possession of such collateral with the Bank's safekeeping agent.

(Continued)

FEDERAL HOME LOAN BANK OF BOSTON

Notes to Financial Statements

The Bank participated in the Community Investment Fund, a five-year advances program initiated in June 1978. The program provided funds to members meeting eligibility criteria for active involvement in preserving and revitalizing older communities. As of December 31, 1984, advances of $115,670,900 were outstanding under this program for an average maturity of two years at rates ranging from 8.65% to 16.50%.

(5) Loans Guaranteed by the Agency for International Development

The Agency for International Development (AID) was established by the Foreign Assistance Act of 1961, as amended. Under Sections 221 and 222 of the Act, AID issues guarantees backed by the full faith and credit of the United States of America to eligible U. S. investors insuring against loss of investments, including unpaid accrued interest, in certain housing projects. The Bank qualifies as an eligible investor.

Under contracts of guaranty, the Bank may, without the approval of AID, sell participating interests to members of any FHLBank. The outstanding loan balances, reported net of participations totaling $94,784,000 and $98,583,000 at December 31, 1984 and 1983, respectively, bear interest at annual rates ranging from 7.50% to 9.00%, and mature between 1990 and 2003.

(6) InterBank Advances

The Bank made advances to and received advances from other Federal Home Loan Banks. The following is a summary at December 31:

	1984			1983		
		(in thousands)			(in thousands)	
	Maturity date	Principal amount	Interest rate	Maturity date	Principal amount	Interest rate
Advances to other Banks	9/21/91	$ 3,000	11.82%	9/21/91	$ 3,000	11.82%
	2/12/88	5,000	11.61			
		$ 8,000				
Advances from other Banks	3/21/88	$ 10,000	10.49%	3/21/88	$ 10,000	10.49%
	11/07/85	5,000	11.08	11/07/85	5,000	11.08
	11/07/85	8,000	11.13	11/07/85	8,000	11.13
	12/26/85	5,000	11.23	12/26/85	5,000	11.23
	5/13/86	10,000	11.10		$ 28,000	
	1/28/85	50,000	8.31			
		$ 88,000				

(Continued)

FEDERAL HOME LOAN BANK OF BOSTON

Notes to Financial Statements

(7) Investment in Federal Home Loan Mortgage Corporation

The investment in the Mortgage Corporation is stated at cost and consists of 4,900 shares of nonvoting common stock with a par value of $4,900,000, and a $2,450,000 subordinated capital debenture, due June 20, 1987. The Mortgage Corporation paid a dividend of $4,018,000 in 1984 and $1,690,500 in 1983 to the Bank on its investment in the Mortgage Corporation capital stock. The subordinated capital debenture issued on June 20, 1980, bears an interest rate of 11.50%, per annum, payable semi-annually; may not be sold, transferred, exchanged or pledged without the express written consent of the Mortgage Corporation; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the Mortgage Corporation; and may be redeemed in whole or in part on or after June 20, 1985, at specified redemption prices at the option of the Mortgage Corporation.

(8) Consolidated Obligations

Consolidated Federal Home Loan Bank obligations are the joint and several obligations of all FHLBanks (see "Organization and Related Agencies" above). The outstanding obligations of all FHLBanks, including the pass-throughs to the Mortgage Corporation (see note 12), were $67,257,265,000 and $51,208,979,000 at December 31, 1984 and 1983, 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, obligations of or fully guaranteed by the United States, secured advances, and federally insured or guaranteed mortgages. The FHLBanks were in compliance with this requirement at December 31, 1984 and 1983.

The following is a summary of the Bank's participation in consolidated obligations:

	December 31, 1984 (in thousands)		
	Bonds		
Years of Maturity	Range of Coupon Rates	Weighted Average Interest Rate	Outstanding
1985	8.10% - 15.00%	12.04%	$ 534,034
1986	9.55 - 16.40	12.89	265,038
1987	10.30 - 12.63	11.69	196,042
1988	10.15 - 14.20	10.88	245,040
1989	11.38 - 15.10	12.91	124,042
1990-1993	10.70 - 11.95	11.11	320,164
			$ 1,684,360

	Discount Notes	
	Book value	Par value
Due within one year	$ 139,399	148,800

(Continued)

FEDERAL HOME LOAN BANK OF BOSTON

Notes to Financial Statements

	December 31, 1983 (in thousands)		
	Bonds		
Years of Maturity	Range of Coupon Rates	Weighted Average Interest Rate	Outstanding
1984	7.75% - 16.40%	12.72%	$ 223,031
1985	8.13 - 15.00	13.19	224,034
1986	9.55 - 16.40	13.50	120,039
1987	10.30 - 11.35	10.97	66,041
1988	10.15 - 14.20	10.86	210,040
1989-1993	10.70 - 14.55	11.59	384,205
			$ 1,227,390

There were no Discount Notes outstanding at December 31, 1983.

At December 31, 1984 and 1983, discounts of $360,000 and $390,000 realized from closed interest rate futures contracts entered into as anticipatory hedges have been included in the cost basis of consolidated obligations and such discounts are being accreted.

(9) Borrowings from the U. S. Treasury

Section 11(i) of the Federal Home Loan Bank Act authorizes the Secretary of the Treasury, at his discretion, to extend credit to the FHLBanks aggregating not more than $4 billion, the terms, conditions, and interest rate to be determined by the Secretary of the Treasury. There were no outstanding borrowings from the U.S. Treasury as of December 31, 1984 or 1983.

(10) Capital

The capital stock of the Bank has a par value of $100 per share. Capital stock held by members in excess of their statutory requirement may be redeemed at par value by the Bank or sold to other Bank members at par value provided the resulting stock transfer is recorded on the books of the Bank.

Retained earnings of the Bank consist of undivided profits, a legal reserve, and a dividend stabilization reserve. The Bank must transfer 20% of its net income to the legal reserve semiannually until the reserve equals the capital stock amount. Thereafter, 5% of the Bank's net income must be allocated for this purpose.

In 1983 and 1984 dividends were permitted only to the extent of current year's net income and the dividend stabilization reserve and were authorized to be paid either annually or semiannually. In addition, the Bank Board required that the Bank retain in the dividend stabilization reserve that portion of income from prepayment penalties which, if allocated on a pro rata basis over the maturity of the advances prepaid, would be allocated to future dividend periods. Dividends may be paid in the form of capital stock if authorized by the Board of Directors.

(Continued)

FEDERAL HOME LOAN BANK OF BOSTON

Notes to Financial Statements

(11) Employee Retirement Plan

The Bank is a participating employer in the Financial Institutions Retirement Fund (FIRF) and substantially all of its officers and employees are covered by the Plan. The Bank's contributions are determined by FIRF and generally represent the normal cost of the Plan (unfunded prior service costs are not significant). Pension costs charged to administrative expense were $124,000 in 1984, and $116,000 in 1983, which includes amortization of past service cost over ten years. The Bank's policy is to fund pension costs accrued. FIRF does not segregate the assets or the liabilities by participating employer and accordingly disclosures of accumulated vested and non-vested benefits and net assets available for benefits required by Statement of Financial Accounting Standards No. 36 are not possible. According to FIRF's administrators, as of June 30, 1984, the date of the latest actuarial valuation, the book and market values of the fund assets exceeded the value of vested benefits in the aggregate.

(12) Commitments and Contingencies

The Bank's lease agreement for office space provides for an increase in basic rent because of increased property taxes and maintenance expense. Rental expense of $340,000 in 1984 and $294,000 in 1983 have been charged to administrative expense. The Bank entered into a ten-year lease arrangement in December 1984, for office space at One Financial Center and will be moving its operations during 1985. The Bank anticipates negotiating a settlement of the lease for the office space at One Federal Street, which expires December 1986, and expects to sublet approximately one-third of the office space available at One Financial Center. Future minimum rentals are as follows:

Year ended December 31	Amount
1985	$ 1,298,000
1986	2,134,000
1987	1,672,000
1988	1,672,000
1989	1,672,000
1990-1995	10,640,000
Total minimum rentals	19,088,000
Less: minimum sublease rentals	242,400
	$ 18,845,600

The components of rental expense for the years ended December 31 were as follows:

	1984	1983
Minimum rentals	$ 462,000	276,000
Taxes and maintenance	126,000	99,000
Less sublease rentals	(248,000)	(81,000)
	$ 340,000	294,000

(Continued)

FEDERAL HOME LOAN BANK OF BOSTON

Notes to Financial Statements

The Bank had outstanding sales and purchase commitments under interest rate future contracts entered into as anticipatory hedges at December 31, 1984 as follows:

Type	Number of Contracts	Sale Date	Weighted Purchase Cost	Market Value	Unrealized Discount
Treasury Notes	157	March, 1985	12,726,812	12,628,687	98,125
Treasury Bills	8	March, 1985	1,824,600	1,834,400	9,800

As described in note 1, the premium or discount at the time the futures position is closed, will be deferred and amortized over the average life of the underlying asset or liability.

Interest Rate Swaps - An interest rate swap is a contractual interest exchange agreement in which, for a predetermined period, one party agrees to make periodic fixed interest rate payments to another party in return for receiving variable interest rate payments. At December 31, 1984, the Bank had outstanding $28,500,000 in underlying notional principal of interest rate swap agreements. The net interest income amounted to $130,000 for 1984.

As provided for in Section 306(c) of the Federal Home Loan Mortgage Corporation Act, the Bank Board has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the Federal Home Loan Bank of New York. Each of the FHLBanks participates in the guarantee in proportion to its investment in the common stock of the Mortgage Corporation (see note 7). At December 31, 1984, the FHLBanks have guaranteed $1,790,000,000 of the Mortgage Corporation's borrowings from the Federal Home Loan Bank of New York, in the form of pass-throughs of the proceeds of certain consolidated obligations.

(13) Federal Home Loan Mortgage Corporation Preferred Stock

On December 6, 1984, the Mortgage Corporation created a new class of participating preferred stock (preferred stock) and authorized the distribution of such preferred stock to the 12 FHLBanks which, in turn, distributed the preferred stock to their member institutions that were stockholders of record as of December 31, 1984.

The Federal Home Loan Bank of Boston received and distributed to its member institutions 735,000 shares of such preferred stock of the Mortgage Corporation.

The Mortgage Corporation resolution that authorized the distribution of the preferred stock required that such preferred stock be distributed to the member institutions as a condition of the FHLBanks' receipt of the stock. Because the FHLBanks did not have the benefits of ownership of the preferred stock at any time, for finanical reporting purposes it has not been reported as an asset or income of the FHLBanks or as a dividend to the member institutions.

In any future calendar year, unless and until dividends on the preferred stock in the aggregate amount of $10 million have been declared and paid or set apart for payment, no dividend may be declared or paid or set apart for payment on the common stock of the Mortgage Corporation. Thereafter in such year, holders of outstanding preferred stock will be entitled to recieve in the aggregate $90 in dividends for every $10 in dividends paid on the common stock in the aggregate.

Indianapolis

PEAT MARWICK

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
1201 Merchants Plaza
101 West Washington Street
Indianapolis, Indiana 46204

To the Federal Home Loan Bank Board
Washington, D.C.:

We have examined the statements of condition of the Federal Home Loan Bank of Indianapolis as of December 31, 1984 and 1983, and the related statements of income, capital accounts and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions issued by the Comptroller General of the United States (1981 Revision) and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Federal Home Loan Bank of Indianapolis at December 31, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Indianapolis, Indiana
January 25, 1985

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Statements of Condition

December 31, 1984 and 1983

(in thousands)

Assets	1984	1983
Cash (note 2)	$ 87,972	49,349
Investments (note 3)	752,029	454,851
Advances to members (note 4)	4,380,936	3,751,043
Loans to other Federal Home Loan Banks (note 5)	-	4,593
Accrued interest receivable	28,882	19,391
Furniture, equipment, and leasehold improvements, net	901	682
Investment in Federal Home Loan Mortgage Corporation (note 6)	7,350	7,350
Concessions and discount on consolidated obligation - bonds	4,964	4,751
Deferred charges - Bank Board cost of quarters and other capital expenditures	1,401	1,479
Other assets	1,948	1,008
Total assets	$ 5,266,383	4,294,497

Liabilities and Capital

Liabilities:		
Member deposits:		
Demand	$ 155,022	145,306
Overnight	493,782	282,599
Term	22,827	68,354
Total deposits	671,631	496,259
Interbank borrowings (note 7)	308,000	423,000
Consolidated obligations (note 8):		
Bonds	3,403,269	2,616,844
Discount notes	315,765	284,089
Accrued interest payable	107,132	76,031
Other liabilities	8,752	2,083
Total liabilities	4,814,549	3,898,306
Contingencies and commitments (notes 6, 12 and 13)		
Capital (note 10):		
Capital stock, $100 par value	361,558	332,782
Retained earnings:		
Legal reserve	60,736	46,690
Dividend stabilization reserve	25,290	12,469
Undivided profits	4,250	4,250
Total retained earnings	90,276	63,409
Total capital	451,834	396,191
Total liabilities and capital	$ 5,266,383	4,294,497

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

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Statements of Income

Years ended December 31, 1984 and 1983

(in thousands)

	1984	1983
Income:		
Interest on advances to members	$ 487,402	386,977
Income from prepayment fees	5,812	5,116
Income from investments	51,098	32,489
Earned commitment fees	2,408	4,302
Income from service to members	6,350	4,000
Interest and dividend from Federal Home Loan Mortgage Corporation (note 6)	4,300	1,972
Interest on loans to other FHLBanks	391	14
Other income	63	8
Total income	557,824	434,878
Expenses:		
Interest and concessions on consolidated obligations	390,445	305,980
Interest on member deposits	47,673	33,762
Interest on interbank borrowings	40,115	33,238
Other interest	815	152
Bank Board assessments	687	566
FHLBanks' Office of Finance assessments	233	223
Other operating expense	7,624	6,092
Total expenses	487,592	380,013
Net income	$ 70,232	54,865

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

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Statements of Capital Accounts

Years ended December 31, 1984 and 1983

(in thousands)

	Capital stock		Retained earnings		
	Shares	Par value	Legal reserve	Dividend stabilization reserve	Undivided profits
Balance, January 1, 1983	2,745	$ 274,507	35,717	3,901	4,250
Proceeds from sale of capital stock	633	63,294	-	-	-
Redemption of capital stock	(50)	(5,019)	-	-	-
Net income for 1983	-	-	-	-	54,865
Statutory transfer (note 10)	-	-	10,973	-	(10,973)
Transfer to dividend stabilization reserve (note 10)	-	-	-	8,568	(8,568)
Cash dividends on capital stock for the six month periods ended June 30 and December 31 (11.75% and 11.5% annualized, respectively) (note 10)	-	-	-	-	(35,324)
Balance, December 31, 1983	3,328	332,782	46,690	12,469	4,250
Proceeds from sale of capital stock	432	43,226	-	-	-
Redemption of capital stock	(144)	(14,450)	-	-	-
Net income for 1984	-	-	-	-	70,232
Statutory transfer (note 10)	-	-	14,046	-	(14,046)
Transfer to dividend stabilization reserve (note 10)	-	-	-	12,821	(12,821)
Cash dividends on capital stock for the six month periods ended June 30 and December 31 (12% and 13% annualized, respectively) (note 10)	-	-	-	-	(43,365)
Balance, December 31, 1984	3,616	$ 361,558	60,736	25,290	4,250

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

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Statements of Changes in Financial Position

Years ended December 31, 1984 and 1983

(in thousands)

	1984	1983
Financial resources were provided from:		
Operations:		
Net income	$ 70,232	54,865
Noncash charges to income:		
Depreciation and amortization of furniture, equipment and leasehold improvements	137	111
Amortization of concessions on consolidated obligations - bonds	1,299	1,073
Amortization of discounts on consolidated obligations - discount notes	31,169	13,907
Amortization of Bank Board assessments	78	78
Other	434	-
Total from operations	103,349	70,034
Net proceeds from issuance of consolidated obligations:		
Discount notes	677,566	451,702
Bonds	1,203,054	1,301,587
Advances repaid	898,439	1,214,826
Proceeds from sale of capital stock	43,226	63,294
Net change in interbank loans and borrowings	(110,407)	218,407
Net increase in member deposits	175,372	102,261
Increase in accrued interest payable	31,101	20,791
Increase in other liabilities	7,385	1,345
Total	$ 3,029,085	3,444,247
Financial resources were used for:		
Payments on maturing consolidated obligations:		
Discount notes	$ 677,350	391,550
Bonds	419,000	565,000
Advances made, net of deferred gain on hedging transactions	1,528,362	2,202,265
Redemption of capital stock	14,450	5,019
Cash dividends paid on capital stock	43,365	35,324
Net additions to furniture, equipment and leasehold improvements	356	138
Net increase in investments	297,178	194,262
Increase in accrued interest receivable	9,491	4,912
Increase in deferred charges and other assets	910	210
Increase in cash	38,623	45,567
Total	$ 3,029,085	3,444,247

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

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Notes to Financial Statements

December 31, 1984 and 1983

Organization and Related Agencies

The Federal Home Loan Bank of Indianapolis (the Bank), a federally chartered corporation exempt from income taxes, is one of the twelve District Federal Home Loan Banks (FHLBanks) which, together with their member institutions, comprise the FHLBank System. The FHLBank System is designed to promote home ownership through the extension of credit to savings and home financing institutions. Member institutions include all federally chartered savings and loan associations, all federally chartered savings banks, and all institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Membership is also available to qualifying institutions, such as state chartered, non-FSLIC insured savings associations and savings banks.

The FHLBanks are instrumentalities of the federal government; they are owned by, and serve as central credit banks for, member institutions. A principal source of funds for the FHLBanks is sales to the public of debt instruments (consolidated obligations) which are the joint and several obligations of all FHLBanks. Other funds are provided by issuance of capital stock, all of which is owned by the Banks' members, and member deposits.

The FHLBank System is governed and regulated by the Federal Home Loan Bank Board (Bank Board) which is an independent federal agency in the executive branch of government. The Bank Board is the chartering and regulatory authority for federal savings and loan associations and federal savings banks. The Bank Board governs the Federal Home Loan Mortgage Corporation (Mortgage Corporation) which is a secondary mortgage market facility. The principal function of the Mortgage Corporation is to promote the flow of capital into the housing markets by establishing an active secondary market in residential mortgages. Further, the Bank Board also governs the FSLIC which insures the accounts of savers in federally insured saving and loan associations and federal savings banks. Bank Board expenses are met through assessments to the FHLBanks and the FSLIC and assessments to member institutions for examinations.

(1) Summary of Significant Accounting Policies

Investments

Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts, and deferred gains and losses from hedging activities. Gains and losses on sales of securities are included in income from investments.

(Continued)

2

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Notes to Financial Statements

Furniture, Equipment, and Leasehold Improvements

These assets are stated at cost less accumulated depreciation and amortization of $524,000 and $393,000 at December 31, 1984 and 1983, respectively. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property or for leasehold improvements over the estimated 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 charged to expensed as incurred. Gains or losses on disposals are included in other income.

Federal Home Loan Bank Board Assessments

The Bank expenses its pro rata share of the Bank Board assessment for operating expenses during the year in which the assessment is levied.

The Bank Board also assesses the Bank for its portion of the cost of capital expenditures for furniture, equipment, and furnishings for the Bank Board's building. Payments against these assessments are treated as a deferred charge and amortization is computed using the straight-line method over a 25-year period.

FHLBanks' Office of Finance Assessments

The FHLBanks' Office of Finance manages the Consolidated Securities Fund, the sale of consolidated obligations and certain accounting functions for the twelve FHLBanks as a group. Assessments for the Office's operating costs are charged directly to expense when billed.

Concessions on Consolidated Obligations

The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity of the obligations. However, the amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred because of their short-term maturities.

(Continued)

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Notes to Financial Statements

Discounts on Consolidated Obligations - Discount Notes

The discounts from the issue of consolidated obligations - discount notes are amortized to expense using the straight-line method to the maturity of the related notes.

Hedging

The Bank is engaged in an asset/liability management program that includes the use of hedges in the cash and financial futures markets. Gains and losses on hedge transactions are deferred and amortized using the level yield method over the term to maturity of the related hedged assets or liabilities. Deferred gains and losses are reflected as an adjustment of the carrying value of hedged assets or liabilities.

Commitment Fees for Advances

Advance commitment fees are initially set up as a deferred credit when received. Nonrefundable fees of less than $5,000 are recognized as income immediately, and fees of $5,000 or more are amortized to income over the period of the commitment on the straight-line basis. Refundable fees are deferred until the commitment expires or the advance is made.

(2) Cash Balances

Compensating Balances

The Bank has agreed to maintain average collected cash balances with various commercial banks in consideration for certain services. There are no legal restrictions under these agreements as to the withdrawal of funds. The average compensating balances were approximately $3,440,000 and $2,756,000 for the years ended December 31, 1984 and 1983, respectively.

In addition, the Bank maintains average collected balances with various Federal Reserve Banks and branches of approximately $1,350,000 and $950,000 for the years ended December 31, 1984 and 1983, respectively. These average balances are required clearing balances and may not be withdrawn; however, earnings credits on these balances may be used to pay for services received from the Federal Reserve.

(Continued)

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Notes to Financial Statements

Pass-through Deposit Reserves

The Depository Institutions Deregulation and Monetary Control Act of 1980 authorized FHLBanks to act as pass-through correspondents for member institutions required to deposit reserves with the Federal Reserve. The amount shown as cash includes pass-through reserves deposited with Federal Reserve offices of $8,113,000 and $667,000 at December 31, 1984 and 1983, respectively. Member reserve balances are included under other liabilities.

(3) Investments

Investments at December 31 follow:

	Book value	Market value
	(in thousands)	
1984:		
U.S. Treasury obligations	$ 98,623	98,609
Federal funds sold	345,000	345,000
Term funds sold	15,000	15,000
Bankers' acceptances	158,839	159,122
Certificates of deposit - Eurodollars	20,002	20,076
Participation in the FHLBanks' Consolidated Securities Fund	114,565	114,711
	$ 752,029	752,518
1983:		
U.S. Treasury obligations	$ 30,777	30,628
Federal funds sold	156,000	156,000
Term funds sold	10,000	10,000
Bankers' acceptances	162,333	162,251
Certificates of deposit - Eurodollars	39,467	39,530
Participation in the FHLBanks' Consolidated Securities Fund	56,274	56,418
	$ 454,851	454,827

The FHLBanks' Consolidated Securities Fund (Fund) was established by the Bank Board to offer a centralized portfolio management system for securities owned by FHLBanks. The Fund is managed by the Office of Finance of the FHLBanks and invests primarily in short-term money market instruments.

(Continued)

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Notes to Financial Statements

(4) Advances to Members

At December 31, 1984 and 1983, the Bank had advances outstanding to members at interest rates ranging from 8.25% to 16.75% and from 7.75% to 16.75%, respectively, as summarized below:

	Amount (in thousands)	Weighted average interest rate
1984:		
Years of maturity:		
1985	$ 1,243,955	11.60%
1986	422,281	11.78
1987	723,743	11.63
1988	341,466	11.38
1989	190,818	12.59
1990-1993	1,459,544	11.59
	4,381,807	11.58
Deferred net gain from hedging transactions	(871)	
	$ 4,380,936	
1983:		
Years of maturity:		
1984	$ 886,639	11.00%
1985	424,699	12.29
1986	338,265	12.42
1987	325,375	11.09
1988	339,386	11.37
1989-1993	1,437,520	11.73
	3,751,884	11.60
Deferred net gain from hedging transactions	(841)	
	$ 3,751,043	

Outstanding advances aggregating $4,381,707,000 and $3,724,517,000 at December 31, 1984 and 1983, respectively, were collateralized by pledged investment securities and first mortgage loans. The capital stock of the Bank owned by borrowing members is also pledged as additional collateral for outstanding advances. Bank System regulations permit a borrowing member to physically retain mortgage collateral assigned to the Bank, and in such circumstances, the member executes a written security agreement which describes the type of collateral and agrees to hold such collateral for the benefit and subject to the direction and control of the Bank. The Bank may, however, require a member to place physical possession of such collateral with the Bank or its safekeeping agent.

(Continued)

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Notes to Financial Statements

The Bank participated in the Community Investment Fund, a five-year advances program, which began in June 1978. The program provided funds to members meeting eligibility criteria for active involvement in preserving and revitalizing older communities. At December 31, 1983 advances of $5,250,000 were outstanding under this program, with an average original maturity of 4 years at rates ranging from 8.55% to 15.35%. The advances were repaid during 1984. Rates on advances made in this program are .50% below the estimated cost of issuing consolidated obligations of comparable maturities at the time the commitments to advance funds were made. The net interest cost of this program amounted to approximately $4,000 for 1984 and $243,000 for 1983.

(5) Loans to Other Federal Home Loan Banks

The Bank made a loan to the Federal Home Loan Bank of Dallas in the form of a pass-through of a consolidated obligation discount note. The loan was issued on December 20, 1983, at a net amount of $4,593,000 with a discount rate of 9.375%. The par amount of $5,000,000 was repaid on October 26, 1984.

(6) Investment in Federal Home Loan Mortgage Corporation

The investment in the Mortgage Corporation is stated at cost and consists of 4,900 shares of nonvoting common stock, par value $1,000, redeemable at par value (common stock), and a $2,450,000 subordinated capital debenture, due June 20, 1987. The shares of common stock represent (4.9%) of the common stock outstanding. The Federal Home Loan Bank of Indianapolis received cash dividends on the common stock of $4,019,000 in 1984 and $1,690,000 in 1983.

The subordinated capital debenture issued on June 20, 1980 bears an interest rate of 11.50% per annum, payable semiannually; may not be sold, transferred, exchanged or pledged without the express written consent of the Mortgage Corporation; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the Mortgage Corporation; and may be redeemed in whole or in part on or after June 20, 1985 at specified redemption prices at the option of the Mortgage Corporation. Interest of $281,000 was earned on the debenture during each year ended December 31, 1984 and 1983.

On December 6, 1984, the Federal Home Loan Mortgage Corporation created a new class of participating preferred stock and authorized the distribution of such preferred stock to the 12 district banks of the Federal Home Loan Bank System and by those district banks to their member institutions that were stockholders of record as of December 31, 1984.

(Continued)

7

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Notes to Financial Statements

The Federal Home Loan Bank of Indianapolis received and distributed to its member institutions 734,911 shares of such participating preferred stock of the Federal Home Loan Mortgage Corporation.

The Federal Home Loan Mortgage Corporation resolution that authorized the distribution of the participating preferred stock requires that the preferred stock be distributed to the member institutions as a condition of the district banks' receipt of the stock. Because the district bank did not have the benefits of ownership of the participating preferred stock at any time, for financial reporting purposes, it has not been recorded as an asset or income of the district bank, or as a dividend to the member institutions.

In any future calendar year, unless and until dividends on the preferred stock in the aggregate amount of $10 million have been declared and paid or set apart for payment, no dividends may be declared or paid or set apart for payment on the common stock of the Mortgage Corporation. Thereafter in such year, holders of outstanding preferred stock will be entitled to receive in the aggregate $90 in dividends for every $10 in dividends paid on the common stock in the aggregate.

(7) Interbank Borrowings

The Bank borrowed from other FHLBanks in 1983 and 1984. The following is a summary of these borrowings at December 31 (in thousands):

Maturity date	Rate	Outstanding 1984	Outstanding 1983
5/25/84	9.00%	$ -	10,000
6/06/84	9.50	-	20,000
6/13/84	9.70	-	20,000
6/20/84	9.63	-	20,000
7/05/84	9.75	-	20,000
7/25/84	9.55	-	25,000
1/25/85	14.25	50,000	50,000
3/16/85	10.10	5,000	5,000
8/26/85	9.82	25,000	25,000
8/27/85	10.70	20,000	20,000
4/25/86	9.85	25,000	25,000
9/25/86	10.70	30,000	30,000
9/25/86	9.93	25,000	25,000
10/31/86	11.11	10,000	10,000
11/25/86	11.15	18,000	18,000
2/25/87	10.50	25,000	25,000
5/26/87	10.01	25,000	25,000
11/25/92	11.90	35,000	35,000
1/25/93	11.90	15,000	15,000
		$ 308,000	423,000

(Continued)

8

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Notes to Financial Statements

(8) Consolidated Obligations

Consolidated FHLBank obligations are the joint and several obligations of all FHLBanks (see "Organization and Related Agencies" above). The outstanding obligations of the FHLBanks, including the pass-through to the Mortgage Corporation, were $67,000,000,000 and $51,000,000,000 at December 31, 1984 and 1983, 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, obligations of or fully guaranteed by the United States, collateralized advances, and federally insured or guaranteed mortgages. The FHLBanks were in compliance with this requirement as of December 31, 1984 and 1983.

The following is a summary of the Bank's participation in consolidated obligations at December 31 (in thousands):

	1984		
	Bonds		
	Range of coupon rates	Weighted average interest rates	Outstanding
Years of maturity:			
1985	7.38-15.00%	12.36%	$ 776,000
1986	9.55-15.75	12.50	335,000
1987	7.60-12.63	11.40	596,000
1988	10.15-14.20	11.02	325,820
1989	11.38-15.10	12.57	145,180
1990-1993	10.70-12.50	11.25	1,225,000
			3,403,000
Deferred net gain from hedging transactions			269
			$ 3,403,269

	Discount notes	
	Book value	Par value
Due within one year	$ 315,449	$ 328,050
Deferred net gain from hedging transactions	316	
	$ 315,765	

(Continued)

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Notes to Financial Statements

	1983 Bonds		
	Range of coupon rates	Weighted average interest rates	Outstanding
Years of maturity:			
1984	9.05-16.00%	13.24%	$ 324,000
1985	8.10-15.00	13.34	301,000
1986	9.55-15.75	13.61	185,000
1987	7.60-10.65	10.84	236,000
1988	10.15-14.20	11.05	300,820
1989-1993	10.75-15.10	11.37	1,270,180
			2,617,000
Deferred net loss from hedging transactions			(156)
			$ 2,616,844

	Discount notes	
	Book value	Par value
Due within one year	$ 284,064	$ 290,850
Deferred net gain from hedging transactions	25	
	$ 284,089	

(9) Credit Available from the U.S. Treasury

Section 11(i) of the Federal Home Loan Bank Act authorizes the Secretary of the Treasury, in his discretion, to extend credit to the FHLBanks aggregating not more than $4 billion, the terms, conditions, and interest rate to be determined by the Secretary of the Treasury. There were no outstanding borrowings from the U.S. Treasury during the two-year period ended December 31, 1984.

(10) Capital

The capital stock of the Bank has a par value of $100 per share. Capital stock held by members in excess of their statutory requirement may be redeemed at par value by the Bank at its discretion or sold to other Bank members at par value provided the resulting stock transfer is recorded on the books of the Bank.

(Continued)

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Notes to Financial Statements

Retained earnings of the Bank consists of undivided profits, a legal reserve, and a dividend stabilization reserve (DSR). The Bank must transfer 20% of its net income to the legal reserve semi-annually until the reserve equals the capital stock amount. Thereafter, 5% of the Bank's net income must be allocated for this purpose.

In 1983 and 1984 dividends were permitted only to the extent of current year's net income, after statutory transfer, and the DSR, and were authorized to be paid either annually or semi-annually. The FHLBanks were requested to set aside in the DSR for future years that portion of prepayment fee income which, if allocated on a pro-rata basis over the maturity of the prepaid advances, would be allocated to future dividend periods. Dividends may be paid in the form of capital stock if authorized by the Board of Directors.

(11) Employee Retirement Plan

The Bank is a participant in the Financial Institutions Retirement Fund (FIRF), and substantially all of its officers and employees are covered by the Plan. The Bank's contributions are determined by FIRF and generally represent the normal cost of the Plan (unfunded prior service costs are not significant). Pension costs charged to other operating expenses were $148,000 in 1984 and $143,000 in 1983. The Bank's policy is to fund pension costs as accrued. FIRF does not segregate the assets, liabilities, or costs by participating employer. As a result, disclosure of accumulated vested and non-vested benefits and net assets available for benefits as required by FASB 36 cannot be made. According to the FIRF administrators, as of June 30, 1984, the date of the latest actuarial valuation, the market values of the fund assets exceeded the value of vested benefits in the aggregate.

(12) Commitments

Rental expense of $1,096,000 in 1984 and $1,019,000 in 1983 for premises and equipment has been charged to other operating expenses. Future minimum rentals are as follows (in thousands):

	Premises	Equipment	Total
1985	$ 393	551	944
1986	393	199	592
1987	393	85	478
1988	333	-	333
1989	333	-	333
1990	55	-	55
Total	$ 1,900	835	2,735

(Continued)

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Notes to Financial Statements

The lease agreement for the Bank's premises provided for increases in the basic rentals resulting from increased property taxes and maintenance expense.

Commitments for advances to members totaled $23,000,000 at December 31, 1984.

Interest Rate Swaps - An interest rate swap is a contractual interest exchange agreement in which, for a predetermined period, one party agrees to make periodic fixed interest rate payments to another party in return for receiving variable interest rate payments. At December 31, 1984, the Bank had outstanding $98,200,000 in underlying notional principal of interest rate swap agreements. The net interest expense amounted to $280,000 for 1984.

(13) Contingencies

As provided for in Section 306(c) of the Federal Home Loan Mortgage Corporation Act, the Bank Board has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the FHLBank of New York. Each of the FHLBanks participates in the guarantee in proportion to its investments in the common stock of the Mortgage Corporation (see note 6). At December 31, 1984, the FHLBanks have guaranteed $1,790,000,000 of the Mortgage Corporation's borrowings from the FHLBank of New York in the form of pass-throughs of the proceeds of certain consolidated obligations.

Outstanding standby letters of credit totaled $3,756,000 at December 31, 1984.

In connection with litigation initiated by the FSLIC against various parties concerning a Michigan savings and loan association, certain of the parties have filed various third party complaints, fourth party complaints, and cross-claims against the Bank alleging breach of agreement and negligence on the Bank's making of advances to the named association. The potential liability in this matter is limited to the amount asserted by the FSLIC; however, that amount is unstated. Amounts included in various claims and cross-claims to date aggregate approximately $19 million. The Bank has advised counsel to defend the claims vigorously. The amount of liability to the Bank, if any, cannot be reasonably determined at this time.

PEAT MARWICK

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
150 John F. Kennedy Parkway
Short Hills, New Jersey 07078

To the Board of Directors of the
Federal Home Loan Bank of New York and the
Federal Home Loan Bank Board, Washington, D.C.

We have examined the statements of condition of the Federal Home Loan Bank of New York as of December 31, 1984 and 1983 and the related statements of income, capital accounts and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions as promulgated by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Federal Home Loan Bank of New York at December 31, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

February 1, 1985

Federal Home Loan Bank of New York
Statements of Condition
December 31, 1984 and 1983

ASSETS	1984	1983
	(in thousands)	
Cash and due from banks (Note 2)	$ 126,829	$ 85,365
Investments (Note 3)	1,006,306	284,690
Advances to members (Note 4)	5,924,426	5,552,511
Loan to Federal Savings and Loan Insurance Corporation (FSLIC) (Note 5)	700,000	--
Loans to other Federal Home Loan Banks (FHLBanks) (Note 6)	235,000	260,000
Accrued interest receivable	73,308	56,214
Loans guaranteed by the Agency for International Development (AID), net of participations sold (Note 7)	52,688	53,207
Investment in Federal Home Loan Mortgage Corporation (FHLMC) (Note 8)	17,550	17,550
Deferred charges - Federal Home Loan Bank Board (FHLBB) cost of quarters and other capital expenditures	3,599	3,796
Concessions on consolidated obligations - bonds	3,668	3,791
Furniture, equipment, and leasehold improvements - net	4,163	2,724
Other assets	2,974	1,291
Total assets	$8,150,511	$6,321,139

LIABILITIES AND CAPITAL		
LIABILITIES:		
Members' deposits:		
Demand	$ 81,233	$ 73,013
Demand Deposit Account Plus Program	211,858	167,602
Overnight	743,079	409,401
Term	104,266	82,287
Total members' deposits	1,140,436	732,303
Interbank borrowings (Note 9)	10,000	135,000
Consolidated obligations (Note 10):		
Bonds	3,459,000	3,520,000
Discount notes	2,389,045	808,619
Accrued interest payable	101,623	116,798
Deferred commitment and service fees	1,877	1,769
Other liabilities (Note 2)	14,667	11,131
Total liabilities	7,116,648	5,325,620
CONTINGENCIES AND COMMITMENTS (Notes 10, and 14)		
CAPITAL (Note 12):		
Capital stock, $100 par value	876,156	854,655
Retained earnings:		
Legal reserve	140,100	120,182
Dividend stabilization reserve	6,094	9,169
Undivided profits	11,513	11,513
Total retained earnings	157,707	140,864
Total capital	1,033,863	995,519
Total liabilities and capital	$8,150,511	$6,321,139

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

Federal Home Loan Bank of New York
Statements of Income
For the Years Ended December 31, 1984 and 1983

	1984	1983
	(in thousands)	
INCOME:		
Interest on advances	$662,032	$636,772
Commitment fees on advances	1,091	2,425
Prepayment fees on advances	1,634	16,446
Income from investments	67,188	49,989
Interest on loan to FSLIC	23,786	--
Interest on loans to other FHLBanks	26,757	27,105
Interest and dividends from FHLMC	10,267	4,709
Interest and fees on loans guaranteed by AID	4,597	4,673
Income from services	3,115	1,683
Income from services to other FHLBanks	422	171
Other	433	471
Total income	801,322	744,444
EXPENSES:		
Interest and concessions on consolidated obligations	612,213	576,713
Interest on deposits	67,110	60,436
Interest on interbank borrowings	1,396	602
FHLBB assessments	1,660	1,639
FHLBanks' Office of Finance assessments	554	514
Other operating expenses	18,798	14,225
Total expenses	701,731	654,129
Net income	$ 99,591	$ 90,315

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

Federal Home Loan Bank of New York
Statements of Capital Accounts
For the Years Ended December 31, 1984 and 1983

	Capital Stock		Retained Earnings		
	(in thousands)				
	Shares	Par value	Legal reserve	Dividend stabilization reserve	Undivided profits
Balance, January 1, 1983	7,823	$782,268	$102,119	$7,668	$11,513
Sale of capital stock	943	94,301	--	--	--
Redemption of capital stock	(219)	(21,914)	--	--	--
Net income for 1983	--	--	--	--	90,315
Statutory transfer (Note 12)	--	--	18,063	--	(18,063)
Transfer to dividend stabilization reserve (Note 12)	--	--	--	1,501	(1,501)
Cash dividends on capital stock (8.6%) (Note 12)	--	--	--	--	(70,751)
Balance, December 31, 1983	8,547	854,655	120,182	9,169	11,513
Sale of capital stock	549	54,944	--	--	--
Redemption of capital stock	(334)	(33,443)	--	--	--
Net income for 1984	--	--	--	--	99,591
Statutory transfer (Note 12)	--	--	19,918	--	(19,918)
Transfer from dividend stabilization reserve (Note 12)	--	--	--	(3,075)	3,075
Cash dividends on capital stock (9.6%) (Note 12)	--	--	--	--	(82,748)
Balance, December 31, 1984	8,762	$876,156	$140,100	$6,094	$11,513

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

Federal Home Loan Bank of New York
Statements of Changes in Financial Position
For the Years Ended December 31, 1984 and 1983

Financial resources were provided from:	1984	1983
	(in thousands)	
Operations:		
Net income	$ 99,591	$ 90,315
Noncash charges to income:		
Depreciation and amortization of furniture, equipment and leasehold improvements	442	369
Amortization of concessions and discount on consolidated obligations - bonds	1,933	1,900
Amortization of FHLBB assessments	197	197
Total from operations	102,163	92,781
Advances repaid	6,646,870	4,849,521
Proceeds from issuance of consolidated obligations:		
Bonds	1,153,190	733,284
Discount notes	5,211,575	1,737,413
Net increase in members' deposits	408,133	--
Discount on consolidated obligations - discount notes	191,652	57,472
Net decrease in investments	--	177,103
Increase in interbank borrowings	--	135,000
Proceeds from sale of capital stock	54,944	94,301
Decrease in loans to other FHLBanks	25,000	--
Decrease in accrued interest receivable	--	7,954
Increase in other liabilities, deferred commitment fees and service fees	3,643	2,976
Net decrease in loans guaranteed by AID	519	763
Total	$13,797,689	$7,888,568

Financial resources were used for:	1984	1983
Advances made	$ 7,018,683	$4,600,620
Payments on maturing consolidated obligations:		
Bonds	1,216,000	1,544,000
Discount notes	3,822,800	1,501,600
Net increase in investments	721,616	--
Loan to FSLIC	700,000	--
Decrease in interbank borrowings	125,000	--
Cash dividends paid on capital stock	82,748	70,751
Increase in cash and due from banks	41,464	58,533
Net decrease in members' deposits	--	50,950
Redemption of capital stock	33,443	21,914
Increase in accrued interest receivable	17,094	--
Decrease in accrued interest payable	15,175	29,039
Increase in loans to other FHLBanks	--	10,000
Net additions to furniture, equipment and leasehold improvements	1,881	1,590
Increase (decrease) in other assets	1,683	(554)
Decrease in deferred gain from hedging activities	102	125
Total	$13,797,689	$7,888,568

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

Federal Home Loan Bank of New York
Notes to Financial Statements
December 31, 1984 and 1983

ORGANIZATION AND RELATED AGENCIES:

The Federal Home Loan Bank of New York (the Bank), a federally chartered corporation exempt from income taxes, is one of twelve District FHLBanks which, together with their member institutions, comprise the FHLBank System. The FHLBank System is designed to promote home ownership through the extension of credit to savings and home financing institutions. Member institutions include all federally chartered savings and loan associations, all federally chartered savings banks, and all institutions insured by the FSLIC. Membership is also available to qualifying institutions, such as state-chartered, non-FSLIC insured savings associations and savings banks.

The FHLBanks are instrumentalities of the federal government; they are owned by, and serve as central credit banks for, member institutions. The principal source of funds for the FHLBanks is sales to the public of debt instruments (consolidated obligations) which are the joint and several obligations of all FHLBanks. Other funds are provided by issuance of capital stock, all of which is owned by the Banks' members, and member deposits.

The FHLBank System is governed and regulated by the FHLBB which is an independent federal agency in the executive branch of government. The FHLBB is the chartering and regulatory authority for federal savings and loan associations and federal savings banks. The FHLBB governs the FHLMC. The principal function of the FHLMC is to promote the flow of capital into the housing markets by establishing an active secondary market in residential mortgages. Further, the FHLBB also governs the FSLIC which insures the accounts of savers in federally insured savings and loan associations and federal savings banks. FHLBB expenses are met through assessments to the FHLBanks and the FSLIC and assessments to member institutions for examinations.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The more significant accounting policies not described elsewhere in the notes to the financial statements are as follows:

1

Federal Home Loan Bank of New York
Notes to Financial Statements -- Continued
December 31, 1984 and 1983

INVESTMENTS:

Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. Gains and losses on sales of securities are included in income from investments.

ADVANCES TO THE FEDERAL HOME LOAN MORTGAGE CORPORATION:

Proceeds from certain consolidated obligations have been advanced to the FHLMC at the same interest rates and maturities as the related consolidated obligations. The FHLMC is effectively reimbursing the Bank for the interest; accordingly, the advances, related consolidated obligations, interest expense, and interest income have been offset and are not reflected in the accompanying financial statements.

FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS:

These assets are stated at cost less accumulated depreciation and amortization of $1,902,000 and $1,463,000 at December 31, 1984 and 1983, respectively. Depreciation and amortization are computed on a straight-line method over the estimated useful lives of the property or, for leasehold improvements, over the life of the lease.

Maintenance and repairs are charged to expense, except that major repairs which extend the useful lives of the assets are capitalized. Gains and losses on disposals of assets are included in the statements of income.

FEDERAL HOME LOAN BANK BOARD ASSESSMENTS:

The Bank expenses its pro rata share of the FHLBB assessment for operating expenses during the year in which the assessment is levied.

The FHLBB has assessed the Bank for its portion of the cost of the FHLBB's office building in Washington, D.C. These payments are treated as a deferred charge and are amortized using the straight-line method over a 25-year period.

2

Federal Home Loan Bank of New York
Notes to Financial Statements -- Continued
December 31, 1984 and 1983

FHLBANKS' OFFICE OF FINANCE ASSESSMENTS:

The FHLBanks' Office of Finance manages the Consolidated Securities Fund, the sale of consolidated obligations and certain accounting functions for the twelve FHLBanks as a group. Assessments for operating costs of the Office of Finance are charged directly to expense when billed.

CONCESSIONS ON CONSOLIDATED OBLIGATIONS:

The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity of the obligations. The amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred because of their short-term maturities.

DISCOUNTS ON CONSOLIDATED OBLIGATIONS - DISCOUNT NOTES:

The discounts on consolidated obligation discount notes are amortized to expense using the straight-line method to the maturity of the related notes.

HEDGING:

The Bank is engaged in an asset/liability management program that includes the use of hedges in the cash and financial futures markets. Gains and losses on hedge transactions are deferred and amortized using the level yield method over the term to maturity of the related hedged assets or liabilities. Deferred gains and losses are reflected as an adjustment of the carrying value of hedged assets or liabilities.

PREPAYMENT, COMMITMENT AND SERVICE FEES:

PREPAYMENT FEES:

A prepayment fee is charged by the Bank when an advance with an original term of one year or more is paid prior to its original maturity. Such fees are credited to income when received.

COMMITMENT FEES:

Non-refundable fees are charged for advance rate commitments. Fees of less than $5,000 are recognized as income when received. Fees of $5,000 or more are set up as a deferred credit when received and are accreted to income over the period of the commitment on the straight-line basis.

3

Federal Home Loan Bank of New York
Notes to Financial Statements -- Continued
December 31, 1984 and 1983

No fee is charged for a funds-only commitment. A non-takedown fee is charged if the committed funds are not taken down during the commitment period. A fee on a pro rata basis is charged if only part of the funds commitment is exercised. Non-takedown fees are credited to income when received.

AID SERVICE FEES:

The Bank receives service fees from borrowers for AID loans against which the direct expenses associated with the financing arrangements are netted. The balance is deferred and accreted into income at 1% of the unamortized balance per month.

INTERDISTRICT MERGERS:

When a member of this Bank merges into a member of another District FHLBank, the merged member must maintain a deposit account and must retain its capital stock investment in this Bank equal to one twentieth of the amount of any unpaid advances from this Bank.

RECLASSIFICATION OF 1983 FINANCIAL STATEMENTS:

The 1983 financial statements have been reclassified to conform with the 1984 financial statement presentation.

Note 2 - CASH AND DUE FROM BANKS:

COMPENSATING BALANCES:

The Bank has agreed to maintain average collected cash balances with various commercial banks in consideration for certain services. There are no legal restrictions as to the withdrawal of funds. The average compensating balances were approximately $10,939,000 and $12,922,000 for the years ended December 31, 1984 and 1983, respectively.

In addition, the Bank maintained average collected balances with various Federal Reserve Banks of approximately $4,450,000 and $174,000 for the years ended December 31, 1984 and 1983, respectively. These average balances are required clearing balances and may not be withdrawn. Earnings credits on these balances may be used to pay for services received from the Federal Reserve Banks.

4

Federal Home Loan Bank of New York
Notes to Financial Statements -- Continued
December 31, 1984 and 1983

PASS-THROUGH DEPOSIT RESERVES:

The Depository Institutions Deregulation and Monetary Control Act of 1980 authorizes FHLBanks to act as pass-through correspondents for member institutions required to deposit reserves with the Federal Reserve Banks. The amount shown as cash and due from banks includes pass-through reserves deposited with Federal Reserve Banks of $5,023,000 and $8,400,000 as of December 31, 1984 and 1983, respectively. Member deposit reserves are included under other liabilities.

Note 3 - INVESTMENTS:

A comparison of book and estimated market values follows:

	December 31, 1984	
	Book value	Market value
	(in thousands)	
U.S. Treasury obligations	$ 44,835	$ 44,884
Federal funds sold	477,300	477,300
Term funds sold	30,000	30,000
Bankers' acceptances	62,017	62,060
Certificates of deposit-domestic	20,000	20,013
U.S. Treasury obligations and Certificates of deposit - Eurodollars held as hedge against granting advances to members	197,963	199,162
Participation in the FHLBanks' Consolidated Securities Fund*	174,191	174,741
	$1,006,306	$1,008,160

	December 31, 1983	
	Book value	Market value
	(in thousands)	
Federal funds sold	$ 221,300	$ 221,300
Participation in the FHLBanks' Consolidated Securities Fund*	63,390	63,342
	$ 284,690	$ 284,642

*The FHLBanks' Consolidated Securities Fund (Fund) was established by the FHLBB to offer a centralized portfolio management system for securities owned by FHLBanks. The Fund is managed by the Office of Finance of the FHLBanks and invests primarily in short-term money market instruments.

5

Federal Home Loan Bank of New York
Notes to Financial Statements -- Continued
December 31, 1984 and 1983

Note 4 - ADVANCES TO MEMBERS:

At December 31, 1984 and 1983 the Bank had advances outstanding to members at interest rates ranging from 8.95% to 16.90%, and from 8.00% to 16.90% respectively, as summarized below:

	December 31, 1984	
Year of maturity	Amount (in thousands)	Weighted average interest rate
1985	$3,125,317	11.64%
1986	650,881	12.15
1987	452,500	11.67
1988	481,177	11.12
1989	545,936	12.04
1990-1994	670,472	12.53
	$5,926,283	11.79%
Deferred net gain from hedging transactions (Note 1)	(1,857)	
	$5,924,426	

	December 31, 1983	
Year of maturity	Amount (in thousands)	Weighted average interest rate
1984	$2,857,069	11.02%
1985	545,425	11.56
1986	452,354	12.14
1987	247,358	11.75
1988	443,205	11.06
1989-1993	1,009,059	12.40
	$5,554,470	11.45%
Deferred net gain from hedging transactions (Note 1)	(1,959)	
	$5,552,511	

6

Federal Home Loan Bank of New York
Notes to Financial Statements -- Continued
December 31, 1984 and 1983

Outstanding advances are collateralized by pledged investment securities and first mortgage loans. The capital stock of the Bank owned by borrowing members is also pledged as additional collateral for outstanding advances. Bank system regulations permit a borrowing member to physically retain collateral assigned to the Bank and, in such circumstances, the member executes a written security agreement which describes the type of collateral and agrees to hold such collateral for the benefit of and subject to the direction and control of the Bank. The Bank may, however, require a member to place physical possession of such collateral with the Bank or its safekeeping agents.

The Bank participated in the Community Investment Fund, a five-year advances program from June 1978 to June 1983. The program provided funds to members meeting eligibility criteria for active involvement in preserving and revitalizing older communities. At December 31, 1984 advances of $87,600,000 were outstanding under this program with an average maturity of 1.1 years at rates ranging from 9.0% to 13.5%. At December 31, 1983 advances totaling $128,565,000 were outstanding with an average maturity of 1.6 years at rates ranging from 8.2% to 14.7%. These rates are 1/2 of 1 percent below the estimated cost of issuing consolidated obligations of comparable maturities at the time the commitments to advance funds were made. If consolidated obligations had actually been issued at the time the commitments to advance funds were made, the net interest cost of this program would have amounted to approximately $527,000 for 1984 and $1,359,000 for 1983.

Note 5 - LOAN TO THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION:

The Bank made a secured loan on August 10, 1984 to the FSLIC for $700,000,000 in accordance with the FHLB Act. The FSLIC will make principal payments as follows:

Principal payment	Due dates
$30,000,000	August 1, in each year from 1988 through 1993
20,000,000	September 1, in each year from 1988 through 1993
20,000,000	October 1, in each year from 1988 through 1993

7

Federal Home Loan Bank of New York
Notes to Financial Statements -- Continued
December 31, 1984 and 1983

The remaining principal balance of $280,000,000 is due on January 1, 1995. The interest rate is determined by adding twenty basis points to the cost of funds of the Bank.

Note 6 - LOANS TO OTHER FEDERAL HOME LOAN BANKS:

The Bank makes loans to other FHLBanks. The following is a summary of these loans at:

December 31, 1984		
Maturity date	Principal amount (in thousands)	Interest rate
August 26, 1985	$ 25,000	9.82%
July 25, 1986	10,000	10.95
August 25, 1986	80,000	10.60
September 25, 1986	90,000	10.70
November 25, 1986	30,000	12.00
	$235,000	

December 31, 1983		
Maturity date	Principal amount (in thousands)	Interest rate
July 25, 1984	$ 25,000	9.55%
August 26, 1985	25,000	9.82
July 25, 1986	10,000	10.95
August 25, 1986	80,000	10.60
September 25, 1986	90,000	10.70
November 25, 1986	30,000	12.00
	$260,000	

8

Federal Home Loan Bank of New York
Notes to Financial Statements -- Continued
December 31, 1984 and 1983

Note 7 - LOANS GUARANTEED BY THE AGENCY FOR INTERNATIONAL DEVELOPMENT:

The Agency for International Development was established by the Foreign Assistance Act of 1961, as amended. Under Sections 221 and 222 of the Act, AID issues guarantees backed by the full faith and credit of the United States of America to eligible U.S. investors insuring against loss of investments, including unpaid accrued interest, in self-liquidating housing projects. The Bank qualifies as an eligible investor.

Under contracts of guaranty, the Bank may, without the approval of AID, sell participating interests to members of any FHLBank. The outstanding loan balances, which mature between 1990 and 2008, are reported net of participations sold totaling $248,637,000 at December 31, 1984 and $254,293,000 at December 31, 1983.

Note 8 - INVESTMENT IN THE FEDERAL HOME LOAN MORTGAGE CORPORATION:

The investment in the FHLMC is stated at cost and consists of 11,700 shares of non-voting common stock, par value $1,000, redeemable at par value (common stock), and a $5,850,000 subordinated capital debenture, due June 20, 1987. The shares represent 11.7% of the common stock outstanding.

On December 6, 1984, the FHLMC created a new class of participating preferred stock, par value $10 (preferred stock), and authorized the distribution of such preferred stock to the twelve FHLBanks and by the FHLBanks to their member institutions that were stockholders of record as of December 31, 1984.

The Bank received and distributed to its member institutions 1,754,854 shares or 11.7% of such participating preferred stock of the FHLMC.

The FHLMC resolution that authorized the distribution of the preferred stock required that such preferred stock be distributed to the member institutions as a condition of the Bank's receipt of the stock. Because the Bank did not have the benefits of ownership of the preferred stock at any time, for financial reporting purposes, the preferred stock has not been reported as an asset or as income of the Bank, or as a dividend by the Bank to the member institutions.

The Bank received FHLMC common stock cash dividends of $9,594,000 in 1984 and $4,036,500 in 1983. In any future calendar year, unless and until dividends on the preferred stock in the aggregate amount of $10 million have been declared and paid or set apart for payment, no dividends may be declared and paid or set apart for payment on the common stock by the FHLMC. Thereafter in such year, holders of outstanding preferred stock will be entitled to receive in the aggregate $90 in dividends for every $10 in dividends paid on the common stock in the aggregate.

9

Federal Home Loan Bank of New York
Notes to Financial Statements -- Continued
December 31, 1984 and 1983

The subordinated capital debenture issued on June 20, 1980, bears an interest rate of 11.50% per annum, payable semiannually; may not be sold, transferred, exchanged or pledged without the express written consent of the FHLMC; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the FHLMC; and may be redeemed in whole or in part on or after June 20, 1985 at specified redemption prices at the option of the FHLMC. Interest of $672,750 was earned on the debenture for each year ended December 31, 1984 and 1983.

Note 9 - INTERBANK BORROWINGS:

The Bank has borrowed from other FHLBanks. The following is a summary of these loans at:

December 31, 1984		
Maturity date	Principal amount (in thousands)	Interest rate
November 25, 1987	$10,000	11.40%

December 31, 1983		
Maturity date	Principal amount (in thousands)	Interest rate
January 3, 1984	$125,000	9.92%
November 25, 1987	10,000	11.40
	$135,000	

Note 10 - CONSOLIDATED OBLIGATIONS:

Consolidated obligations are the joint and several obligations of all FHLBanks (see "Organization and Related Agencies" above). The outstanding obligations of the FHLBanks, including the pass-throughs to the FHLMC, were $67,257,265,000 and $51,208,979,000 at December 31, 1984 and 1983, 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 and due from banks, obligations of, or fully guaranteed by, the United States, secured advances, and federally insured or guaranteed mortgages. The FHLBanks were in compliance with this requirement at December 31, 1984 and 1983.

10

Federal Home Loan Bank of New York
Notes to Financial Statements -- Continued
December 31, 1984 and 1983

The following is a summary of the Bank's participation in consolidated obligations:

December 31, 1984

Bonds

Year of maturity	Range of coupon rates	Weighted average interest rate	Outstanding (in thousands)
1985	7.38-14.70%	12.12%	$1,334,000
1986	9.55-16.40	14.06	764,000
1987	7.60-11.35	10.58	223,000
1988	10.15-10.80	10.52	175,000
1989	11.55-15.10	14.07	273,000
1990-1993	10.70-12.50	11.54	690,000
			$3,459,000

Discount Notes
(in thousands)

Book value	Par value
$2,389,045	$2,455,250

Due within one year

December 31, 1983

Bonds

Year of maturity	Range of coupon rates	Weighted average interest rate	Outstanding (in thousands)
1984	9.05-16.40%	13.79%	$1,216,000
1985	8.10-14.70	13.56	504,000
1986	9.55-16.40	14.52	664,000
1987	7.60-11.35	10.58	223,000
1988	10.15-10.80	10.52	175,000
1989-1993	10.70-15.10	12.52	738,000
			$3,520,000

Discount Notes
(in thousands)

Book value	Par value
$808,619	$836,700

Due within one year

11

Federal Home Loan Bank of New York
Notes to Financial Statements -- Continued
December 31, 1984 and 1983

The Bank's participation is reported net of advances to the FHLMC in the form of pass-throughs of the proceeds of certain consolidated obligations totaling $1,790,000,000 and $2,290,000,000 at December 31, 1984 and 1983 respectively. These advances are evidenced by notes receivable from the FHLMC. The following are summaries of these pass-throughs at:

December 31, 1984

Bonds

Year of maturity	Range of coupon rates	Weighted average interest rate	Outstanding (in thousands)
1985	7.38- 9.35%	8.27%	$ 640,000
1986	9.55-11.30	9.90	250,000
1987	11.10	11.10	200,000
1993-1997	7.38- 7.88	7.59	700,000
			$1,790,000

December 31, 1983

Bonds

Year of maturity	Range of coupon rates	Weighted average interest rate	Outstanding (in thousands)
1984	8.75-13.85%	10.37%	$ 500,000
1985	7.38- 9.35	8.27	640,000
1986	9.55-11.30	9.90	250,000
1987	11.10	11.10	200,000
1993-1997	7.38- 7.88	7.59	700,000
			$2,290,000

As provided for in Section 306(c) of the Federal Home Loan Mortgage Act, the FHLBB has provided for the guarantee by the other FHLBanks of the above borrowings of the FHLMC from the FHLBank of New York. Each of the other FHLBanks participates in the guarantee in proportion to its investments in the common stock of the FHLMC. At December 31, 1984 and 1983, the other FHLBanks have guaranteed $1,580,570,000 and $2,022,070,000, respectively, of the FHLMC's borrowings from the Bank.

Federal Home Loan Bank of New York
Notes to Financial Statements -- Continued
December 31, 1984 and 1983

Note 11 - CREDIT AVAILABLE FROM THE U.S. TREASURY:

Section 11(i) of the Federal Home Loan Bank Act authorizes the Secretary of the Treasury, at his discretion, to extend credit to the FHLBanks aggregating not more than $4 billion, the terms, conditions, and interest rate to be determined by the Secretary of the Treasury. There were no outstanding borrowings from the U.S. Treasury during the two-year period ended December 31, 1984.

Note 12 - CAPITAL:

The capital stock of the Bank has a par value of $100 per share. Capital stock held by members in excess of their statutory requirements may be redeemed at par value by the Bank or sold to other Bank members at par value provided the resulting stock transfer is recorded on the books of the Bank.

Retained earnings of the Bank consist of undivided profits, a legal reserve, and a dividend stabilization reserve (DSR). The Bank must transfer 20% of its net income to the legal reserve semiannually until the reserve equals the capital stock amount. Thereafter, 5% of the Bank's net income must be allocated for this purpose. The Bank sets aside in the DSR for future years that portion of prepayment fee income which, if allocated on a pro rata basis over the maturities of the prepaid advances, would be allocated to future dividend periods. At December 31, 1984, a portion of the DSR was available for dividends.

In 1984 and 1983, dividends were paid from net income after transfers to the legal reserve and transfers from or to the DSR. Dividends were authorized to be paid either annually or semiannually and may be paid in the form of capital stock if authorized by the Board of Directors.

Note 13 - EMPLOYEE RETIREMENT PLAN:

The Bank is a participant in the Financial Institutions Retirement Fund (FIRF), and substantially all of its officers and employees are covered. The Bank's contributions are determined by FIRF and generally represent the normal cost (unfunded prior service costs are not significant). Pension costs charged to other operating expenses were $559,081 in 1984 and $432,930 in 1983. The Bank's policy is to fund pension costs as accrued. FIRF does not segregate the assets, liabilities, or costs by participating employer. According to the FIRF administrators, as of June 30, 1984, the date of the latest actuarial valuation, the book and market values of the fund assets exceeded the value of vested benefits in the aggregate.

13

Federal Home Loan Bank of New York
Notes to Financial Statements -- Continued
December 31, 1984 and 1983

Note 14 - COMMITMENTS:

Rental expense of $2,741,000 in 1984 and $1,695,000 in 1983 for premises and equipment has been charged to other operating expenses. Future minimum rentals are as follows (in thousands):

	Premises	Equipment	Total
1985	$1,218	$ 878	$ 2,096
1986	1,127	639	1,766
1987	1,127	474	1,601
1988	988	359	1,347
1989	708	242	950
1990-1996	3,181	106	3,287
Total	$8,349	$2,698	$11,047

The lease agreements for the Bank's premises provide for increases in the basic rentals resulting from increased property taxes and maintenance expenses.

Commitments for advances to members totaled $312,990,000 at December 31, 1984 and $157,125,000 at December 31, 1983.

At December 31, 1984, the Bank is committed to participate in the FHLBanks' Eurodollar 11% consolidated bond issue, due December 27, 1989, in the amount of $31,900,000.

14

PEAT MARWICK

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
Two Oliver Plaza
Pittsburgh, Pennsylvania 15222

To the Federal Home Loan Bank Board
Washington, D.C.:

We have examined the statements of condition of the Federal Home Loan Bank of Pittsburgh as of December 31, 1984 and 1983, and the related statements of income, capital accounts, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions issued by the Comptroller General of the United States (1981 Revision) and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Federal Home Loan Bank of Pittsburgh at December 31, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

February 15, 1985

FEDERAL HOME LOAN BANK OF PITTSBURGH

Statements of Condition

December 31, 1984 and 1983
(In thousands)

Assets	1984	1983
Cash (note 2)	$ 138,395	$ 44,911
Investments (note 3)	962,604	392,397
Advances to members (note 4)	1,950,741	1,401,118
Loans to other Federal Home Loan Banks (note 5)	201,000	201,000
Accrued interest receivable	25,550	18,304
Furniture, equipment and leasehold improvements, net	1,355	338
Investment in Federal Home Loan Mortgage Corporation (note 6)	9,150	9,150
Concessions on consolidated obligations - bonds	1,214	873
Deferred charges - Federal Home Loan Bank Board cost of quarters and other capital expenditures	1,523	1,609
Other assets	239	164
Total assets	$ 3,291,771	$ 2,069,864
Liabilities and Capital		
Liabilities:		
Interest bearing deposits of members:		
Demand	$ 1,028,371	$ 595,190
Term	29,775	6,840
Total deposits	1,058,146	602,030
Consolidated obligations (note 7):		
Bonds	1,229,000	868,000
Discount notes	659,421	292,434
Accrued interest payable	40,369	33,424
Other liabilities	969	2,141
Total liabilities	2,987,905	1,798,029
Contingencies and commitments (notes 7, 11 and 12)		
Capital (note 9):		
Capital stock, $100 par value	241,361	216,765
Retained earnings:		
Legal reserve	51,418	45,297
Dividend stabilization reserve	4,152	2,838
Undivided profits	6,935	6,935
Total retained earnings	62,505	55,070
Total capital	303,866	271,835
Total liabilities and capital	$ 3,291,771	$ 2,069,864

See accompanying notes to financial statements.

FEDERAL HOME LOAN BANK OF PITTSBURGH

Statements of Income

Years Ended December 31, 1984 and 1983
(In thousands)

	1984	1983
Income:		
Interest and fees on advances to members	$ 180,829	$ 164,549
Interest on loans to other Federal Home Loan Banks	23,215	6,360
Income from investments	64,335	79,318
Interest and dividend from Federal Home Loan Mortgage Corporation (note 6)	5,354	2,455
Income from service to members	5,935	3,336
Income from prepayment penalties	2,084	3,358
Other income	11	16
Total income	281,763	259,392
Expenses:		
Interest and concessions on consolidated obligations	170,445	154,866
Interest on member deposits	72,854	78,742
Federal Home Loan Bank Board assessments	502	469
Federal Home Loan Banks' Office of Finance assessments	186	215
Other expense	7,168	5,261
Total expenses	251,155	239,553
Net income	$ 30,608	$ 19,839

See accompanying notes to financial statements.

FEDERAL HOME LOAN BANK OF PITTSBURGH

Statements of Capital Accounts

December 31, 1984 and 1983
(In thousands except shares)

	Capital Stock		Retained Earnings		
	Shares	Par value	Legal reserve	Dividend stabilization reserve	Undivided profits
Balance, December 31, 1982	2,301,369	$ 230,137	$ 41,329	$ 2,155	$ 6,935
Proceeds from sale of capital stock	99,675	9,968	-	-	-
Redemption of capital stock	(233,397)	(23,340)	-	-	-
Net income for 1983	-	-	-	-	19,839
Statutory transfer (note 9)	-	-	3,968	-	(3,968)
Transfer to dividend stabilization reserve 1983, net (note 9)	-	-	-	683	(683)
Dividends on capital stock (7.0%) (note 9)	-	-	-	-	(15,188)
Balance, December 31, 1983	2,167,647	216,765	45,297	2,838	6,935
Proceeds from sale of capital stock	306,441	30,644	-	-	-
Redemption of capital stock	(60,480)	(6,048)	-	-	-
Net income for 1984	-	-	-	-	30,608
Statutory transfer (note 9)	-	-	6,121	-	(6,121)
Transfer to dividend stabilization reserve 1984 (note 9)	-	-	-	1,314	(1,314)
Dividends on capital stock (10.05%) (note 9)	-	-	-	-	(23,173)
Balance, December 31, 1984	2,413,608	$ 241,361	$ 51,418	$ 4,152	$ 6,935

See accompanying notes to financial statements.

FEDERAL HOME LOAN BANK OF PITTSBURGH

Statements of Changes in Financial Position

Years Ended December 31, 1984 and 1983
(In thousands)

	1984	1983
Financial resources were provided from:		
Operations:		
Net income	$ 30,608	$ 19,839
Noncash charges to income:		
Amortization of concessions on consolidated obligations - bonds	445	510
Amortization of discount on consolidated obligations - discount notes	54,551	17,830
Amortization of Federal Home Loan Bank Board assessments	86	86
Depreciation and amortization of furniture, equipment and leasehold improvements	169	79
Total from operations	85,859	38,344
Decrease in investments	-	581,185
Advances repaid	2,117,826	1,354,302
Net proceeds from issuance of consolidated obligations	2,011,900	766,597
Proceeds from sale of capital stock	30,644	9,968
Increase in member deposits	456,116	-
Other	6,945	6,792
	$ 4,709,290	$ 2,757,188
Financial resources were used for:		
Increase in cash	$ 93,484	$ 24,084
Increase in investments	570,208	-
Advances made	2,667,449	1,093,436
Increase in loans to other Federal Home Loan Banks	-	201,000
Decrease in member deposits	-	298,558
Payments on maturing consolidated obligations	1,339,250	1,090,900
Redemption of capital stock	6,048	23,340
Dividends on capital stock	23,173	15,188
Other	9,678	10,682
	$ 4,709,290	$ 2,757,188

See accompanying notes to financial statements.

FEDERAL HOME LOAN BANK OF PITTSBURGH

Notes to Financial Statements

December 31, 1984 and 1983

(1) Summary of Significant Accounting Policies

The more significant accounting policies not described elsewhere in the notes to the financial statements are as follows:

Investments

Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. Gains and losses on sales of securities are included in income from investments.

Furniture, Equipment and Leasehold Improvements

These assets are stated at cost less accumulated depreciation and amortization of $709,000 and $542,000 at December 31, 1984 and 1983, respectively. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property or for leasehold improvements over the life of the lease.

Federal Home Loan Bank Board Assessments

The Federal Home Loan Bank of Pittsburgh (the Bank) expenses its pro rata share of the Federal Home Loan Bank Board (Bank Board) assessment for operating expenses during the year in which the assessment is levied.

The Bank Board has assessed the Bank for its portion of the cost of the Bank Board's office building in Washington, D.C. These payments are treated as a deferred charge and are amortized using the straight-line method over a 25-year period.

The Bank Board also assesses the Bank for its portion of the cost of capital expenditures for furniture, equipment, and furnishings for the Bank Board's building. Payments against these assessments are treated as a deferred charge and are amortized using the straight-line method over a five-year period.

Federal Home Loan Banks' Office of Finance Assessments

The Federal Home Loan Banks' (FHLBanks) Office of Finance manages the Consolidated Securities Fund, the sale of consolidated obligations and certain accounting functions for the twelve FHLBanks as a group. Assessments for the Office of Finance's operating costs are charged directly to expense when billed.

(Continued)

2

FEDERAL HOME LOAN BANK OF PITTSBURGH

Notes to Financial Statements

Concessions on Consolidated Obligations

The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity of the obligations. However, the amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred because of their short-term maturities.

Discounts on Consolidated Obligations - Discount Notes

The discounts from the issuance of consolidated obligation discount notes are amortized to expense using the straight-line method to the maturity of the related notes.

Commitment Fees for Advances

Nonrefundable fees are recognized as income immediately. Refundable fees are deferred until the commitment expires or the advance is made.

(2) Cash

Compensating Balances

The Bank has agreed to maintain average collected cash balances with various commercial banks in consideration for certain services. To meet the commercial banks' requirement at December 31, 1984, the Bank maintained noninterest bearing certificates of deposit totalling $17,000,000 maturing within 30 days. The average compensating balances were approximately $13,500,000 and $13,700,000 for the years ended December 31, 1984 and 1983, respectively.

Pass-through Deposit Reserves

The Depository Institutions Deregulation and Monetary Control Act of 1980 authorizes FHLBanks to act as pass-through correspondents for member institutions required to deposit reserves with the Federal Reserve. The amount shown as cash includes pass-through reserves deposited with Federal Reserve offices of $422,000 and $1,754,000 as of December 31, 1984 and 1983, respectively. Member reserve balances are included with Other Liabilities.

(Continued)

3

FEDERAL HOME LOAN BANK OF PITTSBURGH

Notes to Financial Statements

(3) Investments

A comparison of book and estimated market values follows:

	December 31, 1984	
	Book value	Market value
	(in thousands)	
U. S. Treasury obligations	$ 20,014	$ 20,063
Federal funds sold	687,000	687,000
Term funds sold	22,119	22,165
Certificates of deposit - Eurodollars	41,998	42,053
Participation in the FHLBanks' Consolidated Securities Fund	191,473	191,132
	$ 962,604	$ 962,413

	December 31, 1983	
	Book value	Market value
	(in thousands)	
U. S. Treasury obligations	$ 54,674	$ 54,363
Federal funds sold	220,000	220,000
Term funds sold	20,000	20,000
Participation in the FHLBanks' Consolidated Securities Fund	97,723	97,449
	$ 392,397	$ 391,812

The FHLBanks' Consolidated Securities Fund (Fund) was established by the Bank Board to offer a centralized portfolio management system for securities owned by FHLBanks. The Fund is managed by the Office of Finance of the FHLBanks and invests primarily in short-term money market instruments.

(Continued)

FEDERAL HOME LOAN BANK OF PITTSBURGH

Notes to Financial Statements

(4) Advances to Members

At December 31, 1984 and 1983, the Bank's advances outstanding to members are as follows:

	December 31, 1984	
Year of Maturity	Amount (in thousands)	Weighted average interest rate
1985	$ 1,069,350	11.071%
1986	200,176	11.140
1987	228,860	11.705
1988	140,327	11.585
1989	123,439	12.712
1990-1994	188,589	11.701
	$ 1,950,741	11.354

	December 31, 1983	
Year of Maturity	Amount (in thousands)	Weighted average interest rate
1984	$ 522,438	10.224%
1985	149,312	10.795
1986	133,455	11.450
1987	238,735	11.669
1988	100,865	11.088
1989-1993	256,313	12.013
	$ 1,401,118	11.037

All outstanding advances at December 31, 1984 and 1983 were collateralized by pledged investment securities and first mortgage loans. The capital stock of the Bank owned by borrowing members is also pledged as additional collateral for outstanding advances. Bank System regulations permit a borrowing member to physically retain mortgage collateral assigned to the Bank, and in such circumstances, the member executes a written security agreement which describes the type of collateral and agrees to hold such collateral for the benefit and subject to the direction and control of the Bank. The Bank may, however, require a member to place physical possession of such collateral with the Bank or its safekeeping agent.

(Continued)

5

FEDERAL HOME LOAN BANK OF PITTSBURGH

Notes to Financial Statements

(5) Loans to Other Federal Home Loan Banks

The Bank may make unsecured loans to other Federal Home Loan Banks. The following is a summary of these loans at December 31, 1984.

Year of maturity	Principal amount (in thousands)	Weighted average interest rate
1985	$ 43,000	11.083%
1986	48,000	11.181
1987	45,000	11.150
1989	15,000	11.560
1992	35,000	11.900
1993	15,000	11.900
	$ 201,000	

(6) Investment in Federal Home Loan Mortgage Corporation (FHLMC)

The investment in the FHLMC is stated at cost and consists of 6,100 shares of nonvoting common stock, par value $1,000, redeemable at par value (common stock), and a $3,050,000 subordinated capital debenture, due June 20, 1987. The FHLMC paid a dividend of $5,002,000 in 1984 and $2,105,000 in 1983 to the Bank on its investment in the FHLMC capital stock. The subordinated capital debenture issued on June 20, 1980, bears an interest rate of 11.50% per annum, payable semi-annually; may not be sold, transferred, exchanged or pledged without the express written consent of the FHLMC; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the FHLMC; and may be redeemed in whole or in part on or after June 20, 1985 at specified redemption prices at the option of the FHLMC. Interest of $350,000 was earned on the debenture for the years ended December 31, 1984 and 1983.

On December 6, 1984, the FHLMC created a new class of participating preferred stock (preferred stock) and authorized the distribution of such preferred stock to the twelve District Banks of the Federal Home Loan Bank System and by those District Banks to their member institutions that were stockholders of record as of December 31, 1984.

The Federal Home Loan Bank of Pittsburgh received and distributed to its member institutions 915,000 shares of such participating preferred stock of the FHLMC.

(Continued)

6

FEDERAL HOME LOAN BANK OF PITTSBURGH

Notes to Financial Statements

The FHLMC resolution that authorized the distribution of the preferred stock required that such preferred stock be distributed to the member institutions as a condition of the District Bank's receipt of the stock. Because the District Banks did not have the benefits of ownership of the preferred stock at any time, for financial reporting purposes, it has not been reported as an asset or income of the District Bank, or as a dividend to the member institutions.

In any future calendar year, unless and until dividends on the preferred stock in the aggregate amount of $10 million have been declared and paid or set apart for payment, no dividends may be declared or paid or set apart for payment on the common stock of the FHLMC. Thereafter, in such year holders of outstanding preferred stock will be entitled to receive in the aggregate $90 in dividends for every $10 in dividends paid on the common stock in the aggregate.

(7) Consolidated Obligations

Consolidated FHLBank Obligations are the joint and several obligations of all FHLBanks. The outstanding obligations of the FHLBanks, including the pass-throughs to the Mortgage Corporation (see note 12), were $67,257,265,000 and $51,208,979,000 at December 31, 1984 and 1983, 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, obligations of or fully guaranteed by the United States, collateralized advances, and federally insured or guaranteed mortgages. The FHLBanks were in compliance with this requirement as of December 31, 1984 and 1983.

The following is a summary of the Bank's participation in consolidated obligations at December 31, 1984 and 1983:

	December 31, 1984		
	Bonds		
Years of Maturity	Range of coupon rates	Weighted average interest rates	Amount (in thousands)
1985	8.100-15.000%	12.248%	$ 481,000
1986	9.550-16.400	12.871	328,000
1987	10.450-13.300	12.073	215,000
1988	10.700-14.200	11.909	45,000
1989	14.125-15.100	14.474	35,000
1990-1993	10.700-11.700	10.978	125,000
		12.306	$ 1,229,000

	Discount notes (in thousands)	
	Book value	Par value
Due within one year	$ 659,421	$ 674,450

(Continued)

7

FEDERAL HOME LOAN BANK OF PITTSBURGH

Notes to Financial Statements

	December 31, 1983		
	Bonds		
	Range of coupon rates	Weighted average interest rates	Amount (in thousands)
Years of Maturity			
1984	9.748-16.458%	13.031%	$ 244,000
1985	8.132-15.051	12.994	221,000
1986	10.300-16.440	13.611	193,000
1987	10.483-11.132	10.668	35,000
1988	14.232	14.232	15,000
1989-1993	10.732-15.133	11.744	160,000
		12.839	$ 868,000

	Discount notes (in thousands)	
	Book value	Par value
Due within one year	$ 292,434	$ 299,100

(8) Credit Available from the U. S. Treasury

Section 11(i) of the Federal Home Loan Bank Act authorizes the Secretary of the Treasury, in his discretion, to extend credit to the FHLBanks aggregating not more than $4 billion, the terms, conditions, and interest rate to be determined by the Secretary of the Treasury. There were no outstanding borrowings from the U. S. Treasury during the two-year period ended December 31, 1984.

(9) Capital

The capital stock of the Bank has a par value of $100 per share. Capital stock held by members in excess of their statutory requirement may be redeemed at par value by the Bank or sold to other Bank members at par value provided the resulting stock transfer is recorded on the books of the Bank.

Retained earnings of the Bank consist of undivided profits, a legal reserve, and a dividend stabilization reserve (DSR). The Bank must transfer 20% of its net income to the legal reserve semi-annually until the reserve equals the capital stock amount. Thereafter, 5% of the Bank's net income must be allocated for this purpose.

(Continued)

8

FEDERAL HOME LOAN BANK OF PITTSBURGH

Notes to Financial Statements

In 1983 and 1984, dividends were permitted only to the extent of current year's net income and the amount in the DSR and were authorized to be paid either annually or semi-annually. The FHLBanks were requested to set aside in the DSR for future years that portion of prepayment fee income which, if allocated on a pro rata basis over the maturity of the prepaid advances, would be allocated to future dividend periods. Dividends may be paid in the form of capital stock if authorized by the Board of Directors.

(10) Employee Retirement Plan

The Bank is a participant in the Financial Institutions Retirement Fund (FIRF), and substantially all of its officers and employees are covered by the Plan. The Bank's contributions are determined by FIRF and generally represent the normal cost of the Plan (unfunded prior service costs are not significant). Pension costs charged to other operating expenses were $198,000 in 1984 and $214,000 in 1983. The Banks' policy is to fund pension costs as accrued. FIRF does not segregate the assets, liabilities, or costs by participating employer. According to the FIRF administrators, as of June 30, 1984, the date of the latest actuarial valuation, the book and market values of the fund assets exceeded the value of vested benefits in the aggregate.

(11) Commitments

Rental expenses of $189,000 in 1984 and $157,000 in 1983 for premises and equipment has been charged to other operating expense. Future minimum rentals as of December 31, 1984 are as follows:

	Premises	Equipment	Total
1985	$ 90,000	$ 40,000	$ 130,000
1986	738,000	7,000	745,000
1987	783,000	7,000	790,000
1988	828,000	-	828,000
1989	873,000	-	873,000
1990-1995	5,277,000	-	5,277,000
Total	$ 8,589,000	$ 54,000	$ 8,643,000

(Continued)

9

FEDERAL HOME LOAN BANK OF PITTSBURGH

Notes to Financial Statements

The lease agreement for the Bank's premises provides for increases in the basic rentals resulting from increased property taxes and maintenance expense.

Commitments for advances to members totalled $110,175,000 at December 31, 1984 and $2,600,000 at December 31, 1983.

(12) Contingencies

As provided for in Section 306(c) of the Federal Home Loan Mortgage Corporation Act, the Bank Board has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the FHLBank of New York. Each of the FHLBanks participates in the guarantee in proportion to its investments in the capital stock of the Mortgage Corporation (see note 6). At December 31, 1984 the FHLBanks have guaranteed $1,790,000,000 of the Mortgage Corporation's borrowings from the FHLBank of New York in the form of pass-throughs of the proceeds of certain consolidated obligations.

The Bank has issued two Standby Letters of Credit dated November 1984 for $8,750,000 with a termination date of January 1990 for the credit of a member institution for which the Bank is contingently liable.

PEAT MARWICK

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
2600 Rainier Bank Tower
1301 Fifth Avenue
Seattle, Washington 98101

Federal Home Loan Bank Board
Washington, D.C.:

We have examined the statements of condition of the Federal Home Loan Bank of Seattle as of December 31, 1984 and 1983 and the related statements of income, capital accounts, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the standards for financial compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions as promulgated by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Federal Home Loan Bank of Seattle at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell + Co

February 15, 1985

FEDERAL HOME LOAN BANK OF SEATTLE

Statements of Condition

December 31, 1984 and 1983

(In thousands)

Assets	1984	1983
Cash (note 2)	$ 74,928	33,641
Investments (note 3)	2,028,833	988,438
Advances to members (note 4)	5,966,038	5,538,326
Loans to other Federal Home Loan Banks (note 5)	50,000	40,000
Accrued interest receivable	77,117	58,400
Furniture, equipment, and leasehold improvements, net	1,322	985
Investment in Federal Home Loan Mortgage Corporation (note 6)	5,850	5,850
Concessions on consolidated obligations - bonds	5,819	5,986
Deferred charges - Bank Board cost of quarters and other capital expenditures, net	1,281	1,354
Other assets	103	77
Total assets	$ 8,211,291	6,673,057
Liabilities and Capital		
Liabilities:		
Member deposits:		
Demand	643,550	163,591
Overnight	480,741	445,618
Time	188,285	293,600
Total member deposits	1,312,576	902,809
Borrowings from other Federal Home Loan Banks (note 7)	120,000	140,000
Consolidated obligations (note 8):		
Bonds	4,425,903	4,161,797
Discount notes	1,679,048	842,031
Accrued interest payable	140,490	135,407
Other liabilities (note 2)	24,960	20,385
Total liabilities	7,702,977	6,202,429
Capital (note 10):		
Capital stock, $100 par value	399,803	378,615
Retained earnings:		
Legal reserve	76,011	61,851
Dividend stabilization reserve	23,389	21,051
Undivided profits	9,111	9,111
Total retained earnings	108,511	92,013
Total capital	508,314	470,628
Commitments and contingencies (notes 8, 9, 12, 13 and 14)		
Total liabilities and capital	$ 8,211,291	6,673,057

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

FEDERAL HOME LOAN BANK OF SEATTLE

Statements of Income

For the years ended December 31, 1984 and 1983

(In thousands)

	1984	1983
Income:		
Interest on advances to members	$ 698,005	652,495
Interest on loans to other FHLBanks	9,161	2,029
Income from investments	151,937	117,683
Interest from FHLMC debentures (note 6)	224	224
Dividends from FHLMC stock (note 6)	3,198	1,346
Income from prepayment penalties on advances to members	3,137	18,006
Income from services to members	2,126	1,170
Other income	14	8
Total income	867,802	792,961
Expenses:		
Interest and concessions on consolidated obligations	683,977	595,725
Interest on deposits	90,538	103,216
Interest on borrowings from other FHLBanks	13,974	13,003
Other interest	1,050	131
Bank Board assessments	867	708
FHLBanks' Office of Finance assessments	294	311
Other operating expenses	6,305	4,440
Total expenses	797,005	717,534
Net income	$ 70,797	75,427

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

FEDERAL HOME LOAN BANK OF SEATTLE

Statements of Capital Accounts

For the years ended December 31, 1984 and 1983

(In thousands)

	Capital stock		Retained earnings		
	Shares	Par value	Legal reserve	Dividend stabilization reserve	Undivided profits
Balance, January 1, 1983	3,638	$ 363,796	46,766	8,704	9,111
Proceeds from sale of capital stock	335	33,494	-	-	-
Redemption of capital stock	(187)	(18,675)	-	-	-
Net income for 1983	-	-	-	-	75,427
Statutory transfer (note 10)	-	-	15,085	-	(15,085)
Transfer to dividend stabilization reserve (note 10)	-	-	-	12,347	(12,347)
Cash dividends on capital stock (13.12%) (note 10)	-	-	-	-	(47,995)
Balance, December 31, 1983	3,786	378,615	61,851	21,051	9,111
Proceeds from sale of capital stock	425	42,517	-	-	-
Redemption of capital stock	(213)	(21,329)	-	-	-
Net income for 1984	-	-	-	-	70,797
Statutory transfer (note 10)	-	-	14,160	-	(14,160)
Transfer to dividend stabilization reserve (note 10)	-	-	-	2,338	(2,338)
Cash dividends on capital stock (14.01%) (note 10)	-	-	-	-	(54,299)
Balance, December 31, 1984	3,998	$ 399,803	76,011	23,389	9,111

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

FEDERAL HOME LOAN BANK OF SEATTLE

Statements of Changes in Financial Position

For the years ended December 31, 1984 and 1983

(In thousands)

	1984	1983
Financial resources were provided from:		
Operations:		
Net income	$ 70,797	75,427
Noncash charges to income:		
Depreciation and amortization of furniture, equipment and leasehold improvements	321	200
Amortization of concessions on consolidated obligations - bonds	1,825	1,764
Amortization of discount on consolidated obligations - discount notes	148,696	90,331
Amortization of deferred net loss from hedging transactions - consolidated obligations	606	804
Amortization of deferred charges - Bank Board cost of quarters	73	73
Total from operations	222,318	168,599
Net proceeds from issuance of consolidated obligations:		
Bonds, net of deferred losses on hedging transactions	1,066,842	1,278,592
Discount notes	3,841,081	1,116,544
Advances repaid	3,394,337	3,842,943
Proceeds from sale of capital stock	42,517	33,494
Net increase (decrease) in members' deposits	409,767	(510,881)
Increase in accrued interest payable	5,083	17,341
Increase in other liabilities	4,575	13,080
	$ 8,986,520	5,959,712
Financial resources were used for:		
Payments on maturing consolidated obligations:		
Bonds	805,000	731,000
Discount notes	3,152,760	2,203,440
Advances made	3,822,049	3,472,918
Increase in loans to other Federal Home Loan Banks	10,000	40,000
Decrease (increase) in borrowings from FHLBanks	20,000	(140,000)
Redemption of capital stock	21,329	18,675
Cash dividends paid on capital stock	54,299	47,995
Net additions to furniture, equipment and leasehold improvements	658	400
Net increase (decrease) in investments	1,040,395	(403,702)
Increase (decrease) in accrued interest receivable	18,717	(4,074)
Increase (decrease) in other assets	26	(361)
Increase (decrease) in cash	41,287	(6,579)
	$ 8,986,520	5,959,712

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

FEDERAL HOME LOAN BANK OF SEATTLE

Notes to Financial Statements

December 31, 1984 and 1983

Organization and Related Agencies

The Federal Home Loan Bank of Seattle (the Bank), a Federally chartered corporation exempt from income taxes, is one of twelve District Federal Home Loan Banks (FHLBanks) which, together with their member institutions, comprise the FHLBank System. The FHLBank System is designed to promote home ownership through the extension of credit to savings and home financing institutions. Member institutions include all Federally chartered savings and loan associations, all Federally chartered savings banks, and all institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Membership is also available to qualifying institutions, such as state chartered, non-FSLIC insured savings associations and savings banks.

The FHLBanks are instrumentalities of the Federal government; they are owned by, and serve as central credit banks for, member institutions. A principal source of funds for the FHLBanks is sales to the public of debt instruments (consolidated obligations) which are the joint and several obligations of all FHLBanks. Other funds are provided by issuance of capital stock, all owned by the FHLBanks' members, and member deposits.

The FHLBank System is governed and regulated by the Federal Home Loan Bank Board (Bank Board), an independent Federal agency in the executive branch of the government. The Bank Board is the chartering and regulatory authority for Federal savings and loan associations and Federal savings banks. The Bank Board governs the Federal Home Loan Mortgage Corporation (Mortgage Corporation) which is a secondary mortgage market facility. The principal function of the Mortgage Corporation is to promote the flow of capital into the housing markets by establishing an active secondary market in residential mortgages. Further, the Bank Board also governs the FSLIC which insures the accounts of savers in Federally insured savings and loan associations and Federal savings banks. Bank Board expenses are met through assessments to the FHLBanks and the FSLIC and assessments to member institutions for examinations.

(1) Summary of Significant Accounting Policies

The more significant accounting policies not described elsewhere in the notes to the financial statements are as follows:

Investments

Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. Gains and losses on sales of securities are included in income from investments.

(Continued)

FEDERAL HOME LOAN BANK OF SEATTLE

Notes to Financial Statements

Advances to Federal Home Loan Mortgage Corporation

Proceeds from certain consolidated obligations have been advanced to the Mortgage Corporation at the same interest rates and maturities as the related consolidated obligations. The Mortgage Corporation is effectively reimbursing the Bank for the interest; accordingly, the advances, related consolidated obligations, interest expense, and interest income are not reflected in the accompanying financial statements.

Furniture, Equipment and Leasehold Improvements

These assets are stated at cost less accumulated depreciation and amortization of $1,470,338 and $1,164,212 at December 31, 1984 and 1983, respectively. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property or for leasehold improvements 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 disposals are included in other income.

Federal Home Loan Bank Board Assessments

The Bank expenses its pro rata share of the Bank Board assessment for operating expenses during the year the assessment is levied.

The Bank Board also assesses the Bank for its portion of the cost of capital expenditures for building, equipment and furnishings for the Bank Board's building. Payments against these assessments are treated as a deferred charge and amortization is computed using the straight-line method over a twenty-five year period for the building and over a five-year period for equipment and furnishings.

FHLBanks' Office of Finance Assessments

The FHLBanks' Office of Finance manages the Consolidated Securities Fund, the sale of consolidated obligations and certain accounting functions for the twelve FHLBanks as a group. Assessments for the Office's operating costs are charged directly to expense when billed.

Concessions on Consolidated Obligations

The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity of the obligations. However, the amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred because of the notes' short-term maturities.

(Continued)

FEDERAL HOME LOAN BANK OF SEATTLE

Notes to Financial Statements

Discounts on Consolidated Obligations - Discount Notes

The discounts on consolidated obligations — discount notes are amortized to expense on the straight-line method to the maturity of the related notes.

Hedging

The Bank is engaged in an asset/liability management program that permits the use of hedges in the cash and financial futures markets. Gains and losses on hedge transactions are deferred and amortized using the straight-line method over the term to maturity of the related hedged assets or liabilities. Deferred gains and losses are included as an adjustment of the carrying value of hedged assets or liabilities.

Unearned Commitment and Service Fees

Advance commitment fees are initially set up as a deferred credit when received. Nonrefundable fees of less than $5,000 are recognized as income immediately, and fees of $5,000 or more are amortized to income over the period of the commitment on the straight-line basis. Refundable fees are deferred until the commitment expires or the advance is made.

Reclassifications

Certain reclassifications have been made in the 1983 financial statements to conform to the presentation in 1984.

(2) Cash Balances

Compensating Balances

The Bank has agreed to maintain average collected cash balances with various commercial banks in consideration for certain services. There are no legal restrictions under these agreements as to the withdrawal of funds. The average compensating balances were approximately $200,000 and $250,000 for the years ended December 31, 1984 and 1983, respectively.

In addition, the Bank maintained average collected balances with various Federal Reserve Banks and branches of approximately $350,000 and $500,000 for the years ended December 31, 1984 and 1983, respectively. These average balances are required clearing balances and may not be withdrawn; however, earnings credits on these balances may be used to pay for services received from the Federal Reserve.

Pass-Through Deposit Reserves

The Depository Institutions Deregulation and Monetary Control Act of 1980 authorizes FHLBanks to act as pass through correspondent for member institutions required to deposit reserves with the Federal Reserve. The amount shown as cash includes pass-through reserves deposited with Federal Reserve offices of $24,263,785 and $20,261,000 as of December 31, 1984 and 1983, respectively. Member deposit reserves are included under other liabilities.

(Continued)

4

FEDERAL HOME LOAN BANK OF SEATTLE

Notes to Financial Statements

(3) Investments

Investments at December 31 were as follows:

	1984 Book value	1984 Market value	1983 Book value	1983 Market value
	(In thousands)			
U.S. Treasury obligations	$ 118,466	120,224	29,805	29,803
Federal funds sold	1,369,000	1,369,000	590,000	590,000
Bankers' acceptances	-	-	57,038	57,038
Option to purchase U.S. Treasury obligation	462	462	-	-
Certificates of deposit - domestic	-	-	4,999	5,006
Certificates of deposit - Eurodollars	128,110	128,363	64,996	64,993
Participation in the FHLBanks' Consolidated Securities Fund	412,795	410,536	241,600	239,574
	$ 2,028,833	2,028,585	988,438	986,414

The FHLBanks' Consolidated Securities Fund (Fund) was established by the Bank Board to offer a centralized portfolio management system for securities owned by FHLBanks. The Fund is managed by the FHLBanks Office of Finance and invests primarily in short-term money market instruments.

(4) Advances to Members

At December 31, 1984 and 1983, the Bank had advances outstanding to members at interest rates ranging from 7.875% to 15.875% and from 7.500% to 15.875%, respectively, as summarized below:

Year of maturity	December 31, 1984 Amount (in thousands)	December 31, 1984 Weighted average interest rate
1985	$ 2,114,941	11.26%
1986	942,542	11.89
1987	668,580	11.75
1988	559,108	11.79
1989	383,968	13.08
1990-1995	1,296,899	13.05
	$ 5,966,038	11.97%

(Continued)

FEDERAL HOME LOAN BANK OF SEATTLE

Notes to Financial Statements

Year of maturity	December 31, 1983 Amount (in thousands)	Weighted average interest rate
1984	$ 2,114,837	10.47%
1985	503,829	11.63
1986	434,793	11.97
1987	515,060	11.60
1988	517,157	11.73
1989-1994	1,452,650	13.10
	$ 5,538,326	11.61%

Outstanding advances aggregating $5,953,592,090 at December 31, 1984 and $5,535,411,000 at December 31, 1983, respectively, were collateralized by pledged investment securities, first mortgage loans and FHLBank deposits and property which is acceptable to the Banks. The capital stock of the Bank owned by borrowing members is also pledged as additional collateral for outstanding advances. Bank System regulations permit a borrowing member to physically retain mortgage collateral assigned to the Bank, and in such circumstances, the member executes a written security agreement and agrees to hold such collateral for the benefit and subject to the direction and control of the Bank. The Bank may, however, require a borrowing member to place physical possession of such collateral with the Bank or its safekeeping agent.

The Bank participates in the Community Investment Fund, a five-year advances program initiated in June of 1978. The program provides funds to members meeting eligibility criteria for active involvement in preserving and revitalizing older communities. As of December 31, 1984 advances to members of $24,199,700 were outstanding under this program with an average original maturity of one to two years at rates ranging from 9.60% to 15.10%. These rates were 1/2 of 1% below the estimated cost of issuing consolidated obligations of comparable maturities at the time the commitments to advance funds were made. The net interest cost of this program amounted to approximately $250,000 for 1984 and $400,000 for 1983.

(Continued)

FEDERAL HOME LOAN BANK OF SEATTLE

Notes to Financial Statements

(5) Loans to Other Federal Home Loan Banks

Following is a summary of loans, in thousands, made to other Federal Home Loan Banks at December 31, 1984 and 1983:

1984			1983		
Maturity date	Principal amount	Interest rate	Maturity date	Principal amount	Interest rate
1986	$ 30,000	11.01%	1984	$ 10,000	10.30%
1987	20,000	11.26	1986	30,000	11.01
	$ 50,000			$ 40,000	

(6) Investment in Federal Home Loan Mortgage Corporation

The investment in the Mortgage Corporation is stated at cost and consists of 3,900 shares of nonvoting common stock, par value $1,000, redeemable at par value (common stock) and a $1,950,000 subordinated capital debenture, due June 20, 1987. The Bank received cash dividends of $3,198,000 in 1984 and $1,345,500 in 1983.

The subordinated capital debenture issued on June 20, 1980, bears interest at 11.50%, payable semiannually; may not be sold, transferred, exchanged or pledged without the express written consent of the Mortgage Corporation; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the Mortgage Corporation; and may be redeemed in whole or in part on or after June 20, 1985 at specified redemption prices at the option of the Mortgage Corporation. Interest of $224,250 was earned on the debenture for the years ended December 31, 1984 and 1983.

On December 6, 1984, the Mortgage Corporation created a new class of participating preferred stock (preferred stock) and authorized the distribution of such preferred stock to the twelve district banks of the Federal Home Loan Bank System and by those district banks to their member institutions that were stockholders of record as of December 31, 1984. The Federal Home Loan Bank of Seattle received and distributed to its member institutions 585,000 shares of such preferred stock of the Mortgage Corporation.

The Mortgage Corporation resolution that authorized the distribution of the preferred stock required that such preferred stock be distributed to the member institutions as a condition of the district bank's receipt of the stock. Because the district banks did not have the benefits of ownership of the preferred stock at any time, such stock has not been recorded as an asset or income of the bank, or as a dividend of such stock to the member institutions.

(Continued)

FEDERAL HOME LOAN BANK OF SEATTLE

Notes to Financial Statements

In any future calendar year, unless and until dividends on the preferred stock in the aggregate amount of $10 million have been declared and paid or set apart for payment, no dividends may be declared or paid or set apart for payment on the common stock of the Mortgage Corporation. Thereafter in such year, holders of outstanding preferred stock will be entitled to receive in the aggregate $90 in dividends for every $10 in dividends paid on the common stock in the aggregate.

(7) Borrowings from Other Federal Home Loan Banks

Following is a summary of loans, in thousands, from other Federal Home Loan Banks at December 31:

1984			1983		
Maturity date	Principal amount	Interest rate	Maturity date	Principal amount	Interest rate
1987	$ 20,000	11.57%	1984	$ 40,000	9.35%
1987	50,000	10.45	1987	50,000	10.45
1987	50,000	10.46	1987	50,000	10.46
	$ 120,000			$ 140,000	

(8) Consolidated Obligations

The outstanding consolidated obligations of the FHLBanks (see "Organization and Related Agencies" above), including the pass-throughs to the Mortgage Corporation (see note 13), were $67,257,265,000 and $53,498,979,000 at December 31, 1984 and 1983, 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, obligations of or fully guaranteed by the United States, collateralized advances, and Federally insured or guaranteed mortgages. The FHLBanks were in compliance with this requirement at December 31, 1984 and 1983.

(Continued)

8

FEDERAL HOME LOAN BANK OF SEATTLE

Notes to Financial Statements

The following is a summary of the Bank's participation in consolidated obligations at December 31 (in thousands):

	December 31, 1984		
	Bonds		
Year of maturity	Range of coupon rates	Weighted average interest rate	Outstanding
1985	8.125-15.00%	13.06%	$ 673,000
1986	9.55-16.40	12.90	849,000
1987	7.00-13.30	11.02	775,000
1988	10.15-14.20	11.78	547,000
1989	11.375-15.10	14.24	488,000
1990-1997	10.70-13.20	11.40	1,095,000
			4,427,000
Less deferred net loss from hedging transactions			1,097
			$ 4,425,903

	Discount notes	
	Book value	Par value
Due within one year	$ 1,679,048	1,743,400

	December 31, 1983		
	Bonds		
Year of maturity	Range of coupon rates	Weighted average interest rate	Outstanding
1984	11.83 - 13.35%	12.52%	$ 805,000
1985	12.57 - 13.80	13.24	573,000
1986	13.25 - 13.30	13.28	374,000
1987	10.15 - 10.28	10.22	475,000
1988	10.27 - 13.05	11.83	522,000
1989-1993	10.80 - 14.33	12.13	1,418,000
			4,167,000
Less deferred net loss from hedging transactions			5,203
			$ 4,161,797

	Discount notes	
	Book value	Par value
Due within one year	$ 842,031	858,000

(Continued)

FEDERAL HOME LOAN BANK OF SEATTLE

Notes to Financial Statements

(9) Credit Available from the U.S. Treasury

Section 11(i) of the Federal Home Loan Bank Act authorizes the Secretary of the Treasury, in his discretion, to extend credit aggregating not more than $4 billion to the FHLBanks; the terms, conditions and interest rate to be determined by the Secretary of the Treasury. There were no outstanding borrowings from the U.S. Treasury during the two-year period ended December 31, 1984.

(10) Capital

The capital stock of the Bank has a par value of $100 per share. Capital stock held by members in excess of their statutory requirement may be redeemed at par value by the Bank or sold to other Bank members at par value provided the resulting stock transfer is recorded on the books of the Bank.

Retained earnings of the Bank consist of undivided profits, a legal reserve and a dividend stabilization reserve (DSR). The Bank must transfer 20% of its net income to the legal reserve semiannually until the reserve equals the capital stock amount. Thereafter, 5% of the Bank's net income must be allocated for this purpose.

In 1984 and 1983 dividends were permitted only to the extent of current year's net income, after the statutory transfer, and any allowed transfer from the DSR, and were authorized to be paid either annually or semi-annually. In addition, the Bank Board required that the Bank retain in the dividend stabilization reserve that portion of income from prepayment penalties which, if allocated on a pro rata basis over the maturity of the advances prepaid, would be allocated to future dividend periods. Dividends may be paid in the form of capital stock if authorized by the Board of Directors.

(11) Employee Retirement Plan

The Bank is a participant in the Financial Institutions Retirement Fund (FIRF) and substantially all of its officers and employees are covered by the retirement plan (Plan). The Bank's contributions are determined by FIRF and generally represent the normal cost of the Plan (unfunded prior service costs are not significant). Pension costs charged to other operating expenses were $126,380 in 1984 and $122,000 in 1983. The Bank's policy is to fund pension costs as accrued. FIRF does not segregate the assets, liabilities, or costs by participating employer. As a result, disclosure of accumulated vested and non-vested benefits and net assets available for benefits as required by FASB 36 cannot be made. According to the FIRF administrators, as of June 30, 1984, the date of the latest actuarial valuation, the book and market values of the fund assets exceeded the value of vested benefits in the aggregate.

(Continued)

10

FEDERAL HOME LOAN BANK OF SEATTLE

Notes to Financial Statements

(12) Commitments

Commitments for advances to members totaled $255,600,000 at December 31, 1984 and $33,783,410 at December 31, 1983.

Outstanding standby letters of credit totalled $40,001,000 at December 31, 1984.

(13) Interest Swaps

An interest rate swap is a contractual interest exchange agreement in which, for a predetermined period, one party agrees to make periodic fixed interest rate payments to another party in return for receiving variable interest rate payments. At December 31, 1984, the Bank had outstanding $422,000,000 in underlying notional principal of interest rate swap agreements. The net interest expense amounted to $1,766,203 for 1984.

(14) Contingencies

As provided by Section 306(c) of the Federal Home Loan Mortgage Corporation Act, the Bank Board has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the FHLBank of New York. Each of the FHLBanks participates in the guarantee in proportion to its investment in the common stock of the Mortgage Corporation (see note 6). At December 31, 1984, the FHLBanks have guaranteed $1,790,000 of the Mortgage Corporation's borrowings from the FHLBank of New York in the form of pass-throughs of the proceeds of certain consolidated obligations.

Deloitte Haskins+Sells

Suite 1800
100 Peachtree Street
Atlanta, Georgia 30303
(404) 656-1500
TWX 810-751-3131

AUDITORS' REPORT

Federal Home Loan Bank of Atlanta:

We have examined the statements of condition of the Federal Home Loan Bank of Atlanta as of December 31, 1984 and 1983 and the related statements of income, capital accounts, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions as promulgated by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the Bank at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

January 25, 1985

FEDERAL HOME LOAN BANK OF ATLANTA

STATEMENTS OF CONDITION

December 31, 1984 and 1983

	NOTES	1984	1983
ASSETS		(in thousands)	
Cash	2	$ 32,131	$ 8,908
Investments	3	2,013,255	1,178,403
Advances to members	4	9,946,641	7,254,769
Advances to another Federal Home Loan Bank	5	75,000	
Accrued interest receivable		7,673	3,413
Furniture, equipment, and leasehold improvements - net	6	1,894	2,130
Investment in Federal Home Loan Mortgage Corporation	7	21,300	21,300
Concessions on consolidated obligation bonds		5,351	4,094
Deferred charges - Bank Board cost of quarters and other capital expenditures	8	5,107	5,390
Other		4,215	2,209
TOTAL		$12,112,567	$8,480,616
LIABILITIES AND CAPITAL			
LIABILITIES:			
Members' deposits:			
Demand		$ 892	$ 2,151
Overnight		2,899,641	1,650,801
Term		189,610	191,834
Total deposits		3,090,143	1,844,786
Securities sold under agreements to repurchase	9	137,126	35,326
Consolidated obligations:	10		
Discount notes		2,053,372	1,259,917
Bonds		5,410,107	4,043,000
Accrued interest payable		148,166	123,126
Dividends payable		68,868	50,955
Other	2	20,786	15,817
Total liabilities		10,928,568	7,372,927
CONTINGENCIES AND COMMITMENTS	4, 14, 15		
CAPITAL:	12		
Capital stock		991,612	924,312
Retained earnings:			
Legal reserve		166,282	140,159
Dividend stabilization reserve		9,505	26,618
Undivided profits		16,600	16,600
Total retained earnings		192,387	183,377
Total capital		1,183,999	1,107,689
TOTAL		$12,112,567	$8,480,616

See Notes to Financial Statements.

FEDERAL HOME LOAN BANK OF ATLANTA

STATEMENTS OF INCOME

For the years ended December 31, 1984 and 1983

	NOTES	1984	1983
		(in thousands)	
INCOME:			
Income from advances to members:			
Interest and fees		$ 962,745	$ 842,516
Prepayment penalties		3,446	20,251
Income from investments		168,229	182,789
Dividend on Federal Home Loan Mortgage Corporation stock	7	11,644	4,899
Interest on Federal Home Loan Mortgage Corporation debenture	7	816	816
Interest on advances to other Federal Home Loan Banks		9,487	
Income from services to members		6,232	4,728
Other		166	108
Total		1,162,765	1,056,107
EXPENSE:			
Interest and concessions on consolidated obligations		763,351	685,337
Interest on deposits		247,584	248,193
Other interest		5,698	3,775
Assessments:			
Bank Board		1,741	1,711
Federal Home Loan Banks' Office of:			
Finance		561	605
Publications		26	
Amortization of deferred charges - Bank Board cost of quarters		283	285
Other operating expense	13, 14	12,905	10,881
Total		1,032,149	950,787
NET INCOME		$ 130,616	$ 105,320

See Notes to Financial Statements.

FEDERAL HOME LOAN BANK OF ATLANTA

STATEMENTS OF CAPITAL ACCOUNTS

For the years ended December 31, 1984 and 1983

	Capital Stock		Retained Earnings		
	Shares	Par Value	Legal Reserve	Dividend Stabilization Reserve	Undivided Profits
		(in thousands)			
BALANCE, December 31, 1982	9,186	$918,554	$119,095	$47,247	$ 16,600
Proceeds from sale of capital stock	436	43,615			
Redemption of capital stock	(379)	(37,857)			
Net income					105,320
Statutory transfer (Note 12)			21,064		(21,064)
Dividends on capital stock (11.46%) (Note 12)				(20,629)	(84,256)
BALANCE, December 31, 1983	9,243	924,312	140,159	26,618	16,600
Proceeds from sale of capital stock	976	97,606			
Redemption of capital stock	(303)	(30,306)			
Net income					130,616
Statutory transfer (Note 12)			26,123		(26,123)
Dividends on capital stock (12.50%) (Note 12)				(17,113)	(104,493)
BALANCE, December 31, 1984	9,916	$991,612	$166,282	$ 9,505	$ 16,600

See Notes to Financial Statements.

FEDERAL HOME LOAN BANK OF ATLANTA

STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1984 and 1983

	1984	1983
	(in thousands)	
FINANCIAL RESOURCES WERE PROVIDED BY:		
Operations:		
Net income	$ 130,616	$ 105,320
Noncash charges to income:		
Amortization of discount on consolidated obligation discount notes	67,957	24,920
Amortization of concessions on consolidated obligation bonds	2,239	2,364
Amortization of deferred losses - hedging activities	589	7
Depreciation and amortization of furniture, equipment, and leasehold improvements	572	465
Amortization of deferred charges - Bank Board cost of quarters	283	285
Total	202,256	133,361
Net proceeds from issuance of consolidated obligations:		
Discount notes	5,484,648	1,920,237
Bonds, including deferred losses from hedging activities	2,753,540	438,983
Advances repaid	3,485,306	3,938,927
Increase (decrease) in members' deposits	1,245,357	(910,632)
Increase in securities sold under agreements to repurchase	101,800	35,326
Proceeds from sale of capital stock	97,606	43,615
Increase (decrease) in accrued interest payable	25,040	(35,312)
Increase in dividends payable	17,913	4,763
Increase in other liabilities	4,969	11,154
TOTAL	$13,418,435	$5,580,422
FINANCIAL RESOURCES WERE USED FOR:		
Advances made, including deferred losses from hedging activities	$ 6,177,700	$2,483,696
Payments on maturing consolidated obligations:		
Discount notes	4,759,150	2,396,100
Bonds	1,390,000	1,512,000
Increase (decrease) in investments	834,852	(952,420)
Dividends on capital stock	121,606	104,885
Advances to another Federal Home Loan Bank	75,000	
Redemption of capital stock	30,306	37,857
Increase in cash	23,223	305
Increase (decrease) in accrued interest receivable	4,260	(5,264)
Increase in other assets	2,006	1,630
Net additions to furniture, equipment, and leasehold improvements	332	1,633
TOTAL	$13,418,435	$5,580,422

See Notes to Financial Statements.

FEDERAL HOME LOAN BANK OF ATLANTA

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 1984 and 1983

ORGANIZATION AND RELATED AGENCIES

The Federal Home Loan Bank of Atlanta (the Bank) is the credit reserve bank for savings institutions in Alabama, the District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, and Virginia that are members of the Federal Home Loan Bank System (the System). Created by an Act of Congress in 1932, the Bank is one of twelve Federal Home Loan Banks (FHLBanks) organized under the authority of the Federal Home Loan Bank Board (Bank Board) to serve member savings and loan associations, savings banks, and other eligible financial institutions located in the various FHLBank districts.

The basic purpose of the Bank is to provide a supplementary source of credit to assist its members in meeting their liquidity needs including the demand for home mortgage loans. To obtain the necessary funds, the Bank depends primarily on borrowing from the public by selling bonds and notes in participation with the other FHLBanks. The resulting debt instruments are referred to as consolidated obligations, since the twelve FHLBanks are jointly liable for their repayment. Other funds are provided by issues of capital stock, all of which is owned by the Bank's members, and by members' deposits.

The Bank Board, the governing body of the System, is an independent federal agency in the executive branch of the Government. It regulates the FHLBanks, charters federal savings and loan associations and federal savings banks, and regulates and supervises these and other members of the System. The Bank Board also governs the Federal Savings and Loan Insurance Corporation (FSLIC), which insures the accounts of savers in federally insured member institutions, and the Federal Home Loan Mortgage Corporation (Mortgage Corporation), which is a secondary mortgage market institution. The non-voting common stock of the Mortgage Corporation is owned by the FHLBanks, and the participating preferred stock is owned by the member institutions of the System. Bank Board costs and expenses are met by assessments to the FHLBanks and the FSLIC and by fees charged to member institutions for examinations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments - Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. Gains and losses on sales of investments are included in income from investments.

Furniture, Equipment, and Leasehold Improvements - Furniture, equipment, and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or, for leasehold improvements, over the estimated useful life of the improvement or the remaining term of the lease, whichever is shorter.

FEDERAL HOME LOAN BANK OF ATLANTA
Notes to Financial Statements, continued...

Improvements and major renewals are capitalized; ordinary maintenance and repairs are expensed as incurred. Gains and losses on disposals are included in other income.

Concessions on Consolidated Obligations - The amounts paid dealers in connection with the sale of consolidated obligation bonds are deferred and amortized using the straight-line method to the maturity of the obligations; however, the amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred because of their short-term maturites.

Discount on Consolidated Obligation Discount Notes - The discount on consolidated obligation discount notes is amortized to expense using the straight-line method to the maturity of the related notes.

Federal Home Loan Bank Board Assessments - The Bank charges to expense its pro rata share of the Bank Board assessment for operating expenditures during the year in which the assessment is levied.

The Bank Board has assessed the Bank for its portion of the cost of the Bank Board's office building in Washington, D.C. Payments are treated as deferred charges, and amortization is computed using the straight-line method for a period of twenty-five years.

Hedging - The Bank is engaged in an asset and liability management program that involves the use of hedges in the cash market. Gains and losses on hedge transactions are deferred as adjustments to the carrying value of the hedged assets or liabilities and amortized as adjustments to the yield or cost to maturity using the level yield method.

2. CASH BALANCES

Compensating Balances - The Bank has agreed to maintain average collected cash balances with two commercial banks in consideration for various services. There are no legal restrictions under these agreements as to the withdrawal of funds. The average compensating balances were approximately $6,880,000 for the year ended December 31, 1984, and $7,300,000 for the year ended December 31, 1983.

In addition, the Bank maintained average collected balances with various Federal Reserve Banks and branches of approximately $1,286,000 for the years ended December 31, 1984 and 1983. These average balances are required clearing balances and may not be withdrawn; however, earnings credits on these balances may be used to pay for services received from the Federal Reserve.

FEDERAL HOME LOAN BANK OF ATLANTA
Notes to Financial Statements, continued...

Pass-Through Deposit Reserves - The Depository Institutions Deregulation and Monetary Control Act of 1980 authorizes the Bank to act as a pass-through correspondent for member institutions required to deposit reserves with the Federal Reserve. The aggregate of members' pass-through reserve requirements was $19,934,000 and $14,704,000 as of December 31, 1984 and 1983, respectively. The amounts on deposit at Federal Reserve Banks are included in cash, and member reserve balances are included in other liabilities.

3. INVESTMENTS

Investments at December 31, 1984 and 1983, were as follows:

	Carrying Value	Market Value
	(in thousands)	
December 31, 1984:		
U. S. Treasury obligations	$ 106,663	$ 107,369
Federal funds sold	1,425,000	1,425,000
Term federal funds sold	35,000	35,000
Participation in the FHLBanks' Consolidated Securities Fund	347,535	348,395
Securities held as a hedge against granting advances to members:		
U. S. Treasury obligations	63,100	62,565
Bankers' acceptances	15,957	15,968
Certificates of deposit - Eurodollar	20,000	20,018
Total	$2,013,255	$2,014,315
December 31, 1983:		
U. S. Treasury obligations	$ 30,369	$ 30,146
Federal funds sold	725,000	725,000
Term federal funds sold	144,000	144,000
Participation in the FHLBanks' Consolidated Securities Fund	244,487	245,159
U. S. Treasury obligations held as a hedge against granting advances to members	34,547	34,802
Total	$1,178,403	$1,179,107

The FHLBanks' Consolidated Securities Fund (Fund) was established by the Bank Board to offer a centralized portfolio management system for securities owned by the FHLBanks. The Fund is managed by the Office of Finance of the FHLBanks and invests primarily in short-term money market instruments.

FEDERAL HOME LOAN BANK OF ATLANTA
Notes to Financial Statements, continued...

4. ADVANCES TO MEMBERS

At December 31, 1984 and 1983, the Bank had advances outstanding to members at interest rates ranging from 7.875% to 16.75% as summarized below:

Years of Maturity	Weighted Average Interest Rate	Amount (in thousands)
December 31, 1984:		
1985	11.28%	$6,130,123
1986	11.75%	1,674,200
1987	11.72%	715,837
1988	11.74%	406,350
1989	12.47%	356,056
1990-1994	11.65%	661,976
	11.47%	9,944,542
Deferred losses from hedging activities - net		2,099
Total		$9,946,641
December 31, 1983:		
1984	10.68%	$4,239,404
1985	10.69%	864,945
1986	11.28%	651,416
1987	11.91%	393,665
1988	11.56%	276,950
1989-1993	11.85%	827,280
	10.97%	7,253,660
Deferred losses from hedging activities - net		1,109
Total		$7,254,769

FEDERAL HOME LOAN BANK OF ATLANTA
Notes to Financial Statements, continued...

Outstanding advances aggregating $9,775,691,000 at December 31, 1984, and $7,056,830,000 at December 31, 1983, were collateralized by investment securities and first mortgage loans. The capital stock of the Bank owned by borrowers is also pledged as additional collateral for outstanding advances. Bank System regulations permit a borrower to physically retain mortgage collateral assigned to the Bank; and, in such circumstances, the member executes a written security agreement describing the type of collateral and agrees to hold such collateral for the benefit of and subject to the direction and control of the Bank. The Bank may, however, require the borrower to deliver such collateral to the Bank or its agent.

At December 31, 1984, commitments for advances to members totaled $229,300,000 and standby letters of credit totaled $37,585,000.

The Bank participated in the Community Investment Fund, an advance program initiated in June 1978. The program provided funds to members meeting eligibility criteria for active involvement in preserving and revitalizing older communities. There were no advances outstanding under this program as of December 31, 1984. Advances were made under this program at interest rates of approximately 1/2% below the estimated cost of issuing consolidated obligations of comparable maturities at the time the commitments to advance funds were made. The net interest cost of this program was approximately $362,000 and $1,917,000 for 1984 and 1983, respectively.

5. ADVANCES TO ANOTHER FEDERAL HOME LOAN BANK

Advances to another Federal Home Loan Bank at December 31, 1984, were as follows:

Maturity Date	Interest Rate	Amount (in thousands)
September 25, 1986	10.94%	$25,000
November 25, 1986	10.99%	25,000
December 26, 1986	11.02%	25,000
Total		$75,000

There were no advances to other Federal Home Loan Banks at December 31, 1983.

FEDERAL HOME LOAN BANK OF ATLANTA
Notes to Financial Statements, continued...

6. FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Furniture, equipment, and leasehold improvements at December 31, 1984 and 1983, and the estimated useful lives used for the computation of depreciation and amortization are summarized by classification as follows:

Classification	1984 (in thousands)	1983	Useful Life (in years)
Furniture and equipment	$2,913	$2,681	3-10
Leasehold improvements	669	613	3-9
Total	3,582	3,294	
Less accumulated depreciation and amortization	1,688	1,164	
Furniture, equipment, and leasehold improvements - net	$1,894	$2,130	

7. INVESTMENT IN FEDERAL HOME LOAN MORTGAGE CORPORATION

The investment in the Mortgage Corporation is stated at cost and consists of 14,200 shares of nonvoting common stock, par value $1,000 per share, redeemable at par value (common stock) and a $7,100,000 subordinated capital debenture, due June 20, 1987. The shares of common stock represent 14.2% of the common stock outstanding. The subordinated capital debenture issued on June 20, 1980, bears interest at a rate of 11.50% per annum, payable semiannually; may not be sold, transferred, exchanged or pledged without the express written consent of the Mortgage Corporation; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the Mortgage Corporation; and may be redeemed in whole or in part on or after June 20, 1985, at specified redemption prices at the option of the Mortgage Corporation.

On December 6, 1984, the Mortgage Corporation created a new class of participating preferred stock, authorized the distribution of such preferred stock to the twelve FHLBanks, and required further distribution of the preferred stock to their member institutions that were stockholders of record as of December 31, 1984. The Bank received and distributed to its member institutions 2,129,742 shares which represented 14.2% of such participating preferred stock. Since the Bank was required to distribute the preferred stock to its member institutions, and because the Bank did not have the benefits of ownership of the preferred stock at any time, this transaction is not included in the accompanying financial statements as an asset or as income of the Bank, or as a dividend to member institutions.

In any future calendar year, unless and until dividends on the preferred stock in the aggregate amount of $10 million have been declared and paid or set aside for payment, no dividends on the common stock of

FEDERAL HOME LOAN BANK OF ATLANTA
Notes to Financial Statements, continued...

the Mortgage Corporation may be declared or paid or set aside for payment. Thereafter in such year, holders of outstanding preferred stock will be entitled to receive in the aggregate $90 in dividends for every $10 in dividends paid on the common stock.

8. DEFERRED CHARGES - BANK BOARD COST OF QUARTERS AND OTHER CAPITAL EXPENDITURES

Deferred charges for Bank Board cost of quarters and other capital expenditures at December 31, 1984 and 1983, were as follows:

	1984	1983
	(in thousands)	
Cost of quarters	$7,082	$7,082
Other capital expenditures	281	281
	7,363	7,363
Less accumulated amortization	2,256	1,973
Total	$5,107	$5,390

9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

At December 31, 1984 and 1983, the Bank had securities sold under agreements to repurchase with a weighted average cost of 8.07% and 8.24%, respectively. These short-term borrowings were collateralized by U. S. Treasury obligations included in Investments (see Note 3) as follows:

	Carrying Value	Market Value
	(in thousands)	
1984	$133,792	$134,098
1983	$ 34,547	$ 34,802

10. CONSOLIDATED OBLIGATIONS

The outstanding consolidated obligations of the FHLBanks (see "Organization and Related Agencies"), including the pass-through to the Mortgage Corporation, at December 31, 1984 and 1983, were $67,257,265,000 and $51,208,979,000, 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, obligations of or fully guaranteed by the United States, collateralized advances, and federally insured or guaranteed mortgages. The FHLBanks were in compliance with this requirement at December 31, 1984 and 1983.

FEDERAL HOME LOAN BANK OF ATLANTA
Notes to Financial Statements, continued...

The following is a summary of the Bank's participation in consolidated obligations:

Years of Maturity	Range of Coupon Rates	Weighted Average Interest Rate	Outstanding (in thousands)
December 31, 1984:			
Bonds:			
1985	8.10% - 14.70%	12.32%	$1,788,000
1986	9.55% - 16.40%	12.59%	1,727,000
1987	7.60% - 13.00%	11.24%	572,000
1988	10.15% - 14.20%	11.22%	433,360
1989	11.375% - 15.10%	12.28%	317,640
1990-1994	10.85% - 12.15%	11.17%	575,000
			5,413,000
Less deferred losses from hedging activities - net			2,893
Total			$5,410,107
Discount notes, due within one year (par value $2,117,050,000)			$2,053,372
December 31, 1983:			
Bonds:			
1984	9.05% - 16.40%	13.32%	$1,390,000
1985	8.10% - 14.70%	12.85%	738,000
1986	9.55% - 16.40%	14.05%	727,000
1987	7.60% - 11.10%	9.53%	247,000
1988	10.15% - 14.20%	11.47%	198,360
1989-1993	10.85% - 15.10%	11.56%	742,640
Total			$4,043,000
Discount notes, due within one year (par value $1,280,650,000)			$1,259,917

The weighted average interest rate for all consolidated obligations outstanding at December 31, 1984 and 1983, was 11.80% and 11.94%, respectively.

FEDERAL HOME LOAN BANK OF ATLANTA
Notes to Financial Statements, continued...

11. CREDIT AVAILABLE FROM THE U. S. TREASURY

Section 11(i) of the Federal Home Loan Bank Act authorizes the Secretary of the Treasury, in his discretion, to extend credit to the FHLBanks aggregating not more than $4 billion dollars. The terms, conditions, and interest rate are to be determined by the Secretary of the Treasury. There were no outstanding borrowings from the U. S. Treasury during the two-year period ended December 31, 1984.

12. CAPITAL

The capital stock of the Bank has a par value of $100 per share. Capital stock held by members in excess of their statutory requirement may be redeemed at par value by the Bank or sold to other Bank members at par value provided the resulting stock transfer is recorded on the books of the Bank.

Retained earnings of the Bank consist of undivided profits, a legal reserve, and a dividend stabilization reserve. Unless waived by the Bank Board, the Bank must transfer 20% of its net income to the legal reserve semiannually until the reserve equals the capital stock amount. Thereafter, 5% of the Bank's net income must be allocated for this purpose.

For 1984 and 1983, dividends could be paid annually or semiannually only from current year's net income (after the 20% transfer to the legal reserve) and the dividend stabilization reserve. In accordance with current Bank Board policy, the Bank must retain in the dividend stabilization reserve that portion of income from prepayment penalties which, if allocated on a pro rata basis over the maturity of the advances prepaid, would be allocated to future dividend periods.

13. EMPLOYEE RETIREMENT PLAN

The Bank is a participant in the Financial Institutions Retirement Fund (FIRF), and substantially all of its officers and employees are covered by the Plan. The Bank's contributions are determined by FIRF and generally represent the normal cost of the Plan. Unfunded prior service costs are not significant. Pension costs included in other operating expense were $449,000 in 1984 and $426,000 in 1983, which included amortization of past service cost over ten years. The Bank's policy is to fund pension costs as accrued. FIRF does not segregate the assets, liabilities, or costs by participating employer. Therefore, disclosure of accumulated vested and non-vested benefits and net assets available

FEDERAL HOME LOAN BANK OF ATLANTA
Notes to Financial Statements, continued...

for benefits as required by Financial Accounting Standards Board statement number 36 cannot be made. According to the FIRF administrators, as of June 30, 1984, the date of the latest actuarial valuation, the book and market values of the fund assets exceeded the value of vested benefits in the aggregate.

14. LEASE COMMITMENTS

Rental expense of $830,000 in 1984 and 1983 for premises and software and equipment has been included in other operating expense. Future minimum rentals are as follows:

Year	Premises	Software and Equipment	Total
1985	$ 545,000	$161,000	$ 706,000
1986	413,000	129,000	542,000
1987	43,000	60,000	103,000
Total	$1,001,000	$350,000	$1,351,000

The lease agreement for the Bank's premises provides for increases in the basic rentals resulting from increased property taxes and maintenance expense.

15. CONTINGENCIES

As provided for in Section 306(c) of the Federal Home Loan Mortgage Corporation Act, the Bank Board has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the FHLBank of New York. Each of the FHLBanks participates in the guarantee in proportion to its investment in the common stock of the Mortgage Corporation (see Note 7). At December 31, 1984, the FHLBanks have guaranteed $1,790,000,000 of the Mortgage Corporation's borrowings from the FHLBank of New York in the form of pass-throughs of the proceeds of certain consolidated obligations.

Deloitte Haskins+Sells

200 East Randolph Drive
Chicago, Illinois 60601
(312) 861-1161
TWX 910-221-2695

AUDITORS' OPINION

To the Federal Home Loan Bank Board:

We have examined the statements of condition of the Federal Home Loan Bank of Chicago as of December 31, 1984 and 1983 and the related statements of income, capital accounts, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions as promulgated by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the Federal Home Loan Bank of Chicago at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins+Sells

January 18, 1985

FEDERAL HOME LOAN BANK OF CHICAGO

STATEMENTS OF CONDITION, DECEMBER 31, 1984 AND 1983
(In thousands)

ASSETS	NOTES	1984	1983
CASH	3	$ 24,314	$ 15,280
INVESTMENTS	4	1,783,401	1,256,929
ADVANCES TO MEMBERS	5	2,895,792	2,765,769
LOANS TO OTHER FEDERAL HOME LOAN BANKS	6	200,000	
ACCRUED INTEREST RECEIVABLE		32,405	32,450
FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS - Net		1,564	1,395
INVESTMENT IN FEDERAL HOME LOAN MORTGAGE CORPORATION	7	15,450	15,450
CONCESSIONS ON CONSOLIDATED OBLIGATIONS - Bonds		1,931	1,914
DEFERRED CHARGES - Federal Home Loan Bank Board cost of quarters		3,094	3,266
OTHER ASSETS		1,393	479
TOTAL ASSETS		$4,959,344	$4,092,932

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

LIABILITIES AND CAPITAL	NOTES	1984	1983
LIABILITIES:			
Members' deposits:			
Overnight		$1,561,128	$1,125,313
Term		103,866	162,600
Total deposits		1,664,994	1,287,913
Interbank borrowings	8	75,000	170,000
Securities sold under agreement to repurchase		73,138	
Consolidated obligations:	9		
Bonds		2,144,211	1,772,309
Discount notes		270,817	174,918
Accrued interest payable		76,237	77,904
Unearned commitment and service fees		16	28
Other liabilities		11,340	6,353
Total liabilities		4,315,753	3,489,425
CONTINGENCIES AND COMMITMENTS	13,14		
CAPITAL:	11		
Capital stock, $100 par value		507,717	485,299
Retained earnings:			
Legal reserve		118,938	102,788
Dividend stabilization reserve		4,802	3,286
Undivided profits		12,134	12,134
Total retained earnings		135,874	118,208
Total capital		643,591	603,507
TOTAL LIABILITIES AND CAPITAL		$4,959,344	$4,092,932

- 2 -

FEDERAL HOME LOAN BANK OF CHICAGO

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983
(In thousands)

	NOTES	1984	1983
INCOME:			
Interest on advances to members		$340,779	$356,226
Income from prepayment fees		5,276	5,017
Income from investments		154,195	115,311
Interest on Federal Home Loan Mortgage Corporation debenture	7	592	592
Dividend on Federal Home Loan Mortgage Corporation stock	7	8,446	3,554
Earned commitment fees		381	622
Income from services to members		4,158	2,965
Income from services to other Federal Home Loan Banks		1,121	715
Interest on loans to other Federal Home Loan Banks		1,024	7
Other income		20	18
Total income		515,992	485,027
EXPENSES:			
Interest and concessions on consolidated obligations		266,425	268,672
Interest on deposits		141,053	127,503
Interest on interbank borrowings		13,597	10,654
Other interest		2,701	52
Federal Home Loan Bank Board assessments		1,081	1,032
Federal Home Loan Banks' Office of Finance assessments		335	354
Other operating expenses		10,051	8,201
Total expenses		435,243	416,468
NET INCOME		$ 80,749	$ 68,559

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

- 3 -

FEDERAL HOME LOAN BANK OF CHICAGO

STATEMENTS OF CAPITAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983
(In thousands)

	NOTES	..CAPITAL STOCK.. SHARES	PAR VALUE
BALANCE, DECEMBER 31, 1982		4,816	$481,569
Proceeds from sale of capital stock		124	12,462
Redemption of capital stock		(87)	(8,732)
Net income			
Statutory transfer	11		
Transfer to dividend stabilization reserve	11		
Dividends on capital stock (11.25%) - cash payment	11		
BALANCE, DECEMBER 31, 1983		4,853	485,299
Proceeds from sale of capital stock		333	33,375
Redemption of capital stock		(109)	(10,957)
Net income			
Statutory transfer	11		
Transfer to dividend stabilization reserve	11		
Dividends on capital stock (12.5%) - cash payment	11		
BALANCE, DECEMBER 31, 1984		5,077	$507,717

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

.....RETAINED EARNINGS....		
LEGAL RESERVE	DIVIDEND STABILIZATION RESERVE	UNDIVIDED PROFITS
$ 89,076	$ 2,828	$ 12,134
		68,559
13,712		(13,712)
	2,012	(2,012)
	(1,554)	(52,835)
102,788	3,286	12,134
		80,749
16,150		(16,150)
	2,334	(2,334)
	(818)	(62,265)
$118,938	$ 4,802	$ 12,134

- 4 -

FEDERAL HOME LOAN BANK OF CHICAGO

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983
(In thousands)

FINANCIAL RESOURCES WERE PROVIDED BY:
Operations:
  Net income
  Noncash charges (credits) to income:
    Depreciation and amortization of furniture, equipment and leasehold improvements
    Amortization of concessions on consolidated obligations - bonds
    Amortization of discount on consolidated obligations - discount notes
    Amortization of deferred charges - Federal Home Loan Bank Board cost of quarters and other capital expenditures
    Other
Total from operations
Net proceeds from issuance of consolidated obligations:
  Bonds
  Discount notes
Advances repaid
Proceeds from sale of capital stock
Net increase in members' deposits
Increase in securities sold under agreements to repurchase
Decrease in accrued interest receivable
Increase in other liabilities

TOTAL

FINANCIAL RESOURCES WERE USED FOR:
Payments on maturing consolidated obligations:
  Bonds
  Discount notes
Advances made, net of deferred gain on hedging transactions
Redemption of capital stock
Dividends paid on capital stock
Net additions to furniture, equipment and leasehold improvements
Increase in investments
Net change in interbank loans and borrowings
Increase (decrease) in deferred charges and other assets
Decrease (increase) in accrued interest payable
Increase in cash

TOTAL

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

1984	1983
$ 80,749	$ 68,559
312	232
832	979
31,026	16,762
172	173
(85)	(82)
113,006	86,623
905,456	378,404
490,523	308,598
1,951,688	1,556,760
33,375	12,462
377,081	188,933
73,138	
45	4,571
3,668	1,592
$3,947,980	$2,537,943
$ 533,000	$ 712,000
425,650	557,000
2,081,718	802,846
10,957	8,732
63,083	54,389
485	641
526,472	532,951
295,000	(140,000)
914	(54)
1,667	(456)
9,034	9,894
$3,947,980	$2,537,943

- 5 -

FEDERAL HOME LOAN BANK OF CHICAGO

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

1. ORGANIZATION AND RELATED AGENCIES

The Federal Home Loan Bank of Chicago (the "Bank"), a federally chartered corporation exempt from income taxes, is one of the twelve District Federal Home Loan Banks ("FHLBanks") which, together with their member institutions, comprise the FHLBank System. The FHLBank System is designed to promote home ownership through the extension of credit to savings and home financing institutions. Member institutions include all federally chartered savings and loan associations, all federally chartered savings banks, and all institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Membership is also available to qualifying institutions, such as state chartered, non-FSLIC insured savings associations and savings banks.

The FHLBanks are instrumentalities of the federal government; they are owned by, and serve as central credit banks for, member institutions. A principal source of funds for the FHLBanks is sales to the public of debt instruments (consolidated obligations) which are the joint and several obligations of all FHLBanks. Other funds are provided by issuance of capital stock, all of which is owned by the Bank's members, and member deposits.

The FHLBank System is governed and regulated by the Federal Home Loan Bank Board ("Bank Board") which is an independent federal agency in the executive branch of government. The Bank Board is the chartering and regulatory authority for federal savings and loan associations and federal savings banks. The Bank Board governs the Federal Home Loan Mortgage Corporation ("Mortgage Corporation") which is a secondary mortgage market facility. The principal function of the Mortgage Corporation is to promote the flow of capital into the housing markets by establishing an active secondary market in residential mortgages. Further, the Bank Board also governs the FSLIC which insures the accounts of savers in federally insured savings and loan associations and federal savings banks. Bank Board expenses are met through assessments to the FHLBanks and the FSLIC and assessments to member institutions for examinations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies not described elsewhere in the notes to the financial statements are as follows:

- 6 -

Investments - Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. Gains and losses on sales of securities are included in income from investments.

Furniture, Equipment and Leasehold Improvements - These assets are stated at cost less accumulated depreciation and amortization of $1,528,000 and $1,265,000 at December 31, 1984 and 1983, respectively. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property or for leasehold improvements 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 disposals are included in other income.

Federal Home Loan Bank Board Assessments - The Bank expenses its pro rata share of the Bank Board assessment for operating expenses during the year in which the assessment is levied.

The Bank Board also assesses the Bank for its portion of the cost of capital expenditures for furniture, equipment, and furnishings for the Bank Board's building. Payments against these assessments are treated as a deferred charge and amortization is computed using the straight-line method over a 25-year period.

FHLBanks' Office of Finance Assessments - The FHLBanks' Office of Finance manages the Consolidated Securities Fund, the sale of consolidated obligations and certain accounting functions for the twelve FHLBanks as a group. Assessments for the Office's operating costs are charged directly to expense when billed.

Concessions on Consolidated Obligations - The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity of the obligations. However, the amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred because of their short-term maturities.

Discounts on Consolidated Obligations - Discount Notes - The discounts on consolidated obligation discount notes are amortized to expense using the straight-line method to the maturity of the related notes.

Hedging - The Bank is engaged in an asset/liability management program that includes the use of hedges in the cash and financial futures markets. Gains and losses on hedge transactions are deferred and amortized using the level yield method over the term to maturity of the related hedged assets or liabilities. Deferred gains and losses are reflected as an adjustment of the carrying value of hedged assets or liabilities.

Commitment fees for advances - Advance commitment fees are initially set up as a deferred credit when received. Non-refundable fees of less than $5,000 are recognized as income immediately, and fees of $5,000 or more are amortized to income over the period of the commitment on the straight-line basis. Refundable fees are deferred until the commitment expires or the advance is made.

Reclassifications - Certain 1983 amounts have been reclassified to conform with the 1984 presentation.

3. CASH BALANCES

Compensating balances - The Bank has agreed to maintain average collected cash balances with various commercial banks in consideration for certain services. There are no legal restrictions under these agreements as to the withdrawal of funds. The average compensating balances were approximately $2,114,000 and $3,113,000 for the years ended December 31, 1984 and 1983, respectively.

In addition, the Bank maintained average collected balances with various Federal Reserve Banks and branches of approximately $1,353,000 and $1,698,000 for the years ended December 31, 1984 and 1983, respectively. These average balances are required clearing balances and may not be withdrawn; however, earnings credits on these balances may be used to pay for services received from the Federal Reserve.

Pass-Through Depository Reserves - The Depository Institutions Deregulation and Monetary Control Act of 1980 authorizes FHLBanks to act as pass-through correspondents for member institutions required to deposit reserves with the Federal Reserve. The amount shown as cash includes pass-through reserves deposited with Federal Reserve offices of $2,337,000 and $1,054,000 as of December 31, 1984 and 1983, respectively. Member reserve balances are included in Other Liabilities.

4. INVESTMENTS

Investments at December 31, 1984 and 1983 were as follows:

	1984 Book Value (in thousands)	1984 Market Value (in thousands)
U.S. Treasury obligations	$ 82,332	$ 82,593
U.S. Government agencies	29,969	30,088
Federal funds sold	1,028,000	1,028,000
Term funds sold	73,000	73,000
Bankers' acceptances	4,805	4,816
Certificates of deposit - domestic	200,000	200,010
Participation in the FHLBanks' Consolidated Securities Fund*	365,295	364,916
	$1,783,401	$1,783,423

	1983 Book Value (in thousands)	1983 Market Value (in thousands)
U.S. Treasury obligations	$ 160,417	$ 159,736
U.S. Government agencies	20,002	19,925
Federal funds sold	530,500	530,500
Term funds sold	150,000	150,000
Certificates of deposit - domestic	131,962	131,986
Participation in the FHLBanks' Consolidated Securities Fund*	264,048	263,858
	$1,256,929	$1,256,005

*The FHLBanks' Consolidated Securities Fund ("Fund") was established by the Bank Board to offer a centralized portfolio management system for securities owned by FHLBanks. The Fund is managed by the Office of Finance of the FHLBanks and invests primarily in short-term money market instruments.

At December 31, 1984, U.S. Treasury obligations with a total book value of $73,000,000 are pledged as collateral for securities sold under agreement to repurchase.

5. ADVANCES TO MEMBERS

At December 31, 1984 and 1983, the Bank's advances outstanding to members had interest rates ranging from 7.750% to 16.500% as summarized below:

Year of Maturity	..December 31, 1984.. Amount (In thousands)	Weighted Average Interest Rate
1985	$1,204,668	10.76%
1986	291,647	11.66
1987	471,953	12.90
1988	222,636	11.53
1989	315,696	12.77
1990-1994	390,137	11.92
	2,896,737	11.63
Deferred net gain from hedging transactions (Note 2)	(945)	
	$2,895,792	

Year of Maturity	..December 31, 1983.. Amount (In thousands)	Weighted Average Interest Rate
1984	$1,479,658	10.74%
1985	305,885	11.45
1986	160,280	13.27
1987	288,717	13.94
1988	141,883	11.60
1989-1993	390,125	12.53
	2,766,548	11.59
Deferred net gain from hedging transactions (Note 2)	(779)	
	$2,765,769	

Outstanding advances aggregating $2,896,737,000 and $2,766,548,000 at December 31, 1984 and 1983, respectively, were collateralized by pledged investment securities, first mortgage loans and FHLBank deposits and property which is acceptable to the Bank. The capital stock of the Bank owned by borrowing members is also pledged as additional collateral for outstanding advances. Bank System regulations permit a borrowing member to physically retain mortgage collateral assigned to the Bank, and in such circumstances, the member executes a written security agreement which describes the type of collateral and agrees to hold such collateral for the benefit and subject to the direction and control of the Bank. The Bank may, however, require a member to place physical possession of such collateral with the Bank or its safekeeping agent.

The Bank participated in the Community Investment Fund, a five-year advances program from June 1978 to June 1983. The program provided funds to members meeting eligibility criteria for active involvement in preserving and revitalizing older communities.

As of December 31, 1984, advances of $65,930,000 were outstanding under this program with an average original maturity of 3.25 years at rates ranging from 8.80% to 13.70%. These rates are 1/2 of 1 per cent below the estimated cost of issuing consolidated obligations of comparable maturities at the time the commitments to advance funds were made. The net interest cost of this program amounted to approximately $784,869 for 1984 and $1,440,966, for 1983.

6. LOANS TO OTHER FEDERAL HOME LOAN BANKS

On December 31, 1984, the Bank loaned $200,000,000 to another Federal Home Loan bank. This loan bears interest at 8.905% and matures January 4, 1985. No such loans were outstanding at December 31, 1983.

7. INVESTMENT IN FEDERAL HOME LOAN MORTGAGE CORPORATION

The investment in the Mortgage Corporation is stated at cost and consists of 10,300 shares of nonvoting common stock, par value $1,000, redeemable at par value (common stock), which represents 10.3% of the common stock outstanding and a $5,150,000 subordinated capital debenture, due June 20, 1987. The Federal Home Loan Bank of Chicago received cash dividends on the common stock of $8,446,000 in 1984 and $3,553,500 in 1983.

The subordinated capital debenture issued on June 20, 1980, bears an interest rate of 11.50% per annum, payable semi-annually; may not be sold, transferred, exchanged or pledged without the express written consent of the Mortgage Corporation; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the Mortgage Corporation; and may be redeemed in whole or in part on or after June 20, 1985 at specified redemption prices at the option of the Mortgage Corporation. Interest of $592,250 was earned on the debenture during each of the years ended December 31, 1984 and 1983.

On December 6, 1984, the Mortgage Corporation created a new class of participating preferred stock (preferred stock) and authorized the distribution of such preferred stock to the 12 District Banks of the Federal Home Loan Bank System and by those District Banks to their member institutions that were stockholders of record as of December 31, 1984.

The Federal Home Loan Bank of Chicago received and distributed to its member institutions 1,544,820 shares of such participating preferred stock of the Mortgage Corporation.

The Mortgage Corporation resolution authorizing the distribution of the preferred stock requires that the preferred stock be distributed to the member institutions as a condition of the district bank's receipt of the stock. Because the district banks did not have the benefits of ownership of the preferred stock at

- 11 -

any time, for financial reporting purposes, it has not been reported as an asset or income of the District Bank, or as a dividend to the member institution.

In any future calendar year, unless and until dividends on the preferred stock in the aggregate amount of $10 million have been declared and paid or set apart for payment, no dividends may be declared or paid or set apart for payment on the common stock of the Mortgage Corporation. Therefore, in such year holders of outstanding preferred stock will be entitled to receive in the aggregate $90 in dividends for every $10 in dividends paid on the common stock in the aggregate.

8. INTERBANK BORROWINGS

The Bank borrowed from other FHLBanks in 1984 and 1983. The following is a summary of these borrowings at December 31:

1984			1983		
Maturity Date	Principal Amount (in thousands)	Interest Rate	Maturity Date	Principal Amount (in thousands)	Interest Rate
1-25-85	$20,000	10.60%	6-25-84	$ 30,000	10.30%
8-26-85	25,000	11.15	6-25-84	15,000	10.00
11-25-86	30,000	12.00	7-25-84	50,000	9.10
			1-25-85	20,000	10.60
	$75,000		8-26-85	25,000	11.15
			11-25-86	30,000	12.00
				$170,000	

9. CONSOLIDATED OBLIGATIONS

The outstanding obligations of the FHLBanks, including the pass-throughs to the Mortgage Corporation (see Note 14), were $67,257,265,000 and $51,208,979,000 at December 31, 1984 and 1983, 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, obligations of or fully guaranteed by the United States, collateralized advances, and Federally insured or guaranteed mortgages. The FHLBanks were in compliance with this requirement as of December 31, 1984 and 1983.

- 12 -

The following is a summary of the Bank's participation in consolidated obligations at December 31 (in thousands):

	.........December 31, 1984.............		
	..............Bonds....................		
Year of Maturity	Range of Coupon Rates	Weighted Average Interest Rates	Outstanding
1985	7.375%- 15.000%	12.242%	$ 796,000
1986	9.550 - 15.750	12.370	365,000
1987	7.600 - 13.500	10.842	278,000
1988	10.200 - 14.200	11.292	183,000
1989	11.375 - 15.100	13.165	201,000
1990-1993	10.700 - 12.500	11.663	320,000
		12.001	2,143,000
Deferred net gain from hedging transactions			1,211
			$2,144,211

	......Discount Notes.....	
	Book Value	Par Value
Due within one year	$270,817	$280,600

	...........December 31, 1983............		
	................Bonds...................		
Year of Maturity	Range of Coupon Rates	Weighted Average Interest Rates	Outstanding
1984	9.050%- 16.000%	12.798%	$ 533,000
1985	7.375 - 15.000	12.880	356,000
1986	9.550 - 15.750	13.938	205,000
1987	7.600 - 11.350	10.337	193,000
1988	10.200 - 14.200	11.515	133,000
1989-1993	10.700 - 15.100	12.477	351,000
		12.518	1,771,000
Deferred net gain from hedging transactions			1,309
			$1,772,309

	....Discount Notes......	
	Book Value	Par Value
Due within one year	$174,918	$182,100

- 13 -

10. CREDIT AVAILABLE FROM THE U.S. TREASURY

Section 11(i) of the Federal Home Loan Bank Act authorizes the Secretary of the Treasury, in his discretion, to extend credit to the FHLBanks aggregating not more than $4 billion, the terms, conditions, and interest rate to be determined by the Secretary of the Treasury. There were no outstanding borrowings from the U.S. Treasury during the two-year period ended December 31, 1984.

11. CAPITAL

The capital stock of the Bank has a par value of $100 per share. Capital stock held by members in excess of their statutory requirement may be redeemed at par value by the Bank or sold to other Bank members at par value provided the resulting stock transfer is recorded on the books of the Bank.

Retained earnings of the Bank consist of undivided profits, a legal reserve, and a dividend stabilization reserve (DSR). The Bank must transfer 20% of its net income to the legal reserve semi-annually until the reserve equals the capital stock amount. Thereafter, 5% of the Bank's net income must be allocated for this purpose.

In 1984 and 1983 dividends were permitted only to the extent of current year's net income, after statutory transfer to the legal reserve and transfer to the DSR, and were authorized to be paid either annually or semiannually. In addition, the Bank Board required that the Bank retain in the DSR that portion of income from prepayment penalties which, if allocated on a pro rata basis over the maturity of the advances prepaid, would be allocated to future dividend periods. Dividends may be paid in the form of capital stock if authorized by the Board of Directors.

12. EMPLOYEE RETIREMENT PLAN

The Bank is a participant in the Financial Institutions Retirement Fund (FIRF), and substantially all of its officers and employees are covered by the Plan. The Bank's contributions are determined by FIRF and generally represent the normal cost of the Plan (unfunded prior service costs are not significant). Pension costs charged to other operating expenses were $322,000 in 1984 and $278,000 in 1983. The Bank's policy is to fund pension costs as accrued. FIRF does not segregate the assets, liabilities, or costs by participating employer. As a result, disclosure of accumulated vested and non-vested benefits and net assets available for benefits as required by FASB 36 cannot be made. According to the FIRF administrators, as of June 30, 1984, the date of the latest actuarial valuation, the book and market values of the fund assets exceeded the value of vested benefits in the aggregate.

- 14 -

13. COMMITMENTS

Rental expense of $1,098,000 in 1984 and $984,000 in 1983 for premises and equipment has been charged to other operating expense. Future minimum rentals are as follows (in thousands):

	Premises	Equipment	Total
1985	$ 747	$ 651	$1,398
1986	747	532	1,279
1987	747	355	1,102
1988	747	108	855
1989	747	108	855
Thereafter	436		436
Total	$4,171	$1,754	$5,925

The lease agreement for the Bank's premises provides for increases in the basic rentals resulting from increased property taxes and maintenance expense.

Commitments for advances to members totaled $233,825,000 at December 31, 1984 and $299,800,000 at December 31, 1983.

14. CONTINGENCIES

As provided for in Section 306(c) of the Federal Home Loan Mortgage Corporation Act, the Bank Board has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the FHLBank of New York. Each of the FHLBanks participates in the guarantee in proportion to its investment in the common stock of the Mortgage Corporation (see Note 7).

At December 31, 1984 the FHLBanks have guaranteed $1,790,000,000 of the Mortgage Corporation's borrowings from the FHLBank of New York in the form of pass-throughs of the proceeds of certain consolidated obligations.

Outstanding standby letters of credit totaled $2,200,000 at December 31, 1984.

15. SUBSEQUENT EVENT

On January 3, 1985, the FHLBanks issued $200,000,000 consolidated bonds at 11% due December 27, 1989. Interest is payable annually commencing December 27, 1985. The bonds are the joint and several obligations of all twelve FHLBanks.

The Bank's participation in the consolidated bonds issued January 3, 1985 is $20,100,000.

Deloitte Haskins+Sells

425 Walnut Street
Post Office Box 85340
Cincinnati, Ohio 45201
(513) 241-2450
Telex 214124

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of the
Federal Home Loan Bank of Cincinnati and the
Federal Home Loan Bank Board
Washington, D.C.:

We have examined the statements of condition of the Federal Home Loan Bank of Cincinnati as of December 31, 1984 and 1983, and the related statements of income, capital accounts, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions as promulgated by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements for 1984 and 1983 present fairly the financial position of the Federal Home Loan Bank of Cincinnati at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

January 25, 1985

- 1 -

FEDERAL HOME LOAN BANK OF CINCINNATI

STATEMENTS OF CONDITION
DECEMBER 31, 1984 AND 1983

ASSETS	NOTES	1984	1983
		(In thousands)	
CASH	2	$ 54,955	$ 37,287
INVESTMENTS, AT AMORTIZED COST	1, 3	1,619,164	1,209,800
ADVANCES TO MEMBERS	4	3,245,594	3,283,566
ACCRUED INTEREST RECEIVABLE		31,700	33,331
FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS - Net	1	3,408	1,941
INVESTMENT IN FEDERAL HOME LOAN MORTGAGE CORPORATION, AT COST	5	13,950	13,950
UNAMORTIZED CONCESSIONS ON CONSOLIDATED OBLIGATIONS	1	2,410	2,700
DEFERRED CHARGE - Bank Board cost of quarters, net	1	2,662	2,810
OTHER ASSETS		3,089	1,520
TOTAL ASSETS		$4,976,932	$4,586,905

See notes to financial statements.

LIABILITIES AND CAPITAL	NOTES	1984	1983
		(In thousands)	
LIABILITIES:			
Member deposits:			
Demand		$ 460,227	$ 343,899
Overnight		757,235	554,050
Term		296,975	233,675
Total deposits		1,514,437	1,131,624
Securities sold under agreements to repurchase		-	16,035
Consolidated obligations:	1, 6		
Bonds		2,274,487	2,438,500
Discount notes, net		560,573	391,801
Accrued interest payable		73,367	72,627
Other liabilities	2	11,849	6,099
TOTAL LIABILITIES		4,434,713	4,056,686
CONTINGENCIES AND COMMITMENTS.	6, 7, 10,11		
CAPITAL - Capital stock, $100 par value	8	425,485	419,490
RETAINED EARNINGS:	8		
Legal reserve		93,034	83,757
Dividend stabilization reserve		3,487	6,759
Undivided profits		20,213	20,213
TOTAL RETAINED EARNINGS		116,734	110,729
TOTAL CAPITAL		542,219	530,219
TOTAL LIABILITIES AND CAPITAL		$4,976,932	$4,586,905

- 2 -

FEDERAL HOME LOAN BANK OF CINCINNATI

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

(In thousands)

	NOTES	1984	1983
INCOME:			
Interest and commitment fees on advances to members	1,4	$358,258	$380,443
Income from investments		150,409	142,791
Cash dividend from Federal Home Loan Mortgage Corporation	5	7,626	3,208
Income from member services		4,647	3,313
Income from prepayment fees		949	6,269
Other		1,601	139
Total income		523,490	536,163
EXPENSES:			
Interest and concessions on consolidated obligations	1	334,451	364,455
Interest on deposits		120,505	116,509
Other interest		4,897	1,250
Federal Home Loan Bank Board assessments	1	978	938
Federal Home Loan Banks' Office of Finance assessments	1	336	358
Other operating expenses		15,937	12,404
Total expenses		477,104	495,914
NET INCOME		$ 46,386	$ 40,249

See notes to financial statements.

- 3 -

FEDERAL HOME LOAN BANK OF CINCINNATI

STATEMENTS OF CAPITAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

(In thousands)

	NOTES	..CAPITAL STOCK... SHARES	PAR VALUE
BALANCE, JANUARY 1, 1983		4,242	$424,239
PROCEEDS FROM SALE OF CAPITAL STOCK		108	10,809
REDEMPTION OF CAPITAL STOCK		(155)	(15,558)
NET INCOME			
STATUTORY TRANSFER	8		
TRANSFER TO DIVIDEND STABILIZATION RESERVE	8		
DIVIDENDS ON CAPITAL STOCK:	8		
Cash payments - June 30, 1983 (7.5% annualized)			
Cash payments - December 31, 1983 (7.75% annualized)			
BALANCE, DECEMBER 31, 1983		4,195	419,490
PROCEEDS FROM SALE OF CAPITAL STOCK		234	23,364
REDEMPTION OF CAPITAL STOCK		(174)	(17,369)
NET INCOME			
STATUTORY TRANSFER	8		
TRANSFER FROM DIVIDEND STABILIZATION RESERVE	8		
DIVIDENDS ON CAPITAL STOCK:	8		
Cash payments - June 30, 1984 (8.625% annualized)			
Cash payments - December 31, 1984 (10.5% annualized)			
BALANCE, DECEMBER 31, 1984		4,255	$425,485

See notes to financial statements.

.......RETAINED EARNINGS.......		
LEGAL RESERVE	DIVIDEND STABILIZATION RESERVE	UNDIVIDED PROFITS
$75,707	$6,532	$20,213
		40,249
8,050		(8,050)
	227	(227)
		(15,616)
		(16,356)
83,757	6,759	20,213
		46,386
9,277		(9,277)
	(3,272)	3,272
		(18,014)
		(22,367)
$93,034	$3,487	$20,213

- 4 -

FEDERAL HOME LOAN BANK OF CINCINNATI

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

(In thousands)

	1984	1983
FINANCIAL RESOURCES WERE PROVIDED FROM:		
Operations:		
Net income	$ 46,386	$ 40,249
Noncash charges to income:		
Amortization of discount on consolidated obligation discount notes	54,063	31,750
Amortization of concessions on consolidated obligation bonds	1,057	1,240
Depreciation and amortization of furniture, equipment, and leasehold improvements	445	285
Amortization of deferred charge	148	148
Total from operations	102,099	73,672
Advances repaid	1,333,079	1,331,023
Net proceeds from issuance of consolidated obligation discount notes	812,909	731,131
Net proceeds from issuance of consolidated obligation bonds	703,220	443,925
Increase (decrease) in member deposits	382,813	(190,500)
Proceeds from sale of capital stock	23,364	10,809
Increase in other liabilities	5,750	52
Decrease in accrued interest receivable	1,631	7,658
Increase (decrease) in accrued interest payable	740	(21,251)
TOTAL	$3,365,605	$2,386,519

- 5 -

FEDERAL HOME LOAN BANK OF CINCINNATI

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

(In thousands)

	1984	1983
FINANCIAL RESOURCES WERE USED FOR:		
Advances made	$1,295,107	$ 807,691
Payments on maturing consolidated obligation bonds	868,000	881,000
Payments on maturing consolidated obligation discount notes	698,200	787,706
Increase (decrease) in investments	409,364	(149,086)
Cash dividends paid on capital stock	40,381	31,972
Increase in cash	17,668	26,527
Redemption of capital stock	17,369	15,558
Decrease (increase) in securities sold under agreements to repurchase	16,035	(16,035)
Additions to furniture, equipment and leasehold improvements	1,912	237
Increase in deferred charge and other assets (net of amortization)	1,569	949
TOTAL	$3,365,605	$2,386,519

See notes to financial statements.

- 6 -

FEDERAL HOME LOAN BANK OF CINCINNATI

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1984 AND 1983

ORGANIZATION AND RELATED AGENCIES

The Federal Home Loan Bank of Cincinnati (the Bank), a federally chartered corporation exempt from income taxes, is one of the twelve District Federal Home Loan Banks (FHLBanks) which, together with their member institutions, comprise the FHLBank System. The FHLBank System is designed to promote home ownership through the extension of credit to savings and home financing institutions. Member institutions include all federally chartered savings and loan associations, all federally chartered savings banks, and all institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Membership is also available to qualifying institutions, such as state chartered, non-FSLIC insured savings associations and savings banks.

The FHLBanks are instrumentalities of the federal government; they are owned by, and serve as central credit banks for, member institutions. A principal source of funds for the FHLBanks is the sale to the public of debt instruments (consolidated obligations) which are the joint and several obligations of all FHLBanks. Other funds are provided by issuance of capital stock, all of which is owned by the FHLBanks' members, and member deposits.

The FHLBank System is governed and regulated by the Federal Home Loan Bank Board (Bank Board) which is an independent federal agency in the executive branch of government. The Bank Board is the chartering and regulatory authority for federal savings and loan associations and federal savings banks. The Bank Board governs the Federal Home Loan Mortgage Corporation (Mortgage Corporation) which is a secondary mortgage market facility. The principal function of the Mortgage Corporation is to promote the flow of capital into the housing markets by establishing an active secondary market in residential mortgages. Further, the Bank Board also governs the FSLIC which insures the accounts of savers in federally insured saving and loan associations and federal savings banks. Bank Board expenses are met through assessments to the FHLBanks and the FSLIC and assessments to member institutions for examinations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies not described elsewhere in the notes to the financial statements are as follows:

Investments - Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts, and deferred gains and losses from hedging activities. Gains and losses on sales of securities are included in income from investments.

Furniture, Equipment, and Leasehold Improvements - These assets are stated at cost less accumulated depreciation and amortization of $1,072,000 and $2,551,000 at December 31, 1984 and 1983, respectively. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property or, for leasehold improvements 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 disposals are included in other income.

Federal Home Loan Bank Board Assessments - The Bank expenses its pro rata share of the Bank Board assessment for operating expenses during the year in which the assessment is levied.

The Bank Board has assessed the Bank for its portion of the cost of the Bank Board's office building in Washington, D.C. These payments are treated as a deferred charge and are amortized using the straight-line method over a twenty-five year period.

FHLBanks' Office of Finance Assessments - The FHLBanks' Office of Finance manages the Consolidated Securities Fund, the sale of consolidated obligations and certain accounting functions for the twelve FHLBanks as a group. Assessments for the Office's operating costs are charged directly to expense when billed.

Concessions on Consolidated Obligations - The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity

- 8 -

of the obligations. However, the amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred due to their short-term maturities.

Discounts on Consolidated Obligations - Discount Notes - The discounts from the issuance of consolidated obligation discount notes are amortized to expense using the straight-line method to the maturity of the related notes.

Hedging - The Bank is engaged in an asset/liability management program that includes the use of hedges in the cash and financial futures markets. Gains and losses on hedge transactions are deferred and amortized using the level yield method over the term to maturity of the related hedged assets or liabilities. Deferred gains and losses are reflected as an adjustment of the carrying value of the related hedged assets or liabilities.

Commitment Fees for Advances - Advance commitment fees are initially recorded as a deferred credit when received. Nonrefundable fees of less than $5,000 are recognized as income immediately, and fees of $5,000 or more are amortized to income over the period of the commitment on the straight-line basis. Refundable commitment fees are deferred and are either recognized as income on the expiration date of the commitment or are refunded when the advance is made.

2. CASH BALANCES

Compensating Balances - The Bank has agreed to maintain average collected cash balances with various commercial banks in consideration for certain services. There are no legal restrictions under these agreements as to the withdrawal of funds. The average compensating balances were approximately $7,200,000 and $5,400,000 at December 31, 1984 and 1983, respectively.

In addition, the Bank maintains average collected balances with various Federal Reserve Banks and branches of approximately $75,000 for the years ended December 31, 1984 and 1983. These average balances are required clearing balances and may not be withdrawn; however, earnings credits on these balances may be used to pay for services received from the Federal Reserve.

- 9 -

Pass-through Deposit Reserves - The Depository Institutions Deregulation and Monetary Control Act of 1980 authorizes FHLBanks to act as pass-through correspondents for member institutions required to deposit reserves with the Federal Reserve. The amount shown as cash includes pass-through reserves deposited with Federal Reserve offices of $6,100,000 and $5,449,000 as of December 31, 1984 and 1983, respectively. Member reserve balances are included under other liabilities.

3. INVESTMENTS

Investments at December 31, 1984 and 1983, stated at amortized cost, were as follows:

	.........1984.........	
	Book Value	Market Value
	(In thousands)	
Federal Funds sold	$1,185,000	$1,185,000
U. S. Treasury obligations	92,830	94,152
Participation in the Federal Home Loan Banks' Consolidated Securities Fund	341,334	341,687
Total	$1,619,164	$1,620,839

	.........1983.........	
	Book Value	Market Value
	(In thousands)	
Federal Funds sold	$ 830,000	$ 830,000
U. S. Treasury obligations	124,454	123,483
Participation in the Federal Home Loan Banks' Consolidated Securities Fund	255,346	255,728
Total	$1,209,800	$1,209,211

The FHLBanks' Consolidated Securities Fund (CSF) was established by the Bank Board to offer a centralized portfolio management system for securities owned by the FHLBanks. The CSF is managed by the Office of Finance of the FHLBanks and invests primarily in short-term money market instruments.

- 10 -

4. ADVANCES TO MEMBERS

At December 31, 1984 and 1983, the advances outstanding to members had weighted average interest rates of 11.29% and 10.87%, respectively, and mature at various dates, as summarized below:

	.......December 31, 1984........	
Years of Maturity	Amount (In thousands)	Weighted Average Interest Rate
1985	$1,476,903	10.88%
1986	222,216	11.62
1987	400,613	11.86
1988	416,904	11.04
1989	124,608	12.17
1990 - 1999	605,527	11.77
Total	3,246,771	
Deferred net (gain) from hedging transactions (Note 1)	(1,177)	
Total	$3,245,594	

	.......December 31, 1983.........	
Years of Maturity	Amount (In thousands)	Weighted Average Interest Rate
1984	$1,475,203	10.31%
1985	456,062	10.67
1986	160,944	11.77
1987	267,917	12.02
1988	346,675	10.92
1989 - 1993	576,765	11.65
Total	$3,283,566	

Outstanding advances aggregating approximately $3,246,800,000 at December 31, 1984 and $3,241,300,000 at December 31, 1983 were collateralized by pledged investment securities and first mortgage loans. The capital stock of the Bank owned by borrowing members is also pledged as additional collateral for outstanding advances. FHLBank System regulations permit a borrowing member to physically retain collateral assigned to the Bank and, in such circumstances, the member executes a written security agreement and agrees to hold such collateral for the benefit of and subject to the direction and control of the Bank. The Bank may, however, require a member to place physical possession of such collateral with the Bank or its safekeeping agent.

- 11 -

The Bank participated in the Community Investment Fund, a five-year advances program, from June 1978 to June 1983. The program provided funds to members meeting eligibility criteria for active involvement in preserving and revitalizing older communities. As of December 31, 1984, advances of $251,960,100 were outstanding under this program with an average remaining maturity of 21 months at rates ranging from 8.65% to 15.00%. These rates are .5% below the estimated cost of issuing consolidated obligations of comparable maturities at the time the commitments to advance funds were made. The subsidized cost of this program, if consolidated obligations had been issued at the time the commitments to advance funds were made, would have amounted to approximately $1,640,000 in 1984 and $2,150,000 in 1983.

5. INVESTMENT IN FEDERAL HOME LOAN MORTGAGE CORPORATION

The investment in the Mortgage Corporation is stated at cost and consists of 9,300 shares of $1000 par value nonvoting common stock redeemable at par, which represents 9.3% of the common stock outstanding, and a $4,650,000 subordinated capital debenture, due June 20, 1987. The Mortgage Corporation paid a cash dividend of $7,626,000 in 1984 and $3,208,500 in 1983 to the Bank on its investment in the Mortgage Corporation common stock. The subordinated capital debenture issued on June 20, 1980, bears an interest rate of 11.50% per annum, payable semiannually; may not be sold, transferred, exchanged or pledged without the express written consent of the Mortgage Corporation; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the Mortgage Corporation; and may be redeemed in whole or in part on or after June 20, 1985 at specified redemption prices at the option of the Mortgage Corporation. Interest of $534,750 was earned on the debenture for the years ended December 31, 1984 and 1983.

On December 6, 1984, the Mortgage Corporation created a new class of participating preferred stock (preferred stock), par value $10 per share, and authorized the distribution of such preferred stock to the twelve FHLBanks of the FHLBank System and by those FHLBanks to their member institutions that were stockholders of record as of December 31, 1984.

- 12 -

The Bank received and distributed to its member institutions approximately 1,395,000 shares or 9.3% of such preferred stock of the Mortgage Corporation.

The Mortgage Corporation resolution that authorized the distribution of the preferred stock required that such preferred stock be distributed to the member institutions as a condition of the FHLBanks receipt of the stock. Because the FHLBanks did not have the benefits of ownership of the preferred stock at any time, for financial reporting purposes, it has not been reported as an asset or income of the Bank, or as a dividend by the Bank to the member institutions.

In any future calendar year, unless and until dividends on the preferred stock in the aggregate amount of $10,000,000 have been declared and paid or set apart for payment, no dividends may be declared or paid or set apart for payment on the common stock of the Mortgage Corporation. Thereafter in such year, holders of outstanding preferred stock will be entitled to receive in the aggregate $90 in dividends for every $10 in dividends paid on the common stock in the aggregate.

6. CONSOLIDATED OBLIGATIONS

Consolidated obligations are the joint and several obligations of all the FHLBanks (see "Organization and Related Agencies" above). The outstanding obligations of the FHLBanks, including the pass-throughs to the Mortgage Corporation (see Note 11) were approximately $67,260,000,000 and $51,210,000,000 at December 31, 1984 and 1983, 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, obligations of or fully guaranteed by the United States, collateralized advances, and federally insured or guaranteed mortgages. The FHLBanks were in compliance with this requirement at December 31, 1984 and 1983.

The following is a summary of the Bank's participation in consolidated obligation bonds at December 31, 1984 and 1983 (In thousands):

(See following page)

December 31, 1984

Years of Maturity	Range of Coupon Rates	Weighted Average Interest Rates	Outstanding
	................Bonds................		
1985	8.100 - 15.000%	12.44%	$ 867,000
1986	9.550 - 15.750	14.10	424,000
1987	7.600 - 13.000	10.09	142,000
1988	10.150 - 11.625	10.71	275,000
1989	12.500 - 15.100	13.13	84,000
1990 - 1993	10.750 - 12.500	11.19	483,500
Total		12.15	2,275,500
Deferred net (loss) from hedging transactions			(1,013)
Total			$2,274,487

	..Discount Notes.. Book Value	Par Value
Due within one year	$560,573	$576,200

December 31, 1983

Years of Maturity	Range of Coupon Rates	Weighted Average Interest Rates	Outstanding
	................Bonds................		
1984	7.375 - 16.000%	12.24%	$ 868,000
1985	8.100 - 15.000	12.92	427,000
1986	9.550 - 15.750	14.69	299,000
1987	7.600 - 11.300	9.45	117,000
1988	10.150 - 11.625	10.67	225,000
1989 - 1993	10.750 - 15.100	11.34	502,500
Total		12.20	$2,438,500

	..Discount Notes.. Book Value	Par Value
Due within one year	$391,801	$403,800

- 14 -

7. CREDIT AVAILABLE FROM THE U.S. TREASURY

Section 11(i) of the Federal Home Loan Bank Act authorizes the Secretary of the Treasury, in his discretion, to extend credit to the FHLBanks aggregating not more than $4,000,000,000; the terms, conditions, and interest rate to be determined by the Secretary of the Treasury. There were no outstanding borrowings from the U.S. Treasury during the two-year period ended December 31, 1984.

8. CAPITAL

The capital stock of the Bank has a par value of $100 per share. Capital stock held by members in excess of their statutory requirement may be redeemed at par value by the Bank or sold to other Bank members at par value provided the resulting stock transfer is recorded on the books of the Bank.

Retained earnings of the Bank consist of undivided profits, a legal reserve and a dividend stabilization reserve. The Bank must transfer 20% of its net income to the legal reserve semiannually until the reserve equals the capital stock amount. Thereafter, 5% of the Bank's net income must be allocated for this purpose.

In 1984 and 1983, dividends were permitted only to the extent of current year's net income, after statutory transfer, and the dividend stabilization reserve and were authorized to be paid either annually or semiannually. The FHLBanks were requested to retain in the dividend stabilization reserve for future years that portion of prepayment fee income which, if allocated on a pro rata basis over the maturity of the prepaid advances, would be allocated to future dividend periods. As authorized by the Board of Directors, dividends were paid in the form of cash in 1984 and 1983, including amounts amortized from the dividend stabilization reserve.

9. EMPLOYEE RETIREMENT PLAN

The Bank is a participant in the Financial Institutions Retirement Fund (FIRF), and substantially all of its officers and employees are covered by the Plan. The Bank's contributions are determined by FIRF and generally represent the normal cost of the Plan. Pension costs charged to other operating expenses were approximately $423,000 in 1984 and $392,000 in 1983.

- 15 -

The Bank's policy is to fund pension costs as accrued. FIRF does not segregate the assets, liabilities, or costs by participating employer. As a result, disclosure of accumulated vested and nonvested benefits and net assets available for benefits as required by Statement of Financial Accounting Standards No. 36 cannot be made. According to FIRF's administrators, as of June 30, 1984, the date of the last actuarial valuation, the book and market values of the fund assets exceeded the value of the vested and nonvested benefits in the aggregate.

10. COMMITMENTS

Commitments for advances to members totaled $68,264,000 at December 31, 1984 and $143,541,000 at December 31, 1983.

Net rental costs of approximately $2,344,000 in 1984 and $2,008,000 in 1983 for premises and equipment have been charged to operations. Future minimum rentals are as follows (In thousands):

	Premises	Equipment	Total
1985	$ 1,609	$1,124	$ 2,733
1986	1,629	735	2,364
1987	1,609	229	1,838
1988	1,548	11	1,559
1989	1,484	9	1,493
1990-1994	6,402	-	6,402
Total	$14,281	$2,108	$16,389

The lease agreements for the Bank's premises provide for increases in the basic rentals resulting from increased property taxes and maintenance expense.

Interest Rate Swaps - An interest rate swap is a contractual interest exchange agreement in which, for a predetermined period, one party agrees to make periodic fixed interest rate payments to another party in return for receiving variable interest rate payments. At December 31, 1984, the Bank had outstanding $15,000,000 in underlying notional principal of interest rate swap agreements. The net interest expense amounted to approximately $47,000 for 1984.

11. CONTINGENCIES

As provided for in Section 306(c) of the Federal Home Loan Mortgage Act, the Bank Board has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the Federal Home Loan Bank of New York. Each of the FHLBanks participates in the guarantee in proportion to its investments in the common stock of the Mortgage Corporation (see Note 5). At December 31, 1984 and 1983, the FHLBanks have guaranteed $1,790,000,000 and $2,290,000,000, respectively, of the Mortgage Corporation's borrowings from the Federal Home Loan Bank of New York in the form of pass-throughs of the proceeds of certain consolidated obligation bonds.

Outstanding standby letters of credit totaled $1,810,000 at December 31, 1984.

- 17 -

Deloitte
Haskins + Sells

1400 Lincoln Plaza
LB #4
Dallas, Texas 75201
(214) 954-4500 Telex 732648
Writer's Direct Dial Number:

AUDITORS' OPINION

The Federal Home Loan Bank Board
Washington, D.C.

We have examined the statements of condition of the Federal Home Loan Bank of Dallas as of December 31, 1984 and 1983, and the related statements of income, capital accounts, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions as promulgated by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements present fairly the financial position of the Federal Home Loan Bank of Dallas at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins + Sells

January 28, 1985

FEDERAL HOME LOAN BANK OF DALLAS

STATEMENTS OF CONDITION, DECEMBER 31, 1984 AND 1983

ASSETS	NOTES	1984	1983
		(In thousands)	
Cash	2	$ 260,945	$ 55,214
Investments	3	2,297,156	1,802,534
Advances to members	4	5,880,903	3,813,781
Loans to other Federal Home Loan Banks	5	310,000	180,000
Accrued interest receivable		118,340	63,968
Bank premises, furniture, equipment and leasehold improvements - net		10,752	10,732
Investment in Federal Home Loan Mortgage Corporation	6	10,200	10,200
Concessions on consolidated obligations - bonds		4,113	3,092
Deferred charges - Bank Board cost of quarters and other capital expenditures		2,075	2,190
Other assets		5,343	1,606
TOTAL ASSETS		$8,899,827	$5,943,317

LIABILITIES AND CAPITAL	NOTES	1984	1983
		(In thousands)	
LIABILITIES:			
Member deposits:			
Demand and overnight		$2,706,118	$1,019,861
Term		340,537	56,877
Total deposits		3,046,655	1,076,738
Loans from other Federal Home Loan Banks	5	425,000	704,593
Consolidated obligations:	7		
Bonds		3,445,075	2,601,000
Discount notes		987,145	832,114
Accrued interest payable		174,807	93,463
Pass-through deposit reserves	2	95,230	33,104
Unearned commitment and service fees		1,122	601
Other liabilities		3,556	1,480
Total liabilities		8,178,590	5,343,093
CONTINGENCIES AND COMMITMENTS	7, 11, 12		
CAPITAL:			
Capital stock, $100 par value		563,778	472,661
Retained earnings:			
Legal reserve		101,633	82,391
Dividend stabilization reserve		45,826	35,172
Undivided profits		10,000	10,000
Total retained earnings		157,459	127,563
Total capital		721,237	600,224
TOTAL LIABILITIES AND CAPITAL		$8,899,827	$5,943,317

See notes to financial statements.

- 2 -

FEDERAL HOME LOAN BANK OF DALLAS

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

	NOTES	1984	1983
		(in thousands)	
INCOME:			
Interest and fees on advances to members		$559,212	$438,718
Interest on loans to other FHLBanks		23,604	15,589
Income from investments		215,532	165,592
Interest and dividends from Federal Home Loan Mortgage Corporation	6	5,967	2,737
Income from services to members		6,305	4,220
Income from prepayment fees		4,238	16,257
Other income		228	72
Total income		815,086	643,185
EXPENSES:			
Interest and concessions on consolidated obligations		465,356	402,423
Interest on deposits		176,971	83,200
Interest on loans from other FHLBanks		60,756	57,396
Other interest		26	25
Bank Board assessments		1,030	792
FHLBanks' Office of Finance assessments		346	333
Other operating expense	10	14,390	13,640
Total expenses		718,875	557,809
NET INCOME		$ 96,211	$ 85,376

See notes to financial statements.

- 3 -

FEDERAL HOME LOAN BANK OF DALLAS

STATEMENTS OF CAPITAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

(in thousands)

	Capital Stock		Retained Earnings		
	Shares	Par value	Legal reserve	Dividend stabilization reserve	Undivided profits
BALANCE, DECEMBER 31, 1982	4,388	$438,810	$ 65,316	$17,583	$ 10,000
Proceeds from sale of capital stock	775	77,481			
Redemption of capital stock	(436)	(43,630)			
Net income for 1983					85,376
Statutory transfer (Note 9)			17,075		(17,075)
Transfer to dividend stabilization reserve 1983 (Note 9)				17,589	(17,589)
Cash dividends on capital stock (Note 9)					(50,712)
BALANCE, DECEMBER 31, 1983	4,727	472,661	82,391	35,172	10,000
Proceeds from sale of capital stock	991	99,126			
Redemption of capital stock	(80)	(8,009)			
Net income for 1984					96,211
Statutory transfer (Note 9)			19,242		(19,242)
Transfer to dividend stabilization reserve 1984 (Note 9)				10,654	(10,654)
Cash dividends on capital stock (Note 9)					(66,315)
BALANCE, DECEMBER 31, 1984	5,638	$563,778	$101,633	$45,826	$ 10,000

See notes to financial statements.

- 4 -

FEDERAL HOME LOAN BANK OF DALLAS

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

	1984	1983
	(in thousands)	
FINANCIAL RESOURCES WERE PROVIDED BY:		
Operations:		
Net income	$ 96,211	$ 85,376
Noncash charges to income:		
Depreciation and amortization of bank premises, furniture, equipment and leasehold improvements	615	359
Amortization of concessions on consolidated obligations - bonds	1,353	2,385
Amortization of discount on consolidated obligations - discount notes	112,556	57,714
Amortization of deferred charges - Bank Board cost of quarters and other capital expenditures	115	116
Amortization of discount on consolidated obligations - bonds	434	
Other	59	
Total from operations	211,343	145,950
Net proceeds from issuance of consolidated obligations:		
Bonds	1,727,192	973,990
Discount notes	2,108,411	1,588,769
Advances repaid	14,338,208	5,087,623
Proceeds from sale of capital stock	99,126	77,481
Net increase in members' deposits	1,969,917	41,675
Increase in pass-through deposit reserves	62,126	24,624
Increase (decrease) in accrued interest payable	81,344	(1,899)
Net increase in other liabilities and unearned commitment and service fees	3,473	1,214
TOTAL	$20,601,140	$7,939,427
FINANCIAL RESOURCES WERE USED FOR:		
Payments on maturing consolidated obligations:		
Bonds	$ 886,000	$1,259,000
Discount notes	2,066,750	1,348,050
Advances made, net of deferred gain or loss on hedging transactions	16,405,330	4,906,775
Redemption of capital stock	8,009	43,630
Cash dividends paid on capital stock	66,315	50,712
Net additions to bank premises, furniture, equipment and leasehold improvements	635	10,459
Net increase in investments	494,622	799,570
Increase in accrued interest receivable	54,372	9,975
Net change in loans to/from other FHLBanks	409,593	(524,593)
Increase in other assets	3,783	1,213
Increase in cash	205,731	34,636
TOTAL	$20,601,140	$7,939,427

See notes to financial statements.

- 5 -

FEDERAL HOME LOAN BANK OF DALLAS

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

ORGANIZATION AND RELATED AGENCIES

The Federal Home Loan Bank of Dallas (the Bank), a federally chartered corporation exempt from income taxes, is one of the twelve District Federal Home Loan Banks (FHLBanks) which, together with their member institutions, comprise the FHLBank System. The FHLBank System is designed to promote home ownership through the extension of credit to savings and home financing institutions. Member institutions include all federally chartered savings and loan associations, all federally chartered savings banks, and all institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Membership is also available to qualifying institutions, such as state charted, non-FSLIC insured savings associations and savings banks.

The FHLBanks are instrumentalities of the federal government; they are owned by, and serve as central credit banks for, member institutions. A principal source of funds for the FHLBanks is sales to the public of debt instruments (consolidated obligations) which are the joint and several obligations of all FHLBanks. Other funds are provided by issuance of capital stock, all of which is owned by the Banks' members, and member deposits.

The FHLBank System is governed and regulated by the Federal Home Loan Bank Board (Bank Board) which is an independent federal agency in the executive branch of government. The Bank Board is the chartering and regulatory authority for federal savings and loan associations and federal savings banks. The Bank Board governs the Federal Home Loan Mortgage Corporation (Mortgage Corporation) which is a secondary mortgage market facility. The principal function of the Mortgage Corporation is to promote the flow of capital into the housing markets by establishing an active secondary market in residential mortgages. Further, the Bank Board also governs the FSLIC which insures the accounts of savers in federally insured savings and loan associations and federal savings banks. Bank Board expenses are met through assessments to the FHLBanks and the FSLIC and assessments to member institutions for examinations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies not described elsewhere in the notes to the financial statements are as follows:

Investments - Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts, and deferred gains and losses from hedging activities. Gains and losses on sales of securities are included in income from investments.

Bank Premises, Furniture, Equipment and Leasehold Improvements - These assets are stated at cost less accumulated depreciation and amortization of $1,161,000 and $698,000 at December 31, 1984 and 1983, respectively. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property or for leasehold improvements over the life of the lease.

Maintenance and repairs are charged to expense, except that major repairs which extend the useful lives of the assets are capitalized. The cost, less accumulated depreciation, of assets sold or retired is eliminated from the accounts in the year of disposal and the related gain or loss is included in the statements of income.

Federal Home Loan Bank Board Assessments - The Bank expenses its pro rata share of the Bank Board assessment for operating expenses during the year in which the assessment is levied.

The Bank Board has assessed the Bank for its portion of the cost of the Bank Board's office building in Washington, D.C. These payments are treated as a deferred charge and are amortized using the straight-line method over a 25-year period.

The Bank Board also assesses the Bank for its portion of the cost of capital expenditures for furniture, equipment, and furnishings for the Bank Board's building. Payments against these assessments are treated as a deferred charge and amortization is computed using the straight-line method over a 5-year period.

FHLBanks' Office of Finance Assessments - The FHLBanks' Office of Finance manages the Consolidated Securities Fund, the sale of consolidated obligations and certain accounting functions for the FHLBanks as a group. Assessments for the Office's operating costs are charged directly to expense when billed.

- 7 -

Concessions on Consolidated Obligations - The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity of the obligations. However, the amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred because of their short-term maturities.

Discounts on Consolidated Obligations - Discount Notes - The discounts from the issue of consolidated obligation discount notes are amortized to expense using the straight-line method to the maturity of the related notes.

Hedging - The Bank is engaged in an asset/liability management program that includes the use of hedges in the cash and financial futures market. Gains and losses on hedge transactions are deferred and amortized using the level yield method over the term to maturity of the related hedged assets or liabilities. Deferred gains and losses are reflected as an adjustment of the carrying value of hedged assets or liabilities.

Commitment fees for advances - Advance commitment fees are initially set up as a deferred credit when received and are amortized to income over the period of the commitment on the straight-line basis. Refundable fees are deferred until the commitment expires or the advance is made.

Reclassifications - Certain amounts for 1983 have been reclassified to conform with the 1984 presentation.

2. CASH BALANCES

Compensating Balances - The Bank has agreed to maintain average collected cash balances with various commercial banks in consideration for certain services. These arrangements are informal and there are no legal restrictions as to the withdrawal of funds under these agreements. While during 1984, the average compensating balances were approximately $1,800,000, as of December 31, 1984 the Bank was not required to maintain any compensating balances. The average compensating balances were approximately $2,000,000 for the year ended December 31, 1983.

Pass-through Deposit Reserves - The Depository Institutions Deregulation and Monetary Control Act of 1980 authorizes FHLBanks to act as pass-through correspondents for member institutions required to deposit reserves with the Federal Reserve. The amount shown as cash includes pass-through reserves deposited with Federal Reserve offices of $95,230,000 and $33,104,000 as of December 31, 1984 and 1983, respectively.

3. INVESTMENTS

A comparison of book and estimated market values of investments at December 31 follows:

	1984 Book Value (in thousands)	1984 Market Value (in thousands)
U.S. Treasury obligations	$ 44,475	$ 44,866
Federal funds sold	1,455,000	1,455,000
Term funds sold	80,000	80,000
Bankers' acceptances	78,275	78,420
Certificates of deposit - domestic	30,000	30,023
Certificates of deposit - Eurodollars	30,003	30,291
Hedge Securities - Advances	124,330	127,261
Participation in the FHLBanks' Consolidated Securities Funds*	455,073	455,056
Total	$2,297,156	$2,300,917

	1983 Book Value (in thousands)	1983 Market Value (in thousands)
U.S. Treasury obligations	$ 437,519	$ 437,150
Federal funds sold	488,000	488,000
Term funds sold	105,000	105,000
Bankers' acceptances	258,442	258,411
Certificates of deposit - domestic	55,995	55,986
Certificates of deposit - Eurodollars	143,018	143,132
Deferred gain from hedging activity	(1,085)	
Participation in the FHLBanks' Consolidated Securities Funds*	315,645	317,697
Total	$1,802,534	$1,805,376

*The FHLBanks' Consolidated Securities Fund (Fund) was established by the Bank Board to offer a centralized portfolio management system for securities owned by FHLBanks. The Fund is managed by the Office of Finance of the FHLBanks and invests primarily in short-term money market instruments.

4. ADVANCES TO MEMBERS

At December 31, 1984 and 1983 the Bank's advances outstanding to members had interest rates ranging from 8.35% to 17.30% and from 7.25% to 17.50%, respectively, as summarized below:

	December 31, 1984	
Year of Maturity	Amount (in thousands)	Weighted Average Interest Rate
1985	$3,488,300	10.26%
1986	747,882	12.14
1987	399,909	12.95
1988	277,834	11.96
1989	340,707	11.64
1990-1999	617,842	11.74
Total	5,872,474	11.00
Deferred Net Gain from Hedging Transactions (Note 1)	(1,091)	
Overdrawn demand deposit accounts	9,520	
Total	$5,880,903	

	December 31, 1983	
Year of Maturity	Amount (in thousands)	Weighted Average Interest Rate
1984	$1,761,753	11.39%
1985	492,906	11.86
1986	216,459	12.33
1987	275,819	13.51
1988	256,285	12.12
1989-1993	785,501	11.61
Total	3,788,723	11.77
Deferred Net Loss from Hedging Transactions (Note 1)	124	
Overdrawn demand deposit accounts	24,934	
Total	$3,813,781	

Outstanding advances aggregating $5,872,474 at December 31, 1984 and $3,788,723 at December 31, 1983 were collateralized by pledged investment securities and first mortgage loans. The capital stock of the

- 10 -

Bank owned by borrowing members is also pledged as additional collateral for outstanding advances and for the overdrawn demand deposit accounts. FHLBank System regulations permit a borrowing member to physically retain mortgage collateral assigned to the Bank, and in such circumstances, the member executes a written security agreement which describes the type of collateral and agrees to hold such collateral for the benefit and subject to the direction and control of the Bank. The Bank may, however, require a member to place physical possession of such collateral with the Bank or its safekeeping agent.

The Bank participated in the Community Investment Fund, a five-year advances program from June 1978. The program provided funds to members meeting eligibility criteria for active involvement in preserving and revitalizing older communities. As of December 31, 1984 advances of $128,595,000 were outstanding under this program with an average original maturity of three to four years at rates ranging from 9.00% to 15.00%. These rates are 1/2 of 1 percent below the estimated cost of issuing consolidated obligations of comparable maturities at the time the commitments to advance funds were made. If consolidated obligations had been issued at the time the commitments to advance funds were made, the net interest cost of this program would have approximated $833,000 in 1984 and $1,268,000 in 1983.

5. LOANS TO (FROM) OTHER FEDERAL HOME LOAN BANKS

The following is a summary of loans to (from) other FHLBanks at December 31:

Loans to Other Federal Home Loan Banks

1984			1983		
Year of Maturity	Principal Amount (in thousands)	Weighted Average Interest Rate	Year of Maturity	Principal Amount (in thousands)	Weighted Average Interest Rate
1985	30,000	9.48%	1985	$ 30,000	9.48%
1986	100,000	9.57	1986	100,000	9.57
1987	80,000	10.54	1987	50,000	10.05
1992	50,000	11.90			
1994	50,000	12.15			
Total	$310,000		Total	$180,000	

- 11 -

Loans From Other Federal Home Loan Banks

1984			1983		
Year of Maturity	Principal Amount (in thousands)	Weighted Average Interest Rate	Year of Maturity	Principal Amount (in thousands)	Weighted Average Interest Rate
1985	$250,000	9.50%	1984	$279,593	9.11%
1986	15,000	9.95	1985	250,000	9.50
1987	110,000	9.91	1986	15,000	9.95
1989	50,000	11.00	1987	110,000	9.90
			1989	50,000	11.00
Total	$425,000		Total	$704,593	

6. INVESTMENT IN FEDERAL HOME LOAN MORTGAGE CORPORATION

The investment in the Mortgage Corporation is stated at cost and consists of 6,800 shares of nonvoting common stock, par value $1,000, redeemable at par value (common stock), which represents 6.8% of the common stock outstanding, and a $3,400,000 subordinated capital debenture, due June 20, 1987. The Mortgage Corporation declared dividends of $5,576,000 in 1984 and $2,346,000 in 1983 to the Bank on its investment in the Mortgage Corporation common stock.

The subordinated capital debenture issued on June 20, 1980, bears an interest rate of 11.50% per annum, payable semiannually; may not be sold, transferred, exchanged or pledged without the express written consent of the Mortgage Corporation; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the Mortgage Corporation; and may be redeemed in whole or in part on or after June 20, 1985 at specified redemption prices at the option of the Mortgage Corporation. Interest of $391,000 was earned on the debenture for each of the years ended December 31, 1984 and 1983.

On December 6, 1984, the Mortgage Corporation created a new class of participating preferred stock (preferred stock) and authorized the distribution of such preferred stock to the 12 District Banks of the Federal Home Loan Bank System and by those District Banks to their member institutions that were stockholders of record as of December 31, 1984.

The Bank received and distributed to its member institutions 1,019,752 shares which represented 6.8% of such participating preferred stock of the Mortgage Corporation.

- 12 -

The Mortgage Corporation resolution that authorized the distribution of the preferred stock requires that the preferred stock be distributed to the member institutions as a condition of the Bank's receipt of the stock. Because the Bank did not have the benefits of ownership of the preferred stock at any time, for financial reporting purposes, it has not been reported as an asset or income of the Bank, or as a dividend to the member institutions.

In any future calendar year, unless and until dividends on the preferred stock in the aggregate amount of $10 million have been declared and paid or set apart for payment, no dividends may be declared or paid or set apart for payment on the common stock of the Mortgage Corporation. Thereafter in such year, holders of outstanding preferred stock will be entitled to receive in the aggregate $90 in dividends for every $10 in dividends paid on the common stock in the aggregate.

7. CONSOLIDATED OBLIGATIONS

Consolidated FHLBank Obligations are the joint and several obligations of all FHLBanks (see "Organization and Related Agencies" above). The outstanding obligations of the FHLBanks, including the pass-throughs to the Mortgage Corporation (see Note 13), were $67,257,000,000 and $51,209,000,000 at December 31, 1984 and 1983, 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, obligations of or fully guaranteed by the United States, collateralized advances, and federally insured or guaranteed mortgages. The FHLBanks were in compliance with this regulation as of December 31, 1984 and 1983.

The following is a summary of the Bank's participation in consolidated obligations at December 31 (in thousands):

- 13 -

Years of Maturity	December 31, 1984 Bonds Range of Coupon Rates	Weighted Average Interest Rates	Outstanding
1985	7.375-14.700%	11.33%	$1,049,000
1986	9.875-16.400	13.63	545,000
1987	7.600-13.300	12.19	763,000
1988	10.150-14.200	11.14	155,000
1989	10.600-15.100	12.40	363,000
1990-1993	10.700-12.500	11.45	570,000
Deferred Net Gain from Hedging Transactions			75
Total			$3,445,075

	Discount Notes Book Value	Par Value
Due within one year	$986,334	$1,012,450
Deferred Net Gain from Hedging Transactions	811	
Total	$987,145	$1,012,450

Years of Maturity	December 31, 1983 Bonds Range of Coupon Rates	Weighted Average Interest Rates	Outstanding
1984	7.375-16.400%	13.37%	$ 886,000
1985	8.125-14.700	11.84	174,000
1986	11.300-16.400	14.76	345,000
1987	7.600-11.350	10.95	323,000
1988	10.150-14.200	11.20	155,000
1989-1993	10.600-15.100	11.94	718,000
Total			$2,601,000

	Discount Notes Book Value	Par Value
Due within one year	$832,114	$864,100

8. CREDIT AVAILABLE FROM THE U.S. TREASURY

Section 11(i) of the Federal Home Loan Bank Act authorizes the Secretary of the Treasury, in his discretion, to extend credit to the FHLBanks aggregating not more than $4 billion, the terms,

- 14 -

conditions, and interest rate to be determined by the Secretary of the Treasury. There were no outstanding borrowings from the U.S. Treasury during the two-year period ended December 31, 1984.

9. CAPITAL

The capital stock of the Bank has a par value of $100 a share. Capital stock held by members in excess of their statutory requirement may be redeemed at par value by the Bank or sold to other Bank members at par value provided the resulting stock transfer is recorded on the books of the Bank.

Retained earnings of the Bank consists of undivided profits, a legal reserve, and a dividend stabilization reserve (DSR). The Bank must transfer 20% of its net income to the legal reserve semiannually until the reserve equals the capital stock amount. Thereafter, 5% of the Bank's net income must be allocated for this purpose.

In 1983 and 1984 dividends were permitted only to the extent of current year's net income (after statutory transfer) and the DSR and were authorized to be paid either annually or semiannually. In addition, the Bank Board required that the Bank retain in the DSR that portion of income from prepayment fees which, if allocated on a pro rata basis over the maturity of the advances prepaid, would be allocated to future dividend periods. Dividends may be paid in the form of capital stock if authorized by the Board of Directors.

10. EMPLOYEE RETIREMENT PLAN

The Bank is a participant in the Financial Institutions Retirement Fund (FIRF) and substantially all of its officers and employees are covered by the Plan. The Bank's contributions are determined by FIRF and generally represent the normal cost of the Plan (unfunded prior service costs are not significant). Pension costs charged to other operating expenses were $194,529 in 1984 and $164,420 in 1983. The Bank's policy is to fund pension costs as accrued. FIRF does not segregate the assets, liabilities, or costs by participating employer. According to the FIRF administrators, as of June 30, 1984, the date of the latest actuarial valuation, the book and market values of the fund assets exceeded the value of vested benefits in the aggregate.

11. COMMITMENTS

Rental expenses of $1,637,000 in 1984 and $1,348,000 in 1983 for premises and equipment have been charged to other operating expense. Future minimum rentals are as follows (in thousands):

	Premises	Equipment	Total
1985	$ 561	$1,784	$2,345
1986	518	1,383	1,901
1987	463	1,167	1,630
1988	155		155
1989	76		76
Total	$1,773	$4,334	$6,107

Commitments for advances to members totaled $843,946,000 at December 31, 1984 and $295,159,000 at December 31, 1983.

Interest Rate Swaps - An interest rate swap is a contractual interest exchange agreement in which, for a predetermined period, one party agrees to make periodic fixed interest rate payments to another party in return for receiving variable interest rate payments. At December 31, 1984 the Bank had outstanding $1,361,000,000 in underlying notional principal of interest rate swap agreements. The net interest income resulting from interest rate swaps, included in income from investments, amounted to $3,457,000 for 1984.

12. CONTINGENCIES

As provided for in Section 306(c) of the Federal Home Loan Mortgage Corporation Act, the Bank Board has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the FHLBank of New York. Each of the FHLBanks participates in the guarantee in proportion to its investments in the common stock of the Mortgage Corporation (see Note 6). At December 31, 1984 the FHLBanks have guaranteed $1,790,000,000 of the Mortgage Corporation's borrowings from the FHLBank of New York in the form of pass-throughs of the proceeds of certain consolidated obligations.

Outstanding standby letters of credit totaled $34,589,000 at December 31, 1984.

13. SUBSEQUENT EVENT

On January 3, 1985, the FHLBanks issued $200,000,000 consolidated bonds at 11% due December 27, 1989. Interest is payable annually commencing December 27, 1985. The bonds are the joint and several obligations of all twelve FHLBanks.

The Bank's participation in the consolidated bonds issued January 3, 1985 is $22,000,000.

Deloitte Haskins+Sells

1200 Carriers Building
Des Moines, Iowa 50309
(515) 288-1200
Cable DEHANDS

AUDITORS' OPINION

Federal Home Loan Bank Board
Washington, D.C.

We have examined the statements of condition of the Federal Home Loan Bank of Des Moines as of December 31, 1984 and 1983, and the related statements of income, capital accounts, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions* as promulgated by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the Federal Home Loan Bank of Des Moines at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

January 18, 1985

FEDERAL HOME LOAN BANK OF DES MOINES

STATEMENTS OF CONDITION
DECEMBER 31, 1984 AND 1983

ASSETS	NOTES	1984	1983
		(in thousands)	
Cash	2	$ 79,633	$ 55,550
Investments	3	515,072	299,269
Advances to members	4	4,190,687	3,095,772
Loans to other Federal Home Loan Banks	5	75,000	75,000
Accrued interest receivable		4,447	1,454
Furniture, equipment, and leasehold improvements - net		1,738	1,734
Investment in Federal Home Loan Mortgage Corporation	6	9,150	9,150
Concessions on consolidated obligations - bonds		1,879	1,951
Deferred charges - Bank Board cost of quarters and other capital expenditures		1,968	2,078
Other assets		1,914	5,417
TOTAL		$4,881,488	$3,547,375

See notes to financial statements.

LIABILITIES	NOTES	1984	1983
		(in thousands)	
Member deposits:			
Demand		$ 310,139	$ 254,670
Overnight		564,767	340,142
Term		179,985	124,010
Total deposits		1,054,891	718,822
Interbank borrowings	7	435,000	190,000
Consolidated obligations:	8		
Bonds		2,244,482	2,132,292
Discount notes		591,288	12,714
Accrued interest payable		62,751	61,093
Unearned commitment fees		263	709
Other liabilities		4,824	5,087
Total liabilities		4,393,499	3,120,717
Contingencies and commitments	8,12,13		
CAPITAL:	10		
Capital stock, $100 par value		392,680	347,139
Retained earnings:			
Legal reserve		75,826	62,339
Dividend stabilization reserve		9,483	7,180
Undivided profits		10,000	10,000
Total retained earnings		95,309	79,519
Total capital		487,989	426,658
TOTAL		$4,881,488	$3,547,375

FEDERAL HOME LOAN BANK OF DES MOINES

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

	NOTES	1984	1983
		(in thousands)	
INCOME:			
Interest on advances to members		$403,020	$431,611
Interest on loans to other FHLBanks		9,917	5,028
Income from investments		29,354	34,172
Interest on Federal Home Loan Mortgage Corporation debenture	6	351	351
Dividend on Federal Home Loan Mortgage Corporation stock	6	5,002	2,104
Income from prepayment penalties		1,201	6,095
Other income		1,190	679
Total Income		450,035	480,040
EXPENSES:			
Interest and concessions on consolidated obligations		286,181	346,543
Interest on deposits		55,280	51,470
Interest on interbank borrowings		25,967	17,403
Other interest		29	
Bank Board assessments		747	742
FHLBanks' Office of Finance assessments		230	240
Other operating expense		14,166	11,316
Total Expenses		382,600	427,714
NET INCOME		$ 67,435	$ 52,326

See notes to financial statements.

FEDERAL HOME LOAN BANK OF DES MOINES

STATEMENTS OF CAPITAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

	Capital stock	
	Shares	Par Value
BALANCE, JANUARY 1, 1983	3,392	$339,163
Proceeds from sale of capital stock	175	17,515
Redemption of capital stock	(95)	(9,539)
Net income for 1983		
Statutory transfer (Note 10)		
Transfer to dividend stabilization reserve 1983 (Note 10)		
Dividends on capital stock (Note 10):		
Cash payment (9% annualized)		
Cash payment (13% annualized)		
BALANCE, DECEMBER 31, 1983	3,472	347,139
Proceeds from sale of capital stock	571	57,158
Redemption of capital stock	(116)	(11,617)
Net income for 1984		
Statutory transfer (Note 10)		
Transfer to dividend stabilization reserve 1984 (Note 10)		
Dividends on capital stock (Note 10):		
Cash payment (12% annualized)		
Cash payment (16.5% annualized)		
BALANCE, DECEMBER 31, 1984	3,927	$392,680

See notes to financial statements.

(in thousands)

Retained Earnings		
Legal Reserve	Dividend Stabilization Reserve	Undivided Profits
$ 51,874	$ 2,858	$ 10,000
		52,326
10,465		(10,465)
	4,322	(4,322)
		(15,236)
		(22,303)
62,339	7,180	10,000
		67,435
13,487		(13,487)
	2,303	(2,303)
		(21,198)
		(30,447)
$ 75,826	$ 9,483	$ 10,000

FEDERAL HOME LOAN BANK OF DES MOINES

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

	1984	1983
	(In thousands)	
FINANCIAL RESOURCES WERE PROVIDED BY:		
Operations:		
Net income	$ 67,435	$ 52,326
Noncash charges to income:		
Depreciation and amortization of furniture, equipment and leasehold improvements	471	431
Amortization of concessions on consolidated obligations - bonds	942	1,314
Amortization of discount on consolidated obligations - discount notes	38,269	13,809
Amortization of deferred charges - Bank Board cost of quarters and other capital expenditures	110	109
Other		3
Total from operations	107,227	67,992
Net proceeds from issuance of consolidated obligations:		
Bonds	724,320	159,853
Discount notes	1,213,105	226,785
Advances repaid	4,967,599	3,195,007
Proceeds from sale of capital stock	57,158	17,515
Net change in interbank loans and borrowings	245,000	5,000
Net increase (decrease) in members' deposits	336,069	(156,281)
Increase (decrease) in accrued interest payable	1,658	(19,749)
Increase (decrease) in unearned commitment fees and other liabilities	(709)	564
Total	$7,651,427	$3,496,686
FINANCIAL RESOURCES WERE USED FOR:		
Payments on maturing consolidated obligations:		
Bonds	$ 613,000	$ 972,000
Discount notes	672,800	524,150
Advances made, net of deferred loss on hedging transactions	6,062,514	2,087,081
Redemption of capital stock	11,617	9,539
Cash dividends paid on capital stock	51,645	37,539
Net additions to furniture, equipment and leasehold improvements	475	313
Net increase (decrease) in investments	215,803	(127,013)
Increase in accrued interest receivable	2,993	1,042
Increase (decrease) in other assets	(3,503)	4,648
Increase (decrease) in cash	24,083	(12,613)
Total	$7,651,427	$3,496,686

See notes to financial statements.

FEDERAL HOME LOAN BANK OF DES MOINES

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

ORGANIZATION AND RELATED AGENCIES

The Federal Home Loan Bank of Des Moines (the Bank), a federally chartered corporation exempt from income taxes, is one of the twelve District Federal Home Loan Banks (FHLBanks) which, together with their member institutions, comprise the FHLBank System. The FHLBank System is designed to promote home ownership through the extension of credit to savings and home financing institutions. Member institutions include all federally chartered savings and loan associations, all federally chartered savings banks, and all institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Membership is also available to qualifying institutions, such as state chartered, non-FSLIC insured savings associations and savings banks.

The FHLBanks are instrumentalities of the federal government; they are owned by, and serve as central credit banks for, member institutions. A principal source of funds for the FHLBanks is sales to the public of debt instruments (consolidated obligations) which are the joint and several obligations of all FHLBanks. Other funds are provided by issuance of capital stock, all of which is owned by the Banks' members, and member deposits.

The FHLBank System is governed and regulated by the Federal Home Loan Bank Board (Bank Board) which is an independent federal agency in the executive branch of government. The Bank Board is the chartering and regulatory authority for federal savings and loan associations and federal savings banks. The Bank Board governs the Federal Home Loan Mortgage Corporation (Mortgage Corporation) which is a secondary mortgage market facility. The principal function of the Mortgage Corporation is to promote the flow of capital into the housing markets by establishing an active secondary market in residential mortgages. Further, the Bank Board also governs the FSLIC which insures the accounts of savers in federally insured savings and loan associations and federal savings banks. Bank Board expenses are met through assessments to the FHLBanks and the FSLIC and assessments to member insti- tutions for examinations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts, and deferred gains and losses from hedging activities. Gains and losses on sales of securities are included in income from investments.

Furniture, Equipment and Leasehold Improvements

These assets are stated at cost less accumulated depreciation and amortization of $1,962,047 and $1,532,185 at December 31, 1984 and 1983, respectively. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property or for leasehold improvements over the 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 disposals are included in other income.

Federal Home Loan Bank Board Assessments

The Bank expenses its pro rata share of the Bank Board assessment for operating expenses during the year in which the assessment is levied.

The Bank Board has assessed the Bank for its portion of the cost of the Bank Board's office building in Washington, D.C. These payments are treated as a deferred charge and are amortized using the straight-line method over a 25-year period.

FHLBanks' Office of Finance Assessments

The FHLBanks' Office of Finance manages the Consolidated Securities Fund, the sale of consolidated obligations and certain accounting functions for the twelve FHLBanks as a group. Assessments for the Office's operating costs are charged directly to expense when billed.

Concessions on Consolidated Obligations

The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity of the obligations. However, the amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred because of their short-term maturities.

Discounts on Consolidated Obligations - Discount Notes

The discounts from the issue of consolidated obligation discount notes are amortized to expense using the straight-line method to the maturity of the related notes.

Hedging

The Bank is engaged in an asset/liability management program that includes the use of hedges in the cash and financial futures markets. Gains and losses on hedge transactions are deferred and amortized using the level yield method over the term to maturity of the related hedged assets or liabilities. Deferred gains and losses are reflected as an adjustment of the carrying value of hedged assets or liabilities.

Commitment Fees for Advances

Advance commitment fees are initially set up as a deferred credit when received. Nonrefundable fees of less than $5,000 are recognized as income immediately, and fees of $5,000 or more are amortized to income over the period of the commitment on the straight-line basis. Refundable fees are deferred until the commitment expires or the advance is made.

Reclassifications

Certain balances for 1983 have been reclassified to conform with 1984 financial statement presentations.

2. CASH BALANCES

Compensating Balances

The Bank has agreed to maintain average collected cash balances with various commercial banks in consideration for certain services. There are no legal restrictions under these agreements as to the withdrawal of funds. The average compensating balances were approximately $855,000 and $700,000 for the years ended December 31, 1984 and 1983, respectively.

In addition, the Bank maintains average collected balances with various Federal Reserve Banks and branches which approximated $4,200,000 and $3,750,000 for the year ended December 31, 1984, and 1983, respectively. These average balances are required clearing balances and may not be withdrawn; however, earnings credits on these balances may be used to pay for services received from the Federal Reserve.

Pass-through Deposit Reserves

The Depository Institutions Deregulation and Monetary Control Act of 1980 authorizes FHLBanks to act as pass-through correspondents for member institutions required to deposit reserves with the Federal Reserve. The amount shown as cash includes pass-through reserves deposited with Federal Reserve offices of $4,660,000 and $4,768,000 as of December 31, 1984 and 1983, respectively. Member reserve balances are included under other liabilities.

3. INVESTMENTS

Investments at December 31, 1984 and 1983 were as follows:

	1984	
	Book Value	Market Value
	(in thousands)	
U.S. Treasury obligations	$ 59,596	$ 59,752
Federal funds sold	365,000	365,000
Participation in the FHLBanks' Consolidated Securities Fund	90,476	90,508
Total	$515,072	$515,260

	1983	
	Book Value	Market Value
	(in thousands)	
U.S. Treasury obligations	$ 24,347	$ 24,286
Federal funds sold	165,500	165,500
Term funds sold	35,000	35,000
Participation in the FHLBanks' Consolidated Securities Fund	74,422	74,446
Total	$299,269	$299,232

The FHLBanks' Consolidated Securities Fund (Fund) was established by the Bank Board to offer a centralized portfolio management system for securities owned by FHLBanks. The Fund is managed by the Office of Finance of the FHLBanks and invests primarily in short-term money market instruments.

4. ADVANCES TO MEMBERS

At December 31, 1984 and 1983 the Bank's advances outstanding to members had interest rates ranging from 8.00% to 17.50% and from 7.50% to 16.90%, respectively, as summarized below:

Year of Maturity	December 31, 1984 Amount (in thousands)	Weighted Average Interest Rate
1985	$2,229,096	10.11%
1986	640,422	13.50
1987	629,766	12.18
1988	294,601	11.32
1989	241,792	12.28
1990-1994	154,798	11.69
Total	4,190,475	11.21
Deferred Net Loss from Hedging Transactions (Note 1)	212	
Total	$4,190,687	

Year of Maturity	December 31, 1983 Amount (in thousands)	Weighted Average Interest Rate
1984	$1,232,877	11.00%
1985	535,634	11.10
1986	559,169	13.77
1987	375,855	12.55
1988	180,430	11.02
1989-1993	211,545	11.84
Total	3,095,510	11.76
Deferred Net Loss from Hedging Transactions (Note 1)	262	
Total	$3,095,772	

Outstanding advances aggregating $4,190,475,053 at December 31, 1984 and $3,095,509,953 at December 31, 1983 were collateralized by investment securities, first mortgage loans and FHLBank deposits and property which is acceptable to the Banks. The capital stock of the Bank owned by borrowing members is also pledged as additional collateral for outstanding advances. Bank System regulations permit a borrowing member to physically retain mortgage collateral assigned to the Bank, and in such circumstances, the member executes a written security agreement and agrees to hold such collateral for the benefit and subject to the direction and control of the Bank. The Bank may, however, require a member to place physical possession of such collateral with the Bank or its safekeeping agent.

The Bank participated in the Community Investment Fund, a five-year advances program from June 1978 to June 1983. The program provided funds to members meeting eligibility criteria for active involvement in preserving and revitalizing older communities. As of December 31, 1984 advances of $82,765,000 were outstanding under this program with an average original maturity of 3.05 years at rates ranging from 9.40% to 14.05%. These rates are 1/2 of 1 percent below the estimated cost of issuing consolidated obligations of comparable maturities at the time the commitments to advance funds were made. If consolidated obligations had been issued at the time the commitments to advance funds were made, the net interest cost of this program would have approximated $498,000 in 1984 and $987,000 in 1983.

5. LOANS TO OTHER FEDERAL HOME LOAN BANKS

The Bank has made loans to other Federal Home Loan Banks. The following is a summary of these loans at December 31:

1984			1983		
Maturity Date	Principal Amount	Interest Rate	Maturity Date	Principal Amount	Interest Rate
	(in thousands)			(in thousands)	
4-25-86	$35,000	11.76%	6-25-84	$30,000	9.70%
5-13-86	10,000	10.95	4-25-86	35,000	11.76
11-25-87	10,000	11.40	11-25-87	10,000	11.40
12-28-87	20,000	11.57			
Total	$75,000			$75,000	

6. INVESTMENT IN FEDERAL HOME LOAN MORTGAGE CORPORATION

The investment in the Mortgage Corporation is stated at cost and consists of 6,100 shares of nonvoting common stock, par value $1,000, redeemable at par value (common stock), and a $3,050,000 subordinated capital debenture, due June 20, 1987. The shares of common stock represent 6.1% of the common stock outstanding. The Federal Home Loan Bank of Des Moines received cash dividends on the common stock of $5,002,000 in 1984 and $2,104,500 in 1983.

The subordinated capital debenture issued on June 20, 1980, bears an interest rate of 11.50% per annum, payable semiannually; may not be sold, transferred, exchanged or pledged without the express written consent of the Mortgage Corporation; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the Mortgage Corporation; and may be redeemed in whole or in part on or after June 20, 1985 at specified redemption prices at the option of the Mortgage Corporation. Interest of $350,750 was earned on the debenture during each year ended December 31, 1984 and 1983.

On December 6, 1984, the Mortgage Corporation created a new class of participating preferred stock (preferred stock) and authorized the distribution of such preferred stock to the 12 District Banks of the Federal Home Loan Bank System and by those District Banks to their member institutions that were stockholders of record as of December 31, 1984.

The Federal Home Loan Bank of Des Moines received and distributed to its member institutions 915,000 shares which represented 6.1% of such participating preferred stock of the Mortgage Corporation.

The Mortgage Corporation resolution that authorized the distribution of the preferred stock requires that the preferred stock be distributed to the member institutions as a condition of the District Bank's receipt of the stock. Because the District Bank did not have the benefits of ownership of the preferred stock at any time, for financial reporting purposes, it has not been reported as an asset or income of the District Bank, or as a dividend to the member institutions.

In any future calendar year, unless and until dividends on the preferred stock in the aggregate amount of $10 million have been declared and paid or set apart for payment, no dividends may be declared or paid or set apart for payment on the common stock of the Mortgage Corporation. Thereafter in such year, holders of outstanding preferred stock will be entitled to receive in the aggregate $90 in dividends for every $10 in dividends paid on the common stock in the aggregate.

7. INTERBANK BORROWINGS

The Bank borrowed from other Federal Home Loan Banks in 1984 and 1983. The following is a summary of these loans at December 31:

1984			1983		
Maturity Date	Principal Amount (in thousands)	Interest Rate	Maturity Date	Principal Amount (in thousands)	Interest Rate
1-4-85	$200,000	10.00%	7-25-84	$ 10,000	10.30%
7-25-86	10,000	10.95	7-25-86	10,000	10.95
7-25-86	30,000	11.01	7-25-86	30,000	11.01
8-25-86	80,000	10.60	8-25-86	80,000	10.60
9-25-86	60,000	10.70	9-25-86	60,000	10.70
1-15-87	30,000	11.35			
1-26-87	20,000	11.26			
2-12-88	5,000	11.45			
Total	$435,000			$190,000	

8. CONSOLIDATED OBLIGATIONS

The outstanding consolidated obligations of the FHLBanks, (see "Organization and Related Agencies" above) including the pass-throughs to the Mortgage Corporation (see Note 13), were$67,257,265,000 and $51,208,979,000 at December 31, 1984 and 1983, 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, obligations of or fully guaranteed by the United States, collateralized advances, and federally insured or guaranteed mortgages. The FHLBanks were in compliance with this requirement as of December 31, 1984 and 1983.

The following is a summary of the Bank's participation in consolidated obligations at December 31 (in thousands):

	December 31, 1984		
	Bonds		
Year of Maturity	Range of Coupon Rates	Weighted Average Interest Rates	Outstanding
1985	8.10 - 15.00	11.95	$ 916,000
1986	9.55 - 16.40	12.49	585,000
1987	7.60 - 13.00	10.97	433,000
1988	10.15 - 14.20	11.59	160,000
1989	14.25 - 15.10	14.51	50,000
1990-1992	10.85 - 11.10	10.98	101,500
			2,245,500
Deferred net loss from hedging transactions			1,018
Total			$2,244,482

	Discount Notes	
	Book Value	Par Value
Due within one year	$591,288	$610,450

	December 31, 1983		
	Bonds		
Year of Maturity	Range of Coupon Rates	Weighted Average Interest Rates	Outstanding
1984	7.375 - 16.40	12.09%	$ 613,000
1985	8.10 - 15.00	12.28	541,000
1986	9.55 - 16.40	13.26	385,000
1987	7.60 - 11.30	10.36	333,000
1988	10.15 - 14.20	11.99	110,000
1989-1992	10.85 - 15.10	12.14	151,500
			2,133,500
Deferred net loss from hedging transactions			1,208
Total			$2,132,292

	Discount Notes	
	Book Value	Par Value
Due within one year	$ 12,714	$ 12,900

9. CREDIT AVAILABLE FROM THE U.S. TREASURY

Section 11(i) of the Federal Home Loan Bank Act authorizes the Secretary of the Treasury, in his discretion, to extend credit to the FHLBanks aggregating not more than $4 billion, the terms, conditions, and interest rate to be determined by the Secretary of the Treasury. There were no outstanding borrowings from the U.S. Treasury during the two-year period ended December 31, 1984.

10. CAPITAL

The capital stock of the Bank has a par value of $100 a share. Capital stock held by members in excess of their statutory requirement may be redeemed at par value by the Bank or sold to other Bank members at par value provided the resulting stock transfer is recorded on the books of the Bank.

Retained earnings of the Bank consist of undivided profits, a legal reserve, and a dividend stabilization reserve (DSR). The Bank must transfer 20% of its net income to the legal reserve semiannually until the reserve equals the capital stock amount. Thereafter, 5% of the Bank's net income must be allocated for this purpose.

In 1983 and 1984, dividends were permitted only to the extent of current year's net income, after statutory transfer and the DSR and were authorized to be paid either annually or semiannually. In addition, the Bank Board required that the Bank retain in the dividend stabilization reserve that portion of income from prepayment penalties which, if allocated on a pro rata basis over the maturity of the advances prepaid, would be allocated to future dividend periods. Dividends may be paid in the form of capital stock if authorized by the Board of Directors.

11. EMPLOYEE RETIREMENT PLAN

The Bank is a participant in the Financial Institutions Retirement Fund (FIRF), and substantially all of its officers and employees are covered by the Plan. The Bank's contributions are determined by FIRF and generally represent the normal cost of the Plan (unfunded prior service costs are not significant). Pension costs charged to other operating expenses were $308,363 in 1984 and $266,588 in 1983. The Bank's policy is to fund pension costs as accrued. FIRF does not segregate the assets, liabilities, or costs by participating employer. As a result, disclosure of accumulated vested and non-vested benefits and net assets available for benefits as required by FASB 36 cannot be made. According to the FIRF administrators, as of June 30, 1984, the date of the latest actuarial valuation, the book and market values of the fund assets exceeded the value of vested benefits in the aggregate.

12. COMMITMENTS

Rental expenses of $2,950,383 in 1984 and $2,341,616 in 1983 for premises and equipment have been charged to other operating expense. Future minimum rentals are as follows (in thousands):

	Premises	Equipment	Total
1985	$ 734	$ 1,758	$ 2,492
1986	560	161	721
1987	560	22	582
1988	236		236
Total	$ 2,090	$ 1,941	$ 4,031

The lease agreement for the Bank's premises provides for increases in the basic rentals resulting from increased property taxes and maintenance expense.

Commitments for advances to members totaled $277,106,679 at December 31, 1984 and $151,200,000 at December 31, 1983.

13. CONTINGENCIES

As provided for in Section 306(c) of the Federal Home Loan Mortgage Corporation Act, the Bank Board has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the FHLBank of New York. Each of the FHLBanks participates in the guarantee in proportion to its investments in the common stock of the Mortgage Corporation (see Note 6). At December 31, 1984 the FHLBanks have guaranteed $1,790,000,000 of the Mortgage Corporation's borrowings from the FHLBank of New York in the form of pass-throughs of the proceeds of certain consolidated obligations.

Deloitte Haskins+Sells

44 Montgomery Street
San Francisco, California 94104
(415) 393-4300
Telex 340336

AUDITORS' OPINION

To the Board of Directors of the
Federal Home Loan Bank of San Francisco
and the Federal Home Loan Bank Board:

We have examined the statements of condition of the Federal Home Loan Bank of San Francisco as of December 31, 1984 and 1983 and the related statements of income, capital, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions as promulgated by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the Federal Home Loan Bank of San Francisco at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

February 1, 1985

Deloitte Haskins & Sells

Statements of Condition

(In thousands—except par value)	December 31 1984	1983
ASSETS		
Cash (Note 2)	**$ 228,692**	$ 158,321
Investments (Note 3)	**3,637,554**	1,151,440
Advances to members (Note 4)	**23,900,783**	17,582,811
Loans to other Federal Home Loan Banks (Note 5)	**815,000**	1,465,000
Accrued interest receivable	**139,763**	175,790
Bank premises, furniture, equipment, and leasehold improvements, net	**10,474**	10,311
Investment in Federal Home Loan Mortgage Corporation (Note 6)	**26,850**	26,850
Concessions on consolidated obligation bonds	**18,723**	15,878
Deferred charges—Federal Home Loan Bank Board assessments	**6,613**	6,980
Other	**5,935**	7,932
Total Assets	**$28,790,387**	$20,601,313
LIABILITIES AND CAPITAL		
Liabilities:		
Member deposits:		
Demand	**$ 535,407**	$ 239,034
Overnight	**2,492,875**	1,303,400
Term	**216,175**	600
Special Series		792,900
Deposits from other Federal Home Loan Banks (Note 7)	**273,000**	273,000
Total Deposits	**$ 3,517,457**	$ 2,608,934
Consolidated obligations (Note 8):		
Discount notes	**3,495,544**	461,325
Bonds	**18,897,664**	15,253,416
Accrued interest payable	**609,139**	482,873
Unearned commitment fees	**1,809**	1,637
Other (Note 2)	**198,074**	117,085
Total Liabilities	**$26,719,687**	$18,925,270
Contingencies and Commitments (Notes 8, 12, and 13)		
Capital (Note 10):		
Capital stock, $100 par value	**$ 1,801,963**	$ 1,411,264
Retained earnings:		
Legal reserve	**$ 224,641**	$ 201,108
Dividend stabilization reserve	**9,442**	29,017
Undivided profits	**34,654**	34,654
Total Retained Earnings	**$ 268,737**	$ 264,779
Total Capital	**$ 2,070,700**	$ 1,676,043
Total Liabilities and Capital	**$28,790,387**	$20,601,313

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

Statements of Income

(In thousands)	Year Ended December 31	
	1984	1983
Income:		
Interest on advances to members	**$2,258,712**	$1,921,724
Interest on loans to other Federal Home Loan Banks (Note 5)	**111,906**	107,347
Income from investments	**237,891**	247,499
Interest and dividend from Federal Home Loan Mortgage Corporation (Note 6)	**15,707**	7,205
Income from services to members	**14,256**	10,240
Income from prepayment penalties	**5,682**	65,539
Other	**544**	389
Total Income	**$2,644,698**	$2,359,943
Expense:		
Interest and concessions on consolidated obligations	**$2,204,199**	$1,981,151
Interest on deposits	**232,538**	246,280
Interest on deposits from other Federal Home Loan Banks (Note 7)	**35,507**	18,228
Other interest	**13,845**	3,462
Federal Home Loan Bank Board assessments	**3,193**	2,799
Federal Home Loan Banks' Office of Finance assessments	**731**	896
Other operating expense	**37,016**	29,223
Total Expense	**$2,527,029**	$2,282,039
Net Income	**$ 117,669**	$ 77,904

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

Statements of Capital (Note 10)

(In thousands)	Capital Stock		Retained Earnings		
	Shares	Par Value	Legal Reserve	Dividend Stabilization Reserve	Undivided Profits
Balance, January 1, 1983	15,085	$1,508,490	$185,527	$ 8,686	$ 34,654
Proceeds from sale of capital stock	1,911	191,058			
Redemption of capital stock	(3,303)	(330,267)			
Net income					77,904
Statutory transfer			15,581		(15,581)
Transfer to dividend stabilization reserve				62,323	(62,323)
Dividends on capital stock (3.20%):					
Cash payment				(9)	
Stock	420	41,983		(41,983)	
Balance, December 31, 1983	14,113	$1,411,264	$201,108	$ 29,017	$ 34,654
Proceeds from sale of capital stock	3,937	393,693			
Redemption of capital stock	(1,167)	(116,685)			
Net income					117,669
Statutory transfer			23,533		(23,533)
Transfer to dividend stabilization reserve				94,136	(94,136)
Dividends on capital stock (7.25%):					
Cash payment				(20)	
Stock	1,137	113,691		(113,691)	
Balance, December 31, 1984	18,020	$1,801,963	$224,641	$ 9,442	$ 34,654

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

Statements of Changes in Financial Position

(In thousands)	Year Ended December 31	
	1984	1983
Financial Resources Were Provided by:		
Operations:		
Net income	**$ 117,669**	$ 77,904
Noncash charges (credits) to income:		
Depreciation and amortization:		
Premises, furniture, equipment, and leasehold improvements	**672**	641
Concessions on consolidated obligation bonds	**8,123**	7,657
Federal Home Loan Bank Board assessments	**367**	367
Deferred gains and losses from hedging transactions	**(4,348)**	(474)
Total from Operations	**$ 122,483**	$ 86,095
Net proceeds from issuance of consolidated obligations:		
Discount notes	**4,907,305**	1,229,230
Bonds, including deferred gain on hedging transactions	**8,329,900**	4,181,932
Advances repaid	**31,399,415**	16,292,790
Decrease in Special Series advances	**792,850**	190,850
Proceeds from sale of capital stock	**393,693**	191,058
Net change in interbank loans and borrowings	**650,000**	(1,072,000)
Increase (decrease) in member deposits	**908,523**	(926,394)
Increase (decrease) in accrued interest payable	**126,266**	(90,630)
Amortization of discount on consolidated obligation discount notes	**197,864**	64,512
Decrease in accrued interest receivable	**36,027**	51,668
Decrease (increase) in other assets	**1,997**	(5,760)
Increase in other liabilities	**81,161**	64,322
Total	**$47,947,484**	$20,257,673
Financial Resources Were Used for:		
Payments on maturing consolidated obligations:		
Discount notes	**$ 2,070,950**	$ 2,269,500
Bonds	**4,691,000**	5,837,485
Advances made, including deferred gain/loss on hedging transactions	**38,511,509**	13,481,625
Redemption of capital stock	**116,685**	330,267
Cash dividends paid on capital stock	**20**	9
Net additions to premises, furniture, equipment, and leasehold improvements	**835**	636
Increase (decrease) in investments	**2,486,114**	(1,683,007)
Increase in cash	**70,371**	21,158
Total	**$47,947,484**	$20,257,673

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

Notes to Financial Statements

Years Ended December 31, 1984 and 1983

Organization and Related Agencies
The Federal Home Loan Bank of San Francisco (the Bank), a federally chartered corporation exempt from income taxes, is one of the 12 District Federal Home Loan Banks (FHLBanks) that, together with their member institutions, constitute the FHLBank System. The FHLBank System is designed to promote home-ownership through the extension of credit to savings and home financing institutions. Member institutions include all federally chartered savings and loan associations, all federally chartered savings banks, and all institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Membership is also available to qualifying institutions, such as state-chartered, non-FSLIC-insured savings associations and savings banks.

The FHLBanks are instrumentalities of the federal government; they are owned by and serve as central credit banks for member institutions. A principal source of funds for the FHLBanks is sales to the public of debt instruments (consolidated obligations), which are the joint and several obligations of all FHLBanks. Other funds are provided by issuance of capital stock, all of which is owned by the members, and by member deposits.

The FHLBank System is governed and regulated by the Federal Home Loan Bank Board (FHLBBoard), an independent federal agency in the executive branch of government. The FHLBBoard is the chartering and regulatory authority for federal savings and loan associations and federal savings banks. The FHLBBoard governs the Federal Home Loan Mortgage Corporation, which is a secondary mortgage market facility. The principal function of the Federal Home Loan Mortgage Corporation is to promote the flow of capital into the housing markets by establishing an active secondary market in residential mortgages. Further, the FHLBBoard also governs the FSLIC, which insures the accounts of savers in federally insured savings and loan associations and federal savings banks. FHLBBoard expenses are met through assessments to the FHLBanks and the FSLIC and assessments to member institutions for examinations.

Note 1
Summary of Significant Accounting Policies
(Dollars in Thousands)
The more significant accounting policies not described elsewhere in the notes to the financial statements are as follows:

Investments
Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. Gains and losses on sales of securities are included in income from investments.

Bank Premises, Furniture, Equipment, and Leasehold Improvements
These assets are stated at cost less accumulated depreciation and amortization of $3,353 and $2,681 at December 31, 1984 and 1983, respectively. Depreciation and amortization are computed on the straightline method over the estimated useful lives of the property or for leasehold improvements over the life of the lease.

Maintenance and repairs are charged to expense, except that major repairs that extend the useful lives of the assets are capitalized. The cost, less accumulated depreciation, of assets sold or retired is eliminated from the accounts in the year of disposal and the related gain or loss is included in income.

Federal Home Loan Bank Board Assessments
The Bank expenses its pro rata share of the FHLBBoard assessment for operating expenses during the year in which the assessment is levied.

The FHLBBoard has assessed the Bank for its portion of the cost of the FHLBBoard's office building in Washington, D.C. These payments are deferred and amortized using the straight-line method over a period of 25 years.

FHLBanks' Office of Finance Assessments
The FHLBanks' Office of Finance manages the Consolidated Securities Fund, the sale of consolidated obligations, and certain accounting functions for the FHLBanks as a group. Assessments for the Office's operating costs are charged directly to expense when billed.

Concessions on Consolidated Obligations
The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straightline method to the maturity of the obligations. The amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred because of their short-term maturities.

Discounts on Consolidated Obligation Discount Notes
The discounts from the issue of consolidated obligation discount notes are amortized to expense on the straightline method to the maturity of the related notes.

Hedging
The Bank is engaged in an asset/liability management program that includes the use of hedges in the cash and financial futures markets. Gains and losses on hedge transactions are deferred and amortized using the level yield method over the term to maturity of the related hedged assets or liabilities. Deferred gains and losses are reflected as an adjustment of the aggregate carrying value of hedged assets or liabilities.

Unearned Commitment Fees
Advance commitment fees are recorded as a deferred credit when received. Nonrefundable fees are principally amortized to income over the period of the commitment on the straight-line basis. Refundable fees are deferred until the commitment expires or the advance is made.

Note 2
Cash (Dollars in Thousands)
Compensating Balances
The Bank has agreed to maintain average collected cash balances with various commercial banks in consideration for certain services. There are no legal restrictions under these agreements as to the withdrawal of funds. The average compensating balances were approximately $5,329 and $7,994 for the years ended December 31, 1984 and 1983, respectively.

In addition, the Bank maintained average collected balances with various Federal Reserve Banks and branches of approximately $3,247 and $2,506 for the years ended December 31, 1984 and 1983, respectively. These average balances are required clearing balances and may not be withdrawn; however, earnings credits on these balances may be used to pay for services received from the Federal Reserve.

Passthrough Deposit Reserves
The Depository Institutions Deregulation and Monetary Control Act of 1980 authorizes FHLBanks to act as passthrough correspondents for member institutions required to deposit reserves with the Federal Reserve. The amount shown as cash includes passthrough reserves deposited with Federal Reserve offices of $193,947 and $113,600 as of December 31, 1984 and 1983, respectively. Member reserve balances are included under Other Liabilities.

Note 3
Investments (Dollars in Thousands)
The carrying amount of investments, which is stated at amortized cost and which approximates market, is as follows:

	December 31	
	1984	1983
U.S. Treasury obligations	$ 9,162	
U.S. Government agencies		$ 14,529
Federal funds sold	1,985,500	510,000
Term Federal funds sold	829,000	188,000
Bankers' acceptances		122,583
Certificates of deposit—Eurodollars	24,995	54,991
Securities held under resale agreement	50,163	
Participation in the FHLBanks' Consolidated Securities Fund	738,734	261,337
	$3,637,554	$1,151,440

The FHLBanks' Consolidated Securities Fund was established by the FHLBBoard to offer a centralized portfolio management system for securities owned by FHLBanks. The Fund is managed by the Office of Finance of the FHLBanks and invests primarily in short-term money market instruments.

Note 4
Advances to Members (Dollars in Thousands)
At December 31, 1984 and 1983, the Bank had advances outstanding to members at interest rates ranging from 8.40 percent to 16.75 percent and from 7.50 percent to 16.75 percent, respectively, as summarized below:

	December 31, 1984		December 31, 1983	
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
1984			$ 6,988,062	10.73%
1985	$13,053,191	10.91%	3,371,011	11.28
1986	4,105,976	11.87	2,671,461	11.28
1987	2,151,561	11.62	1,157,265	10.90
1988	1,269,468	11.47	1,115,218	10.21
1989	356,659	12.04	168,159	11.73
1990-1994	2,965,288	11.89	2,108,038	11.51
	$23,902,143	11.30%	$17,579,214	11.06%
Deferred Net (Gain) Loss from Hedging Transactions	(1,360)		3,597	
	$23,900,783		$17,582,811	

Outstanding advances are collateralized by pledges of first mortgage loans, investment securities, FHLBank deposits, and other property that is acceptable to the Bank. The capital stock of the Bank owned by borrowing members is also pledged as additional collateral for outstanding advances. FHLBank System regulations permit a borrowing member physically to retain collateral assigned to the Bank, and in such circumstances the member executes a written security agreement that describes the type of collateral and agrees to hold such collateral for the benefit and subject to the direction and control of the Bank. The Bank may, however, require a member to place physical possession of such collateral with the Bank's safekeeping agent.

Advances made and advances repaid on the statement of changes in financial position include all transactions for all advances accounts, except for Special Series advances. Special Series advances made in 1983 were $6,918,800, and Special Series advances repaid in 1984 and 1983 were $792,850 and $7,109,650, respectively. Special Series advances outstanding at December 31, 1983, included in advances to members on the statements of condition, aggregated $792,850.

The Bank participated in the Community Investment Fund, a five-year advances program, from June 1978 to June 1983. The program provided funds to members meeting eligibility criteria for active involvement in preserving and revitalizing older communities. As of December 31, 1984, advances of $256,997 were outstanding under this program with an average original maturity of 1½ years at rates ranging from 8.82 percent to 15.30 percent. These rates are ½ of 1 percent below the estimated cost of issuing consolidated obligations of comparable maturities at the time the commitments to advance funds were made. The net interest cost of this program if consolidated obligations had been issued at the time the commitments to advance funds were made would have amounted to approximately $1,705 for 1984 and $3,250 for 1983.

Note 5
Loans to Other Federal Home Loan Banks
(Dollars in Thousands)
Long-term uncollateralized loans to other Federal Home Loan Banks are as follows:

	December 31, 1984		December 31, 1983	
Year of Maturity	Principal Amount	Weighted Average Interest Rate	Principal Amount	Weighted Average Interest Rate
1984			$ 700,000	9.41%
1985	**$395,000**	**10.08%**	345,000	10.33
1986	**100,000**	**10.35**	100,000	10.35
1987	**260,000**	**10.18**	260,000	10.18
1988	**10,000**	**10.49**	10,000	10.49
1989	**50,000**	**11.00**	50,000	11.00
	$815,000	**10.21%**	$1,465,000	9.89%

Note 6
Investment in Federal Home Loan Mortgage Corporation (Mortgage Corporation)
(Dollars in Thousands)
The investment in the Mortgage Corporation is stated at cost and consists of the par value of 17,900 shares of nonvoting common stock, redeemable at par by the Mortgage Corporation, and an $8,950 subordinated capital debenture, due June 20, 1987. The shares of the common stock represent 17.90 percent of the common stock outstanding. The Mortgage Corporation paid cash dividends on the common stock of $14,678 in 1984 and $6,176 in 1983 to the Bank. The subordinated capital debenture issued on June 20, 1980, bears an interest rate of 11.50 percent per annum, payable semiannually; may not be sold, transferred, exchanged, or pledged without the express consent of the Mortgage Corporation; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the Mortgage Corporation; and may be redeemed in whole or in part on or after June 20, 1985, at specified redemption prices at the option of the Mortgage Corporation. Interest of $1,029 was earned on the debenture in both 1984 and 1983.

On December 6, 1984, the Mortgage Corporation created a new class of participating preferred stock and authorized distribution of such stock to the 12 FHLBanks and required that such stock be distributed by the FHLBanks to their member institutions that were stockholders of record as of December 31, 1984. Cash dividends on the nonvoting, redeemable common stock held by the FHLBanks became limited to 10 percent of any dividends paid after the preferred stockholders receive $10,000 in dividends. The Bank received and distributed to its member institutions 17.90 percent of the shares of such participating preferred stock of the Mortgage Corporation. Because the FHLBanks did not have the benefits of ownership of the preferred stock at any time, for financial reporting purposes it has not been reported as an asset or income of the Bank, or as a dividend by the Bank to the member institutions.

Note 7
Deposits from Other Federal Home Loan Banks
(Dollars in Thousands)
The following is a summary of deposits from other Federal Home Loan Banks at December 31, 1984 and 1983:

Year of Maturity	Principal Amount	Weighted Average Interest Rate
1985	$ 30,000	9.48%
1986	130,000	9.94
1987	95,000	10.57
1989-1991	18,000	11.60
	$273,000	10.22%

Note 8
Consolidated Obligations (Dollars in Thousands)
The outstanding obligations of the FHLBanks (see "Organization and Related Agencies" above), including the passthroughs to the Mortgage Corporation (see Note 13), were $67,257,265 and $51,208,979 at December 31, 1984 and 1983, 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, obligations of or fully guaranteed by the United States, collateralized advances, and federally insured or guaranteed mortgages. The FHLBanks were in compliance with this requirement as of December 31, 1984 and 1983.

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

	December 31, 1984		December 31, 1983	
Year of Maturity	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
1984			$ 4,691,000	12.533%
1985	**$ 7,756,265**	**11.918%**	3,531,265	12.225
1986	**4,252,000**	**12.991**	2,292,000	13.360
1987	**2,469,000**	**11.518**	1,394,000	10.510
1988	**1,485,000**	**11.220**	1,185,000	11.035
1989	**275,000**	**13.523**	150,000	14.343
1990-1994	**2,630,000**	**11.684**	1,995,000	11.435
	$18,867,265	**12.043%**	$15,238,265	12.158%
Deferred Net Gain from Hedging Transactions	**30,399**		15,151	
	$18,897,664		$15,253,416	

Consolidated obligation discount notes are all due within one year.

Note 9
Credit Available from the U.S. Treasury
(Dollars in Thousands)
The Federal Home Loan Bank Act authorizes the Secretary of the Treasury, in his discretion, to extend credit to the FHLBanks aggregating not more than $4,000,000, the terms, conditions, and interest rate to be determined by the Secretary of the Treasury. There were no outstanding borrowings from the U.S. Treasury in 1984 or 1983.

Note 10
Capital
Capital stock held by members in excess of their statutory requirement may be redeemed at par value by the Bank or sold to other Bank members at par value provided the resulting stock transfer is recorded on the books of the Bank.

Retained earnings consist of undivided profits, a legal reserve, and a dividend stabilization reserve (DSR). The Bank must transfer 20 percent of its net income to the legal reserve semi-annually until the reserve equals the capital stock amount. Thereafter, 5 percent of the Bank's net income must be allocated for this purpose.

In 1983 and 1984, dividends were permitted only to the extent of current year's net income (after statutory transfer) and the DSR and were authorized to be paid either annually or semiannually. In addition, the FHLBBoard required that the Bank retain in the DSR that portion of prepayment fee income that, if allocated on a pro rata basis over the maturity of the prepaid advances, would be allocated to future dividend periods. Dividends may be paid in the form of capital stock if authorized by the Board of Directors.

Note 11
Employee Retirement Plan (Dollars in Thousands)
The Bank is a participant in the Financial Institutions Retirement Fund (FIRF), and substantially all of its officers and employees are covered by the Plan. The Bank's contributions are determined by FIRF and generally represent the normal cost of the Plan (unfunded prior service costs are not significant). Pension costs charged to other operating expenses were $761 in 1984 and $910 in 1983. The Bank's policy is to fund pension costs as accrued. FIRF does not segregate the assets, liabilities, or costs by participating employer. According to the FIRF administrators, as of June 30, 1984, the date of the latest actuarial valuation, the book and market values of the fund assets exceeded the value of vested benefits in the aggregate.

Note 12
Commitments (Dollars in Thousands)
Rental expense of $4,326 in 1984 and $3,987 in 1983 for premises and equipment has been charged to other operating expense. Future minimum rentals on noncancellable leases are as follows:

	Premises	Equipment	Total
1985	$ 743	$ 973	$1,716
1986	402	440	842
1987	384	381	765
1988	384	63	447
1989	384		384
	$2,297	$1,857	$4,154

The lease agreement for the Bank's premises provides for increases in the basic rentals resulting from increased property taxes and maintenance expense.

Commitments for advances to members totaled $940,000 at December 31, 1984, and $163,109 at December 31, 1983.

Note 13
Contingencies (Dollars in Thousands)
As provided for in Section 306(c) of the Federal Home Loan Mortgage Corporation Act, the FHLBBoard has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the FHLBank of New York. Each of the FHLBanks participates in the guarantee in proportion to its investments in the common stock of the Mortgage Corporation (see Note 6). At December 31, 1984, the FHLBanks had guaranteed $1,790,000 of the Mortgage Corporation's borrowings from the FHLBank of New York in the form of passthroughs of the proceeds of certain consolidated obligations.

A former member institution has brought an action against the Bank alleging a discriminatory credit policy and is requesting direct damages of $62,400 and consequential damages in excess of $114,000. The federal district trial court resolved all issues in favor of the Bank. The plaintiff has appealed the trial court's decisions to the U.S. Court of Appeals for the Ninth Circuit where the matter is now pending. Management and outside legal counsel believe that it is unlikely that the plaintiff will prevail in this matter.

Deloitte
Haskins+Sells

3000 Commerce Tower
911 Main Street
Kansas City, Missouri 64105
(816) 842-4100
Cable DEHANDS

AUDITORS' OPINION

To the Federal Home Loan Bank Board
Washington, D.C.

We have examined the statements of condition of the Federal Home Loan Bank of Topeka as of December 31, 1984 and 1983, and the related statements of income, capital accounts, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions as promulgated by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the Federal Home Loan Bank of Topeka at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

January 18, 1985

FEDERAL HOME LOAN BANK OF TOPEKA

STATEMENTS OF CONDITION, DECEMBER 31, 1984 AND 1983

	NOTES	1984 (in thousands)	1983 (in thousands)
ASSETS			
Cash	2	$ 14,696	$ 9,134
Investments	3	495,575	291,223
Advances to members	4	4,021,093	3,587,839
Accrued interest receivable		44,906	33,420
Furniture, equipment, and leasehold improvements - net		478	452
Investment in Federal Home Loan Mortgage Corporation	5	5,850	5,850
Concessions on consolidated obligations - bonds		3,549	3,205
Deferred charges - Bank Board cost of quarters		1,531	1,617
Other assets		1,552	898
TOTAL ASSETS		$4,589,230	$3,933,638

	NOTES	1984 (in thousands)	1983 (in thousands)
LIABILITIES AND CAPITAL			
LIABILITIES:			
Members' deposits:			
Demand		$ 126,419	$ 125,221
Overnight		279,450	185,200
Term		32,150	5,000
Special Series		57,150	63,875
Total deposits		495,169	379,296
Interbank borrowings	6	235,000	165,000
Consolidated obligations:	7		
Bonds		3,209,000	2,851,000
Discount notes		116,448	83,876
Accrued interest payable		104,965	84,721
Unearned commitment and service fees		372	78
Other liabilities	2	24,284	9,947
Total liabilities		4,185,238	3,573,918
CONTINGENCIES AND COMMITMENTS	7,11,12		
CAPITAL:	9		
Capital stock, $100 par value		324,588	287,031
Retained earnings:			
Legal reserve		59,959	52,056
Dividend stabilization reserve		10,247	11,435
Undivided profits		9,198	9,198
Total retained earnings		79,404	72,689
Total capital		403,992	359,720
TOTAL LIABILITIES AND CAPITAL		$4,589,230	$3,933,638

See notes to financial statements.

- 2 -

FEDERAL HOME LOAN BANK OF TOPEKA

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

	NOTES	1984	1983
		(in thousands)	
INCOME:			
Interest on advances to members		$427,028	$403,374
Income from prepayment penalties		2,358	9,741
Income from investments		38,799	38,725
Interest and dividends from Federal Home Loan Mortgage Corporation	6	3,422	1,570
Earned commitment fees		2,396	3,346
Income from services to members		3,012	1,921
Other income		104	81
Total Income		477,119	458,758
EXPENSES:			
Interest and concessions on consolidated obligations		373,058	370,491
Interest on deposits		36,581	32,779
Interest on interbank borrowings		21,989	11,089
Other interest		34	66
FHLBB assessments		630	618
FHLBanks' Office of Finance assessments		200	208
Other operating expense	10	5,113	3,692
Total Expenses		437,605	418,943
NET INCOME		$ 39,514	$ 39,815

See notes to financial statements.

- 3 -

FEDERAL HOME LOAN BANK OF TOPEKA

STATEMENTS OF CAPITAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

(in thousands)

	Capital Stock		Retained Earnings		
	Shares	Par value	Legal reserve	Dividend stabilization reserve	Undivided profits
BALANCE, JANUARY 1, 1983	2,682	$268,277	$44,093	$ 8,400	$ 9,198
Proceeds from sale of capital stock	229	22,871			
Redemption of capital stock	(41)	(4,117)			
Net income for 1983					39,815
Statutory transfer (Note 9)			7,963		(7,963)
Transfer to dividend stabilization reserve 1983 (Note 9)				3,035	(3,035)
Cash dividends on capital stock (10.6%) (Note 9)					(28,817)
BALANCE, DECEMBER 31, 1983	2,870	287,031	52,056	11,435	9,198
Proceeds from sale of capital stock	397	39,639			
Redemption of capital stock	(21)	(2,082)			
Net income for 1984					39,514
Statutory transfer (Note 9)			7,903		(7,903)
Transfer from dividend stabilization reserve 1984 (Note 9)				(1,188)	1,188
Cash dividends on capital stock (10.6%) (Note 9)					(32,799)
BALANCE, DECEMBER 31, 1984	3,246	$324,588	$59,959	$10,247	$ 9,198

See notes to financial statements.

- 4 -

FEDERAL HOME LOAN BANK OF TOPEKA

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

	1984	1983
	(in thousands)	
FINANCIAL RESOURCES WERE PROVIDED BY:		
Operations:		
Net income	$ 39,514	$ 39,815
Noncash charges to income:		
Depreciation and amortization of furniture, equipment and leasehold improvements	91	53
Amortization of concessions on consolidated obligations - bonds	1,329	1,347
Amortization of discount on consolidated obligations - discount notes	13,084	14,997
Amortization of deferred charges - Bank Board cost of quarters	86	85
Total from operations	54,104	56,297
Net proceeds from issuance of consolidated obligations:		
Bonds	1,108,327	793,325
Discount notes	246,138	244,513
Advances repaid	1,378,829	1,111,780
Proceeds from sale of capital stock	39,639	22,871
Net change in interbank loans and borrowings	70,000	135,000
Net increase (decrease) in members' deposits	115,873	(25,133)
Decrease in securities sold under agreements to repurchase		(20,250)
Increase (decrease) in accrued interest payable	20,244	(10,944)
Increase in other liabilities	14,631	977
Total	$3,047,785	$2,308,436
FINANCIAL RESOURCES WERE USED FOR:		
Payments on maturing consolidated obligations:		
Bonds	$ 752,000	$ 919,000
Discount notes	226,650	448,100
Advances made, net of deferred gain on hedging transactions	1,812,083	1,124,713
Redemptions of capital stock	2,082	4,117
Cash dividends paid on capital stock	32,799	28,817
Net additions to furniture, equipment and leasehold improvements	117	256
Increase (decrease) in investments	204,352	(214,495)
Increase (decrease) in accrued interest receivable	11,486	(1,305)
Increase in other assets	654	444
Increase (decrease) in cash	5,562	(1,211)
Total	$3,047,785	$2,308,436

See notes to financial statements.

- 5 -

FEDERAL HOME LOAN BANK OF TOPEKA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

ORGANIZATION AND RELATED AGENCIES

The Federal Home Loan Bank of Topeka (the Bank), a federally chartered corporation exempt from income taxes, is one of the twelve District Federal Home Loan Banks (FHLBanks) which, together with their member institutions, comprise the FHLBank System. The FHLBank System is designed to promote home ownership through the extension of credit to savings and home financing institutions. Member institutions include all federally chartered savings and loan associations, all federally chartered savings banks, and all institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Membership is also available to qualifying institutions, such as state chartered, non-FSLIC insured savings associations and savings banks.

The FHLBanks are instrumentalities of the federal government; they are owned by, and serve as central credit banks for, member institutions. A principal source of funds for the FHLBanks is sales to the public of debt instruments (consolidated obligations) which are the joint and several obligations of all FHLBanks. Other funds are provided by issuance of capital stock, all of which is owned by the Banks' members, and member deposits.

The FHLBank System is governed and regulated by the Federal Home Loan Bank Board (Bank Board) which is an independent federal agency in the executive branch of government. The Bank Board is the chartering and regulatory authority for federal savings and loan associations and federal savings banks. The Bank Board governs the Federal Home Loan Mortgage Corporation (Mortgage Corporation) which is a secondary mortgage market facility. The principal function of the Mortgage Corporation is to promote the flow of capital into the housing markets by establishing an active secondary market in residential mortgages. Further, the Bank Board also governs the FSLIC which insures the accounts of savers in federally insured savings and loan associations and federal savings banks. Bank Board expenses are met through assessments to the FHLBanks and the FSLIC and assessments to member institutions for examinations.

- 6 -

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies not described elsewhere in the notes to the financial statements are as follows:

Investments

Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts, and deferred gains and losses from hedging activities. Gains and losses on sales of securities are included in income from investments.

Furniture, Equipment and Leasehold Improvements

These assets are stated at cost less accumulated depreciation and amortization of $270,459 and $179,609 at December 31, 1984 and 1983, respectively. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property or for leasehold improvements 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 disposals are included in other income.

Federal Home Loan Bank Board Assessments

The Bank expenses its pro rata share of the Bank Board assessment for operating expenses during the year in which the assessment is levied.

The Bank Board has assessed the Bank for its portion of the cost of the Bank Board's office building in Washington, D.C. These payments are treated as a deferred charge and are amortized using the straight-line method over a 25-year period.

FHLBanks' Office of Finance Assessments

The FHLBanks' Office of Finance manages the Consolidated Securities Fund, the sale of consolidated obligations and certain accounting functions for the twelve FHLBanks as a group. Assessments for the Office's operating costs are charged directly to expense when billed.

Concessions on Consolidated Obligations

The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity of the obligations. However, the amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred because of their short-term maturities.

Discounts on Consolidated Obligations - Discount Notes

The discounts from the issue of consolidated obligation discount notes are amortized to expense using the straight-line method to the maturity of the related notes.

Hedging

The Bank is engaged in an asset/liability management program that permits the use of hedges in the cash and financial futures markets. Gains and losses on hedge transactions are deferred and amortized using the level yield method over the term to maturity of the related hedged assets or liabilities. Deferred gains and losses are reflected as an adjustment of the carrying value of hedged assets or liabilities.

Unearned Commitment Fees

Advance commitment fees are initially set up as a deferred credit when received. Non-refundable fees of less than $5,000 are recognized as income immediately, and fees of $5,000 or more are amortized to income over the period of the commitment on the straight-line basis. Refundable fees are deferred until the commitment expires or the advance is made.

2. CASH BALANCES

The Depository Institutions Deregulation and Monetary Control Act of 1980 authorizes FHLBanks to act as pass-through correspondents for member institutions required to deposit reserves with the Federal Reserve. The amount shown as cash includes pass-through reserves deposited with Federal Reserve offices of $12,905,000 and $5,744,500 as of December 31, 1984 and 1983, respectively. Member reserve balances are included under Other Liabilities.

3. INVESTMENTS

A comparison of book and estimated market values of investments at December 31 follows:

	1984	
	Book Value	Market Value
	(in thousands)	
Federal funds sold	$402,500	$402,500
Participation in the FHLBanks' Consolidated Securities Fund*	93,075	93,188
Total	$495,575	$495,688

	1983	
	Book Value	Market Value
	(in thousands)	
U.S. Treasury obligations	$ 24,790	$ 24,930
Federal funds sold	177,800	177,800
Term funds sold	35,000	35,000
Participation in the FHLBanks' Consolidated Securities Fund*	53,633	53,736
Total	$291,223	$291,466

*The FHLBanks' Consolidated Securities Fund (Fund) was established by the Bank Board to offer a centralized portfolio management system for securities owned by FHLBanks. The Fund is managed by the Office of Finance of the FHLBanks and invests primarily in short-term money market instruments.

4. ADVANCES TO MEMBERS

At December 31, 1984 and 1983, the Bank's advances outstanding to members had interest rates ranging from 7.75% to 15.75% and from 7.50% to 16.63%, respectively, as summarized below:

- 9 -

Year of Maturity	December 31, 1984 Amount (in thousands)	Weighted Average Interest Rate
1985	$1,188,242	11.44%
1986	768,852	11.55
1987	730,519	11.87
1988	454,833	11.50
1989	312,159	11.69
1990-1994	566,372	12.24
Total	4,020,977	11.68
Deferred Net Loss from Hedging Transactions (Note 1)	116	
Total	$4,021,093	

Year of Maturity	December 31, 1983 Amount (in thousands)	Weighted Average Interest Rate
1984	$1,118,859	11.26%
1985	637,823	11.33
1986	520,128	11.30
1987	376,340	11.64
1988	359,190	11.33
1989-1993	576,570	11.89
Total	3,588,911	11.43
Deferred Net Gain from Hedging Transactions (Note 1)	(1,072)	
Total	$3,587,839	

Outstanding advances aggregating $4,021,093,000 at December 31, 1984 and $3,587,839,000 at December 31, 1983 were collateralized by pledged investment securities, first mortgage loans, and FHLBank deposits and property which is acceptable to the Bank. The capital stock of the Bank owned by borrowing members is also pledged as additional collateral for outstanding advances. Bank System regulations permit a borrowing member to physically retain mortgage collateral assigned to the Bank, and in such circumstances, the member executes a written security agreement and agrees to hold such collateral for the benefit and subject to the direction and control of the Bank. The Bank may, however, require a member to place physical possession of such collateral with the Bank or its safekeeping agent.

The Bank participated in the Community Investment Fund, a five-year advances program from June 1978. The program provided funds to members meeting eligibility criteria for active involvement in preserving and revitalizing older communities. As of December 31, 1984, advances of $20,905,000 were outstanding under this program with an average original maturity of .6 years at rates ranging from 9.45% to 13.80%. These rates are 1/2 of 1 percent below the estimated cost of issuing consolidated obligations of comparable maturities at the time the commitments to advance funds were made. The net interest cost of this program amounted to $201,000 in 1984 and $633,000 in 1983.

5. INVESTMENT IN FEDERAL HOME LOAN MORTGAGE CORPORATION

The investment in the Mortgage Corporation is stated at cost and consists of 3,900 shares of nonvoting common stock, par value $1,000, redeemable at par value (common stock), and a $1,950,000 subordinated capital debenture, due June 20, 1987. The shares of common stock represent 3.9% of the common stock outstanding. The Federal Home loan Bank of Topeka received cash dividends on the common stock of $3,198,000 in 1984 and $1,346,000 in 1983.

The subordinated capital debenture issued on June 20, 1980, bears an interest rate of 11.50% per annum, payable semi-annually; may not be sold, transferred, exchanged, or pledged without the express written consent of the Mortgage Corporation; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the Mortgage Corporation; and may be redeemed in whole or in part on or after June 20, 1985 at specified redemption prices at the option of the Mortgage Corporation. Interest of $224,000 was earned on the debenture during each year ended December 31, 1984 and 1983.

On December 6, 1984, the Mortgage Corporation created a new class of participating preferred stock (preferred stock) and authorized the distribution of such preferred stock to the 12 District Banks of the Federal Home Loan Bank System and by those District Banks to their member institutions that were stockholders of record as of December 31, 1984.

The Federal Home Loan Bank of Topeka received and distributed to its member institutions 585,000 shares which represented 3.9% of such participating preferred stock of the Mortgage Corporation.

- 11 -

The Mortgage Corporation resolution that authorized the distribution of the preferred stock requires that the preferred stock be distributed to the member institutions as a condition of the District Bank's receipt of the stock. Because the District Bank did not have the benefits of ownership of the preferred stock at any time, for financial reporting purposes, it has not been reported as an asset or income of the District Bank, or as a dividend to the member institutions.

In any future calendar year, unless and until dividends on the preferred stock in the aggregate amount of $10 million have been declared and paid or set apart for payment, no dividends may be declared or paid or set apart for payment on the common stock of the Mortgage Corporation. Thereafter in such year, holders of outstanding preferred stock will be entitled to receive in the aggregate $90 in dividends for every $10 in dividends paid on the common stock in the aggreate.

6. INTERBANK BORROWINGS

The Bank has borrowed from other FHLBanks in 1984 and 1983. The following is a summary of these loans at December 31:

1984			1983		
Maturity Date	Principal Amount (in thousands)	Interest Rate	Maturity Date	Principal Amount (in thousands)	Interest Rate
			4/25/84	$ 35,000	9.30%
			6/25/84	30,000	9.70
			9/25/84	40,000	9.22
2/14/86	$ 5,000	11.12%	2/14/86	5,000	11.12
4/25/86	35,000	11.76	4/25/86	35,000	11.76
5/14/86	5,000	11.16	5/14/86	5,000	11.16
8/14/86	5,000	11.21	8/14/86	5,000	11.21
9/25/86	25,000	10.94			
11/14/86	10,000	11.31	11/14/86	10,000	11.31
11/25/86	25,000	10.99			
12/26/86	25,000	11.02			
4/25/92	50,000	11.90			
10/25/94	50,000	12.15			
Total	$235,000			$165,000	

7. CONSOLIDATED OBLIGATIONS

The outstanding obligations of the FHLBanks (see "Organization and Related Agencies" above), including the pass-throughs to the Mortgage Corporation (see Note 12), were $67,257,265,000 and $51,345,965,000 at December 31, 1984 and 1983, respectively. Regulations require the FHLBanks to maintain in the

- 12 -

aggregate, unpledged qualifying assets in an amount equal to the consolidated obligations outstanding. "Qualifying assets" are defined as cash, obligations of or fully guaranteed by the United States, collateralized advances, and federally insured or guaranteed mortgages. The FHLBanks were in compliance with this regulation as of December 31, 1984 and 1983.

The following is a summary of the Bank's participation in consolidated obligations at December 31 (in thousands):

	December 31, 1984		
	Bonds		
Years of Maturity	Range of Coupon Rates	Weighted Average Interest Rates	Outstanding
1985	7.38 - 15.00%	12.13%	$ 810,000
1986	9.55 - 16.40	13.12	596,000
1987	7.60 - 13.30	11.09	668,000
1988	10.15 - 14.20	11.00	420,820
1989	11.38 - 15.10	13.89	269,180
1990 - 1993	10.70 - 13 70	11.50	445,000
Total			$3,209,000

	Discount Notes	
	Book Value	Par Value
Due within one year	$116,448	$122,200

	December 31, 1983		
	Bonds		
Years of Maturity	Range of Coupon Rates	Weighted Average Interest Rates	Outstanding
1984	7.38-16.40%	12.35%	$ 752,000
1985	7.38-15.00	12.45	535,000
1986	9.55-16.40	13.59	311,000
1987	7.60-11.35	10.21	443,000
1988	10.15-14.20	10.91	320,820
1989-1993	10.70-15.10	12.53	489,180
Total			$2,851,000

	Discount Notes	
	Book Value	Par Value
Due within one year	$83,876	$87,500

- 13 -

8. CREDIT AVAILABLE FROM THE U.S. TREASURY

Section 11(i) of the Federal Home Loan Bank Act authorizes the Secretary of the Treasury, in his discretion, to extend credit to the FHLBanks aggregating not more than $4 billion, the terms, conditions, and interest rate to be determined by the Secretary of the Treasury. There were no outstanding borrowings from the U.S. Treasury during the two-year period ended December 31, 1984.

9. CAPITAL

The capital stock of the Bank has a par value of $100 per share. Capital stock held by members in excess of their statutory requirement may be redeemed at par value by the Bank or sold to other Bank members at par value provided the resulting stock transfer is recorded on the books of the Bank.

Retained earnings of the Bank consist of undivided profits, a legal reserve, and a dividend stabilization reserve (DSR). The Bank must transfer 20% of its net income to the legal reserve semiannually until the reserve equals the capital stock amount. Thereafter, 5% of the Bank's net income must be allocated for this purpose.

In 1983 and 1984, dividends were permitted only to the extent of current year's net income, after statutory transfer, and the DSR, and were authorized to be paid either annually or semiannually. In addition, the Bank Board required that the Bank retain in the dividend stabilization reserve that portion of the income from prepayment penalties which, if allocated on a pro rata basis over the maturity of the advances prepaid, would be allocated to future dividend periods. Dividends may be paid in the form of capital stock, if authorized by the Board of Directors.

10. EMPLOYEE RETIREMENT PLAN

The Bank is a participant in the Financial Institutions Retirement Fund (FIRF) and substantially all of its officers and employees are covered by the Plan. The Bank's contributions are determined by FIRF and generally represent the normal cost of the Plan (unfunded prior service costs are not significant). Pension costs charged to other operating expenses were $102,000 in 1984 and $91,000 in 1983. The Bank's policy is to fund pension costs as accrued. FIRF does not segregate the assets, liabilities, or costs by participating employer. According to the FIRF administrators, as of June 30, 1984, the date of the latest actuarial valuation, the book and market values of the fund assets exceeded the value of vested benefits in the aggregate.

11. COMMITMENTS

Rental expenses of $672,000 in 1984 and $583,000 in 1983 for premises and equipment have been charged to other operating expense. Future minimum rentals are as follows (in thousands):

	Premises	Equipment	Total
1985	$169	$ 574	$ 743
1986	169	365	534
1987	179	297	476
1988	176		176
1989	146		146
Total	$839	$1,236	$2,075

The lease agreement for the Bank's premises provides for increases in the basic rentals resulting from increased property taxes and maintenance expense.

Commitments for advances to members totaled $224,145,000 at December 31, 1984, and $134,725,000 at December 31, 1983.

Interest Rate Swaps - An interest rate swap is a contractual interest exchange agreement in which, for a predetermined period, one party agrees to make periodic fixed interest rate payments to another party in return for receiving variable interest rate payments. At December 31, 1984, the Bank had outstanding $185,000,000 in underlying notional principal of interest rate swap agreements. The net interest income from interest rate swap agreements amounted to $348,000 for 1984.

12. CONTINGENCIES

As provided for in Section 306(c) of the Federal Home Loan Mortgage Corporation Act, the Bank Board has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the FHLBank of New York. Each of the FHLBanks participates in the guarantee in proportion to its investment in the common stock of the Mortgage Corporation (see Note 5). At December 31, 1984, the FHLBanks have guaranteed $1,790,000,000 of the Mortgage Corporation's borrowings from the FHLBank of New York in the form of pass-throughs of the proceeds of certain consolidated obligations.

13. SUBSEQUENT EVENT

On January 3, 1985, the FHLBanks issued $200,000,000 consolidated bonds at 11% due December 27, 1989. Interest is payable annually commencing December 27, 1985. The bonds are the joint and several obligations of all twelve FHLBanks.

The Bank's participation in the consolidated bonds issued January 3, 1985 is $12,400,000.

14. RECLASSIFICATIONS

Certain 1983 amounts have been reclassified to provide consistency with 1984 amounts.

☆U.S. GOVERNMENT PRINTING OFFICE: 1986—491—234—40086

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are $2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use $300

Address Correction Requested

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100