Federal Home Loan Bank of New York

2003 ANNUAL REPORT

FEDERAL HOME LOAN BANK OF NEW YORK: ADVANCING HOUSING AND COMMUNITY GROWTH

71ST ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2003

The Federal Home Loan Bank of New York (FHLBNY) is a privately owned wholesale bank serving the financial needs of housing lenders. The FHLBNY is part of the Congressionally chartered, nationwide Home Loan Bank System. The FHLBNY serves to increase the availability of mortgages and home finance to families of all income levels and offers high-value finance, correspondent, and management services to assist its customers in more effectively serving their neighborhoods and meeting their Community Reinvestment Act responsibilities. The FHLBNY supports community lenders in New Jersey, New York, Puerto Rico, and the U.S. Virgin Islands.

SUMMARY FINANCIAL DATA

The following table sets forth summarized financial data for the years 1999 through 2003 (in thousands).

	Year ended December 31,				
	2003	2002	2001	2000	1999
Statements of Condition					
Total assets	$ 79,230,429	$ 93,605,623	$ 81,240,458	$ 76,600,097	$ 62,902,490
Mortgage loans held for portfolio, net	671,644	435,133	425,155	528,092	228,181
Advances	63,923,184	68,926,073	60,962,103	52,395,635	44,408,647
Investments (1)	14,216,970	23,597,739	19,199,827	22,406,332	14,551,749
Deposits and other borrowings	2,100,221	2,742,677	2,861,870	2,162,383	2,654,490
Consolidated obligations, net	70,856,636	83,511,872	72,627,553	69,562,639	56,343,618
Capital	3,763,391	4,295,618	3,909,988	3,747,303	3,092,877
Statements of Income					
Net interest income before provision for credit losses on mortgage loans	$ 290,472	$ 348,823	$ 408,396	$ 410,132	$ 289,927
Provision for credit losses on mortgages	79	235	102	58	34
Other (loss) income	(177,066)	7,792	15,463	6,358	10,288
Other expenses	50,967	37,757	39,243	39,961	33,200
Income before assessments (2)	62,360	318,623	384,514	376,471	266,981
Assessments	16,544	84,533	102,876	99,880	23,221
Income before cumulative effect of change in accounting principle	45,816	234,090	281,638	276,591	243,760
Cumulative effect of change in accounting principle (3)	-	-	3,249	-	-
Net income	45,816	234,090	284,887	276,591	243,760

(1) Investments also include interest-bearing deposits, securities purchased under agreements to resell, Federal funds sold, and loans to other FHLBanks.

(2) Prior to 2000, the FHLBNY charged its REFCORP obligations directly to retained earnings and not as an expense through the Statements of Income. The REFCORP obligation charged directly to retained earnings during 1999 was $34.9 million. The operating results for years before 2000 have not been restated. Therefore, net income for 2000, 2001, 2002, and 2003 are not comparable to the corresponding results for prior years.

(3) The FHLBNY adopted SFAS 133 as of January 1, 2001.

TO OUR MEMBERS

For most Americans, their residence is both a home and an important financial asset. Thanks to the resources available in our nation, in part provided by the Federal Home Loan Bank of New York (FHLBNY), more Americans own homes today than ever before. According to the U.S. Census Bureau, as of 2000, the homeownership rate was 72.9 percent in Puerto Rico, 66.2 percent in New Jersey, 53.4 percent in New York, and 46 percent in the U.S. Virgin Islands. And through the members of the FHLBNY, funds are also made available for tens of thousands of families who live in rental properties.

Examples that bring these statistics to life are seen throughout our service area. Joshua and Claudia Brehse bought their first home in 2003, a two-story white clapboard house in Germantown, New York. In East Orange, New Jersey, 96 low- and very low-income families moved into a newly constructed, five-story, mixed-use apartment building that serves as the anchor for a revitalization effort in the neighborhood. And in Yauco, Puerto Rico, the construction of a new 136-unit garden apartment complex has enabled low-income elderly persons to live in safe, affordable housing.

These stories tell why we do what we do. Congress created the Federal Home Loan Bank System 71 years ago to promote homeownership and community growth. Our mission is clear: provide a low-cost and plentiful funding source for housing lenders, and within that mission, support affordable housing and first-time homebuyers. The vibrant growth of the housing sector has been a pillar of strength during the recent economic downturn and recovery–and the Federal Home Loan Bank System has been one of the key engines driving that growth.

The work of the Federal Home Loan Bank of New York is often complex and technical. But the reason for that work is simple and satisfying–to help make it possible for millions of Americans to obtain housing and to make homes and communities for themselves.

THE YEAR 2003

For the whole of 2003, our average principal amount of advances to our members was a record $68.3 billion, up about 9.4 percent from the year before. We ended 2003 with $61.8 billion in outstanding advances; that was down from the peak average of $72.5 billion in June. The primary reasons for the decline were higher interest rates in the second half of 2003 and the resulting decline in mortgage financing activity, as well as paydowns by some of our member banks that were acquired.

Twenty-two new members joined the FHLBNY, bringing the total to 307. We made 12,471 advances last year; these were individual disbursements to our members who employed a full range of our advance credit products, including Adjustable Rate Credit, Convertible, Long-Term Fixed, Overnight Line of Credit, Overnight Special Rate, and Repo Advances.

These advances and other products helped our members to finance affordable housing in a great many different forms in New Jersey, New York, Puerto Rico, and the U.S. Virgin Islands. They helped our members meet the requirements of the Community Reinvestment Act (CRA) and also provided innovative financing that put people in homes; indeed, the Federal Home Loan Bank System is one of the largest sources of grant funding for affordable housing.

The support we provide to our members in meeting their responsibilities under the CRA is a key measure of our success. We offer three primary community reinvestment-related credit services: the Affordable Housing Program (AHP), the Community Investment Program (CIP), and the First Home Club℠.

Each year, the FHLBNY allocates 10 percent of our earnings to be awarded in the following calendar year to members through the AHP. In 2003, we awarded over $23.4 million in AHP grants for 91 projects to create 3,283 units of affordable housing. In combination with the CIP and the targeted Rural Development

and Urban Development Advance Programs (which committed $18.3 million in advances in 2003), the AHP allows member lenders to respond to the particular housing finance needs in the communities they serve.

As of year-end 2003, the FHLBNY had set aside over $26.5 million for the First Home Club[sm] program to cover down-payment and closing costs for first-time homebuyers. The FHLBNY enrolled 1,496 families through 46 participating member lenders during the year. By the close of the year, 1,281 families were able to enjoy the holiday season in their new homes, funded, in part, by this matching-grant, mortgage-buydown initiative.

The Brehse family in New York and the 232 other families in New Jersey and the Caribbean, mentioned at the beginning of this letter, each benefited from grant dollars from the First Home Club[sm] and the AHP.

STRATEGIC DIRECTION

Are we doing all the things we should be doing? Last year, we continued a long-term strategic planning process with our member institutions, housing partners, and public policy representatives. From our in-depth and constructive dialogue, we concluded that we should keep doing what we're doing, find ways to do it better, and resist temptations to branch out in new directions. This means that over the next three years we will be following these themes:

- We are, and will remain, first and foremost a provider of liquidity to our members and the housing finance system. Being a low-cost provider of wholesale funds for community lending is a top priority. With this goes hand-in-hand the need to remain nimble and creative in meeting our customers' needs.
- We are, and will remain, a provider of products and services that meet our members' CRA needs and the needs of community groups working to promote local housing and development.
- We must manage our business risks effectively. We must be innovators for and fast followers of our stakeholders' best ideas. Also, we must remain persuasive advocates for our role in the national housing finance system.

BOND PORTFOLIO REALIGNMENT

In September 2003, we sold $1.03 billion in face amount of uninsured bonds secured by manufactured housing loans, incurring a loss on sale of $183 million. These bonds, AAA-rated when purchased, helped fulfill our housing finance and community development missions. When the major rating agencies downgraded some of these bonds, we reviewed the portfolio, determined that all of the bonds had the potential to deteriorate further in creditworthiness and create additional future losses, and therefore, sold the bonds to put the credit problems behind us. Our portfolio review also identified four other issues of AAA-rated uninsured securities that no longer met our credit standards. Accordingly, we sold $944 million in face amount of those bonds, incurring a loss on sale of $6 million. Together the two sales reduced 2003 net income by $139 million after accounting for tax-like assessments. These events have led to a number of actions.

We swiftly completed a credit reassessment of the rest of the investment portfolio. No other significant credit issues were found. We have also completed a review of our risk management policies, practices, and procedures and have put into place a series of improvements to better prepare us for the challenges of the coming years.

The Board of Directors approved management's recommendation not to pay a dividend to stockholders in October 2003. This painful action was the quickest way to begin rebuilding retained earnings. By

year-end, our retained earnings were $126.7 million (the third highest level among the 12 Home Loan Banks) and our capital-to-assets ratio was 4.75 percent, well above the regulatory minimum of 4.0 percent. As a result, in January 2004, the Board voted to declare a dividend at an annualized rate of 1.45 percent based on earnings for the fourth quarter of 2003.

We anticipate paying a regular quarterly dividend to stockholders in 2004.

In August of 2003, the Federal Housing Finance Board directed all Federal Home Loan Banks to build retained earnings.

At its October 2003 meeting, the Board of Directors approved management's recommendation to terminate the employee incentive compensation plan for 2003. Compensation for most of the FHLBNY's employees has a significant "at risk" incentive component tied directly to the FHLBNY's financial performance.

In December, the FHLBNY continued the evolution of our organization to a best-in-class level of risk management by creating the new Chief Risk Officer (CRO) position, separate from operations. The CRO will establish the risk policies and tolerances within the FHLBNY. The CRO will also measure and monitor risk levels against established tolerances. Peter Leung was hired to fill this post. He started work at the FHLBNY on January 20, 2004, and brings more than 19 years of experience with the FHLB System, including a stint as Deputy Director of the Office of Supervision at the Federal Housing Finance Board (FHFB).

The second half of 2003 was a difficult time for the FHLBNY. We had to make some hard decisions. In the process, however, we became a stronger institution. Moreover, at no time did we falter in our most central commitments. Our contribution to housing the American people was, and is, as strong as ever. In this we take considerable pride.

SIGNIFICANT ISSUES FOR 2004

Three issues on the regulatory and policy front of the Home Loan Bank System will be the focus of attention and action in 2004.

First, we have reported to you in the past about the Bush Administration's determination that the Federal Home Loan Banks register with the Securities and Exchange Commission. The FHFB has begun a rule-making process that would mandate "voluntary" registration with the SEC. The FHLBNY fully supports the goals of greater financial disclosure and transparency. We are working to put needed capabilities and systems in place that will permit the Home Loan Bank to be in a position to register under the 1934 Securities Exchange Act.

Second, the FHFB has directed each of the Home Loan Banks to adopt a formal retained earnings policy not later than March 31, 2004. Our Board of Directors adopted a nine-point "Statement of Principles to Guide Development of the Bank's Retained Earnings Policy." The FHLBNY believes that building retained earnings will buffer members' capital stock against potential losses that could arise in the normal course of business and is working to develop a formal retained earnings policy.

Third, U.S. Treasury Secretary Snow has called for a single "world-class" regulator for all the housing-related government-sponsored enterprises, including Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. Our Board of Directors has given the proposal careful consideration; we have expressed our support for one independent regulator as called for by the Administration, and we have called on the other 11 Home Loan Banks and other interested parties to work together to achieve consensus on this significant topic.

A WORD OF APPRECIATION

We wish to acknowledge and thank the Members of our Board of Directors for providing the guidance and direction that have helped keep the FHLBNY moving forward and adapting to the changing environment.

In particular, we extend our appreciation to the Chairs of our Board Committees: George L. Engelke, Jr., Astoria Federal Savings and Loan Association, for serving as Vice Chair of the Home Loan Bank, Chair of the Executive Committee, and Chair of the Board Governance Task Force. We are also grateful to Edwin Reed, Greater Allen Cathedral of New York, Chair, Housing Committee; John R. Garbarino, OceanFirst Bank, Chair, Audit Committee; Harry P. Doherty, SI Bank & Trust, Chair, Human Resources Committee; and Richard S. Mroz, Stradley Ronon Stevens & Young, LLP, Chair, External Affairs Committee.

The Board gratefully acknowledges the many contributions of the members of the Affordable Housing Advisory Council. We would like to particularly thank Margaret T. O'Leary, Hudson Valley Housing Development Fund Co., Inc., and Carla L. Lerman, Episcopal Community Development, Inc., for serving as Chair and Vice Chair, respectively.

Three new Directors joined the Board in early 2003. Two public interest directors–Harold E. Doley, III, The Lugano Group, Inc. and Rev. DeForest B. Soaries, Jr., First Baptist Church of Lincoln Gardens–were appointed by the FHFB. We also welcomed industry director David W. Lindstrom, Franklin Savings Bank, S.L.A.

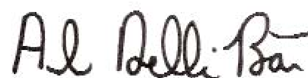
We would like to express our gratitude to the outgoing directors: John R. Garbarino, OceanFirst Bank; Salomón Levis, Doral Bank; and Edwin Reed, Greater Allen Cathedral of New York, for their dedicated service on the Board and to the FHLBNY. Their many contributions over the years benefited every member of the Home Loan Bank.

We would like to also acknowledge the contributions of Director DeForest "Buster" Soaries. Director Soaries resigned from the Board to take a position as a member of the Federal Election Assistance Commission. Director William E. Swan passed away in August of 2003. He was an outstanding director and will be missed by all who worked with him.

As we were completing the final proofs of this annual report, the Federal Housing Finance Board announced the appointment of two public interest directors: Richard S. Mroz, reappointed to a second term, and Anne Evans Estabrook, Elberon Development Company. And also joining the Board in 2004 were three new elected directors: Sanford A. Belden, Community Bank, N.A.; José R. González, Banco Santander Puerto Rico; and Katherine J. Liseno, Metuchen Savings Bank.

Our customers and stakeholders are too numerous to name here. But they have all helped us in many ways, and we are deeply appreciative of their support.

Atwood Collins III
Chairman of the Board



Alfred A. DelliBovi
President and CEO

2003 HOME LOAN BANK MEMBERSHIP

NEW JERSEY

1st Bank of Sea Isle City
Sea Isle City

1st Constitution Bank
Cranbury

Advantage Bank
Branchburg

Affinity Federal Credit Union
Basking Ridge

Allaire Community Bank
Sea Girt

Allegiance Community Bank
South Orange

Amboy National Bank
Old Bridge

American Savings Bank of NJ
Bloomfield

Atlantic Stewardship Bank
Midland Park

Audubon Savings Bank
Audubon

Bayonne Community Bank
Bayonne

Bergen Commercial Bank
Paramus

Boardwalk Bank
Linwood

Bogota Savings Bank
Bogota

Boiling Springs Savings Bank
Rutherford

Bridge View Bank [1]
Englewood Cliffs

Cape Savings Bank
Cape May Court House

Cenlar FSB
Trenton

Century Savings Bank
Bridgeton

City National Bank of New Jersey
Newark

Clifton Savings Bank, S.L.A.
Clifton

Colonial Bank, FSB
Bridgeton

Columbia Bank
Fair Lawn

Commerce Bank, N.A.
Cherry Hill

Commerce Bank, North
Ramsey

Community State Bank [1]
Teaneck

Cornerstone Bank
Moorestown

Crest Savings Bank
Wildwood

Crown Bank, NA
Brick

Delanco Federal Savings Bank
Delanco

Dollar Savings Bank
Newark

Equity Bank
Marlton

Farmers and Mechanics Bank
Burlington

First Atlantic Federal Credit Union
West Long Branch

First BankAmericano
Elizabeth

First Bank of Central Jersey [1]
North Brunswick

First Hope Bank
Hope

First Investors Federal Savings Bank
Woodbridge

First Morris Bank
Morristown

First Savings Bank
Woodbridge

First Washington State Bank
Windsor

Fort Lee Federal Savings Bank, FSB
Fort Lee

Franklin Savings Bank, SLA
Pilesgrove

Gibraltar Savings Bank, FSB
Newark

Glen Rock Savings Bank
Hawthorne

Gloucester County Federal Savings Bank
Sewell

Greater Community Bank
Totowa

GSL Savings Bank
Guttenberg

Haddon Savings Bank
Haddon Heights

Haven Savings Bank
Hoboken

Hopewell Valley Community Bank
Pennington

Hudson City Savings Bank
Paramus

Hudson United Bank
Mahwah

Interchange Bank
Saddle Brook

Interstate Net Bank
Cherry Hill

Investors Savings Bank
Millburn

Kearny Federal Savings Bank
Kearny

Lakeland Bank
Oak Ridge

Lincoln Park Savings and Loan Assn.
Lincoln Park

Llewellyn-Edison Savings Bank, FSB
West Orange

Lusitania Savings Bank, FSB
Newark

Magyar Savings Bank
New Brunswick

Manasquan Savings Bank
Wall Township

Mariner's Bank
Edgewater

Merrill Lynch Bank & Trust Co.
Plainsboro

Merrill Lynch Trust Company, FSB
Pennington

MetLife Bank, N.A.
Bedminster

Metuchen Savings Bank
Metuchen

Millington Savings Bank
Millington

Millville Savings and Loan Association
Millville

Minotola National Bank
Vineland

MON-OC Federal Credit Union
Toms River

Notes:

1 - No longer a member as of December 31, 2003
2 - Housing Associate

2003 HOME LOAN BANK MEMBERSHIP

Monroe Savings Bank, SLA
Williamstown

Morgan Stanley Trust
Jersey City

N.J.M. Bank, FSB
West Trenton

New Community Federal Credit Union
Newark

New Millennium Bank
New Brunswick

NJ Housing & Mortgage Finance Agency [2]
Trenton

NorCrown Bank
Livingston

NVE Savings Bank
Englewood

Ocean City Home Bank
Ocean City

OceanFirst Bank
Toms River

Ocwen Federal Bank FSB
Fort Lee

Oritani Savings Bank
Hackensack

Pamrapo Savings Bank, SLA
Bayonne

Panasia Bank N.A. [1]
Fort Lee

Paragon Federal Credit Union
Township of Washington

Parke Bank
Sewell

Peapack-Gladstone Bank
Gladstone

Penn Federal Savings Bank
West Orange

Peoples Savings Bank
Bordentown

Pinnacle Federal Credit Union
Edison

Red Oak Bank
Morristown

Roebling Bank
Roebling

Roma Bank
Hamilton Township

Roselle Savings Bank
Roselle

Rumson-Fair Haven Bank & Trust Company
Rumson

Schuyler Savings Bank
Kearny

Select Bank
Egg Harbor City

Shrewsbury State Bank
Shrewsbury

Skylands Community Bank
Hackettstown

Somerset Hills Bank
Bernardsville

Somerset Savings Bank, SLA
Bound Brook

Somerset Valley Bank
Somerville

Spencer Savings Bank, SLA
Garfield

Sterling Bank
Mount Laurel

Sturdy Savings Bank
Cape May Court House

Summit Federal Savings and Loan Assn.
Summit

Sun National Bank
Vineland

Sussex Bank
Franklin

Synergy Bank
Cranford

TD Waterhouse Bank, National Association
Jersey City

The Bank
Woodbury

The Community Bank of New Jersey
Freehold

The First National Bank of Elmer
Elmer

The Freehold Savings and Loan Assn.
Freehold

The Newton Trust Company
Newton

The NJ Economic Development Authority [2]
Trenton

The Provident Bank
Jersey City

The Rahway Savings Institution
Rahway

The Trust Company of New Jersey
Jersey City

Two River Community Bank
Middletown

Union Center National Bank
Union

United Roosevelt Savings Bank
Carteret

UnitedTrust Bank
Bridgewater

Unity Bank
Clinton

Valley National Bank
Wayne

Wawel Savings Bank, SLA
Wallington

West Essex Bank [1]
Caldwell

Woodstown National Bank [1]
Woodstown

Yardville National Bank
Hamilton

NEW YORK

Abacus Federal Savings Bank
New York

Adirondack Bank, National Association
Utica

Alliance Bank, N.A.
Syracuse

Alpine Capital Bank
New York

Alternatives Federal Credit Union
Ithaca

Amalgamated Bank
New York

American Community Bank
Glen Cove

Astoria Federal Savings and Loan Assn.
Lake Success

Atlantic Bank of New York
New York

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2003 HOME LOAN BANK MEMBERSHIP

Atlantic Liberty Savings, F.A.
Brooklyn

Atlas Savings and Loan Association
Brooklyn

Ballston Spa National Bank
Ballston Spa

Banco Popular North America
New York

Bank Leumi USA
New York

Bank of Akron
Akron

Bank of Cattaraugus
Cattaraugus

Bank of Holland
Holland

Bank of Richmondville
Cobleskill

Bank of Smithtown
Smithtown

Bath National Bank
Bath

Beacon Federal
East Syracuse

BPD Bank
New York

Brooklyn Federal Savings Bank
Brooklyn

BSB Bank and Trust
Binghamton

Canisteo Savings and Loan Association
Canisteo

Carthage Federal Savings and Loan Assn.
Carthage

Carver Federal Savings Bank
New York

Cattaraugus County Bank
Little Valley

CFCU Community Credit Union
Ithaca

Champlain National Bank
Willsboro

Chemung Canal Trust Company
Elmira

Chinatown Federal Savings Bank
New York

City and Suburban Federal Savings Bank
Yonkers

City National Bank and Trust Company
Gloversville

Community Bank, N.A.
DeWitt

Community Capital Bank
Brooklyn

Community Federal Savings Bank
Woodhaven

Community Mutual Savings Bank
White Plains

Country Bank
New York

Cross County Federal Savings Bank
Middle Village

Doral Bank, FSB
New York

EastBank, National Association
New York

Ellenville National Bank
Ellenville

Elmira Savings and Loan, F.A.
Elmira

Emigrant Savings Bank
New York

Empire Corporate Federal Credit Union
Albany

Empire Federal Credit Union
Syracuse

ESL Federal Credit Union
Rochester

Evans National Bank
Angola

FAA Eastern Region FCU
Jamaica

Fairport Savings Bank
Fairport

First American International Bank
Brooklyn

First Central Savings Bank
Whitestone

First Federal Savings of Middletown
Middletown

First National Bank of Jeffersonville
Jeffersonville

First Niagara Bank
Lockport

First State Bank, Canisteo, N.Y.
Canisteo

First Tier Bank & Trust
Olean

Flatbush FSLA of Brooklyn
Brooklyn

Flushing Savings Bank, FSB
Flushing

Fourth Federal Savings Bank
New York

Fulton Savings Bank
Fulton

Geddes Federal Savings and Loan Assn.
Syracuse

Glens Falls NB & Trust Company
Glens Falls

Gouverneur Savings and Loan Association
Gouverneur

Great Eastern Bank
New York

Greater Buffalo Savings Bank
Buffalo

GreenPoint Bank
New York

Guardian Trust Company, FSB
New York

Habib American Bank
New York

Highland Falls Federal SLA
Highland Falls

HSBC Bank USA
New York

Hudson River Bank & Trust Company
Hudson

Hudson Valley Bank
Yonkers

Hudson Valley Federal Credit Union
Poughkeepsie

Independence Community Bank
Brooklyn

Interaudi Bank
New York

Interbank of New York
New York

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2003 HOME LOAN BANK MEMBERSHIP

Intervest National Bank
New York

Israel Discount Bank of New York
New York

Kraft Foods Federal Credit Union
Purchase

Lake Shore Savings and Loan Association
Dunkirk

Long Island Commercial Bank
Islandia

M&T Bank
Buffalo

Maple City Savings Bank, FSB
Hornell

Marathon National Bank of New York
Astoria

Maspeth Federal Savings and Loan Assn.
Maspeth

Massena Savings and Loan Association
Massena

Medina Savings and Loan Association
Medina

Mid-Hudson Valley Federal Credit Union
Kingston

National Bank of Delaware County
Walton

National Bank of New York City
Flushing

NBT Bank, N.A.
Norwich

New York Community Bank
Westbury

New York National Bank
Bronx

New York State Housing Finance Agency [2]
New York

North Fork Bank
Melville

NorthEastern Engineers FCU
Richmond Hill

Northfield Savings Bank
Staten Island

Ogdensburg Federal SLA [1]
Ogdensburg

Ontario National Bank
Clifton Springs

Orange County Trust Company
Middletown

Oswego County National Bank
Oswego

PathFinder Bank
Oswego

Pioneer Savings Bank
Troy

Pittsford Federal Credit Union
Pittsford

Ponce de Leon Federal Bank
Bronx

Power Federal Credit Union
Syracuse

Provident Bank
Montebello

Putnam County Savings Bank
Brewster

Rhinebeck Savings Bank
Poughkeepsie

Ridgewood Savings Bank
Ridgewood

Rondout Savings Bank
Kingston

Saratoga National Bank and Trust Company
Saratoga Springs

Savannah Bank, National Association
Savannah

Savings Bank of the Finger Lakes [1]
Geneva

Sawyer Savings Bank
Saugerties

SBU Bank
Utica

Seneca Federal Savings and Loan Assn.
Baldwinsville

SI Bank & Trust
Staten Island

Sidney Federal Credit Union
Sidney

Signature Bank
New York

Sleepy Hollow National Bank
Sleepy Hollow

Solvay Bank
Solvay

Sound Federal Savings and Loan Assn.
White Plains

State Bank of Long Island
New Hyde Park

State Employees Federal Credit Union
Albany

State of New York Mortgage Agency [2]
New York

Sterling National Bank
New York

Steuben Trust Company
Hornell

Suffolk Federal Credit Union
Medford

Sunmark Federal Credit Union
Schenectady

Sunnyside FSLA of Irvington
Irvington

The Bank of Castile
Castile

The Bank of Greene County
Catskill

The Berkshire Bank
New York

The Bridgehampton National Bank
Bridgehampton

The Canandaigua NB & Trust Company
Canandaigua

The Citizens National Bank of Hammond
Hammond

The Delaware National Bank of Delhi
Delhi

The Dime Savings Bank of Williamsburgh
Brooklyn

The Elmira Savings Bank, FSB
Elmira

The First National Bank of Dryden
Dryden

The Lyons National Bank
Lyons

The Mahopac National Bank
Brewster

The Municipal Housing Authority [2]
Yonkers

Notes:

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2003 HOME LOAN BANK MEMBERSHIP

The National Bank of Geneva
Geneva

The National Bank of Stamford
Stamford

The National Union Bank of Kinderhook
Kinderhook

The North Country Savings Bank
Canton

The NYC Housing Development Corporation [2]
New York

The Oneida Savings Bank
Oneida

The Park Avenue Bank, N.A.
New York

The Rome Savings Bank
Rome

The Roslyn Savings Bank [1]
Garden City

The Seneca Falls Savings Bank
Seneca Falls

The Suffolk County NB of Riverhead
Riverhead

The Summit Federal Credit Union
Rochester

The Troy Savings Bank
Troy

The Tupper Lake National Bank
Tupper Lake

The Upstate National Bank
Rochester

The Warwick Savings Bank
Warwick

Tioga State Bank
Spencer

Tompkins Trust Company
Ithaca

Trustco Bank
Glenville

Ulster Savings Bank
Kingston

Union State Bank
Orangeburg

United Orient Bank
New York

United States Trust Company of New York
New York

Victory State Bank
Staten Island

Visions Federal Credit Union
Endicott

Walden Federal Savings and Loan Assn.
Walden

Walden Savings Bank
Montgomery

Wallkill Valley FSLA
Wallkill

Watertown Savings Bank
Watertown

WCTA Federal Credit Union
Sodus

Wilber National Bank
Oneonta

Woori America Bank
New York

Wyoming County Bank
Warsaw

PUERTO RICO

Banco Bilbao Vizcaya Argentaria P.R.
Hato Rey

Banco Popular de Puerto Rico
Hato Rey

Banco Santander Puerto Rico
Hato Rey

Doral Bank
San Juan

Eurobank
Hato Rey

FirstBank Puerto Rico
Santurce

Oriental Bank and Trust
San Juan

R-G Premier Bank of Puerto Rico
Hato Rey

The Bank & Trust of Puerto Rico
San Juan

WesternBank Puerto Rico
Mayaguez

U.S. VIRGIN ISLANDS

Bank of St. Croix, Inc.
Christiansted

Virgin Islands Community Bank Corp.
St. Croix

Notes:

1 - No longer a member as of December 31, 2003
2 - Housing Associate

BOARD OF DIRECTORS 2003-2004

CHAIRMAN

Atwood Collins III [a,d]
Executive Vice President
M&T Bank
Buffalo, New York

VICE CHAIRMAN

George L. Engelke, Jr. [a,b,d]
Chairman, President and CEO
Astoria Federal Savings and
Loan Association
Lake Success, New York
Chairman, Executive Committee

ELECTED

Kenneth J. Abt [a,b,e]
President and CEO
First Federal Savings of Middletown
Middletown, New York
Chairman, Audit Committee

Sanford A. Belden [b,e,4]
President and CEO
Community Bank, N.A.
DeWitt, New York

G. Thomas Bowers [d,e]
Director
First Niagara Bank
Lockport, New York

Harry P. Doherty [e]
Chairman and CEO
SI Bank & Trust
Staten Island, New York
Chairman, Human Resources Committee

John R. Garbarino [a,b,1]
Chairman, President and CEO
OceanFirst Bank
Toms River, New Jersey
Past Chairman, Audit Committee

Edward C. Gibney [c]
Director
Boiling Springs Savings Bank
Rutherford, New Jersey
Chairman, Housing Committee

José R. González [b,4]
President and CEO
Banco Santander Puerto Rico
Hato Rey, Puerto Rico

Salomón Levis [c,e,1]
Chairman and CEO
Doral Bank
San Juan, Puerto Rico

David W. Lindstrom [a,e]
President and CEO
Franklin Savings Bank, S.L.A.
Pilesgrove, New Jersey

Katherine J. Liseno [c,e,4]
President and CEO
Metuchen Savings Bank
Metuchen, New Jersey

Leopold W. Montanaro [b,e]
Director
Kearny Federal Savings Bank
Kearny, New Jersey

William E. Swan [e,3]
Former Chairman, President and CEO
First Niagara Bank
Lockport, New York

Anne Evans Estabrook [b,5]
Owner and CEO
Elberon Development Co.
Cranford, New Jersey

Michael M. Horn [a,b]
Partner
McCarter & English, LLP
Newark, New Jersey

Richard S. Mroz [d]
Of Counsel
Stradley Ronon Stevens & Young, LLP
Cherry Hill, New Jersey
Chairman, External Affairs Committee

Edwin C. Reed [b,c,e,1]
Chief Financial Officer
Greater Allen Cathedral of New York
Jamaica, New York
Past Chairman, Housing Committee

Rev. DeForest B. Soaries, Jr. [c,2]
Senior Pastor
First Baptist Church of Lincoln Gardens
Somerset, New Jersey

APPOINTED

Elias Behar-Ybarra [c]
President
Behar-Ybarra and Associates
San Juan, Puerto Rico

Harold E. Doley, III [d]
President
The Lugano Group, Inc.
New York, New York

Notes:

a - Member of the Executive Committee
b - Member of the Audit Committee
c - Member of the Housing Committee
d - Member of the External Affairs Committee
e - Member of the Human Resources Committee

1 - Term expired December 31, 2003
2 - Resigned December 2003
3 - Deceased August 2003
4 - Elected January 2004
5 - Appointed February 2004

One additional Appointed Director has not yet been named by the Federal Housing Finance Board.

AFFORDABLE HOUSING ADVISORY COUNCIL 2003-2004

CHAIRMAN

Margaret T. O'Leary
Chief Executive Officer
Hudson Valley Housing
Development Fund Co., Inc.
Wappingers Falls, New York

VICE CHAIRMAN

Carla L. Lerman
Executive Director
Episcopal Community
Development, Inc.
Newark, New Jersey

NEW YORK

Susan Ottenweller
Executive Director
Housing Opportunities, Inc.
Rochester, New York

Francine C. Justa, Ph.D.
Executive Director
NHS of New York City, Inc.
New York, New York

Charles Kalthoff
Executive Director
ACCORD Corporation
Belmont, New York

Paul Kerzner
Manager
Con Edison's Renaissance Housing Program
Brooklyn, New York

Carol Lamberg
Executive Director
Settlement Housing Fund, Incorporated
New York, New York

Jean Lowe
President
The Greater Rochester Housing Partnership
Rochester, New York

James M. Morgo
President and CEO
Long Island Housing Partnership, Inc.
Hauppauge, New York

NEW JERSEY

Richard Brown
Executive Director
Monarch Housing Associates Preservation Company
Cranford, New Jersey

Marlene Sigman
Director, Housing Development and Asset Management
Catholic Charities, Diocese of Metuchen
Perth Amboy, New Jersey

Diane Sterner
Executive Director
Housing and Community Development Network of New Jersey
Trenton, New Jersey

CORPORATE OFFICERS 2004

ALFRED A. DELLIBOVI
President and Chief Executive Officer

DAVID C. ALTILIO
Executive Vice President and Chief Financial Officer

SENIOR VICE PRESIDENTS

Steve S. Christatos
James A. Gilmore
Robert R. Hans
Paul B. Héroux
Peter S. Leung
Charles R. Mihulka
Patrick A. Morgan
Craig E. Reynolds
Marianne R. Totaro
Donald J. Wolff

VICE PRESIDENTS

Backer Ali
Eric P. Amig
Edwin Artuz
Philip J. Bailey
James C. Bernard
Raymond D. Blumenfeld
Sean N. Borde
Barbara J. Damon
Thomas J. Doyle
John F. Edelen
Paul S. Friend
G. Robert Fusco
Joseph Gallo
Adam S. Goldstein
Anthony C. Grimmer
Robert J. Hearn
Maureen E. Kalena
Rebecca A. Logan
Walter B. Moran
Gregory T. Muller
Kevin M. Neylan
Alfred J. O'Connell
Agnes S. Olah
John G. Papas
David N. Pickens
Facundo J. Saenz de Viteri
Frank R. Sansarricq
Grace F. Sit
Louis C. Solimine
Barbara Sperrazza
John D. Surré
Albert P. Thuma
Barbara E. Way

ASSISTANT VICE PRESIDENTS

Edwin T. Bird
Aaron J. Carr
Kimberly A. Dahl
Stuart H. Eichenbaum
Marcus A. Hadden
Sheharyar Hasan
Robert A. Havanki
Helen M. Horan
Gary E. Keaton
Claudia I. Kim
Carmela A. Marucci
Dechu Muthana
Sandra E. Napoleon
Aida L. Polanco
Diahann P. Rothstein
Mildred Tse-Gonzalez

OTHER OFFICERS

Rose M. Bonnie-Ryner
Sudip K. Chatterjee
Joseph R. Creighton
Shu-Yam Ip
Lei Li
Jean D. Randolph
Dianne A. Solomon
Prisco G. Sulit

Note:
As of March 1, 2004

Federal Home Loan Bank of New York

101 Park Avenue · New York, New York 10178-0599
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Federal Home Loan Bank of New York
Annual Report 2003

Federal Home Loan Bank of New York
Annual Report 2003
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Business

General

The Federal Home Loan Bank of New York ("FHLBNY" or "the Bank") is a federally chartered corporation exempt from federal, state, and local taxes except real property taxes. It is one of 12 district Federal Home Loan Banks ("FHLBanks"). The FHLBanks are U.S. government-sponsored enterprises ("GSEs") and were organized under the authority of the Federal Home Loan Bank Act of 1932, as amended ("FHLBank Act"). Each FHLBank is a cooperative owned by member institutions located within a defined geographic district; the members purchase capital stock in the FHLBank and receive dividends on their capital stock investment. The FHLBNY's defined geographic district includes New Jersey, New York, Puerto Rico, and the U.S. Virgin Islands. The FHLBNY provides a readily available, low-cost source of funds to its member institutions. The FHLBNY does not have any wholly or partially owned subsidiaries, nor does it have an equity position in any partnerships, corporations, or off-balance-sheet special purpose entities.

All federally insured depository institutions, insured credit unions, and insurance companies engaged in residential housing finance can apply for membership in the FHLBNY, as can all community financial institutions. For 2003, community financial institutions are defined as FDIC-insured depository institutions having average total assets of $538 million or less over the preceding three-year period. All members are required to purchase capital stock in the FHLBNY as a condition of membership. A member of another FHLBank may also hold FHLBNY stock as a consequence of acquiring an FHLBNY member.

The Bank combines private capital and public sponsorship to provide its member financial institutions with a reliable flow of credit and other services for housing and community development. By supplying this additional liquidity to its members, the FHLBNY enhances the availability of residential mortgages and community investment credit. The Bank also serves the public through its mortgage programs, which enable FHLBNY members to liquefy certain mortgage loans they originate by selling them to the Bank. The FHLBNY also provides members and non-members with correspondent services such as safekeeping, wire transfers, and cash management.

The FHLBNY is supervised and regulated by the Federal Housing Finance Board ("Finance Board"), which is an independent agency in the executive branch of the U.S. government. The Finance Board ensures that the FHLBNY carries out its housing and community development mission, remains adequately capitalized and able to raise funds in the capital markets, and operates in a safe and sound manner. However, while the Finance Board establishes regulations governing the operations of the FHLBanks, the Bank functions as a separate entity with its own management, employees, and board of directors.

The Bank obtains its funds from several sources. A primary source is the sale of FHLBank debt instruments to the public. These debt instruments are known as consolidated obligations, since they represent the joint and several obligations of all the FHLBanks. The issuance and servicing of consolidated obligations are performed by the Office of Finance, a joint office of the FHLBanks established by the Finance Board. Additional sources of FHLBNY funding are deposits, other borrowings, and the issuance of capital stock. Deposits come from member financial institutions and federal instrumentalities.

Market Area

The FHLBNY's market area is the same as its membership territory—New Jersey, New York, Puerto Rico, and the U.S. Virgin Islands. Institutions that are members of the FHLBNY must have their principal place of business in this market area but may also operate elsewhere. At December 31, 2003, the FHLBNY had 307 members.

Business Segments

The FHLBNY manages its operations as a single business segment.

Products and Services

Advances

The FHLBNY offers a wide range of credit products to help members meet local credit needs, manage interest rate risk and liquidity, serve their communities, and enhance profits. The Bank's primary business is making secured loans, called advances, to its members. These advances are available as short-term and long-term loans, and as adjustable, variable-rate, and fixed-rate products (including option-embedded advances and amortizing advances).

Members use advances as a source of funding to supplement their deposit-gathering activities. Advances have grown substantially in recent years because many members have not been able to increase their deposits in their local markets as quickly as they have been able to increase their assets. To close this funding gap, members have preferred to obtain reasonably priced advances rather than grow deposits or forgo asset growth. Because of the wide range of advance types, terms, and structures available to them, members have also used advances to enhance their asset/liability management.

As a cooperative, the FHLBNY prices advances at minimal net spreads above the cost of its funding in order to deliver maximum value to members. Favorable advance pricing, in addition to the funding gap, helped advances to grow strongly in 2001, 2002, and the first half of 2003. While advances declined during the second half of 2003, the FHLBNY expects that, over the long term, advances will be a growing part of its members' liability mix.

The FHLBNY's members are required to pledge collateral to secure their advances. Eligible collateral includes: (1) one-to-four-family and multi-family mortgages; (2) Treasury and U.S. government agency securities; (3) mortgage-backed securities; and (4) certain other collateral that is real estate-related, provided that such collateral has a readily ascertainable value and that the FHLBNY can perfect a security interest in that collateral. The FHLBNY also has a statutory lien priority with respect to certain member assets under the FHLBank Act, as well as a claim on FHLBNY capital stock held by its members.

The FHLBNY also provides interest rate exchange products and standby letters of credit to members. Interest rate exchange products include interest rate swaps, caps, and floors, where the FHLBNY acts as the members' counterparty in order to provide the members with market access to such products. Standby letters of credit may be used to facilitate members' residential and community lending, provide members with liquidity, or assist members with asset/liability management. Where permitted by law, members may utilize FHLBNY letters of credit to collateralize deposits made by units of state and local government. The FHLBNY's underwriting

and collateral requirements for securing standby letters of credit are the same as its requirements for securing advances.

Acquired Member Assets Programs

Utilizing a risk-sharing structure, the FHLBanks are permitted to acquire certain assets from or through their members. These initiatives are referred to as Acquired Member Assets ("AMA") programs. At the FHLBNY, the AMA initiative is the Mortgage Partnership Finance® ("MPF®") program, which provides members with an alternative to originating and selling long-term, fixed-rate mortgages in the secondary market. In the MPF program, the FHLBNY funds or purchases conforming fixed-rate mortgages originated, funded, or purchased by its members. Members are then paid a fee for assuming a portion of the credit risk of the mortgages acquired by the FHLBNY. Members assume credit risk by providing a credit enhancement guarantee to the FHLBNY that provides a double-A-equivalent level of creditworthiness on the mortgages. The amount of this guarantee is fully collateralized by the member. The FHLBNY assumes the remainder of the credit risk, along with the interest rate risk of holding the mortgages in its portfolio. MPF program options include closed-loan purchases or table-funded loans. The MPF program funds or purchases mortgages with terms up to 30 years. During the strong mortgage market of 2003, the FHLBNY purchased $417 million in mortgages from 33 members, approximately double the 2002 purchased amount. The FHLBNY expects its MPF purchases to continue to grow as production from additional members using the program offsets an overall drop in fixed-rate mortgage origination. However, the Bank does not expect its MPF portfolio to become a large portion of its assets.

The FHLBNY also holds participation interests in residential and community development mortgage loans through its pilot Community Mortgage Asset ("CMA") program. Acquisitions of participations under the CMA program were suspended indefinitely in November 2001.

Correspondent Banking Services

The Bank offers its members an array of correspondent banking services, including depository services, funds transfer services, settlement services, and safekeeping services. Depository services include processing of customer transactions in their Overnight Investment Accounts, the interest-bearing demand deposit account each customer has with the FHLBNY. All customer-related transactions (e.g., deposits, Federal Reserve Bank settlements, advances, securities transactions, and wires) are posted to these accounts each business day. Funds transfer services include processing of incoming and outgoing domestic and foreign wire transfers, including third-party transfers. Settlement services include automated clearinghouse and other transactions received through the FHLBNY's accounts at the Federal Reserve Bank as correspondent for its members and passed through to customers' Overnight Investment Accounts at the FHLBNY. Through a third party, the FHLBNY offers customers a range of securities custodial services, such as settlement of book entry (electronically held) and physical securities. The FHLBNY encourages members to access these products through 1Link℠, an Internet-based delivery system developed as a proprietary service by the FHLBNY.

Other Mission-Related Activities

Each FHLBank sets aside an established amount, 10 percent of its net income after payments to the Resolution Funding Corporation ("REFCORP"), for its Affordable Housing Program ("AHP"). The FHLBNY allocates its available AHP funds to members each year following a competitive process in which the Bank evaluates and scores project-specific applications submitted by members. The AHP provides subsidized advances and grants to members to finance owner-occupied homes for households with incomes at or below 80 percent of area median income. AHP financing and grants are also available for rental housing in which at least 20 percent of the units are occupied by and affordable to households with incomes at or below 50 percent of area median income.

The Community Investment Program ("CIP") is a housing and community-lending program. The CIP provides reduced-interest-rate advances for (1) housing benefiting families at 115 percent or less of area median income, and (2) economic development projects that are located in low- and moderate-income neighborhoods or that benefit families with incomes at or below 80 percent of area median income. Unlike AHP funding requests, applications for CIP advances are not subject to competitive scoring and may be submitted and funded at any time.

Investments

The FHLBNY maintains a portfolio of investments for liquidity purposes and to provide additional earnings. Investment income also bolsters the FHLBNY's capacity to fund AHP projects, to cover operating expenditures, and to satisfy the REFCORP obligation. To help ensure the availability of funds to meet member credit needs, the FHLBNY maintains a portfolio of short-term investments issued by highly rated institutions; the investments include overnight Federal funds, term Federal funds, interest-bearing certificates of deposit, and commercial paper. The FHLBNY further enhances interest income by maintaining a longer-term investment portfolio, which includes securities issued by the U.S. government and U.S. government agencies; and mortgage-backed and residential asset-backed securities that are issued by government-sponsored mortgage agencies or that carry the highest credit ratings from Moody's Investors Service or Standard & Poor's. The long-term investment portfolio provides the FHLBNY with higher returns than those available in the short-term money markets.

Under Finance Board regulations, the FHLBNY is prohibited from investing in certain types of securities, including:

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

- instruments issued by non-U.S. entities, other than those issued by U.S. branches and agency offices of foreign commercial banks;

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

- whole mortgages or other whole loans, other than (1) mortgages purchased through an Acquired Member Assets Program; (2) certain investments targeted at low-income persons or communities; (3) certain marketable direct obligations of state, local, or tribal government units or agencies having at least the second highest credit rating from a nationally recognized statistical rating organization; (4) mortgage-backed securities (MBS) or asset-backed securities backed by manufactured housing or home equity loans; and (5) certain foreign housing loans authorized under section 12(b) of the FHLBank Act.

Finance Board policy further limits the FHLBNY's investments in MBS and residential asset–backed securities. This provision requires that the total book value of MBS owned by the FHLBNY not exceed 300 percent of the Bank's previous month-end capital on the day it purchases the securities. All securities purchased must carry the highest rating assigned by Moody's or Standard & Poor's. In addition, the FHLBNY is prohibited from purchasing:

- interest-only or principal-only stripped MBS;
- residual-interest or interest-accrual classes of collateralized mortgage obligations ("CMOs") and real estate mortgage investment conduits ("REMICs");
- fixed-rate or floating-rate MBS that on the trade date are at rates equal to their contractual caps and that have average lives that vary by more than six years under an assumed instantaneous interest rate change of 300 basis points; and
- non-U.S. dollar denominated securities.

Debt Financing—Consolidated Obligations

The primary source of funds for the FHLBNY is the sale of debt securities, known as consolidated obligations, in the capital markets. Consolidated obligations are the joint and several obligations of the FHLBanks, backed only by the financial resources of the 12 FHLBanks. Consolidated obligations are not obligations of the United States, and the United States does not guarantee them. Moody's has rated consolidated obligations Aaa/P-1, and Standard & Poor's has rated them AAA/A-1+.

Although the FHLBNY is primarily liable for its portion of consolidated obligations, i.e., those issued on its behalf, the FHLBNY is also jointly and severally liable with the other FHLBanks for the payment of principal and interest on the consolidated obligations of all the FHLBanks. If the principal or interest on any consolidated obligation issued on behalf of the FHLBNY is not paid in full when due, the FHLBNY may not pay dividends to, or redeem or repurchase shares of stock from, any member or non-member stockholder until the Finance Board approves the FHLBNY's consolidated obligation payment plan or other remedy, and until the FHLBNY pays all the interest or principal currently due under all its consolidated obligations. The Finance Board, at its discretion, may require any FHLBank to make principal or interest payments due on any consolidated obligations.

To the extent that an FHLBank makes any payment on a consolidated obligation on behalf of another FHLBank, the paying FHLBank shall be entitled to reimbursement from the non-complying FHLBank. However, if the Finance Board determines that the non-complying FHLBank is unable to make the payment, then the Finance Board may allocate the outstanding liability among the remaining FHLBanks in proportion to each FHLBank's participation in all consolidated obligations outstanding, or on any other basis the Finance Board may determine.

Finance Board regulations authorize the FHLBanks to issue consolidated obligations through the Office of Finance as their agent, under the authority of section 11(a) of the FHLBank Act. All of the FHLBanks continue to be jointly and severally liable for the consolidated obligations issued under section 11(a). No FHLBank is permitted to issue individual debt under section 11(a) without Finance Board approval.

Finance Board regulations also state that the FHLBanks must maintain, free from any lien or pledge, the following types of assets in an amount at least equal to the amount of consolidated obligations outstanding:

- cash;
- obligations of, or fully guaranteed by, the United States;
- secured advances;
- mortgages that have any guaranty, insurance, or commitment from the United States or any agency of the United States;
- investments described in section 16(a) of the FHLBank Act, including securities that a fiduciary or trust fund may purchase under the laws of the state in which the FHLBank is located; and
- other securities that are rated Aaa by Moody's or AAA by Standard & Poor's.

The Office of Finance is responsible for issuing the consolidated obligations on behalf of the FHLBanks. It also services all outstanding debt; provides the FHLBanks with rating information received from nationally recognized statistical rating organizations ("NRSROs") for counterparties to which the FHLBanks have unsecured credit exposure; serves as a source of information for the FHLBanks on capital market developments; administers the Resolution Funding Corporation and the Financing Corporation; and manages the FHLBanks' relationship with the rating agencies with respect to the consolidated obligations.

Consolidated Bonds. Consolidated bonds satisfy the FHLBNY's term funding requirements. Typically, the maturity of these securities ranges from one year to ten years, but the maturity is not subject to any statutory or regulatory limit. Consolidated bonds can be issued and distributed through negotiated or competitively bid transactions with approved underwriters or members of a selling group.

The FHLBanks also conduct the TAP Issue Program for fixed-rate non-callable bonds. This program combines bond issues with specific maturities by reopening these issues daily during a three-month period through competitive auctions. The goal of the TAP program is to aggregate frequent smaller issues into a larger bond issue that may have greater secondary market liquidity.

Consolidated Discount Notes. The Office of Finance also sells consolidated discount notes to provide the FHLBanks with short-term funds for advances to members. Members use such funds to manage seasonal and cyclical fluctuations in savings flows and mortgage financing and to make short-term investments. These securities have maturities up to 360 days and are offered daily through a dealer selling group. The notes are sold at a discount from their face amount and mature at par.

Deposits

The FHLBank Act allows the FHLBNY to accept deposits from its members and qualifying non-members, from any institution for which it is providing correspondent services, from other FHLBanks, or from other government instrumentalities. For the FHLBNY, deposits are a source of funding. For Bank members, deposits are a low-risk earning asset that satisfies their regulatory liquidity requirements. The FHLBNY offers several types of deposit programs to its members, including demand and term deposits.

Capital

The FHLBNY's capital stock consists of $100 par value shares issued to the Bank's members. The shares may be sold only to members, are redeemable at par subject to certain conditions, and may not be traded. The FHLBank Act prescribes minimum capital stock requirements for Bank members.

In November 1999, the FHLBank Act was significantly modified by the Federal Home Loan Bank System Modernization Act, which was enacted as Title VI of the Gramm-Leach-Bliley Act ("GLB Act"). In particular, these revisions to the FHLBank Act provided for the establishment of new leverage and risk-based capital requirements for the FHLBanks. On January 30, 2001, the Finance Board published a final rule prescribing a new capital structure for the FHLBanks, as required by the GLB Act. Until the FHLBNY implements its new Capital Plan, the pre-GLB Act capital rules will remain in effect for the FHLBNY.

Under the pre-GLB Act rules, the FHLBank Act requires FHLBNY members to purchase capital stock equal to the greater of 1 percent of their mortgage-related assets or 5 percent of outstanding advances from the FHLBNY. Members may, at the FHLBNY's discretion, redeem at par value any capital stock greater than their statutory requirement or sell it to other FHLBNY members at par value. Pre-GLB Act capital stock is redeemable at the option of a member upon termination of membership. Withdrawal from membership requires six months' notice.

The Finance Board's final rule outlining a new capital structure for the FHLBNY established risk-based and leverage capital requirements for the Bank; addressed the different classes of stock that the FHLBNY may issue; and described the rights and preferences that may be associated with each class of stock. Each FHLBank was required to submit its own capital plan to the Finance Board for review by October 29, 2001, and the FHLBNY met this requirement. The Finance Board approved the capital structure plan of the FHLBNY on July 18, 2002.

The GLB Act allows for the FHLBNY to have two classes of stock, and each class may have sub-classes. Class A stock is conditionally redeemable on six months' written notice from the member, and Class B stock is conditionally redeemable on five years' written notice from the member. Under the GLB Act, membership is voluntary for all members. Members that withdraw from the FHLBNY may not reapply for membership for five years.

Capital Plan Implementation

The FHLBNY was scheduled to implement its new Capital Plan on October 1, 2003. However, because of the uncertainties surrounding the potential for losses on certain investment securities held, management and the FHLBNY Board of Directors determined that it would be prudent to postpone implementation of the Capital Plan. (The securities ultimately were sold and significant losses were incurred, as described elsewhere in this Annual Report.) Management and the Board reasoned that a delay would benefit members, because it would enable the FHLBNY to provide them with definitive information about the securities and with additional time to review the FHLBNY's financial situation before deciding whether to opt out of FHLBNY membership. Management is currently working with the Board of Directors and with the FHLBNY's regulator to establish a new date for the implementation of the Capital Plan. Management believes that the postponement of Plan implementation from the originally scheduled date did not create a material adverse event for any of the FHLBNY's members.

Under the new Capital Plan, the Bank's capital stock will consist of membership stock and activity-based stock. Prior to the opening of business on the effective date of the Capital Plan, the outstanding shares of existing capital stock—except for, in certain circumstances, the shares of members that have opted out of the exchange process and the shares owned by former members or their successors—shall automatically be exchanged for an equal number of new shares of capital stock.

From time to time thereafter, the FHLBNY may issue capital stock to new members, current members, or former members or their successors in accordance with the Capital Plan, and as necessary to allow the FHLBNY to satisfy the minimum capital requirements established by the GLB Act. The capital stock issued may be membership stock, activity-based stock, or both.

Each member will be required to maintain a certain minimum investment in capital stock of the FHLBNY. The minimum investment will be determined by a membership requirement and an activity-based requirement. Each member will be required to maintain a certain minimum investment in membership stock for as long as the institution remains a member of the FHLBNY. In addition, each member will be required to purchase activity-based stock in proportion to the volume of certain transactions between the member and the FHLBNY. The FHLBNY may adjust these investment requirements from time to time within the limits established in the Capital Plan. The shares of capital stock offered to members will be issued at par value and will not trade in any market. Redemptions and repurchases of such stock by the FHLBNY, and any transfers of such stock, will also be made at par value.

Capital Rules

The GLB Act specifies that the FHLBanks must meet certain minimum capital standards, including the maintenance of a minimum level of permanent capital sufficient to meet the credit risk, market risk, and operations risk to which the FHLBanks are subject. The FHLBNY must maintain (1) a total capital ratio of at least 4 percent; (2) a leverage capital ratio of at least 5 percent; and (3) permanent capital in an amount equal to or greater than the "risk-based capital requirement" specified in the Finance Board's regulations. The capital requirements are described in greater detail below.

Total Capital Ratio. The total capital ratio is the ratio of the FHLBNY's total capital to its total assets. Total capital is the sum of: (1) capital stock; (2) retained earnings; (3) the general allowance for losses (if any); and (4) such other amounts (if any) that the Finance Board may decide are appropriate to include. Finance Board regulations require that the FHLBNY maintain a minimum total capital ratio of 4 percent.

Leverage Ratio. The leverage ratio is the ratio of (1) 1.5 times the sum of permanent capital (class B capital stock and retained earnings); plus (2) the general allowance for losses (if any); plus (3) any other amounts approved by the Finance Board; to (4) total assets. Finance Board regulations require that the FHLBNY maintain a minimum leverage ratio of 5 percent.

Permanent Capital and the Risk-Based Capital Requirement. Permanent capital is defined as retained earnings plus the amount paid in for Class B capital stock (whether required or excess). Finance Board regulations require the FHLBNY to maintain permanent capital in an amount equal to or greater than the Bank's risk-based capital requirement.

The risk-based capital requirement is the sum of three components:

- the credit risk capital requirement, which is the sum of the capital charges (under Part 932 of the Finance Board's regulations) for the FHLBNY's assets, off-balance-sheet items, and derivatives contracts. These capital charges are calculated using the methodologies and percentages assigned in the Finance Board's regulations to each class of assets. The FHLBNY may request approval from the Finance Board at some future date to use a model-based approach for determining credit risk, but has not done so at this time;

- the market risk capital requirement, which is the sum of (1) the market value of the FHLBNY's portfolio at risk from movements in interest rates, foreign exchange rates, commodity prices, and equity prices that could occur during periods of market stress; and (2) the amount, if any, by which the market value of total capital is less than 85 percent of the book value of total capital, as calculated under Part 932 of the Finance Board's regulations; and

- the operations risk capital requirement, which is 30 percent of the sum of the FHLBNY's (1) credit risk capital requirement, and (2) market risk capital requirement. The FHLBNY may request approval from the Finance Board at some future date to implement an alternative methodology for calculating operations risk, but has not done so at this time.

Dividends

The FHLBNY may pay dividends from retained earnings and current income. The FHLBNY's Board of Directors may declare and pay dividends in either cash or capital stock. Dividends and retained earnings policies of the FHLBNY are subject to Finance Board regulations and policies.

Competition

Demand for FHLBNY advances is affected by, among other things, the availability to members of other sources of liquidity, including deposits, and the cost of those other sources. The FHLBNY competes with other suppliers of wholesale funding, both secured and unsecured. Such other suppliers may include investment banking concerns, commercial banks, and in certain circumstances, other FHLBanks. Smaller members may have access to alternative funding sources through sales of securities under agreements to repurchase, while larger members may have access to all these alternatives. Large members may also have independent access to the national and global credit markets. The availability of alternative funding sources can vary as a result of market conditions, members' creditworthiness, availability of collateral, and other factors.

The FHLBNY also competes for the purchase of mortgage loans held for investment. For single-family products, the FHLBNY competes primarily with the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The FHLBNY competes primarily on the basis of price, products, structures, and services offered.

The FHLBNY competes as well for funds raised through the issuance of unsecured debt in the national and global debt markets. Competitors include Fannie Mae, Freddie Mac, and other government-sponsored entities, as well as corporate, sovereign, and supranational entities. Increases in the supply of competing debt products could, in the absence of increases in demand, result in higher debt costs or lesser amounts of debt issued at the same cost than otherwise would be the case. In addition, the availability and cost of funds raised through the issuance of certain types of unsecured debt could be adversely affected by regulatory initiatives that tend to reduce investments by certain depository institutions in debt instruments with greater price volatility or interest-rate sensitivity than fixed-rate, fixed-maturity instruments of the same maturity. Although the available supply of funds has kept pace with the funding needs of the FHLBNY's members as expressed through FHLBNY debt issuance, there can be no assurance that this will continue to be the case indefinitely.

In addition, the sale of callable debt and the simultaneous execution of callable interest rate exchange agreements that mirror the debt has been an important source of competitively priced funding for the FHLBNY. Therefore, the availability of markets for callable debt and interest rate exchange agreements may be an important determinant of the FHLBNY's relative cost of funds. There is considerable competition among high-credit-quality issuers in the markets for callable debt and for interest rate exchange agreements. There can be no assurance that the current breadth and depth of these markets will be sustained.

Oversight, Audits, and Examinations

The FHLBNY is supervised and regulated by the Federal Housing Finance Board ("Finance Board"), which is an independent agency in the executive branch of the U.S. government. The Finance Board ensures that the FHLBNY carries out its housing and community development mission, remains adequately capitalized and able to raise funds in the capital markets, and operates in a safe and sound manner.

The Finance Board has five members. Four are appointed by the President of the United States, with the advice and consent of the Senate, to serve seven-year terms. The fifth member is the Secretary of the Department of Housing and Urban Development, or the Secretary's designee. The Finance Board is supported by assessments from the 12 FHLBanks; no tax dollars or other appropriations support the operations of the Finance Board or the FHLBanks. To evaluate the safety and soundness of the FHLBNY, the Finance Board conducts annual, on-site examinations of the Bank, as well as periodic off-site reviews. Additionally, the Finance Board requires the FHLBNY to submit monthly financial information on the Bank's condition and results of operations.

The Government Corporation Control Act provides that, before a government corporation may issue and offer obligations to the public, the Secretary of the Treasury shall prescribe the form, denomination, maturity, interest rate, and conditions of the obligations; the way and time issued; and the selling price. The U.S. Department of the Treasury receives the Finance Board's annual report to Congress, monthly reports reflecting securities transactions of the FHLBanks, and other reports reflecting the operations of the FHLBanks.

The FHLBNY has an internal audit department; the FHLBNY's Board of Directors has an Audit Committee, and an independent public accounting firm audits the annual financial statements of the FHLBNY. The independent auditor conducts these audits following generally accepted auditing standards in the United States of America and Government Auditing Standards issued by the Comptroller General. The FHLBanks, the Finance Board, and Congress all receive the audit reports. The FHLBNY must also submit annual management reports to Congress, the President, the Office of Management and Budget, and the Comptroller General. These reports include a statement of financial condition, a statement of operations, a statement of cash flows, a statement of internal accounting and administrative control systems, and the report of the independent public accountants on the financial statements.

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

Personnel

As of December 31, 2003, the FHLBNY had 204 full-time employee positions and four part-time employee positions. The employees are not represented by a collective bargaining unit, and the FHLBNY considers its relationship with its employees to be good.

Tax Status

Although the FHLBNY is exempt from all federal, state, and local taxation except for real property taxes, the FHLBNY is obligated to make annual payments to the Resolution Funding Corporation ("REFCORP") in the amount of 20 percent of net earnings after operating expenses and Affordable Housing Program ("AHP") expense. These payments are required to be made until the value of all payments made by the FHLBanks is equivalent to the value of an annuity of $300,000,000 per year that commences on the issuance date and ends on the final scheduled maturity date of the REFCORP bonds, as determined by the Finance Board in consultation with the Secretary of the Treasury. In addition, the FHLBanks must annually set aside for the AHP the greater of $100 million or 10 percent of their current year's income after REFCORP expenses. Assessments for REFCORP and AHP are the equivalent of a 26.5 percent effective income tax rate for the FHLBNY. The REFCORP and AHP assessments totaled $16.54 million, $84.53 million, and $102.88 million for 2003, 2002, and 2001, respectively. Members must pay taxes on the dividends they receive from the FHLBNY; such dividends do not benefit from the corporate-dividends-received exclusion.

Properties

The FHLBNY occupies approximately 41,000 square feet of leased office space at 101 Park Avenue, New York, New York. The FHLBNY also maintains 30,000 square feet of leased space at 30 Montgomery Street, Jersey City, New Jersey, principally as an operations center and off-site back-up facility.

Legal Proceedings

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

Submission of Matters to a Vote of Capital Stockholders

Under the FHLBank Act, there are no matters that are submitted to shareholders for votes other than the annual election of the FHLBNY's elected directors. The majority of the Bank's directors are elected by and from the membership. Holders of capital stock at December 31 of the preceding year can participate in the annual election of the FHLBNY's directors. The shareholders' year-end minimum required stock holdings determine their voting rights. Eligible shareholders may nominate and elect representatives from members in their state to serve three-year terms on the Board of Directors of the FHLBNY.

The only matter submitted to a vote of shareholders in 2003 was the election of certain directors, which occurred in the last quarter of 2003. The FHLBNY conducted this election to fill all open elective directorships designated by the Finance Board.

Market for FHLBNY Stock and Related Stockholder Matters

All of the stock of the FHLBNY is owned by its members and by institutions that hold the Bank's stock as a result of acquiring an FHLBNY member. The FHLBNY conducts its business in advances and mortgages exclusively with its stockholder members and housing associates. There is no established marketplace for FHLBNY stock. FHLBNY stock is not publicly traded. It may be redeemed at par value upon request, subject to regulatory limits. The par value of all FHLBNY stock is $100 per share. These shares of stock of the FHLBNY are not registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended. As of December 31, 2003, the FHLBNY had 307 members and 36,386,000 shares of stock outstanding.

The FHLBNY paid quarterly cash dividends during 2003 (except in October), 2002, and 2001 as outlined in the dividend history table below. No dividends were paid in the form of stock. Dividend payments and earnings retention are subject to modification by the FHLBNY's Board of Directors, at its discretion, within the regulatory framework promulgated by the Finance Board. Dividends from a calendar quarter's earnings are paid in the month following the end of that calendar quarter.

	2003		2002		2001	
	Amount	**Dividend Rate**	**Amount**	**Dividend Rate**	**Amount**	**Dividend Rate**
Month Paid						
January	$ 55,510,425	5.58 %	$ 40,157,381	4.39 %	$ 64,990,967	7.32 %
April	54,043,185	5.36 %	40,429,800	4.52 %	61,913,054	6.78 %
July	54,001,228	5.05 %	33,610,040	3.67 %	56,541,430	5.84 %
October	-	-	52,447,445	5.45 %	45,571,503	5.20 %
	$ 163,554,838	3.97 %	$ 166,644,666	4.51 %	$ 229,016,954	6.29 %

Selected Financial Data

The following table sets forth summarized financial data for the years 1999 through 2003 (in thousands).

	Year ended December 31,				
	2003	2002	2001	2000	1999
Statements of Condition					
Total assets	$ 79,230,429	$ 93,605,623	$ 81,240,458	$ 76,600,097	$ 62,902,490
Mortgage loans held for portfolio, net	671,644	435,133	425,155	528,092	228,181
Advances	63,923,184	68,926,073	60,962,103	52,395,635	44,408,647
Investments (1)	14,216,970	23,597,739	19,199,827	22,406,332	14,551,749
Deposits and other borrowings	2,100,221	2,742,677	2,861,870	2,162,383	2,654,490
Consolidated obligations, net	70,856,636	83,511,872	72,627,553	69,562,639	56,343,618
Capital	3,763,391	4,295,618	3,909,988	3,747,303	3,092,877
Statements of Income					
Net interest income before provision for credit losses on mortgage loans	$ 290,472	$ 348,823	$ 408,396	$ 410,132	$ 289,927
Provision for credit losses on mortgages	79	235	102	58	34
Other (loss) income	(177,066)	7,792	15,463	6,358	10,288
Other expenses	50,967	37,757	39,243	39,961	33,200
Income before assessments (2)	62,360	318,623	384,514	376,471	266,981
Assessments	16,544	84,533	102,876	99,880	23,221
Income before cumulative effect of change in accounting principle	45,816	234,090	281,638	276,591	243,760
Cumulative effect of change in accounting principle (3)	-	-	3,249	-	-
Net income	45,816	234,090	284,887	276,591	243,760

(1) Investments also include interest-bearing deposits, securities purchased under agreements to resell, Federal funds sold, and loans to other FHLBanks.

(2) Prior to 2000, the FHLBNY charged its REFCORP obligation directly to retained earnings and not as an expense through the Statements of Income. The REFCORP obligation charged directly to retained earnings during 1999 was $34.9 million. The operating results for years before 2000 have not been restated. Therefore, net income for 2000, 2001, 2002, and 2003 are not comparable to the corresponding results for prior years.

(3) The FHLBNY adopted SFAS 133 as of January 1, 2001.

Selected Quarterly Financial Data (Unaudited)

Statements of Income

The following table summarizes the results of operations for each quarter of 2003 and 2002 (in thousands).

	2003			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 420,462	$ 499,828	$ 561,699	$ 570,415
Interest expense	372,559	423,096	479,826	486,451
Net interest income	47,903	76,732	81,873	83,964
Provision for credit loss	-	(4)	(19)	(56)
Non-interest income (expense)	4,024	(182,784)	1,752	(58)
Non-interest (expense) income	(23,407)	18,397	(30,593)	(31,907)
Net income	$ 28,519	$ (87,659)	$ 53,013	$ 51,943

	2002			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 630,328	$ 649,234	$ 635,119	$ 644,295
Interest expense	546,183	561,762	551,432	550,777
Net interest income	84,145	87,472	83,687	93,518
Provision for credit loss	203	(387)	(19)	(33)
Non-interest income (expense)	2,328	(4,553)	(735)	10,753
Non-interest (expense) income	(32,302)	(29,324)	(29,528)	(31,135)
Net income	$ 54,374	$ 53,208	$ 53,404	$ 73,104

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Information

Statements contained in this report, including statements describing the objectives, projections, estimates, or predictions of the Federal Home Loan Bank of New York ("FHLBNY" or "the Bank"), may be "forward-looking statements." These statements may use forward-looking terms, such as "anticipates," "believes," "could," "estimates," "may," "should," "will," and similar words, as well as their negatives. The FHLBNY cautions that, by their nature, forward-looking statements involve risks or uncertainties, and actual results could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate, or prediction is realized.

The risks and uncertainties inherent in these forward-looking statements include, but are not limited to, the following: economic and market conditions; demand for FHLBNY advances resulting from, among other things, changes in deposit flows and credit demands of Bank members; variability of market prices, rates, and indices that could affect the value of collateral held by the FHLBNY as security for the obligations of Bank members and counterparties to interest rate exchange agreements and similar agreements; political events, including legislative, regulatory, judicial, or other developments that affect the FHLBNY, its members or counterparties, and/or investors in the consolidated obligations of the Federal Home Loan Banks ("FHLBanks"); competitive forces, including without limitation other sources of funding available to FHLBNY members or other entities borrowing funds in the capital markets, and the FHLBNY's ability to attract and retain a staff of skilled individuals; ability to develop and support technology and information systems, including systems that utilize the Internet, sufficient to manage the risks of the FHLBNY's business effectively; changes in investor demand for consolidated obligations and/or the terms of interest rate exchange agreements and similar agreements; the timing and volume of market activity; the FHLBNY's ability to introduce new products and services, and to successfully manage the risks associated with those products and services, including new types of collateral for securing advances; risk of loss arising from litigation filed against the FHLBNY or one or more of the other FHLBanks; and the rate of inflation.

Organization of Information

Management's Discussion and Analysis provides additional information about the FHLBNY's financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

- Business Overview
- 2003 Highlights
- Results of Operations
- Financial Trends
- Use of Interest Rate Exchange Agreements
- Commitments and Other Contractual Obligations
- Liquidity
- Capital Adequacy

Business Overview

Historical Perspective. The FHLBNY and its members, along with the other FHLBanks and their members, have become an integral part of the home mortgage financing system in the United States. The fundamental business of the FHLBNY is to provide member institutions and approved state and local housing finance agencies ("housing associates") with certain credit products in a wide range of maturities to meet their funding needs. To accomplish its public purpose, the FHLBNY offers a readily available, low-cost source of funds, called advances, to member institutions and certain housing associates. Congress originally granted access to advances only to those institutions with the potential to make and hold long-term, amortizing home mortgage loans. Such entities (known as thrift institutions) were primarily federal and state-chartered savings and loan associations, cooperative banks, and state-chartered savings banks.

However, a variety of factors including a severe recession, record-high interest rates, and deregulation, resulted in significant losses for thrift institutions in the 1980s. In response, Congress restructured the home mortgage financing system in 1989. While Congress reaffirmed the housing finance mission of the FHLBanks, it also expanded eligibility for membership in the FHLBanks beyond traditional thrift institutions to include commercial banks and credit unions with a commitment to housing finance.

Financial Market Conditions. The financial markets in 2003 exhibited volatility against a backdrop of accelerating economic growth and a rising equities market. The Federal Reserve Board's Federal Open Market Committee continued to promote low interest rates by reducing the targeted Federal funds rate by 25 basis points in late June 2003. Other, longer-term interest rates remained the same or moved lower during the first half of the year, but with the increased economic growth in the latter part of the year, interest rates began to rise irregularly. On balance, intermediate-term and longer-term rates (as exemplified by the yields on Treasury securities) increased from year-end 2002 to year-end 2003. Rates for securities with two-year maturities rose by 28 basis points, while those for securities with 30-year maturities rose by 34 basis points.

The relatively low level of interest rates during 2003 affected the FHLBNY's profitability, due primarily to the short-term structure or short-term repricing characteristics of its earning assets. The majority of the Bank's investments and advances have maturities or repricing frequencies of less than one year. Lower interest rates on earning assets directly reduce the return on invested capital. The decline in short-term interest rates is illustrated by the change in the overnight Federal funds effective rate. The rate averaged 1.67 percent during 2002, but 1.13 percent during 2003, a decline of 54 basis points. The yield on average earning assets of the FHLBNY was 3.07 percent in 2002 and 2.32 percent in 2003, a decline of 75 basis points.

Lower overall interest rates during the first half of the year also continued to spur mortgage refinancing in 2003. This resulted in continued prepayments on mortgage-related instruments, including mortgage-backed securities and the mortgage assets acquired from members under the Mortgage Partnership Finance® ("MPF®") and Community Mortgage Asset ("CMA") programs. Although interest rates generally increased during the second half of the year, the yields on the mortgage-related assets acquired in 2003 to replace prepaid assets were generally lower than the yields on the assets that were prepaid.

2003 Highlights

As a cooperative, the FHLBNY seeks to maintain a balance between its public policy mission and its obligation to provide adequate returns on the capital supplied by its members. The FHLBNY achieves this balance by delivering low-cost financing to its members to help them meet their credit needs, and by paying a dividend rate that reflects the interest rate environment and that fairly compensates the members for the use of their capital. Reflecting the FHLBNY's cooperative nature, the Bank's financial strategies are designed to enable the FHLBNY to expand and contract in response to member credit needs. The FHLBNY maintains substantial investments in high-quality short- and intermediate-term financial instruments. This strategy is intended to help reduce the risk of loss if investments have to be liquidated to redeem excess capital stock as a result of a decline in advances.

Financial Performance. Net income decreased by 80.4 percent to $45.8 million in 2003 from $234.1 million in 2002. Net interest income after mortgage loan loss provision decreased 16.7 percent to $290.4 million in 2003 from $348.6 million in 2002. The decline in net interest income was due to both the lower yield on assets and the narrower net spread between the cost of funding and the yield on assets. Average assets of $92.0 billion during 2003 were 6.2 percent higher than the $86.6 billion average during 2002. In the third quarter of 2003, certain held-to-maturity securities were sold in response to the deteriorating creditworthiness of those securities. The sales resulted in a realized loss of $189.2 million, and a net loss for the third quarter. As a result of the loss, the FHLBNY paid no dividend to stockholders for the quarter. A dividend from fourth-quarter 2003 earnings was paid in January 2004. Operating expenses, which were $47.7 million in 2003, were up 22.3 percent from $39.0 million in 2002. Assessments for the operation of the Finance Board and the Office of Finance increased by $565,000. Contributions for the Affordable Housing Program ("AHP") and payments to the Resolution Funding Corporation ("REFCORP"), both of which are based on net income, declined by $68.0 million.

Advances grew sharply during the first half of 2003, peaking at $74.0 billion during June. Interest rates began to rise during the second half of 2003, the level of mortgage refinancing activity declined, and advances fell from June through December, ending the year at $63.9 billion, down $5.0 billion, or 7.3 percent, from year-end 2002. Also contributing to the decline in advances was the repayment of $2.0 billion in advances held by non-member institutions as a result of their acquisition of one or more of the FHLBNY's borrowing members. In addition, the lack of a dividend payment resulting from the third-quarter loss may have caused some members to repay advances and reduce their capital stock investment in the Bank.

Short-term investments decreased to $2.8 billion at December 31, 2003, down from $10.6 billion at December 31, 2002. This decline, most of which took place during the first nine months of 2003, was in anticipation of the conversion to a new Capital Plan and the redemption of capital stock that would be in excess of member requirements under that Plan. Total assets declined 15.4 percent to $79.2 billion at December 31, 2003, from $93.6 billion at December 31, 2002. This decline reflected the lower level of advances described above and the somewhat lower leverage during the fourth quarter of 2003 that resulted from the reduction in short-term investments. Deposits declined to $2.1 billion at year-end 2003 from $2.7 billion at year-end 2002 as members appeared to draw down these funds to meet their own liquidity needs. Capital stood at $3.8 billion at December 31, 2003, compared with $4.3 billion at December 31, 2002, reflecting the redemption of capital stock that became excess as a result of net paydowns of advances.

The following table summarizes changes in net income for the years 2003, 2002, and 2001 (in thousands).

	Year ended December 31,			Changes in Earnings Components	
				2003 vs.	2002 vs.
	2003	2002	2001	2002	2001
Total interest income	$ 2,052,404	$ 2,558,976	$ 3,869,276	$ (506,572)	$ (1,310,300)
Total interest expense	1,761,932	2,210,153	3,460,880	(448,221)	(1,250,727)
Net interest income before mortgage loan loss provision	290,472	348,823	408,396	(58,351)	(59,573)
Provision for credit losses on mortgage loans	79	235	102	(156)	133
Net interest income after mortgage loan loss provision	290,393	348,588	408,294	(58,195)	(59,706)
Prepayment fees	6,078	39,130	9,448	(33,052)	29,682
Net realized & unrealized gains (losses) on derivatives and hedging activities	2,122	(8,447)	3,122	10,569	(11,569)
Net realized (loss) from sale of held-to-maturity securities	(189,226)	-		(189,226)	-
Net realized gain from early redemption of held-to-maturity securities	-	-	2,266	-	(2,266)
Other non-interest (loss) income, net	3,960	(22,891)	627	26,851	(23,518)
Total non-interest (loss) income	(177,066)	7,792	15,463	(184,858)	(7,671)
Operating expense	47,749	39,014	34,663	8,735	4,351
Finance Board and Office of Finance expenses	4,964	4,399	3,922	565	477
Other	(1,746)	(5,656)	658	3,910	(6,314)
Total other expenses	50,967	37,757	39,243	13,210	(1,486)
Affordable Housing Program	5,091	26,010	31,654	(20,919)	(5,644)
REFCORP	11,453	58,523	71,222	(47,070)	(12,699)
Total assessments	16,544	84,533	102,876	(67,989)	(18,343)
Cumulative effect of change in accounting principle	-	-	3,249	0	(3,249)
Net income	$ 45,816	$ 234,090	$ 284,887	$ (188,274)	$ (50,797)

Results of Operations

The principal sources of revenue for the FHLBNY are interest income from advances to members and from investments, and interest income from MPF loans acquired through members. The principal expenses of the FHLBNY are interest paid on consolidated obligations, AHP and REFCORP expenses, and operating expenses.

Net Interest Income. The primary source of FHLBNY earnings is net interest income, which is the interest earned on advances, investments, and mortgages, less the interest paid on consolidated obligations, deposits, and other borrowings.

The following table presents average balances and yields of major earning asset categories and funding sources (in millions).

	2003			2002			2001		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Earning Assets:									
Investments	$ 19,717	$ 735	3.73%	$ 20,501	$ 886	4.32%	$ 21,882	$ 1,258	5.75 %
Advances	68,270	1,285	1.88%	62,409	1,644	2.63%	54,298	2,575	4.75 %
A.I.D. and other loans	602	32	5.32%	467	29	6.21%	531	37	6.99 %
Total interest earning assets	$ 88,589	$ 2,052	2.32%	$ 83,377	$ 2,559	3.07%	$ 76,711	$ 3,870	4.97 %
Funded by:									
Consolidated obligation bonds	$ 56,955	$ 1,454	2.55%	$ 55,790	$ 1,805	3.24%	$ 42,827	$ 2,186	5.10 %
Consolidated obligation notes	24,322	280	1.15%	20,677	362	1.75%	27,261	1,167	4.28 %
Deposits and borrowings	2,946	28	0.95%	2,902	43	1.48%	2,830	107	3.77 %
Total interest-bearing liabilities	84,223	1,762	2.09%	79,369	2,210	2.78%	72,918	3,460	4.75 %
Capital and other non-interest bearing funds	4,366			4,008			3,793		
Total funding	$ 88,589	$ 1,762	1.99%	$ 83,377	$ 2,210	2.65%	$ 76,711	$ 3,460	4.45 %
Net interest income		$ 290			$ 349			$ 408	
Net non-interest income		$ (244)			$ (114)			$ (123)	
Net income		$ 46			$ 234			$ 285	
Dividends paid		$ 164			$ 167			$ 229	
Dividend payout ratio			356.52%			71.37%			80.35%
Return on earning assets			0.05%			0.28%			0.37%
Return on equity			1.05%			5.84%			7.51%

Net interest income before mortgage loan loss provision was $290.5 million in 2003, a decrease of $58.4 million, or 16.7 percent, from 2002. The decrease in 2002 from 2001 was $59.6 million, or 14.6 percent. The average yield on earning assets in 2003 was 2.32 percent, down 75 basis points from 3.07 percent in 2002. The average cost of interest-bearing liabilities was 2.09 percent, down 69 basis points from 2.78 percent in 2002. The spread between the yield on earning assets and the cost of interest-bearing liabilities was 23 basis points in 2003 compared with 29 basis points in 2002. Net income as a return on average assets was 5 basis points in 2003 compared with 28 basis points in 2002. This decrease in the return was due to the third-quarter loss.

Three factors explain the reduction in spreads. First, under its 2003 Business Plan, the Bank adjusted the pricing of advances downward by varying amounts, which created a negative impact on average advance spreads. Second, the volume of short-term advances with low interest margins increased rapidly during the first half of 2003. This altered the mix of advances and adversely affected average advance margins. Third, the decision to liquidate $1.97 billion of high-coupon mortgage- and asset-backed securities late in the third quarter of 2003 resulted in a large enough decline in margins in the fourth quarter to lower overall spreads for the entire year by an estimated 4.5 basis points. Funding that had been acquired in connection with the liquidated assets also had relatively high coupons. This

debt remained outstanding and, in the absence of the high-coupon assets, had the effect of reducing net interest margin.

Rate and Volume Analysis. Changes in both volume and interest rates influence changes in net interest income and net interest margin.

The following table summarizes the changes in interest income, interest expense, and net interest income that were due to changes in volume and rates in 2003, 2002, and 2001 (in millions).

	2003			2002			2001		
	Increase (Decrease) Due to			Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
Interest Income									
Advances	$ 154.4	$ (513.4)	$ (359.0)	$ 384.6	$ (1,314.8)	$ (930.2)	$ 483.9	$ (948.9)	$ (465.0)
Investments	(33.9)	(115.6)	(149.5)	(79.4)	(293.0)	(372.4)	122.6	(223.2)	(100.6)
Mortgage and other loan participation, net	8.5	(6.3)	2.2	(4.4)	(3.3)	(7.7)	6.1	1.7	7.8
Total interest income	129.0	(635.3)	(506.3)	300.8	(1,611.1)	(1,310.3)	612.6	(1,170.4)	(557.8)
Interest Expense									
Consolidated obligation	136.3	(569.5)	(433.2)	305.2	(1,491.5)	(1,186.3)	496.9	(1,049.3)	(552.4)
Deposits and borrowings	0.6	(15.4)	(14.8)	2.8	(67.2)	(64.4)	63.3	(66.9)	(3.6)
Total interest expense	136.9	(584.9)	(448.0)	308.0	(1,558.7)	(1,250.7)	560.2	(1,116.2)	(556.0)
Changes in net interest income	$ (7.9)	$ (50.4)	$ (58.3)	$ (7.2)	$ (52.4)	$ (59.6)	$ 52.4	$ (54.2)	$ (1.8)

Non-Interest Income. The following table sets forth the main components of non-interest income (in thousands).

	2003	2002	2001
Non interest income:			
Prepayment fees	$ 6,078	$ 39,130	$ 9,448
Service fees	4,934	4,103	3,800
Net realized and unrealized gain (loss) on derivatives and hedging activities	2,122	(8,447)	3,122
Net realized (loss) from sale of held-to-maturity securities	(189,226)	-	-
Net realized gain on early redemption of held-to-maturity securities	-	-	2,266
Other, net	(974)	(26,994)	(3,173)
Total non-interest income	$ (177,066)	$ 7,792	$ 15,463

The FHLBNY charges a prepayment fee when certain advances are prepaid before their contractual maturity dates or their contractual optional prepayment dates. The FHLBNY also charges a fee when advances that are not prepayable are terminated prior to their contractual maturity dates or their contractual optional prepayment dates. Finance Board regulations generally require advances with a maturity or repricing period greater than six months to carry a fee sufficient to make the FHLBNY financially indifferent to the borrower's decision to prepay the advances. Prepayment fees on advances with associated derivatives designated as hedges ("hedged advances") are reported as part of net realized and unrealized gain (loss) from derivatives and hedging activities. During 2003, fees associated with hedged advances totaled $15.0 million, compared to $9.3 million during 2002. Prepayment fees reported in the table above represent fees from prepaid advances that did not have associated derivatives designated as hedges. The decline in such fees during 2003 was due to a decrease in members' refinancing of advances without associated derivatives.

In 2002, the FHLBNY retired $565.33 million of consolidated obligations at a cost that exceeded book value by $26.09 million. The debt retired was associated with the prepayment of advances without associated derivatives for which prepayment fees were received. The table above includes these amounts in "Other, net". There was no debt retired in 2003.

The $2.1 million net gain on derivatives and hedging activities for 2003 compares to a loss of $8.4 million in 2002 and a gain of $3.1 million in 2001. These changes reflect (1) reclassification of cash accruals associated with economic hedges, i.e., derivatives hedging transactions that do not qualify for hedge accounting treatment, out of derivatives and hedging activities under newly interpreted accounting guidelines, and (2) overall changes in hedge ineffectiveness.

On January 1, 2001, the FHLBNY adopted Statement of Financial Accounting Standards ("SFAS") No. 133, *"Accounting for Derivative Instruments and Hedging Activities*," as amended by SFAS No. 137, "*Accounting for Derivative Instruments and Hedging Activities – Deferral of Effective Date of FASB Statement No. 133,*" and as amended by SFAS No. 138, "*Accounting for Certain Derivative Instruments and Certain Hedging Activities"* (referred to collectively as "SFAS 133"). The cumulative effect of the change in accounting principle upon adoption of SFAS 133 in 2001 was a gain of $3.2 million.

During the third quarter of 2003, the FHLBNY determined that a significant deterioration in creditworthiness had occurred in certain uninsured securities with a book value of $1.97 billion. These held-to-maturity securities had been rated triple-A by at least two rating agencies at the time of purchase. To avoid exposure to further deterioration in creditworthiness over time, the Bank sold the securities at a loss of $189.2 million.

Non-Interest Expense. The following table sets forth the main components of non-interest expense (in thousands).

	2003	2002	2001
Non interest expense:			
Operating	$ 47,749	$ 39,014	$ 34,663
Finance Board and Office of Finance	4,964	4,399	3,922
Other, net	(1,746)	(5,656)	658
Total non-interest expense	$ 50,967	$ 37,757	$ 39,243

Operating Expenses. The following table sets forth the major categories of operating expense for 2003, 2002, and 2001 (in thousands).

	2003	2002	2001
Salaries	$ 17,311	$ 18,957	$ 19,675
Temporary workers	110	173	302
Employee benefits	12,500	7,137	5,356
Occupancy	4,102	2,929	2,527
Depreciation	3,116	2,262	1,804
Other contract services	740	757	623
Computer service agreement	1,879	1,580	1,168
Professional fees	2,428	537	555
Legal	1,287	961	522
Other	4,276	3,721	2,131
Total operating expenses	$ 47,749	$ 39,014	$ 34,663

Total FHLBNY operating expenses for 2003 were $47.7 million, an increase of 22.4 percent from 2002. Total operating expenses for 2002 were $39.0 million, an increase of 12.6 percent from 2001. The increase in benefits expense in 2003 and 2002 reflects an increase in the cost of providing benefits to employees and higher pension liabilities. Operating expenses as a percent of average earning assets were 5.4 basis points in 2003, and 4.7 basis points in 2002. These expenses include the administrative and operating costs of providing advances, managing the investment portfolios and mortgage programs, and providing correspondent services.

Finance Board and Office of Finance Expenses. The Finance Board is the regulator of the FHLBanks. The Office of Finance is a joint office of the FHLBanks that is funded by the FHLBanks. Among other functions, the Office of Finance facilitates the issuing and servicing of consolidated obligations and the preparation of the FHLBanks' combined quarterly and annual financial reports. Both the Office of Finance and the Finance Board assess the FHLBanks to cover their operating expenses. The combined assessments on the FHLBNY totaled $5.0 million in 2003, an increase of 12.8 percent from $4.4 million in 2002. The 2002 assessments were up 12.2 percent from $3.9 million in 2001.

Net Other Expenses. For 2003 and 2002, credits against expenses totaled $1.7 million and $5.7 million, respectively. For 2001, expenses amounted to $0.7 million. The FHLBNY collected $1.8 million in 2003, $6.5 million in 2002, and $1 million in 2001 in insurance proceeds associated with the destruction of its headquarters facility on September 11, 2001. In 2001, the Bank recorded a restructuring charge of $1.0 million, representing estimated costs associated with staff reductions during 2002.

The Board of Directors of the FHLBNY was compensated during 2003 through fees that are subject to limits established under the Federal Home Loan Bank Act ("FHLBank Act"). During 2003, the Board earned fees of $279,000 versus $282,000 in 2002 and $279,000 in 2001. In addition, the FHLBNY paid $78,000 for travel and other related expenses incurred in connection with directors' performance of Board duties in 2003, versus $107,000 in 2002 and $99,000 in 2001.

Assessments. Each FHLBank is required to set aside a proportion of earnings to fund its Affordable Housing Program and to satisfy its Resolution Funding Corporation assessment.

Affordable Housing Program. The AHP helps members of the FHLBNY to meet their Community Reinvestment Act responsibilities. The program gives members access to cash grants and subsidized, low-cost funding for creating affordable rental and home ownership opportunities, including first-time homebuyer programs. The funding is also used for commercial and economic development activities that benefit low- and moderate-income neighborhoods, thus contributing to the revitalization of these neighborhoods. AHP expenses are 10 percent of net income after the required payment to REFCORP. The AHP expense for 2003 was $5.1 million, 80.4 percent less than the 2002 expense of $26.0 million. The AHP expense for 2002 was 17.8 percent lower than the 2001 AHP expense of $31.7 million. Because the AHP contribution is calculated as a percentage of net income, the changes in AHP expense for 2003, 2002, and 2001 reflect changes in FHLBNY net income in those years.

REFCORP. Each FHLBank must pay 20 percent of its net earnings after AHP expense to the U.S. Treasury to support the payment of interest on bonds issued by REFCORP, an instrumentality of the federal government. The FHLBanks must make these payments to REFCORP until such payments total an amount equivalent to a $300 million annual annuity with a final maturity date of April 15, 2030. In 2003, the accrued amount of FHLBank payments to REFCORP was $427 million. This had the effect of reducing the period during which the FHLBanks must make quarterly payments to July 15, 2020, from October 15, 2021. The Finance Board will shorten or lengthen the period during which the FHLBanks must contribute to REFCORP depending on the amounts of payments actually made. The discounting factors used in this calculation are selected by the Finance Board in consultation with the Secretary of the Treasury.

The FHLBNY's REFCORP assessment in 2003 was $11.5 million, a decrease of 80.3 percent from $58.5 million in 2002. The REFCORP assessment for 2002 was 17.8 percent lower than for 2001. Because the amount of REFCORP expense is calculated as a percentage of net income, the changes in REFCORP assessments for 2003, 2002, and 2001 reflect changes in FHLBNY net income in those years.

Financial Trends

The following table sets forth information with respect to major categories of assets, funding sources, and capital (in millions).

Statements of Condition	As of December 31, 2003	2002	2001	2000	1999
Advances	$ 63,923	$ 68,926	$ 60,962	$ 52,396	$ 44,409
Held-to-maturity securities	11,359	12,967	11,800	11,308	9,266
Other investments	2,858	10,631	7,400	11,098	5,286
Mortgage loans	672	435	425	528	228
Total assets	79,230	93,606	81,240	76,601	62,902
Deposits	2,100	2,743	2,862	2,162	2,654
Consolidated obligations	70,857	83,512	72,628	69,563	56,344
Capital stock	3,639	4,051	3,733	3,626	3,023
Retained earnings	127	244	177	121	70
Other comprehensive (loss)	(2)	-	-	-	-

Advances. At December 31, 2003, advances outstanding (including fair value adjustments under SFAS 133) decreased by 7.3 percent to $63.9 billion from $68.9 billion at December 31, 2002. The fair value adjustments for advances declined by $746.0 million in 2003 from 2002. Demand for advances was irregular during 2003. At the start of the year, in response to a pricing spread reduction, advance growth was strong. The principal amount of advances (excluding fair value adjustments) outstanding peaked at $74.0 billion in June 2003 but declined to $61.8 billion at year-end. This decline took place in an environment of rising longer-term rates, declining mortgage-refinancing volumes, and repayment of advances held by non-member institutions that had acquired borrowing members of the FHLBNY. In addition, the lack of a dividend payment resulting from the third-quarter loss may have caused some members to repay advances and reduce their capital stock investment in the FHLBNY. Advances, excluding fair value adjustments, averaged $68.3 billion during 2003, up from an average of $62.4 billion during 2002.

A significant part of the growth in advances in recent years has been due to increases in term convertible advances, which entail one or more put options sold by the member to the FHLBNY. These options allow the FHLBNY to convert the advance, with its existing fixed rate, to a new advance of the member's choice, priced at the then-current rate. A convertible advance carries an interest rate considerably lower than that of a comparable-maturity advance with no conversion feature. Convertible advances outstanding declined in 2003, falling to $26.5 billion at December 31, 2003, from $28.8 billion at December 31, 2002. Notwithstanding the decline in advances outstanding, advances as a percentage of total assets increased to 80.7 percent at year-end 2003 from 73.6 percent at year-end 2002 as the FHLBNY reduced short-term investments.

Convertible advances may be terminated by the Bank prior to their maturities. Advances with a remaining maturity (or, in the case of convertible advances, a conversion date) beyond one year represented 39.0 percent of all advances at December 31, 2003, compared with 42.1 percent at December 31, 2002.

Investments. The FHLBNY invests in securities authorized under Finance Board policies and regulations, including mortgage-backed and residential asset-backed securities, certificates of deposit, overnight and term Federal funds, mortgage revenue securities issued by state and local governments and their housing finance agencies, debt obligations of other government-sponsored enterprises ("GSEs"), and U.S. government securities. Finance Board regulations permit investment in housing-related obligations of state and local governments and their housing finance agencies that carry ratings of double-A or higher. The Finance Board's Financial Management Policy limits the mortgage-backed and residential asset-backed security investments of each FHLBank to 300 percent of that FHLBank's capital. Mortgage-backed and residential asset–backed investments totaled $10.2 billion at December 31, 2003, and $11.7 billion at December 31, 2002. These totals represented 271 percent and 272 percent of total FHLBNY capital, respectively, at those dates.

Mortgage-backed and residential asset-backed securities plus housing finance agency bonds comprise the FHLBNY's held-to-maturity securities. At December 31, 2003, the Bank's held-to-maturity securities totaled $11.4 billion, a decrease of 12.4 percent from $13.0 billion at the end of 2002. Mortgage-related securities declined by 13.2 percent during the year, while housing finance agency bonds increased by 13.1 percent (to $1.2 billion from $1.0 billion at the end of 2002).

Other investments totaled $2.9 billion at December 31, 2003, compared to $10.6 billion at December 31, 2002. These investments comprised overnight Federal funds sold and interest-bearing deposits pledged as collateral to counterparties in interest rate exchange agreements subject to bilateral credit support agreements, and loans to other FHLBanks. Included in interest-bearing deposits at year-end 2002 were certificates of deposit totaling $6.1 billion. No certificates of deposit were held at year-end 2003.

The following table summarizes held-to-maturity securities as of December 31 (in thousands).

	2003		**2002**		**2001**	
	Amortized Cost	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
U.S. Treasury obligations	$ -	$ -	$ 205,514	$ 210,709	$ 206,279	$ 214,834
U.S. agency obligations	-	-	18,553	18,937	18,652	19,406
State or local housing agency obligations	1,164,486	1,197,247	1,028,682	1,079,012	617,360	628,516
	1,164,486	1,197,247	1,252,749	1,308,658	842,291	862,756
Mortgage-related securities	10,194,881	10,551,041	11,713,970	12,179,051	10,957,718	11,204,117
Total	$ 11,359,367	$ 11,748,288	$ 12,966,719	$ 13,487,709	$ 11,800,009	$ 12,066,873

The following table sets forth the FHLBNY's investments by ratings grades (in thousands).

Issued, guaranteed or insured by:	Amount	NRSRO Ratings AAA	AA	A	Lower than A	Unrated
Pools of Mortgages						
Fannie Mae	$ 745,523	$ 745,523	$ -	$ -	$ -	$ -
Freddie Mac	440,375	440,375	-	-	-	-
Total pools of mortgages	1,185,898	1,185,898	-	-	-	-
CMOs/REMICs						
Fannie Mae	25,443	25,443	-	-	-	-
Freddie Mac	6,848	6,848	-	-	-	-
Ginnie Mae	27,142	27,142	-	-	-	-
Total CMOs/REMICS	59,433	59,433	-	-	-	-
Non-GSE MBS						
CMOs/REMICS	503,074	503,074	-	-	-	-
Commercial mortgage backed securities	2,305,857	2,305,857	-	-	-	-
Total non-federal agency MBS	2,808,931	2,808,931	-	-	-	-
Asset-Backed securities						
Manufactured housing (insured)	512,424	512,424	-	-	-	-
Home equity loans (insured)	2,590,258	2,590,258	-	-	-	-
Home equity loans (uninsured)	3,037,937	3,037,937	-	-	-	-
Total asset-backed securities	6,140,619	6,140,619	-	-	-	-
Total mortgage backed securities	10,194,881	10,194,881	-	-	-	-
Other						
State and local housing finance agencies	1,164,486	457,755	706,731	-	-	-
Interest-bearing deposits	1,654,603	32,689	853,470	768,444	-	-
Overnight Federal funds	1,143,000	-	353,000	790,000	-	-
Loans to other FHLBanks	60,000	60,000	-	-	-	-
Total	$ 14,216,970	$ 10,745,325	$ 1,913,201	$ 1,558,444	$ -	$ -

During the third quarter of 2003, the FHLBNY determined that there had been a significant deterioration in the creditworthiness of certain uninsured mortgage-backed securities backed by manufactured housing loans, and in the creditworthiness of certain uninsured asset-backed securities backed by residential and business-related mortgage loans. All of these securities had been rated triple-A by at least two rating agencies at the time of purchase. To avoid exposure over time to further credit deterioration, the FHLBNY sold these securities totaling $1.9 billion, incurring a loss on the sale of $189.2 million. The remainder of the FHLBNY's mortgage-backed securities and residential asset-backed securities were rated triple-A as of December 31, 2003. At that date, the current fair value of certain held-to-maturity securities was below their amortized cost. As shown below, these securities totalled $2.9 billion and had fair values that were 0.22 percent below their amortized cost. Based on the creditworthiness of the securities and including any underlying collateral and/or insurance provisions of the securities, the FHLBNY regards the unrealized losses in these securities as temporary impairments.

Securities to which different rating levels have been assigned by different nationally recognized statistical rating organizations ("NRSRO" or "rating agencies"), i.e., split ratings, are assigned to the lower rating category. The fair values and unrealized losses are aggregated by major security type and rating, and by length of time individual securities have been in a continuous unrealized loss position. The following table summarizes held-to-maturity securities with fair values below their amortized cost, i.e., in an unrealized loss position, at December 31, 2003 (in thousands).

	Less than 12 months		12 months or more	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Mortgage- and residential asset-backed securities - fixed rate				
AAA-rated	$ 1,450,501	$ 4,373	$ 217	$ 2
AA-rated	-	-	-	-
Below AA	-	-	-	-
Mortgage- and residential asset-backed securities - variable rate				
AAA-rated	1,238,679	938	107,998	283
AA-rated	-	-	-	-
Below AA	-	-	-	-
	2,689,180	5,311	108,215	285
State and local housing finance agencies-fixed rate				
AAA-rated	-	-	-	-
AA-rated	-	-	-	-
Below AA	-	-	-	-
State and local housing finance agencies-variable rate				
AAA-rated	-	-	39,770	230
AA-rated	-	-	24,722	278
Below AA	-	-	-	-
	-	-	64,492	508
Total temporarily impaired	$ 2,689,180	$ 5,311	$ 172,707	$ 793

The FHLBNY has determined, based on the creditworthiness of the securities and including any underlying collateral, that the unrealized losses in the above table represent temporary impairments.

Mortgage Loans and Participations. Mortgage loans and participations held for investment increased by 54.4 percent to $671.6 million at December 31, 2003, from $435.1 million at December 31, 2002. Mortgage loans had increased by 2.3 percent from December 31, 2001, to December 31, 2002. The mortgage loan portfolio represented 0.9 percent of total assets at year-end 2003, up slightly from 0.5 percent at year-end 2002. The growth in the portfolio reflects a net increase in loans held under the Mortgage Partnership Finance®" ("MPF®") program, net of a decline in loans held under the Community Mortgage Asset ("CMA") program. Acquisitions of mortgage participations under the CMA program were suspended in November 2001.

Debt Financing Activity and Consolidated Obligations. Consolidated obligations, which are the joint and several obligations of the FHLBanks, are the Banks' principal funding source. The FHLBNY's ability to access the capital markets through the sale of consolidated obligations allows it to manage interest rate and options risks that arise in its balance sheet in the normal course of business. The FHLBNY independently determines its participation in each issuance of consolidated obligations based on, among other things, its own funding and operating requirements and the amounts, maturities, rates of interest, and other terms available for consolidated obligations in the marketplace. The Office of Finance establishes the terms of issuance for the consolidated obligations. Through December 31, 2000, the Finance Board through the Office of Finance issued consolidated obligations on behalf of the FHLBanks under section 11(c) of the Federal Home Loan Bank Act ("FHLBank Act"). The Finance Board adopted final rules on June 2, 2000, governing the issuance of consolidated obligations directly by the FHLBanks under section 11(a) of the FHLBank Act. Since January 2, 2001, the FHLBanks have issued debt jointly as consolidated obligations through the Office of Finance, which acts as fiscal agent for the Banks.

The FHLBank Act authorizes the Secretary of the Treasury, at his discretion, to purchase consolidated obligations up to an aggregate principal amount of $4 billion. No borrowings under this authority have been outstanding since 1977.

The FHLBNY's consolidated obligations outstanding were $70.9 billion at December 31, 2003, a decrease of 15.1 percent from $83.5 billion from one year earlier. Since these instruments are the primary source of balance sheet funding, the decline in consolidated obligations is consistent with the decline of 15.4 percent in total assets.

The composition of the FHLBNY's outstanding consolidated obligations changed somewhat between year-end 2003 and year-end 2002. Bonds were 76.3 percent of total consolidated obligations at year-end 2003 and 73.6 percent at year-end 2002. The remainder of outstandings were discount notes.

Consolidated discount notes are a significant funding source for advances with short-term maturities or short-term repricing intervals, for advances whose interest flows have been swapped for short-term interest flows, and for short-term money market investments. Discount notes have maturities of up to one year and are offered daily by the Office of Finance through a discount note selling group. In addition, discount notes are generally offered in four standard maturities in two auctions administered by the Office of Finance each week. Discount notes are sold at a discount to their face amount and mature at par. Discount notes comprised 23.7 percent of FHLBNY's outstanding consolidated obligations at year-end 2003 and 26.4 percent at year-end 2002. The relative decline in discount note usage reflects the relatively lower cost of other forms of debt, especially callable debt hedged with mirror-image interest rate exchange agreements as more fully described below in "Derivatives Management" and "Market Risk." Additionally, the Bank wished to increase its longer-dated liabilities to reduce refunding risk, replacing discount notes with callable and non-callable bonds that were swapped for short-term indexed flows that helped to achieve this risk reduction. The reduction in the short-term investment portfolio during 2003 also permitted a reduction in discount notes.

The following table summarizes consolidated bonds outstanding at December 31, 2003 and 2002 by year of maturity ($ in thousands).

Year of Maturity	2003 Amount	2003 Weighted Average Interest Rate	2002 Amount	2002 Weighted Average Interest Rate
2003	$ -	-	$ 22,901,185	3.14 %
2004	15,611,780	3.39 %	13,685,780	4.07 %
2005	15,914,075	2.86 %	10,765,300	4.10 %
2006	10,291,170	3.90 %	5,420,600	4.88 %
2007	5,104,750	3.97 %	4,597,850	4.99 %
2008	3,407,900	4.17 %	1,787,200	5.48 %
2009	1,226,100	4.20 %	451,000	5.24 %
Thereafter	2,078,600	5.18 %	1,196,500	6.08 %
Total par value	53,634,375	3.52 %	60,805,415	3.96 %
Bond premiums	158,398		86,188	
Bond discounts	(20,002)		(28,990)	
SFAS 133 fair value adjustments	281,283		637,222	
Deferred net (losses) gains on terminated interest-rate exchange agreements	(2,185)		933	
Total	$ 54,051,869		$ 61,500,768	

The following table presents the composition of consolidated bonds outstanding as of December 31, 2003, and 2002 (in thousands).

	At December 31, 2003	At December 31, 2002
Fixed-rate, non-callable	$ 35,072,275	$ 35,146,915
Fixed rate, callable	12,472,100	19,125,500
Single-index, floating rate	6,090,000	6,533,000
Zero-coupon, callable	-	-
Total bonds outstanding	$ 53,634,375	$ 60,805,415

The FHLBNY uses callable bonds extensively, with $12.5 billion par amount outstanding at December 31, 2003. Callable bonds were 23.3 percent of the total par amount of bonds outstanding on that date. At December 31, 2002, callable debt totaled $19.1 billion, or 31.4 percent of par outstanding. The FHLBNY employs callable bonds (often together with associated interest rate exchange agreements) for two main purposes: to produce funding for short-term assets, and to offset prepayment options in mortgage-related assets as part of its asset and liability management. A callable bond (containing a purchased call option) combined with a callable swap (containing a sold call option) carries a relatively low net cost. This allows the FHLBNY to provide members with attractively priced short-term and variable-rate advances, while converting its own interest payment obligations to variable rates. Calls on such swapped callable bonds are generally exercised when the FHLBNY's swap counterparty exercises its call option on the swap. Call options on unswapped callable bonds are generally exercised when the

bond can be replaced at a lower economic cost. The amount of bonds that will be called in 2004 will depend on the level and volatility of interest rates and on other factors.

The issuance of a bond and the execution of an associated interest rate exchange agreement (which effectively converts the consolidated bond into a simple fixed- or floating-rate bond) usually result in a funding vehicle with a lower cost than the FHLBNY could otherwise achieve. The continued attractiveness of such debt depends on price relationships in both the bond and interest rate exchange agreement markets. If conditions in these markets change, then the FHLBNY may alter the types or terms of the bonds it issues.

Deposits. The FHLBNY operates deposit programs for the benefit of its members. Deposits decreased 23.4 percent to $2.1 billion at the end of 2003 from $2.7 billion a year earlier. Deposits are primarily short term in nature, with the majority maintained in demand accounts that reprice daily based upon rates prevailing in the overnight Federal funds market. Depositor demand, primarily driven by members' liquidity preferences, is the primary determinant of the level of deposits. Liquidity preferences may be influenced by such factors as turnover in investment and loan portfolios, changes in customers' demand for credit and/or deposit and investment vehicles, and the level of interest rates.

The following table presents the composition of deposits as of December 31, 2003, and 2002 (in thousands).

	2003		2002	
	Outstanding Balance	Rate at Year-end	Outstanding Balance	Rate at Year-end
Deposits:				
Demand	$ 1,957,847	0.89 %	$ 2,479,693	1.05 %
Term deposits	138,450	1.02 %	254,600	1.38 %
Custodial	3,924	0.89 %	8,384	1.05 %
Total deposits	$ 2,100,221		$ 2,742,677	

Capital. Under the FHLBank Act as amended, members are required to maintain a minimum investment in the stock of their FHLBank in accordance with a capital structure plan approved by the Finance Board. The minimum investment may be determined by one or more of the requirements specified in the FHLBank Act, or by other provisions approved by the Finance Board. The FHLBNY's Capital Plan has been approved by the Finance Board, but has not yet been implemented. Until the FHLBNY converts to its new capital structure, borrowing members must hold capital stock equal to the greater of 1 percent of their mortgage assets, or 5 percent of their advances outstanding.

The FHLBNY's total capital decreased by 12.4 percent to $3.8 billion at December 31, 2003, from $4.3 billion at December 31, 2002. During 2003, the FHLBNY at its discretion routinely redeemed, on a monthly basis, amounts of capital stock that were in excess of members' minimum investment requirements. As the level of advances declined, the minimum investment requirement of repaying members also declined. At December 31, 2003, June 30, 2003, and December 31, 2002 excess stock stood at $1.5 million, $0, and $160.2 million, respectively. Retained earnings, another component of capital, declined in 2003 as a result of the third-quarter net loss due to the losses incurred on sales of securities.

The FHLBNY's capital-to-asset ratio was 4.75 percent at December 31, 2003, compared to 4.59 percent at December 31, 2002, and 4.81 percent at December 31, 2001. Since July 1, 2000, Finance Board rules have generally limited each FHLBank's assets to no more than 21 times capital; however, an FHLBank whose average non-mortgage assets as defined in the Finance Board's regulations do not exceed 11 percent of its average total assets may hold assets in an amount up to 25 times its capital. The FHLBNY was eligible for the higher asset-based leverage limit of 25 to 1. At year-end 2003, the FHLBNY's asset-based leverage was 21.1 to 1 compared with 21.8 to 1 at year-end 2002, and 20.8 to 1 at year-end 2001. Total capital decreased by 12.4 percent, a smaller percentage decline than the 15.4 percent decline in balance sheet assets from year-end 2002 to year-end 2003.

Use of Interest Rate Exchange Agreements

The FHLBNY does not have any special purpose entities or any other type of off-balance-sheet conduits. All derivatives are recorded in the Statements of Condition at fair value. Finance Board regulations prohibit the speculative use of interest rate exchange agreements. The FHLBNY does not speculate in derivatives or trade derivatives for short-term profit.

Derivatives Management. Derivatives contracts such as futures, forwards, swaps, and option contracts are financial instruments that derive their value from underlying assets, indices, reference rates, or a combination of these factors. The Finance Board's policies and regulations establish guidelines for derivatives transactions. Under these guidelines, the FHLBNY is permitted to use interest rate swaps, swaptions, cap and floor agreements, calls, puts, and futures and forward contracts as part of its interest rate risk management and funding strategies. The Finance Board's regulations prohibit trading in or the speculative use of these instruments, and limit the amount of credit risk that may be incurred by the FHLBNY in using these instruments. The FHLBNY uses derivatives only in documented hedging transactions to manage its exposure to interest rate risk, including options risk and mortgage prepayment risk. The FHLBNY and its counterparties in derivatives transactions have agreed to bilateral collateral arrangements to mitigate the credit risk associated with the transactions.

Interest rate swaps, swaptions, and cap and floor agreements (collectively, interest rate exchange agreements) enable the FHLBNY to manage its exposure to changes in interest rates by adjusting the effective maturity, repricing frequency, or option characteristics of financial instruments. The FHLBNY uses interest rate exchange agreements in three ways: (1) as fair value or cash flow hedges of an underlying financial instrument or a forecasted transaction, (2) as economic hedges to offset derivatives positions (e.g., caps) sold to members, and (3) as tools of asset/liability management. For example, the FHLBNY uses exchange agreements to adjust the interest rate sensitivity of consolidated obligations to approximate more closely the sensitivity of assets, or to adjust the interest rate sensitivity of advances to approximate more closely the sensitivity of liabilities. In addition, the FHLBNY uses derivatives to offset embedded options in assets and liabilities, to hedge the market value of existing assets and liabilities and anticipated transactions, and to reduce funding costs.

To reduce funding costs, the FHLBNY may enter into interest rate exchange agreements concurrently with the issuance of consolidated obligations. By matching the interest received on the exchange agreement with the interest paid on the consolidated obligation, the Bank manages the risk arising from changes in the value of the consolidated obligation and from the volatility of market prices. In such a transaction, the FHLBNY pays a variable interest rate, generally indexed to 3-month LIBOR, that corresponds more closely to the interest payments it receives on short-term or variable-rate advances and investments. This intermediation between the capital markets and swap markets—issuing bonds while simultaneously entering into interest rate exchange agreements—permits the FHLBNY to raise funds at lower costs than would otherwise be available through the issuance of simple fixed- or floating-rate consolidated obligations in the capital markets. The use of these strategies also enables the FHLBNY to offer a wider range of attractively priced advances to its members. The continued attractiveness of such debt depends on price relationships in both the bond market and the interest rate exchange markets. If conditions in these markets change, the FHLBNY may alter the types or terms of the bonds issued.

When the FHLBNY makes convertible advances, it purchases one or more put options from the member. These options enable the FHLBNY to convert the advance, i.e., to terminate it and, upon request of the member, make a replacement advance on new, then-current terms. The FHLBNY typically offsets the put option in a convertible advance by entering into an interest rate exchange agreement cancelable by the counterparty. In such a cancelable agreement, the FHLBNY pays a fixed interest rate related to the interest rate on the convertible advance and receives a variable interest rate, generally indexed to LIBOR; the counterparty has one or more put options that mirror the options in the convertible advance. If the swap counterparty exercises its put option and cancels the interest rate exchange agreement on any of its exercise dates, the FHLBNY will generally exercise its option to convert the advance. The extent to which the FHLBNY makes convertible advances depends on the relative attractiveness of the terms available to the borrowing members; the terms themselves depend on price relationships in the interest rate exchange markets. If conditions in these markets change, the FHLBNY may alter the types or terms of the advances it offers.

The following table shows derivative financial instruments as of December 31, 2003 and 2002 (in thousands).

	2003		2002	
	Total notional amount	**Total estimated fair value (excluding accrued interest)**	**Total notional amount**	**Total estimated fair value (excluding accrued interest)**
Advances - fair value hedges	$ 32,451,842	$ (2,153,534)	$ 32,606,103	$ (2,897,655)
Consolidated obligations - fair value hedges	27,546,596	273,360	30,608,842	631,374
Consolidated obligations - cash flow hedges	126,400	(48)	-	-
Mortgage loans - commitment	9,681	(35)	-	-
Balance sheet - economic hedges	1,822,500	(3,426)	1,664,500	(5,413)
Intermediary positions - economic hedges	132,000	13	162,000	39
Total notional and fair value	$ 62,089,019	$ (1,883,670)	$ 65,041,445	$ (2,271,655)
Total derivatives excluding accrued interest		(1,883,670)		(2,271,655)
Accrued interest		29,635		58,372
Net derivative balance		$ (1,854,035)		$ (2,213,283)
Net derivative asset balance		$ 577,654		$ 142,284
Net derivative liability balance		(2,431,689)		(2,355,567)
Net derivative balance		$ (1,854,035)		$ (2,213,283)

The table categorizes the notional amounts and estimated fair values of derivative financial instruments (excluding accrued interest) by product and type of accounting treatment. The categories "fair value," "commitment," and "cash flow" represent derivatives transactions accounted for as hedges. The category "economic" represents derivatives transactions under hedge strategies that do not qualify for hedge accounting treatment under U.S. Generally Accepted Accounting Principles ("GAAP").

Earnings Impact. The following tables set forth the earnings impact of derivatives activities during 2003 and 2002 (in thousands).

2003	Advances	COs	Balance Sheet	Total
Amortization/accretion of hedging activities in net margin	$ (1,289)	$ 23,783	$ -	$ 22,494
Net realized and unrealized gain (losses) on derivative and hedging activities	2,364	93	3,175	5,632
Net Impact	$ 1,075	$ 23,876	$ 3,175	$ 28,126

2002	Advances	COs	Balance Sheet	Total
Amortization/accretion of hedging activities in net margin	$ -	$ 24,084	$ -	$ 24,084
Net realized and unrealized gain (losses) on derivative and hedging activities	739	528	(3,463)	(2,196)
Net Impact	$ 739	$ 24,612	$ (3,463)	$ 21,888

Derivative Credit Risk Exposure and Counterparty Ratings. In addition to market risk, the FHLBNY is subject to credit risk in derivatives transactions because of the potential for nonperformance by the counterparties. The FHLBNY also is subject to operational risks in the execution and servicing of derivatives transactions. The degree of counterparty credit risk may depend on, among other factors, the extent to which netting procedures and/or the provision of collateral) are used to mitigate the risk. At December 31, 2003, 19 counterparties represented 100 percent of the total notional amount of the FHLBNY's outstanding derivatives transactions, and each non-member counterparty had a long term credit rating of single-A or higher assigned by a nationally recognized statistical rating organization. The FHLBNY manages counterparty credit risk through credit analysis, collateral management, and other credit enhancements, such as guarantees, and by following the requirements set forth in the Finance Board's regulations. The FHLBNY requires credit support annexes to its interest rate exchange agreements. These annexes define the maximum net unsecured credit exposure amounts that may exist before collateral delivery is required. These maximum amounts are based upon an analysis of each individual counterparty. As a result of these risk mitigation initiatives, the management of the FHLBNY does not anticipate any credit losses on its interest rate exchange agreements.

The notional (i.e., the hypothetical principal) amount of interest rate exchange agreements reflects the involvement of the FHLBNY in the various classes of financial instruments. The notional amount does not measure the credit risk exposure of the FHLBNY. The amount of credit risk exposure is the estimated cost of replacing favorable interest rate swaps, forward agreements, and purchased caps and floors if the counterparty defaults, net of the value of related collateral. The amount of credit risk exposure is much less than the notional amount of the exchange agreements.

The FHLBNY's credit risk exposure associated with interest rate exchange agreements, before consideration of collateral, was $59.2 million at December 31, 2003, and $95.8 million at December 31, 2002. The collateral held by the FHLBNY against these exposures consisted of securities and cash with a fair value of $34.1 million at December 31, 2003, and $74.5 million at December 31, 2002. In determining credit risk exposure, the FHLBNY considers accrued interest receivable and payable, and the legal right to offset assets and liabilities by counterparty.

Under the terms of its bilateral collateral arrangements, the FHLBNY pledges collateral to counterparties with credit risk exposure to the FHLBNY related to interest rate exchange agreements. Cash and securities pledged as collateral by the FHLBNY had fair values of $1,653.7 million at year-end 2003 and $1,669.3 million at year-end 2002.

The following tables set forth information on the FHLBNY's exposure to counterparty credit risk, by counterparty credit rating, as of December 31, 2003 and 2002 ($ in thousands).

Credit Rating 2003	Number of Counterparties	Notional Amounts	Total Net Exposure at Fair Value	Net Exposure after Collateral
AAA	-	$ -	$ -	$ -
AA	5	19,987,621	39,686	9,639
A	10	42,025,717	19,189	15,784
Members	4	75,681	365	-
Total	19	$ 62,089,019	$ 59,240	$ 25,423

Credit Rating 2002	Number of Counterparties	Notional Amounts	Total Net Exposure at Fair Value	Net Exposure after Collateral
AAA	-	$ -	$ -	$ -
AA	5	20,565,031	50,468	11,118
A	10	44,395,414	43,798	11,464
Members	5	81,000	1,501	-
Total	20	$ 65,041,445	$ 95,767	$ 22,582

Commitments and Other Contractual Obligations

The following table presents the payments due under other contractual obligations as of December 31, 2003, by obligation type and expiration term (in thousands).

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating leases					
Premises	$ 33,671	$ 2,725	$ 5,450	$ 5,572	$ 19,924
Equipment	187	108	79	-	-
Total operating leases	33,858	2,833	5,529	5,572	19,924
Consolidated bond obligations - long term debt	53,634,000	15,612,000	26,205,000	8,513,000	3,304,000
Consolidated bond obligations - traded not settled	45,000	45,000	-	-	-
Purchase/fund mortgage loan	333,466	333,466	-	-	-
Standby bond purchase agreement	543,721	-	543,721	-	-
Standby letters of credit	81,370	56,102	1,922	17,087	6,259
Total contractual obligations	$ 54,671,415	$ 16,049,401	$ 26,756,172	$ 8,535,659	$ 3,330,183

The category "long-term debt" is based on the contractual maturities of consolidated bonds. The actual distribution of the bonds could be affected by factors affecting redemption. Long-term debt does not include discount notes.

Liquidity

The FHLBNY's primary source of liquidity is the issuance of consolidated obligations, though it also receives funds from principal and interest payments on the Bank's investments and advances, the purchase of capital stock by members, and deposits from members and users of correspondent services.

Liquidity Management. The FHLBNY actively manages its liquidity position to maintain stable, reliable, and cost-effective sources of funds, while taking into account market conditions, member demand, and the maturity profile of the Bank's liabilities. The Bank recognizes that managing liquidity is critical to achieving its statutory mission of providing low-cost funding to its members. In managing liquidity risk, the Bank is required to maintain certain liquidity measures in accordance with the FHLBank Act, the Finance Board's regulations and Financial Management Policy, and policies developed by the Management and approved by the Board of Directors. These requirements are outlined below.

The specific liquidity requirements applicable to the Bank are as follows:

Deposit Liquidity. The FHLBNY is required to invest an aggregate amount at least equal to the amount of current deposits received from the Bank's members in (1) obligations of the U.S. government; (2) deposits in banks or trust companies; or (3) advances to members with maturities not exceeding five years. In addition to accepting deposits from its members, the FHLBNY may accept deposits from any institution for which it is providing correspondent services, from any other FHLBank, or from any other governmental instrumentality.

Operational Liquidity. The Bank must be able to fund its activities as its balance sheet changes from day to day. The FHLBNY maintains the capacity to fund balance sheet growth through its regular money market and capital market funding activities. Management monitors the Bank's operational liquidity needs by regularly comparing the Bank's demonstrated funding capacity with its potential balance sheet growth. Management then takes such actions as may be necessary to maintain adequate sources of funding for such growth.

Contingency Liquidity. The FHLBNY is required by Finance Board regulations to hold "contingency liquidity" in an amount sufficient to meet its liquidity needs if it is unable, by virtue of a disaster, to access the consolidated obligation debt markets for at least five business days. Contingency liquidity includes (1) marketable assets with a maturity of one year or less; (2) self-liquidating assets with a maturity of one year or less; (3) assets that are generally acceptable as collateral in the repurchase market; and (4) irrevocable lines of credit from financial institutions receiving not less than the second-highest credit rating from a nationally recognized statistical rating organization. The Bank consistently exceeds the regulatory minimum requirements for contingency liquidity.

Financial Management Policy. The Finance Board's Financial Management Policy currently requires the FHLBNY to maintain a specific daily liquidity level. However, once the Bank's new Capital Plan is implemented, that rule will no longer apply. The regulatory requirements that will then apply are specified in Parts 917 and 965 of the Finance Board's regulations. Until then, the Bank will continue to follow the current Financial Management Policy requirement. This calls for the Bank to maintain an average daily liquidity level each month in an amount not less than the sum of:

- 20 percent of the sum of its daily average overnight and demand deposits and other overnight borrowings, and

- 10 percent of the sum of its daily average term deposits, consolidated obligations, and other borrowings that mature within one year.

Assets eligible for meeting these liquidity requirements include:

- overnight funds and overnight deposits placed with eligible financial institutions;

- overnight and term resale agreements with eligible counterparties which mature in 271 days or less, and which use for collateral (1) securities that are eligible investments under the investment guidelines, and (2) mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration;

- negotiable certificates of deposit placed with eligible financial institutions; bankers' acceptances drawn on and accepted by eligible financial institutions; and commercial paper issued in U.S. financial markets and rated P-1 by Moody's or A-1 by Standard & Poor's; having a remaining term to maturity of not more than 271 days;

- marketable direct obligations of the U.S. government that mature in 36 months or less;

- marketable direct obligations of U.S. government-sponsored agencies and instrumentalities that mature in 36 months or less, and for which the credit of such institution is pledged for repayment of both principal and interest; and

- cash and collected balances held at a Federal Reserve Bank and other eligible financial institutions, net of member pass-throughs.

The FHLBNY sets standards in its risk management policy that address its day-to-day operational liquidity and contingency liquidity needs. These standards enumerate the specific types of investments to be held by the Bank to satisfy such liquidity needs and are outlined above. These standards also establish the methodology to be used by the Bank for determining the Bank's operational and contingency needs. Management continually monitors and projects the Bank's cash needs, the Bank's daily debt issuance capacity, and the amount and value of investments available for use in the market for repurchase agreements. Management uses this information to determine the Bank's liquidity needs and to develop appropriate liquidity plans.

Capital Adequacy

Under the FHLBank Act as amended, members are required to maintain a minimum investment in the stock of their FHLBank in accordance with a capital structure plan approved by the Finance Board. The minimum investment may be determined by one or more of the requirements specified in the FHLBank Act, or by other provisions approved by the Finance Board. The FHLBNY's Capital Plan has been approved by the Finance Board, but has not yet been implemented. Until the FHLBNY converts to its new capital structure, borrowing members must hold capital stock equal to the greater of 1 percent of their mortgage assets, or 5 percent of their advances outstanding. In addition, at the discretion of its Board of Directors and/or management, the FHLBNY may institute a higher capital requirement in order to meet internally established thresholds.

At December 31, 2003, 96.7 percent of the FHLBNY's capital was capital stock, and 3.3 percent was retained earnings and accumulated other comprehensive loss. At December 31, 2002, 94.3 percent of the FHLBNY's capital was capital stock, and 5.7 percent was retained earnings. The decline in the retained earnings percentage is attributable to the losses sustained by the FHLBNY on the liquidation of credit-deteriorated securities in the third quarter of 2003. At December 31, 2003, the FHLBNY had an aggregate capital-to-asset ratio of 4.75 percent. This compares with a capital-to-asset ratio of 4.59 percent at December 31, 2002. The increase in the ratio primarily reflects the lower level of short-term investment assets held at year-end 2003 than at year-end 2002.

Under the new Capital Plan, the FHLBNY's Board of Directors will continually review the Bank's capital adequacy to ascertain whether changes are needed in the members' stock purchase requirements to maintain the Bank's compliance with its regulatory capital requirements. If changes are needed, the Board will make the appropriate adjustments. Members' minimum investment in FHLBNY capital stock will be determined by a membership requirement and an activity-based requirement. The Board may at any time modify the membership requirement within the limits defined in the Capital Plan; it may also modify the applicable percentage or amount for any of the components of the activity-based requirement, so long as such requirement remains within the limits defined in the Capital Plan. Any changes made to the membership stock purchase requirement will be applied to all members without preference. Any changes made to any components of the activity-based stock purchase requirement will be applied to all outstanding activity at the time such changes become effective; however, these changes will not apply to the outstanding principal balance of Acquired Member Assets that are held by FHLBNY at the effective date of the new Capital Plan. Each member must comply promptly with any adjusted membership stock purchase requirement or activity-based stock purchase requirement.

Risk Management

In the normal course of affairs, the FHLBNY assumes various types of risks that could impact its business, financial condition, and results of operations. The major risks facing the FHLBNY fall into three categories: credit risk, market risk, and operational risk. Effective management of these risks is essential for operating the Bank's business in a safe and sound manner, maintaining steady earnings growth and a growing business base, and providing value to Bank members.

Enterprise Risk Management Structure. Risk management is governed by the FHLBNY's Risk Management Policy ("RMP"), which is reviewed by the Board of Directors annually and reaffirmed once every three years. The RMP is aligned with Finance Board regulations, the Finance Board's Financial Management Policy, and internal standards and tolerance limits that address business, market, liquidity, credit, operational, and strategic risk management.

Principles. The FHLBNY adheres to certain risk principles, including Board and senior management commitment to risk management, business unit ownership of risk management processes, quarterly and annual risk assessments, clearly defined policies and procedures, and reporting systems and mechanisms for enhanced transparency and communication at all levels of the organization.

Recent Events. Following the FHLBNY's loss in the third quarter of 2003, management undertook an assessment of the Bank's ERM structure with the assistance of a third-party consulting firm. The assessment indicated that the FHLBNY's credit and investment risk management processes and controls required strengthening. Several permanent and interim measures were undertaken, including the formation of an Interim Management Committee for Credit and Investment Risk and the formation of a structured finance division within the credit function. Additional enhancements to the ERM structure will be made in 2004.

Supervision and Regulation. The Finance Board provides regulatory oversight of the FHLBanks. It has the discretionary authority to impose limitations on the operations of the FHLBanks if it is found that such operations are unsafe and unsound, fail to comply with applicable laws, or are otherwise inconsistent with laws and regulations or with supervisory policies. The Finance Board examines the FHLBNY annually. At year-end 2003, the FHLBNY was in substantial compliance with all Finance Board regulations and was in the process of instituting corrective measures for several cited deficiencies in its risk management structure and in its credit and investment risk management practices.

During the third quarter of 2003, the Finance Board issued a proposed regulation that, if enacted, would require each FHLBank to register a class of its securities with the Securities and Exchange Commission ("SEC"). The Finance Board would continue to oversee the Bank System combined reports in consultation with the SEC. In addition, as an SEC registrant, each FHLBank would be subject to the provisions of the Sarbanes-Oxley Act of 2002. These provisions require the board and management of SEC registrants to exercise strict oversight of their enterprise's financial reporting and disclosure processes and compliance frameworks. The consequences of non-compliance could include substantial monetary and non-monetary sanctions. The Board of Directors of the FHLBNY has instructed management to implement such provisions of the Sarbanes-Oxley Act as are appropriate for the FHLBNY, given its cooperative ownership and business structure. The outcome of the Finance Board's regulatory actions and deliberations and the ultimate impact on the FHLBNY are not determinable at this time; however, SEC registration, if mandated, could materially impact the conduct, growth, and profitability of the FHLBNY's operations.

The Board of Directors and management believe that during 2003, the FHLBNY made substantial progress in enhancing its risk management and governance practices, and this progress will continue well into 2004. There can be no assurance, however, as to the precise time at which the Finance Board will determine that all required corrective actions have been taken to its satisfaction.

Credit Risk

The FHLBNY incurs credit risk, the risk of loss due to default, in its lending, investing, and hedging activities, and has instituted processes to manage and mitigate this risk. Despite such processes, some amount of credit risk will always exist. External events, such as severe economic downturns, declining real estate values (both residential and non-residential), changes in monetary policy, adverse events in the capital markets, and other developments, could lead to member and counterparty defaults, or impact the creditworthiness of investments. Such events could have a negative impact upon the FHLBNY's income and financial performance.

The FHLBNY closely monitors the creditworthiness of the institutions to which it lends. The FHLBNY also closely monitors the quality and value of both the assets that are pledged as collateral by its customers, and the securities that the Bank purchases under agreements to resell. FHLBNY periodically assesses the mortgage underwriting and documentation standards of its borrowing members. In addition, the Bank has collateral policies and restricted lending procedures in place to manage its exposure to those customers experiencing difficulty in meeting their capital requirements or other standards of creditworthiness. The FHLBNY has not experienced any losses on credit extended to any member or counterparty since its inception. The FHLBank Act affords any security interest granted to the FHLBNY by a member, or any affiliate of such member, priority over the claims and rights of any party (including any receiver, conservator, trustee, or similar party) having rights of a lien creditor. However, the Bank's security interest is not entitled to priority over claims and rights that (1) would be entitled to priority under applicable law, or (2) are held by a bona fide purchaser for value or by parties that are secured by actual perfected security interests.

The FHLBNY's members are required to pledge collateral to secure advances. Eligible collateral includes (1) one-to-four-family and multi-family mortgages; (2) U.S. Treasury and government-agency securities; (3) mortgage-backed securities; and (4) certain other collateral which is real estate-related and has a readily ascertainable value, and in which the FHLBNY can perfect a security interest. The FHLBNY has the right to take such steps as it deems necessary to protect its secured position on outstanding loans, including requiring additional collateral (whether or not such additional collateral would otherwise be eligible to secure a loan). The FHLBNY also has a statutory lien under the FHLBank Act on the stock of its members, which serves as further collateral for the indebtedness of members to the FHLBNY. As of December 31, 2003, the FHLBNY had a collateralization rate of 179.2 percent on its total portfolio of advances. The FHLBNY has established asset classification and reserve policies. All adversely classified assets of the FHLBNY will have a reserve established for possible losses. Based upon the collateral held as security and prior repayment histories, no allowance for losses on advances is currently deemed necessary by management.

The FHLBNY uses methodologies to identify and measure credit risk arising from the following component risks:

- creditworthiness risk arising from members, counterparties, and other entities;
- collateral risk arising from type, quality, and lien status; and
- concentration risk arising from borrower, portfolio, geographic area, industry, or product type.

Creditworthiness Risk. The FHLBNY's potential exposure to creditworthiness risk arises from the deterioration of the financial health of the FHLBNY's members, counterparties, and other entities that provide services to the FHLBNY. The FHLBNY manages its exposure to the creditworthiness of members by monitoring their collateral and advance levels daily and by analyzing their financial health each quarter. The FHLBNY does business only with investment-grade counterparties, and the FHLBNY's Board of Directors reviews a management analysis of each counterparty's financial health prior to approval. The Board also reviews an analysis of each counterparty annually. Management monitors counterparties on an ongoing basis for significant business events, including ratings actions taken by nationally recognized statistical rating organizations. All approved derivatives counterparties must enter into a master International Swaps and Derivatives Association ("ISDA") agreement with the FHLBNY, and in addition execute the Credit Support Annex to the ISDA agreement that provides for collateral support at predetermined thresholds.

Collateral Risk. The FHLBNY is exposed to collateral risk when it is unable to perfect its interest in pledged collateral, or when the liquidation value of pledged collateral does not fully cover the Bank's exposure. The FHLBNY manages this risk by pricing collateral on a weekly basis, performing on-site reviews of pledged mortgage collateral, and reviewing pledged portfolio concentrations on a quarterly basis. The FHLBNY requires regular reporting of pledged collateral by members and evaluates the eligibility and value of the pledged collateral continually.

The FHLBNY's loan and collateral agreements give the Bank a security interest in assets held by borrowers that is sufficient to cover their obligations to the FHLBNY. The FHLBNY may supplement this security interest by imposing additional reporting, segregation, or delivery requirements on the borrower. The Bank assigns specific collateral requirements to a borrower based on a number of factors. These include, but are not limited to: (1) the borrower's overall financial condition; (2) the degree of complexity involved in the pledging, verifying, and reporting of collateral between the borrower and the FHLBNY, especially if third-party pledges, custodians, outside servicers, and pledges to other entities are involved; and (3) the type of collateral pledged.

The FHLBNY has also established maintenance levels for borrower collateral that ensure the Bank has sufficient collateral to cover credit extensions and reasonable expenses arising from potential collateral liquidation and other unknown factors. Collateral maintenance levels are designated by collateral type and are periodically adjusted to reflect current market and business conditions. Maintenance levels for individual borrowers may also be adjusted based on the overall financial condition of the borrower or other third-party entity involved in the collateral relationship with the FHLBNY. Borrowers are required to maintain an amount of eligible collateral that has a fair market value at least equal to the borrower's current collateral maintenance level.

Drawing on current industry standards, the FHLBNY establishes collateral valuation methodologies for each collateral type, and calculates the fair market value of the pledged collateral to determine whether a borrower has satisfied its collateral maintenance requirement. The FHLBNY adjusts fair market values each month.

The FHLBNY makes additional market value adjustments to a borrower's pledged mortgage collateral based on the results of an on-site review. This review involves a qualitative assessment of risk factors that includes examination of legal documentation, credit underwriting, and loan-servicing practices on mortgage collateral. The FHLBNY has developed the on-site review process to more accurately value each borrower's pledged mortgage portfolio based on current secondary-market standards. The results of the review may lead to adjustments in the estimated fair market value of pledged collateral. The FHLBNY may also make additional market value adjustments to a borrower's pledged mortgage collateral based on the quality and accuracy of the automated data provided to the FHLBNY.

Concentration Risk. The FHLBNY's potential exposure to concentration risk arises from concentration levels of borrowers, counterparties, other service providers, specific investment sectors, and advance types.

The following table sets forth the FHLBNY's loan portfolio for the years 1999-2003 (in thousands). The FHLBNY has not experienced any losses from its advances or its mortgage portfolio.

	2003	2002	2001	2000	1999
Advances	$ 63,923,184	$ 68,926,073	$ 60,962,103	$ 52,395,635	$ 44,408,647
Mortgage loans	$ 672,151	$ 435,133	$ 425,155	$ 528,092	$ 228,181
Non-performing mortgage loans	$ 2,847	$ 7,557	$ 8,944	$ 2,602	$ 1
Mortgage loans past due 90 days or more and still accruing interest	$ 2,732	$ 7,428	$ 8,895	$ 2,598	$ -
Interest shortfall:					
Interest on mortgage loans contractually due during the year	$ 29,597	$ 23,534	$ 24,939	$ 13,347	$ 403
Interest on mortgage loans actually received during the year	29,594	23,530	24,937	13,346	403
Shortfall	$ 3	$ 4	$ 2	$ 1	$ -

The following table presents allowances for credit losses for the years 1999-2003 (in thousands).

	2003	2002	2001	2000	1999
Allowance for credit losses					
Balance, beginning of year	$ 428	$ 193	$ 91	$ 34	$ -
Chargeoffs	-	-	-	-	-
Recoveries	-	-	-	-	-
	428	193	91	34	-
Provision for credit losses	79	235	102	58	34
Balance, end of year	$ 507	$ 428	$ 193	$ 92	$ 34

Concentration of Advances In extending credit to a member, the FHLBNY adheres to specific credit policy limits approved by its Board of Directors. While the FHLBNY has not established limits for the concentrations of specific advance types, it reports the activity in advances to the Board each month, and each quarter it specifically notes the concentrations of convertible advances made to individual members.

At December 31, 2003, the FHLBNY had outstanding $23.7 billion (par amount) in advances for which borrowers were required to place collateral in the physical possession of the FHLBNY or the FHLBNY's safekeeping agent. In addition, the FHLBNY had advances of $36.8 billion for which borrowers were required to specifically list assigned collateral, and advances of $1.3 billion for which the FHLBNY waived the listing requirement and permitted borrowers to physically retain the collateral. Collateral pledged to the FHLBNY for advances had an aggregate principal value of $110.8 billion, consisting of $83.3 billion in eligible mortgages and $27.5 billion in eligible securities.

The FHLBNY's potential credit risk from advances is concentrated in activity with commercial banks and savings institutions. As of December 31, 2003, the FHLBNY had outstanding advances of $6.2 billion to Washington Mutual Bank, FA, representing 9.96 percent of the par value of total advances outstanding. Washington Mutual Bank, a member of the FHLBank of San Francisco, obtained these advances in its acquisition of The Dime Savings Bank of New York, FSB. The FHLBNY also had advances of $14.3 billion outstanding, representing 23.12 percent of total advances, to four member institutions. The interest revenue from the advances to these five non-member and member institutions amounted to $755,757,623 during 2003, compared to $696,874,544 during 2002 from the five largest member and non-member institutions at that time. The FHLBNY held sufficient collateral to secure the advances to these institutions, and does not expect to incur any credit losses on these advances.

The following table presents information on the FHLBNY's five largest borrowers at December 31, 2003 and 2002.

Top Five Advance Holders
As of December 31, 2003

Name	City	State	Advances in Millions	Percent of Total Advances
Washington Mutual Bank, FA	Stockton	CA	$ 6,154	9.96 %
Astoria Federal Savings and Loan Association*	Long Island City	NY	4,269	6.91 %
New York Community Bank	Westbury	NY	3,418	5.53 %
GreenPoint Bank	Brooklyn	NY	3,400	5.50 %
Hudson City Savings Bank	Paramus	NJ	3,200	5.18 %
			$ 20,441	33.08 %

Top Five Advance Holders
As of December 31, 2002

Name	City	State	Advances in Millions	Percent of Total Advances
Washington Mutual Bank, FA	Stockton	CA	$ 7,864	11.90 %
GreenPoint Bank	Brooklyn	NY	5,200	7.90 %
Astoria Federal Savings & Loan Association*	Long Island City	NY	4,609	7.00 %
Manufacturers and Traders Trust Company*	Buffalo	NY	4,175	6.30 %
New York Community Bank	Westbury	NY	3,737	5.70 %
			$ 25,585	38.80 %

**An asterisk indicates that an officer of the member was a director in 2003 or 2002.*

Advance amounts are at par. The total advance amount will not agree to the Statements of Condition due to the difference between par and book value amounts resulting from premiums, discounts, and fair value adjustments arising from hedges under SFAS 133.

Advances of $6,154 million at December 31, 2003 and $7,864 million at December 31, 2002 held by Washington Mutual Bank, FA, a member of the FHLB of San Francisco, were originally made to the The Dime Savings Bank of New York, FSB, a former member of the FHLBNY acquired by Washington Mutual.

Investments and Derivative Counterparties. The FHLBNY invests in securities authorized under Finance Board regulations, including mortgage-backed and residential asset-backed securities ("mortgage-related securities"), certificates of deposit, overnight and term Federal funds, mortgage revenue securities issued by state and local governments and their housing finance agencies, debt obligations of other government-sponsored enterprises ("GSEs"), and U.S. government securities. Finance Board regulations permit investment in housing-related obligations of state and local governments and their housing finance agencies that carry ratings of double-A or higher.

The FHLBNY has enhanced its practices relating to the concentration of long-term investments in order to promote portfolio diversification. The Bank has developed policies restricting the concentration levels of investment holdings according to category (e.g., originator, issuer, servicer, trustee, insurer, and asset sector). Concentration limits are based on a percentage of the FHLBNY's capital position. The FHLBNY also monitors the performance of the individual securities within the long-term investment portfolio. This enhanced surveillance process

supplements the ratings monitoring process by focusing on the performance of the underlying collateral for each investment, changes in credit support levels, and portfolio concentrations.

The FHLBNY follows a conservative methodology for determining the allowable limits of unsecured exposure resulting from short-term money market investments or derivatives transactions with counterparties. Allowable exposure is limited to a percentage of the lower of either the FHLBNY's capital or the Tier 1 capital of the counterparty. Unsecured exposure to the most creditworthy non-GSE counterparty is not permitted to exceed 30 percent of applicable capital. Unsecured exposure to GSEs (including other FHLBanks) cannot exceed the lesser of the FHLBNY's or the GSE's total capital. Total unsecured exposure to affiliated counterparties may not exceed 30 percent of the FHLBNY's total capital. When calculating credit availability, the FHLBNY uses the lowest of the ratings for long-term debt from three nationally recognized statistical rating organizations ("NRSROs"). When an NRSRO places a counterparty on a negative ratings watch, the FHLBNY uses the next lowest rating for calculating credit availability. The FHLBNY does not make short-term investments with counterparties who are rated lower than single A.

Money market counterparties are evaluated regularly by the FHLBNY, actively monitoring credit and concentration limits and employing mitigation techniques as needed. Since the FHLBNY's list of active counterparties includes foreign institutions with branch or agency offices in the United States, management considers country risk during the evaluation process.

The FHLBNY's Board of Directors approves all derivatives counterparties. The FHLBNY enters into collateral agreements with each derivatives counterparty, including a master ISDA agreement and supporting agreements such as the Credit Support Annex, which govern the credit risk mitigation process for derivatives transactions. The counterparty is required to deliver collateral when FHLBNY's exposure exceeds the threshold amount for that counterparty as articulated in the Credit Support Annex to the ISDA.

If the credit quality of a counterparty deteriorates (as indicated by credit ratings from the NRSROs and internal analyses), the threshold unsecured exposure amount is lowered. In all cases, a counterparty that falls below single A is required to fully collateralize any exposure amount. For derivatives transactions, the unsecured credit amount considered is equal to the sum of the current credit exposure for the derivatives contract, less the amount of any collateral that is held.

Derivatives counterparties are evaluated regularly by the FHLBNY's management, which actively monitors credit and collateral positions and employs mitigation techniques as needed. Since the FHLBNY's active list of derivatives counterparties includes foreign institutions with branch or agency offices in the United States, management considers country risk during the evaluation process.

Concentrations of Long-Term Investments. The FHLBNY has invested in non-agency mortgage-backed securities ("MBS"), including both residential and commercial MBS; in housing-related asset-backed securities ("ABS"); and in MBS issued or guaranteed by the government-sponsored housing enterprises (Fannie Mae, Freddie Mac, and Ginnie Mae). All of these securities were rated triple-A at time of purchase, and all were rated triple-A as of December 31, 2003 (see table on page 29). The FHLBNY has also invested in state housing finance agency ("HFA") obligations, which represented 8.2 percent of the Bank's long-term investment portfolio at year-end 2003. As of December 31, 2003, $706.7 million, or 60.7 percent, of the HFA investments were rated double-A. All other HFA investments were all rated triple-A.

The FHLBNY monitors the concentrations within its securities investment portfolio. The FHLBNY's highest concentration is in the home equity sector, which comprises 39.6 percent of the total investment portfolio. As of December 31, 2003, 69.4 percent of the FHLBNY's investments were uninsured; however, all of those investments had the required credit support levels sufficient to sustain their original triple-A rating. Of the remaining insured investments in the portfolio, 21.5 percent were insured by one company (AMBAC). The FHLBNY's largest servicer concentration is with GMAC Commercial Mortgage Corporation, which services 12.0 percent of the FHLBNY securities investment portfolio. In the course of its credit risk mitigation activities, the FHLBNY may from time to time acquire insurance on its investment securities.

The FHLBNY's money market investment assets, primarily certificates of deposit and Federal funds, were issued by organizations having short-term ratings of A-1+, A-1, or P-1. The long-term credit ratings of the issuers ranged from triple-A to single-A. Long-term triple-A issuers accounted for 1.2 percent of the par amount of money market investments, double-A issuers accounted for 43.1 percent, and single-A issuers accounted for 55.7 percent.

Concentrations of Acquired Member Assets. The FHLBNY's potential risk from Acquired Member Assets is concentrated in conventional-product MPF pools. As of December 31, 2003, the FHLBNY had purchased $406.5 million in conventional MPF loan pools, which represented 63.97 percent of the Bank's total purchased MPF loan pools. The potential risk arises from the credit enhancements provided by member Participating Financial Institutions ("PFIs") for each pool purchased by the FHLBNY. At year-end 2003, the two largest concentrations of member PFI credit enhancements represented $1.7 million in exposure and 42.0 percent of total credit enhancements for all pools. The risk in these pools was mitigated by the collateral pledged to the FHLBNY for the member's credit enhancement obligation for each purchased pool of loans.

The FHLBNY also held participation interests in residential and community development mortgage loans acquired through its Community Mortgage Asset program. These participation interests totaled $30.0 million as of December 31, 2003, or 4.5 percent of the FHLBNY's total portfolio of purchased mortgage loans. Acquisitions of participation interests were suspended in November 2001.

Acquired Member Assets. Through the Mortgage Partnership Finance® ("MPF®") program, the FHLBNY invests in home mortgage loans originated by or through members or approved state and local housing finance agencies ("housing associates"). The FHLBNY purchases these mortgage loans under the Finance Board's Acquired Member Assets ("AMA") regulation. These assets may include whole loans eligible to secure advances (excluding mortgages above the conforming-loan limit); whole loans secured by manufactured housing; or bonds issued by housing associates. The members or housing associates continue to bear a significant portion of the credit risk through credit enhancements they provide to the FHLBank. The AMA regulation requires these credit enhancements to be sufficient to protect the FHLBank from excess credit risk exposure. Specifically, the FHLBank's exposure must be no greater than it would be with an asset rated in the fourth highest credit rating category by an SEC-accepted NRSRO, or such higher rating category as the FHLBank may require. The MPF program is constructed to provide the Bank with assets that are credit-enhanced to the second highest credit rating category (double-A).

The portion of the credit enhancement that is an obligation of the member or housing associate must be fully secured with pledged collateral. A portion of the credit enhancement may also be covered by insurance, subject to limitations specified in the AMA regulation. Each member or housing associate that participates in the MPF program must meet financial performance criteria established by the FHLBNY. In addition, each approved participant must have a financial review performed by the FHLBNY on an annual basis.

The FHLBNY also holds participation interests in residential and community development mortgage loans through its pilot Community Mortgage Asset ("CMA") program. Acquisitions of participations under the CMA program were suspended indefinitely in November 2001. Participation interests in CMA loans are reviewed at least annually.

Each month, the FHLBNY reports to its Board of Directors the credit enhancement, delinquency, and reserve levels of AMA loans held in portfolio.

Counterparty Risk. The FHLBNY is also subject to credit risk arising from the risk of nonperformance by counterparties to its interest rate exchange agreements. The notional, or hypothetical principal amount of interest rate exchange agreements reflects the extent to which the FHLBNY is involved in the various classes of derivatives. The notional amount does not measure the credit risk exposure of the FHLBNY. The maximum credit exposure of the FHLBNY is much less than the notional amount. The maximum credit risk is the estimated cost of replacing favorable interest rate swaps, forward agreements, and purchased caps and floors if the counterparty defaults, net of the value of related collateral. The degree of counterparty risk on derivatives depends on the extent to which bilateral netting procedures and collateral are used to mitigate the risk. At December 31, 2003, 15 counterparties represented 100 percent of the FHLBNY's net exposure after collateral from outstanding derivatives transactions. Each counterparty had a credit rating of single-A or higher.

The FHLBNY manages counterparty credit risk through credit analysis, collateral management, and other credit enhancements, and by following the requirements set forth by the Finance Board. The FHLBNY requires collateral agreements on interest rate exchange agreements. The maximum net unsecured credit exposure that may exist before collateral delivery is required is based upon an analysis of each individual counterparty. A counterparty must deliver collateral to the FHLBNY if the amount of the FHLBNY's exposure to that counterparty rises above a specific level. As a result of these risk mitigation initiatives, the management of the FHLBNY does not anticipate any credit losses on its interest rate exchange agreements.

Market Risk

Market risk or interest rate risk is the risk of loss to market value or future earnings that may result from changes in interest rates or market volatility. The Bank's tolerances for market risk are defined by the Risk Management Policy ("RMP") approved by its Board of Directors. The RMP requires that the Bank maintain its duration, or interest rate sensitivity, of equity within a range of +/-5 years. The policy also requires that, in simulated environments where market interest rates are increased or decreased by 200 basis points relative to current market rates, the Bank's duration of equity must remain within a range of +/- 7 years. Management actively monitors and evaluates the effects of interest rate and market volatility on earnings and on the market value of equity.

The key elements of the FHLBNY's strategy for interest rate risk management include (1) matching the cash flow patterns of assets and liabilities through time and under different interest rate scenarios; and (2) actively measuring and managing the balance sheet's exposure to changes in interest rate levels (and associated spreads) and market volatilities.

At the end of 2003, 80 percent of the balance sheet consisted of advances. In general, advances are funded by consolidated obligations of similar effective maturities. The FHLBNY uses derivative instruments to adjust the effective maturities, repricing frequencies, or option characteristics of the consolidated obligations in a way that is consistent with the overall risk management objectives of match funding.

The FHLBNY typically enters into interest rate swaps, swaptions, and cap and floor agreements (collectively referred to as derivatives). The FHLBNY uses such derivatives in three ways: (1) as fair value or cash flow hedges of an underlying financial instrument or a forecasted transaction, (2) as economic hedges to offset derivative positions (e.g., caps) sold to members, and (3) as tools of asset/liability management ("ALM"). In the context of its ALM strategy, the FHLBNY uses interest rate exchange agreements to adjust the interest rate sensitivity of consolidated obligations to approximate more closely the interest rate sensitivity of assets. For instance, the FHLBNY may use a swap to effectively convert a fixed-rate consolidated obligation into a floating-rate obligation with repricing characteristics close to those of the advance being funded.

Because a significant portion (about 13 percent) of the FHLBNY's balance sheet consists of mortgage-backed securities ("MBS") and other mortgage-related assets, the FHLBNY is exposed to significant mortgage prepayment risk. The FHLBNY is exposed to a degree of interest rate risk because the cash flows of the mortgage assets and the liabilities that fund them are not perfectly matched through time and across all possible interest rate scenarios. The cash flows from mortgage assets are highly sensitive to changes in interest rates because of the borrowers' prepayment option. As interest rates decrease, borrowers are more likely to refinance fixed-rate mortgages, resulting in increased prepayments and mortgage cash flows that are received earlier than would otherwise occur. Replacing the higher-rate loans that prepay with lower-rate loans has the potential of reducing FHLBNY's interest spread unless it is able to also reduce our debt cost. Conversely, an increase in interest rates may result in slower prepayments and mortgage cash flows that are received later than would otherwise occur. In this case, the FHLBNY has the risk that the debt may reprice faster than the mortgage assets and at a higher cost, which could also reduce the interest spread.

At the time of purchasing mortgage assets, FHLBNY attempts to issue liabilities whose cash flows are similar to the assets within a range to achieve a stable net interest margin. The FHLBNY issues a mix of debt securities across a broad spectrum of final maturities to achieve the desired liability characteristics. Because the estimated lives of mortgage assets change as interest rates change, the FHLBNY issues callable debt or uses derivatives to alter the estimated life of liabilities to offset the expected change in cash flows of our mortgage assets.

Risk measurement at the FHLBNY takes three major forms: (1) ongoing business risk measures and analyses, (2) runoff measures of the existing balance sheet, and (3) stress test scenarios. The first two categories of measures help the FHLBNY in its day-to-day risk management decisions. Stress test scenarios identify and quantify the FHLBNY's exposure to extreme (but improbable) events.

Ongoing business risk measures and analyses seek to quantify the level of net interest income ("NII") at risk (i.e., how much income the FHLBNY could lose under arbitrarily large interest rate shocks of various types). These calculations essentially amount to studying the impact on projected NII of stressful interest rate shocks. The projections start from a "snapshot" of the current balance sheet and simulate its evolution, over a five-year horizon, taking into account business projections regarding the likely behavior of advances and assumptions regarding the net spread earned on each asset category. The result is a five-year projection of NII. Perturbations of that initial forecast by stressful interest rate scenarios then give the FHLBNY a measure of how much income it could gain or lose under those scenarios. Experience has shown that even though they rely heavily on assumptions, such analyses provide a reasonable measure of the risks incurred by the FHLBNY as an ongoing concern, regardless of the interest rate environment. As defined by the FHLBNY, NII at Risk measures the percentage change in projected NII from the spread between asset yields and liability costs resulting from an instantaneous, parallel +/-200bp rate shock. This risk measure is reported to the Board of Directors, in accordance with the RMP.

To manage its interest rate risk, the FHLBNY keeps a close watch on the difference between the interest rate sensitivity (duration) of its assets and the interest rate sensitivity (duration) of its liabilities. This difference is called the duration gap. The duration gap is the difference between the estimated durations of portfolio assets and liabilities. Duration gap summarizes the extent to which estimated cash flows for assets and liabilities are matched, on average, over time and across interest rate scenarios. A positive duration gap signals a greater exposure to rising interest rates because it indicates that the duration of assets exceeds the duration of liabilities. A negative duration gap signals a greater exposure to declining interest rates because the duration of assets is less than the duration of liabilities.

Even if, per dollar of assets and liabilities, the assets and liabilities were equally sensitive, the market value of equity (the difference between the market value of assets and the market value of liabilities) ("MVE") would still be sensitive to changes in interest rates. The reason is that the market value of equity essentially measures the part of the balance sheet that is not funded by debt. It follows that, unless the duration of liabilities exceeds the duration of assets (to make up for the fact that the value of liabilities falls short of the value of assets), the value of equity can never be fully immunized against any arbitrary interest rate shock. The smaller the duration gap is, the less sensitive the MVE is to changes in interest rates.

A stress test aims at capturing the impact of extreme (but rare) market rate perturbations on the market value of equity and NII. The FHLBNY has developed a technique to identify the interest rate and volatility scenario that can cause the most severe loss in the market value of equity, given the current market conditions and balance sheet. Every month, this scenario is applied to the FHLBNY's balance sheet and the resulting loss in the MVE is evaluated. This technique, besides providing a measure of the potential loss under the extreme scenario, enables the FHLBNY to identify the nature of the changes in market risk factors to which it is the most sensitive, allowing FHLBNY to take appropriate action to address those risk factors. The FHLBNY views such additional tests as an integral part of its risk management strategy.

The FHLBNY monitors the balance sheet and adjusts it as necessary to contain interest rate risk within the Bank's policy limits on the sensitivity of NII from spread, the size of periodic repricing gaps, and the duration of equity.

Net Interest Income at Risk. At the end of 2003, the FHLBNY's one-year NII from spread at Risk measures were 7.32 percent and –3.17 percent in the +200bp and –200bp rate-shock scenarios. The corresponding values at the end of 2002 were 4.32 percent and minus 5.24 percent. These figures are calculated from the perspective of an ongoing business and are, therefore, based on certain assumptions regarding the probable evolution of the FHLBNY's main line of business, advances, and its cost of funds. The FHLBNY's limit on NII from spread at Risk is minus 15 percent. The Bank was therefore well within its limit on NII sensitivity at the end of 2003 and 2002.

The FHLBNY monitors its repricing gaps primarily to limit the variability of NII. The tables below display the FHLBNY's maturity/repricing gaps in 2003 and 2002.

Interest Rate Sensitivity
as of December 31, 2003 month end
(in millions)

	Interest Rate Sensitivity Period				
	6 Months or Less	**More than 6 Months to 1 Year**	**More than 1 Year to 3 Years**	**More than 3 Years to 5 Years**	**More than 5 Years**
Interest-earning assets:					
Non-MBS Investments	$ 3,652	$ 78	$ 243	$ 150	$ 504
MBS Investments	3,424	784	2,061	2,491	1,400
Adjustable-rate loans and advances	10,788		-	-	-
Fixed-rate loans and advances	10,553	3,179	10,319	8,467	18,458
Swaps hedging advances	30,583	(1,182)	(5,508)	(5,840)	(18,052)
Net fixed-rate loans and advances	41,136	1,997	4,811	2,627	406
Interbank loans	60	-	-	-	-
Total interest-earning assets	$ 59,060	$ 2,859	$ 7,115	$ 5,268	$ 2,310
Interest-bearing liabilities:					
Deposits	$ 2,097	$ 6	$ -	$ -	$ -
Discount notes	16,241	579	-	-	-
Swaps hedging discount notes	7	(7)	-	-	-
Net discount notes	16,248	572	-	-	-
FHLB bonds	12,559	7,322	23,788	7,334	2,630
Swaps hedging bonds	23,237	(4,411)	(14,246)	(2,810)	(1,770)
Net FHLB bonds	35,796	2,911	9,542	4,524	860
Total interest-bearing liabilities	$ 54,141	$ 3,489	$ 9,542	$ 4,524	$ 860
Post hedge gaps:					
Gaps	$ 4,919	$ (630)	$ (2,427)	$ 744	$ 1,450
Cumulative gaps	4,919	4,289	1,862	2,606	4,056

Interest Rate Sensitivity
as of December 31, 2002 month end
(in millions)

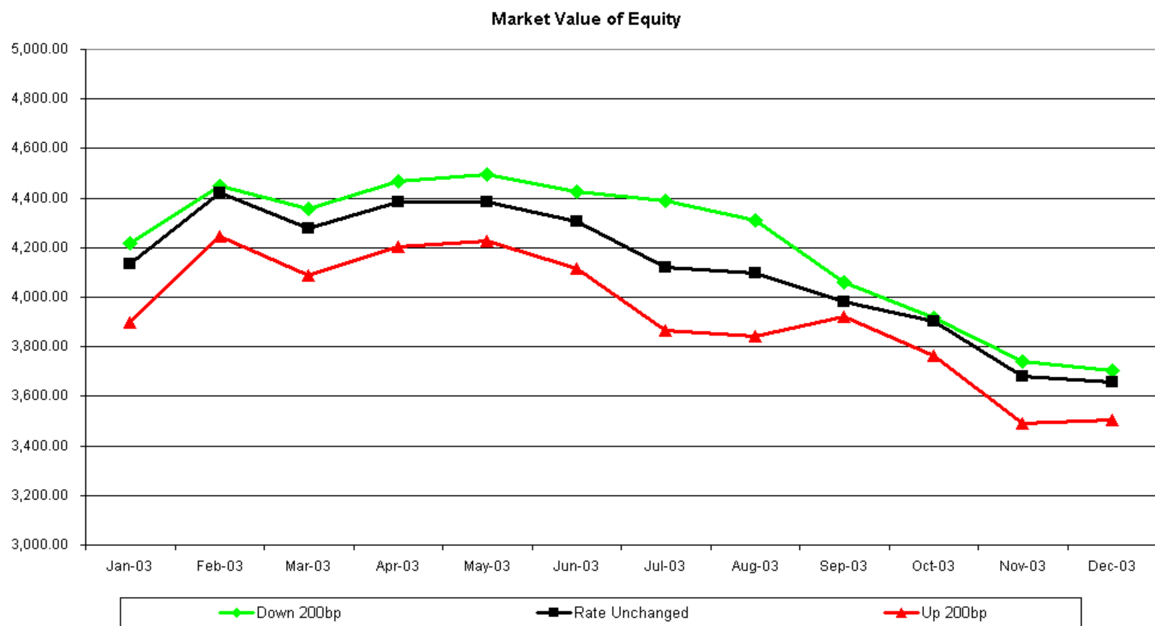
	Interest Rate Sensitivity Period				
	6 Months or Less	More than 6 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Years to 5 Years	More than 5 Years
Interest-earning assets:					
Non-MBS Investments	$ 11,303	$ 310	$ 215	$ 78	$ 360
MBS Investments	2,716	1,441	2,768	1,545	3,238
Adjustable-rate loans and advances	12,961		-	-	-
Fixed-rate loans and advances	11,776	4,736	10,728	5,028	20,794
Swaps hedging advances	31,800	(1,893)	(5,950)	(3,711)	(20,247)
Net fixed-rate loans and advances	43,576	2,843	4,778	1,317	547
Interbank loans	-	50	-	-	-
Total interest-earning assets	$ 70,556	$ 4,644	$ 7,761	$ 2,940	$ 4,145
Interest-bearing liabilities:					
Deposits	$ 2,731	$ 14	$ -	$ -	$ -
Discount notes	21,915	124	-	-	-
Swaps hedging discount notes	-	-	-	-	-
Net discount notes	21,915	124	-	-	-
FHLB bonds	12,976	11,048	24,990	8,726	3,165
Swaps hedging bonds	28,154	(7,585)	(15,342)	(4,183)	(1,044)
Net FHLB bonds	41,130	3,463	9,648	4,543	2,121
Total interest-bearing liabilities	$ 65,776	$ 3,601	$ 9,648	$ 4,543	$ 2,121
Post hedge gaps:					
Gaps	$ 4,780	$ 1,043	$ (1,887)	$ (1,603)	$ 2,024
Cumulative gaps	4,780	5,823	3,936	2,333	4,357

Duration of equity. As shown in the next table, the FHLBNY maintained its duration of equity well within policy limits throughout 2003. On December 31, 2003, the FHLBNY's duration of assets and duration of liabilities were, respectively, 0.80 years and 0.74 years, causing the duration gap to be 0.05 years. The duration of equity was 1.85 years.

The following table tracks the behavior of the FHLBNY's duration of equity from January 2003 through December 2003 (in years).

	2003 Duration Measures			
	Duration of Assets	Duration of Liabilities	Duration Gap	Duration of Equity
January	0.76	0.72	0.03	1.48
February	0.73	0.72	0.01	0.92
March	0.73	0.71	0.02	1.14
April	0.71	0.69	0.02	1.05
May	0.67	0.65	0.02	1.13
June	0.71	0.68	0.04	1.52
July	0.74	0.66	0.09	2.73
August	0.79	0.69	0.10	2.86
September	0.74	0.76	(0.03)	0.18
October	0.74	0.73	0.01	1.00
November	0.79	0.73	0.06	2.06
December	0.80	0.74	0.05	1.85

The degree to which durations or MVE are likely to change in response to movements in interest rates is known as convexity. Convexity provides information about the rate at which the interest rate sensitivity of an instrument or group of instruments (i.e., their duration) changes as interest rates vary. The FHLBNY measures convexity by shocking the balance sheet. The table below illustrates the result on market value of equity of applying plus and minus 200 basis point shock to the balance sheet.



Operational Risk

Operational risk is the risk of loss resulting from the failures or inadequacies of internal processes, people, and systems, or resulting from external events. Operational risks include those arising from fraud, human error, computer system failures, and a wide range of external events, from adverse weather to terrorist attacks. The management of these risks is to be the responsibility of the senior managers at the operating level. To assist managers in discharging this responsibility, and to ensure that operational risk is managed consistently throughout the organization, the FHLBNY has developed an operational risk management ("ORM") framework that continues to evolve. The ORM framework can be summarized as follows:

Operational Risk Team Charter. The Board of Directors has approved the charter of the Operational Risk Team, a group of senior managers charged with developing and deploying the ORM framework throughout the FHLBNY. The Operational Risk Team directs many of the operational risk management activities, including the annual departmental self-assessment process, and manages certain enterprise-wide operational risks, such as business continuity.

Operational Risk Policies. The Board of Directors has approved policies, developed by management, which address the key components of operational risk. Management throughout the FHLBNY has developed processes and procedures that support these policies.

Quarterly and Annual Risk Assessments. All critical business and operations units of the FHLBNY perform both annual and quarterly assessments of risk. As operational risk exists across the organization, business and operations unit managers comment on changes in the operational risk profile of their unit each quarter. They also summarize any significant risk events that have occurred and any corrective actions that have been taken.

The quarterly and annual risk assessments also consider operational risks at the enterprise level. A particular area of focus in recent years has been business continuity planning and disaster recovery preparedness. The Bank's operations and recovery data centers are now connected by diverse, high-speed telecommunications links, allowing real-time replication of critical data. Recovery capabilities were tested during a large-scale drill in the fourth quarter of 2003 and an actual emergency in August 2003, when the FHLBNY maintained all critical operations during a regional electrical blackout.

Annual Risk/Control Self-Assessments. All critical business and operations units participated in an FHLBNY-wide risk-and-control self-assessment during the first quarter of each year. Business and operations units review key processes and identify the risks that would prevent the achievement of FHLBNY and departmental goals. Controls and other risk mitigants, including insurance, are documented as part of the assessment. Finally, the review includes a three-year history of related risk events and volume trends that might impact the risk profile.

Key Risk Indicators. Each critical FHLBNY business and operations department tracks key risk indicators that provide management with a view of performance in a variety of areas, including processing accuracy, responsiveness to customer requests, effectiveness of reconcilements, and availability of computer systems. The indicators are tracked monthly, and management's review is documented in the quarterly risk assessments.

Risk Event Management. Risk events are documented as they occur and are included in the various risk assessments. Events are reported to the executive management and the Board of Directors in accordance with established guidelines.

Internal Audit. The FHLBNY's Internal Audit Division performs an evaluation of the FHLBNY's policies, procedures, and processes, and also reviews the components of operational risk. Internal Audit, an independent unit reporting directly to the Board of Directors, conducts an evaluation of each business unit's risk/control self-assessment as part of the audit process. Internal Audit reports its recommendations to senior management and the Audit Committee of the Board of Directors, and tracks follow-up activities quarterly.

Factors That May Affect Results

General Business and Economic Conditions. Changes in the business and economic climate may significantly affect the FHLBNY's earnings. The FHLBNY realizes its income primarily from the spread between interest earned on its advances and investments and the interest paid on its borrowings. It is expected that the FHLBNY, from time to time, will experience gaps in the interest rate sensitivities of its assets and liabilities, meaning that either its interest-bearing liabilities will be more sensitive to changes in market rates than its interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to the FHLBNY's position, the gap could adversely affect the FHLBNY's earnings.

To conduct its business, the FHLBNY relies on its ability to access the capital markets at competitive market rates. An event such as the terrorist attack that occurred on September 11, 2001, could block the Bank's access to the capital markets. Adverse publicity in the press, even publicity for actions that are otherwise legal and legitimate, also could adversely affect the Bank's ability to raise capital by creating "reputational risk." External factors are difficult to predict or prevent, but can have a significant impact on the FHLBNY's ability to manage its financial needs. Finance Board regulations require that the Bank be able to operate through a five-business-day interruption of debt issuance; the FHLBNY maintains sufficient liquidity to meet and exceed that requirement. In addition, it maintains a portfolio of assets that can generate cash via the securities repurchase market or that are saleable in the secondary markets. Although the FHLBNY maintains the above capacities, as well as the ability to borrow funds in the money markets, the Bank's income would be adversely affected if it were not able to access the capital markets at competitive rates for a sustained period of time.

Members' use of advances is influenced by their ability to generate and hold profitable assets and fund those assets with retail deposits. When the difference between their ability to generate and hold assets and their ability to attract deposits widens, advances generally increase. It is not clear how an economic downturn affects this difference. However, a significant regional or national economic downturn could result in diminished demand for FHLBNY products and services. Historically, the FHLBNY has operated successfully in environments of both high and low demand for its products and services, but there can be no assurance that it will do so in the future.

SFAS 133 Adjustments. The FHLBNY uses financial derivatives to manage and generally mitigate its interest rate risk. It uses interest rate swaps, interest rate swaps with embedded options, and interest rate caps and floors to hedge risks that are intrinsic to its advances and consolidated obligations. The Bank also transacts interest rate swaps to mitigate the risk created when there are timing differences between the creation and the extinguishment of assets and liabilities. SFAS 133 requires that all derivative instruments be recorded on the Statement of Condition at their fair values. The FHLBNY seeks to ensure that its use of derivatives minimizes the effect on earnings of fair value recognition under SFAS 133. There is also credit risk associated with derivatives transactions. As part of managing this risk, the FHLBNY's Board of

Directors approves all derivatives counterparties and reviews management analysis of counterparties annually.

All counterparties must enter into master agreements with the Bank that have been developed by the International Swaps and Derivatives Association ("ISDA"); the Credit Annexes to these agreements provide for collateral support at predetermined thresholds. The operational risk associated with the FHLBNY's derivatives activities is managed through a strong system of internal controls and through appropriate separation of duties.

Exposure to Credit Risks. The FHLBNY is subject to credit risk in its activities, including risk from nonperformance of contractual obligations or from fraudulent acts by members and other parties. Risk is associated with advances to, and letters of credit issued on behalf of, members; the Bank's MPF and Community Mortgage Asset portfolios; its investment portfolio, including MBS, and unsecured investments in money market instruments and overnight Federal funds transactions; and in its derivatives contracts and hedging activities. While the FHLBNY manages these risks through its Risk Management Policy, some amount of credit risk will always be present.

Member and counterparty defaults could result from severe economic downturns, declining real estate values (both residential and non-residential), changes in monetary policy, adverse developments in the capital markets, and other events. Such defaults could have a negative impact on the Bank's income and financial performance.

Loss of Large Members. The FHLBNY's total assets and capital could significantly decrease if one or more large members were to withdraw from membership or decrease business with the Bank. Members might withdraw or reduce their business as a result of consolidating with an institution that was a member of another FHLBank, or for other reasons. The FHLBNY has considered the impact of losing one or more large members. In general, a withdrawing member would be required to repay all indebtedness prior to the redemption of its capital stock. Under current conditions, the Bank does not expect the loss of a large member to impair its capital adequacy. Since the FHLBank Act of 1999 does not allow the FHLBNY to redeem the capital of an exiting member if the redemption would cause the FHLBNY to fall below its capital requirements, the loss of a large member should not result in an inadequate capital position for the FHLBNY. However, such an event could reduce the amount of capital that the FHLBNY has available for continued growth. This, in turn, could have various ramifications for the FHLBNY, including a possible reduction in net income and dividends, and a lower return on capital stock for remaining members.

Financial Institution Consolidation and Multi-District Membership. On October 3, 2001, the Finance Board published in the Federal Register a solicitation for comments on the implications raised by the structural changes occurring in the FHLBanks' membership. The solicitation was prompted by the submission of petitions by several FHLBanks, including the FHLBNY, requesting that the Finance Board permit a single depository institution to be a member of two or more FHLBanks concurrently. On January 22, 2002, the Finance Board announced its intent to defer action on multi-district membership petitions until it decided on a course of action to address broader membership issues. In December 2002, the Finance Board announced that it would consider a proposed multi-district membership regulation during 2003. The Finance Board requested additional comments from the FHLBanks. Each FHLBank responded to this request, with some of the FHLBanks expressing support for changes in membership terms and other FHLBanks expressing reservations about such changes.

In the spring of 2003, Finance Board Chairman John T. Korsmo indicated that the Finance Board was analyzing the FHLBanks' responses and would complete a study of industry trends, and their implications for the FHLBanks, before making any proposal. On September 9, 2003, Chairman Korsmo testified before the Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee on Financial Institutions. In his testimony, Chairman Korsmo indicated that the Finance Board had no further plans to receive, review, and accept or reject applications from an FHLBank for multi-district membership. The Finance Board's next action on this matter is undetermined at this time. Because consolidation will continue in the financial services industry, the current regulation restricting membership to a single FHLBank could have negative effects on the FHLBNY in the future. The FHLBNY has no plans to submit any further petition regarding multi-district membership at this time.

Changes in the Regulatory and/or Legislative Environment. The FHLBanks are governed by the FHLBank Act and the regulations adopted thereunder by the Finance Board. The FHLBanks were created to further the government policy of facilitating the flow of mortgage credit and the promotion of homeownership in the United States. From time to time, Congress has amended the FHLBank Act in ways that have significantly affected the rights and obligations of the FHLBanks and the manner in which they carry out their housing finance mission. It is possible that legislative changes to the FHLBank Act in the future could adversely affect the business, operations, or financial condition of the FHLBNY.

Regulations and policies of the Finance Board govern, among other things, the permissible investments and activities of the FHLBanks, risk management practices, capital requirements, and management and supervisory issues. It is possible that new regulations or policies adopted by the Finance Board, or changes to existing regulations or policies, also could adversely affect the business, operations, or financial condition of the FHLBNY. Further, the regulatory environment affecting members could be changed in a manner that might negatively impact their ability to own activity-based stock or take full advantage of the FHLBNY's products and services.

Proposed Rule on Registration under the Securities Exchange Act of 1934. The FHLBanks' joint Office of Finance prepares the combined quarterly and annual financial reports of the Banks. Under current Finance Board regulations, these reports generally must be consistent with Securities and Exchange Commission (SEC) Regulations S-K and S-X, subject to certain exceptions contained in Finance Board regulations. Each FHLBank prepares its own annual financial reports, which must conform in form and substance with the combined statements prepared by the Office of Finance under Finance Board regulations. On September 10, 2003, the Finance Board requested comments on a proposed rule to enhance the financial disclosures of the FHLBanks through voluntary registration with the SEC under section 12(g) of the Securities Exchange Act of 1934 ("1934 Act"). Under section 12(g), each FHLBank would register a class of its equity with the SEC, bringing each FHLBank into the periodic disclosure regime administered and interpreted by the SEC. The proposed rule provided for a 120-day comment period.

The FHLBNY fully supports expanded financial disclosure; however, the business structure of the FHLBanks is not the same as that of corporate registrants with publicly traded stock. The FHLBNY, as a cooperatively owned entity, is not a publicly traded corporation, and FHLBank members own all outstanding stock. The FHLBNY's Board of Directors is evaluating the structural, operational, legal, and economic effects of voluntary registration in order to meet its fiduciary obligations to the FHLBNY's members regarding any decision on voluntary registration under the 1934 Act. FHLBNY representatives have been engaged in substantive discussion of these issues with SEC staff. The outcome of these regulatory actions and deliberations with

respect to the issue of SEC registration and the ultimate impact on the FHLBNY are not determinable at this time.

Proposed Changes to GSE Regulation. Several bills have been introduced in Congress which are designed to strengthen the regulation of the housing-related GSEs. It is not possible to predict what, if any, provisions relating to the Finance Board and the FHLBanks will be included in any such legislation that may be approved by Congress; whether the House and Senate will approve such legislation; whether any change in regulatory structure will be signed into law; when any such change will go into effect if enacted; or what effect such legislation will ultimately have on the Finance Board, the FHLBanks, or the FHLBNY.

Proposed Amendment to Acquired Member Assets Regulation. On July 1, 2003, the Finance Board issued a proposed rule to amend its Acquired Member Assets (AMA) regulation, which authorizes the FHLBanks to acquire certain whole loans from their members. The changes proposed would place greater responsibility with each FHLBank to design and manage its AMA program. Comments on the proposed rule were due by September 2, 2003. The proposed rule was withdrawn at the September 10, 2003, Finance Board meeting, to allow for consideration of a new proposed rule at a later time to be determined by the Finance Board.

Audit Committee Report

The Audit Committee of the Board of Directors ("Board") of the Federal Home Loan Bank of New York ("FHLBNY") at year-end 2003 was composed of six Directors, two of whom represent the public interest and four of whom represent industry members. The members of the Audit Committee at year-end 2003 were John R. Garbarino, Chair; Kenneth J. Abt; George L. Engelke, Jr.; Michael M. Horn; Leopold W. Montanaro; and Edwin C. Reed.

The 2004 Audit Committee is composed of seven Directors, two of whom represents the public interest and five of whom represent industry members. Both the 2003 and 2004 Audit Committee members are independent, as defined by the Federal Housing Finance Board.

The Audit Committee oversees the FHLBNY's financial reporting process; reviews compliance with laws, regulations, policies and procedures; and evaluates the adequacy of administrative, operating, and internal accounting controls. The Audit Committee has adopted and is governed by a written charter, which is presented on the following pages, and satisfied its responsibilities during 2003 in compliance with the charter. In fulfilling its responsibilities, the Audit Committee has reviewed and discussed the audited financial statements with management. The Audit Committee has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, No. 89 and No. 90, Audit Committee Communications. The Audit Committee has also received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 and has discussed with the auditors their independence.

Based on the review and discussions referred to above, the 2004 Audit Committee recommends to the Board that the financial statements be included in the 2003 Annual Report.

2004 FHLBNY AUDIT COMMITTEE MEMBERS

Chairman
Kenneth J. Abt
President & CEO
First Federal Savings of Middletown
Middletown, New York

Sanford A. Belden
President & CEO
Community Bank, N.A.
DeWitt, New York

George L. Engelke, Jr.
Chairman, President & CEO
Astoria Federal Savings
and Loan Association
Lake Success, New York

Anne Evans Estabrook
Owner & CEO
Elberon Development Co.
Cranford, New Jersey

José Ramon Gonźalez
President & CEO
Banco Santander Puerto Rico
Hato Rey, Puerto Rico

Michael M. Horn
Partner
McCarter & English, LLP
Newark, New Jersey

Leopold W. Montanaro
Director
Kearny Federal Savings Bank
Kearny, New Jersey

AUDIT COMMITTEE CHARTER

I. INTRODUCTION

The charter of the Federal Home Loan Bank of New York's ("Bank") Audit Committee ("Committee") has been adopted and approved by the Bank's Board of Directors ("Board") and may be amended by the Board in compliance with applicable laws, rules and regulations, including the applicable rules of the Federal Housing Finance Board ("Applicable Rules").

This Charter is intended to comply with the Applicable Rules. In addition, the Committee has committed to adopt to the extent possible those best practices that pertain to audit committees of public companies and which are relevant to the Bank, taking into account the cooperative structure of the Bank and the congressionally mandated and regulatory requirements applicable to the Bank (collectively, "Best Practices").

The Committee's responsibilities will be discharged through reviews of audit reports, activities and discussions with internal and external auditors and Bank management.

At its discretion, the Committee shall have direct access to the independent accountants, Chief Financial Officer, Chief Audit Officer ("CAO") and upon request, any other officer or employee of the Bank.

The responsibility of the Committee is limited to matters upon which the Board of Directors has the authority to make a final determination. The Committee shall have the authority to establish other rules and operating procedures in order to fulfill its obligations under this Charter and consistent with Applicable Rules and Best Practices.

The Committee shall utilize resources to conduct or authorize investigations into any matters within their duties and responsibilities. This includes retaining, and obtaining advice from, independent counsel, accountants, and other advisers, as it determines necessary to carry out its duties.

The Bank shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent accountants and any counsel, accountants or other advisers retained by the Committee.

The Committee shall maintain an open and unrestricted communication channel with all Bank personnel, including internal and external accountants.

The Committee shall report to the Board on a regular basis regarding the matters for which it has oversight.

II. PURPOSE OF THE AUDIT COMMITTEE

The purpose of the Committee shall be to assist in the Board's oversight of:

- Directing senior management to maintain the reliability and integrity of the Bank's accounting policies and procedures and its financial reporting and disclosure practices.
- The performance of the Bank's internal control system.
- The Bank's compliance with all applicable laws, regulations and Bank policies.
- The establishment, maintenance and performance of the internal and external audit functions,
- The independence, qualifications, and performance of the Bank's independent accountant.

It is not the duty of the Committee to plan or conduct audits or to determine that the Bank's financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles ("GAAP"). These are the responsibilities of management and the independent accountant.

III. DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

To fulfill its duties and responsibilities the Committee shall:

A. With Regard to Documents/Reports Review

- Adopt a formal written Committee Charter. Review actions of bodies promulgating Applicable Rules and Best Practices and, in light of such reviews, assess the adequacy of and amend, where appropriate, the Committee Charter as required, but no less frequently than on an annual basis. Re-adopt the Committee Charter no less often than every three years. Request the Board of Directors to approve the Committee Charter and any amendments, as appropriate.
- Review and approve the Internal Audit Charter on an annual basis.
- Review and approve the internal audit annual plan.
- Timely obtain and review reports delivered from the independent accountant in accordance with Applicable Rules and Best Practices.
- Review the basis for the Bank's financial statements and the independent accountant's opinion rendered with respect to the financial statements including the nature and extent of any significant changes in accounting principles or the application therein.
- Discuss the annual audited financial statements with management, the internal auditors and the independent accountants, including the Bank's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations", prior to announcement, publication or filing, and obtain explanations from management for any significant variances from the prior periods. Recommend to the Board that the audited financial statements be included in the Bank's Annual Report.
- Obtain annually a formal written statement from the independent accountants regarding their independence for consistency with Independence Standards Board Standard 1.
- Discuss with the independent accountants the requirements of Statement of Auditing Standards No. 61 regarding communications with audit committees and No. 89 and No. 90 pertaining to uncorrected misstatements and the quality of the Bank's accounting principles and underlying estimates in the financial statements.
- Review with the independent accountant and a management representative, interim financial information provided for the Federal Home Loan Bank System's combined financial reports, prior to the Bank's filing of such information. The review will include a

discussion of any significant changes to the Bank's accounting principles and standards, significant changes to laws and regulations, and any concerns the independent accountant may have with management's accounting methods, estimates and/or financial statement disclosure. Unless the independent accountant has significant matters to report, it is intended that this review be conducted with the Audit Committee Chair. The Committee Chair will then provide a report to the full Committee at the next scheduled Committee meeting.

- Meet with the Bank's independent accountant in respect of any audit report by the independent accountant, and periodically meet separately with the Bank's management, with internal audit staff, and with the independent accountant to discuss significant accounting and reporting principles, practices and procedures applied by the Bank in preparing its financial statements.
- Prepare a written report of the Committee to be included in the Bank's Annual Report as required by Applicable Rules.

B. With Regard to Internal Audit

- Select, evaluate the performance, determine the compensation and, where appropriate, approve the removal of the CAO.
- Provide that the CAO report directly to the Committee on substantive matters and be ultimately accountable to the Committee and the Bank's Board of Directors.
- Provide that the CAO have unrestricted access to the Committee without the need for any prior management knowledge and approval.
- Provide an independent, direct channel of communication between the Bank's Board of Directors and the CAO.
- Review the scope of audit services required.
- Review the Bank's significant accounting policies.
- Review the Bank's significant risks and exposures.
- Discuss with management, internal audit staff, and the independent accountant the internal audit function activities, the adequacy, and scope of the internal audit plan, budget and staffing and any recommended changes in the planned scope of the internal audit function.
- Review the internal audit findings.
- Review and approve the internal audit annual budget.

C. With Regard to Independent Accountants

- Review with the independent accountant and approve, prior to the beginning of its audit, the scope of the independent accountant's audit, all engagement fees, and terms.
- Make recommendations to the Bank's Board of Directors regarding the appointment, compensation, renewal or termination of the independent accountant. The independent accountant shall report directly to the Committee.
- Pre-approve all audit and non-audit services performed by the Bank's independent accountant and not engage the independent accountants to perform the specific non-audit services proscribed by law or regulation. The Committee may delegate pre-approval authority to a member of the Committee; however, any decisions made by the designated member must be presented to the full Committee at the next scheduled Committee meeting.
- The Committee shall require the independent accountant to rotate the lead audit partner at least every five years.

- Resolve any disagreements between management and the independent accountant regarding financial reporting.
- Review the performance of the independent accountant.
- Provide that the independent accountant have unrestricted access to the Committee without the need for any prior management knowledge and approval.
- Provide an independent, direct channel of communication between the Bank's Board of Directors and the independent accountant.

D. With Regard to Senior Management

- Direct senior management to maintain the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Bank.
- Ensure that senior management has established and is maintaining an adequate internal control system in the Bank.

E. With Regard to Audit Committee Processes

a) Financial Reporting and Governance

- Ensure policies are in places that are reasonably designed to achieve disclosure and transparency regarding the Bank's true financial performance and governance practices.

b) Internal Control

- Review on an annual basis the adequacy of internal controls, resolution of identified material weaknesses and reportable conditions including the prevention or detection of management override or compromise of the internal control system and ensure that appropriate corrective actions are instituted.
- Review the policies and procedures established by senior management designed to ensure compliance with applicable laws, regulations and policies and monitor the results of these compliance efforts.
- Establish procedures for the receipt, retention, and treatment of complaints received by the Bank regarding accounting, internal accounting controls, or auditing matters; and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

c) Strategic Business Plans

- Review the policies and procedures established by senior management to assess and monitor implementation of the Bank's strategic business plan and the operating goals and objectives contained therein.

IV. AUDIT COMMITTEE STRUCTURE

The Committee shall consist of at least five directors of the Board. The Committee shall include a balance of representatives from Community Financial Institutions and other members and will also include a balance of appointive and elective directors. In order to provide continuity and experience, Committee members shall serve staggered terms.

V. MEMBERSHIP REQUIREMENTS

All members of the Committee shall be independent[1] as determined in accordance with Applicable Rules. Each member shall be financially literate as this qualification is interpreted by the Board in its business judgment, or shall become financially literate within a reasonable period of time after appointment to the Committee. At least one member must have extensive accounting or related financial management experience.

The only compensation a Committee member may receive from the Bank shall be compensation determined by the Board in compliance with Applicable Rules.

VI. AUDIT COMMITTEE MEETINGS

The Committee shall periodically report its findings to the Board of Directors and shall prepare written minutes of each Committee meeting. The Committee shall meet at least four times annually.

The Committee shall meet separately, from time to time, by itself, with management, the independent accountants, and/or the CAO.

Date**: October 16, 2003**

[1] To be considered independent, a director must not have a disqualifying relationship with the Bank or its management that would interfere with the exercise of that director's independent judgment. This includes being employed by the Bank in the current year or any of the past five years, receiving any compensation (other than for service as a Board director), or serving as a consultant, advisor, promoter, underwriter, or legal counsel of or to the Bank in the past five years. An immediate family member who is, or has been in any of the past five years, employed by the Bank as an executive officer also disqualifies a Committee member from being independent.
Subject to the foregoing, the members of the Committee shall be appointed and replaced by the Board, and one Committee member shall be designated as the Chairman.

REPORT OF MANAGEMENT RESPONSIBILITY

To the Shareholders:

The management of the Federal Home Loan Bank of New York ("FHLBNY") is responsible for the preparation and fair presentation of the financial statements and other financial information included in this Annual Report. The accompanying financial statements were prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. When amounts must be based on estimates and judgments, they represent the best estimates and judgments of management. The financial information appearing throughout this Annual Report is consistent with that in the financial statements.

Management is also responsible for maintaining effective internal control over financial reporting. Management establishes an environment that fosters strong controls, and it designs business processes to identify and respond to risk. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. Management also takes steps to see that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

The FHLBNY's accounting policies and internal controls are under the general oversight of the Board of Directors, acting through the Audit Committee of the Board. The Committee is composed of elected and appointed directors who are not officers or employees of the FHLBNY. The Committee reviews reports by Internal Audit covering an extensive program of audit and risk reviews. In addition, PricewaterhouseCoopers LLP, independent auditors, are engaged to audit the FHLBNY's financial statements. The entire Board of Directors also meets with representatives of the Office of Supervision of the Federal Housing Finance Board during the year.

PricewaterhouseCoopers LLP obtains and maintains an understanding of the FHLBNY's internal controls and procedures for financial reporting and conducts such tests and other auditing procedures as it considers necessary in the circumstances to express the opinion in its report that follows. PricewaterhouseCoopers LLP has full access to the Audit Committee, with no members of management present, to discuss its audit and its findings as to the integrity of the FHLBNY's financial reporting and the effectiveness of internal control.

Management recognizes that there are inherent limitations in the effectiveness of any system of internal control, and accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. However, management believes that the FHLBNY maintained effective internal control over financial reporting as of December 31, 2003.

Alfred A. DelliBovi
President
Chief Executive Officer

David C. Altilio
Executive Vice President
Chief Financial Officer

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Financial Statements
December 31, 2003

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1177 Avenue of the Americas
New York NY 10036
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Report of Independent Auditors

To the Board of Directors of
the Federal Home Loan Bank of New York

In our opinion, the accompanying statements of condition and the related statements of income, capital and cash flows present fairly, in all material respects, the financial position of the Federal Home Loan Bank of New York (the "Bank") at December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Also, in accordance with those standards and as part of our audit of the Bank's financial statements, we issued a separate report on compliance and on internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 10, 2004

Federal Home Loan Bank of New York
Statements of Condition (in thousands, except par values)

	December 31, 2003	December 31, 2002
Assets		
Cash and due from banks (Note 4)	$ 20,793	$ 65,426
Interest-bearing deposits (Note 17)	1,654,603	7,649,020
Federal funds sold	1,143,000	2,932,000
Held-to-maturity securities, includes $0 and $75,697 pledged in 2003 and 2002 (Note 5)	11,359,367	12,966,719
Advances (Note 6)	63,923,184	68,926,073
Mortgage loans, net of allowance for credit losses of $507 in 2003 and $428 in 2002 (Note 8)	671,644	435,133
Loans to other FHLBanks (Note 9)	60,000	50,000
Loans guaranteed by Agency for International Development, net	686	847
Accrued interest receivable	287,827	377,209
Premises and equipment, net	15,921	14,646
Derivative assets	59,240	142,284
Other assets	34,164	46,266
Total assets	$ 79,230,429	$ 93,605,623
Liabilities and capital		
Liabilities		
Deposits (Note 10)		
Demand and overnight	$ 1,957,847	$ 2,479,693
Term	138,450	254,600
Other	3,924	8,384
Total deposits	2,100,221	2,742,677
Consolidated obligations, net (Note 12)		
Bonds	54,051,869	61,500,768
Discount Notes	16,804,767	22,011,104
Total consolidated obligations	70,856,636	83,511,872
Accrued interest payable	426,437	539,481
Affordable Housing Program (Notes 2 and 7)	92,541	109,848
Payable to REFCORP (Notes 2 and 7)	-	13,846
Derivative liabilities	1,913,274	2,355,567
Other liabilities	77,929	36,714
Total liabilities	75,467,038	89,310,005
Commitments and contingencies (Notes 7, 12, 13, 15 and 17)		
Capital (Note 13)		
Capital stock ($100 par value) issued and outstanding shares 36,386 in 2003 and 40,511 in 2002	3,638,720	4,051,182
Accumulated other comprehensive loss	(2,026)	-
Retained earnings	126,697	244,436
Total capital	3,763,391	4,295,618
Total liabilities and capital	$ 79,230,429	$ 93,605,623

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

Federal Home Loan Bank of New York
Statements of Income (in thousands)

	Years ended December 31,		
	2003	2002	2001
Interest income			
Advances (Note 6)	$ 1,284,955	$ 1,644,321	$ 2,574,505
Interest-bearing deposits	67,113	113,778	266,248
Federal funds sold	16,493	46,326	198,193
Held-to-maturity securities (Note 5)	652,207	725,126	793,143
Mortgage loans and participations, including fees (Note 8)	29,083	26,413	34,129
Loans to other FHLBanks (Note 9)	2,491	2,995	2,969
Other	62	17	89
Total interest income	2,052,404	2,558,976	3,869,276
Interest expense			
Consolidated obligations (Note 12)	1,733,663	2,167,227	3,353,476
Deposits (Note 10)	27,977	42,460	105,991
Other borrowings (Note 11)	268	103	732
Other	24	363	681
Total interest expense	1,761,932	2,210,153	3,460,880
Net interest income before provision for credit losses	290,472	348,823	408,396
Provision for credit losses on mortgage loans	79	235	102
Net interest income after provision for credit losses	290,393	348,588	408,294
Other income			
Prepayment fees (Note 2)	6,078	39,130	9,448
Service fees	4,934	4,103	3,800
Net realized and unrealized gain (loss) on derivatives and hedging activities	2,122	(8,447)	3,122
Net realized (loss) gain from sale of held-to-maturity securities (Note 5)	(189,226)	-	2,266
Other, net (Note 12)	(974)	(26,994)	(3,173)
Total other income	(177,066)	7,792	15,463
Other expenses			
Operating	47,749	39,014	34,663
Finance Board and Office of Finance (Note 2)	4,964	4,399	3,922
Other	(1,746)	(5,656)	658
Total other expenses	50,967	37,757	39,243
Income before assessments	62,360	318,623	384,514
Affordable Housing Program (Note 7)	5,091	26,010	31,654
REFCORP (Note 2)	11,453	58,523	71,222
Total assessments	16,544	84,533	102,876
Income before cumulative effect of change in accounting principle	45,816	234,090	281,638
Cumulative effect of change in accounting principle (Note 3)	-	-	3,249
Net income	$ 45,816	$ 234,090	$ 284,887

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

Federal Home Loan Bank of New York
Statements of Capital (in thousands)

	Capital Stock		Retained	Accumulated Other Comprehensive	Total
	Shares	Par Value	Earnings	Loss	Capital
Balance, December 31, 2000	36,261	$ 3,626,166	$ 121,137	$ -	$ 3,747,303
Proceeds from sale of capital stock	8,424	842,431	-	-	842,431
Redemption of capital stock	(7,356)	(735,617)	-	-	(735,617)
Net Income	-	-	284,887	-	284,887
Cash dividends on capital stock (6.29%)	-	-	(229,016)	-	(229,016)
Balance, December 31, 2001	37,329	3,732,980	177,008	-	3,909,988
Proceeds from sale of capital stock	9,679	967,926	-	-	967,926
Redemption of capital stock	(6,497)	(649,724)	-	-	(649,724)
Net Income	-	-	234,090	-	234,090
Cash dividends on capital stock (4.51%)	-	-	(166,662)	-	(166,662)
Balance, December 31, 2002	40,511	4,051,182	244,436	-	4,295,618
Proceeds from sale of capital stock	15,080	1,508,038	-	-	1,508,038
Redemption of capital stock	(19,205)	(1,920,500)	-	-	(1,920,500)
Net Income	-	-	45,816	-	45,816
Other comprehensive loss					
Net unrealized loss on hedging activities	-	-	-	(13)	(13)
Net unrealized loss on Benefit Equalization Plan	-	-	-	(2,013)	(2,013)
Cash dividends on capital stock (3.97%)	-	-	(163,555)	-	(163,555)
Balance, December 31, 2003	36,386	$ 3,638,720	$ 126,697	$ (2,026)	$ 3,763,391

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

Federal Home Loan Bank of New York
Statement of Cash Flows (in thousands)

	Years ended December 31,		
	2003	2002	2001
Operating Activities			
Net income	$ 45,816	$ 234,090	$ 284,887
Cumulative effect of change in accounting principle	-	-	(3,249)
Income before cumulative effect of change in accounting principle	45,816	234,090	281,638
Adjustments to reconcile net income before cumulative effect of change in accounting principle to net cash provided by operating activities			
Depreciation and amortization			
Net premiums and discounts on consolidated obligations, investments mortgage loans, AHP advances and interest-rate exchange agreements	(37,892)	162,650	58,167
Concessions on consolidated obligations	25,809	23,565	8,275
Net deferred (gain) on interest-rate exchange agreements	-	(725)	-
Premises and equipment	3,714	2,635	2,066
Provision for credit losses on mortgage loans	79	235	102
Net realized losses (gains) on sale of held-to-maturity securities	189,226	-	(2,266)
Losses due to change in net fair value adjustments on derivatives and hedging activities	2,502	1,882	1,197
Decrease in accrued interest receivable	89,382	279	229,263
Decrease in derivative assets	39,930	71,000	167,828
(Decrease) increase in derivative liabilities	(11,193)	17,968	8,178
(Increase) in other assets	(13,707)	(30,888)	(18,818)
(Decrease) increase in Affordable Housing Program (AHP) liability	(17,308)	5,174	16,179
(Decrease) in accrued interest payable	(113,044)	(92,057)	(47,573)
(Decrease) increase in REFCORP liability	(13,846)	(6,460)	1,186
Increase (decrease) in other liabilities	38,230	(11,719)	9,144
Total adjustments	181,882	143,539	432,928
Net cash provided by operating activities	227,698	377,629	714,566
Investing activities			
Net decrease (increase) in interest-bearing deposits	5,994,891	(1,733,219)	2,104,643
Net decrease (increase) in Federal funds sold	1,789,000	(1,498,000)	1,594,000
Proceeds from sale of held-to-maturity securities	1,597,881	-	80,963
Purchase of held-to-maturity securities	(4,815,770)	(4,634,517)	(3,431,567)
Proceeds from maturities of held-to-maturity securities	4,634,611	3,470,860	2,863,272
Principal collected on advances	845,456,110	820,551,704	1,032,747,339
Advances made	(841,209,805)	(826,905,941)	(1,040,021,784)
(Decrease) increase in mortgage loans and participations	(238,066)	(10,984)	101,995
Principal collected on other loans made	161	162	164
Net (increase) decrease in deposits with other FHLBanks' mortgage programs	(474)	18	(210)
(Increase) decrease in premises and equipment	(4,989)	(9,503)	821
Net cash provided by (used in) investing activities	13,203,550	(10,769,420)	(3,960,364)
Financing activities			
Net (decrease) increase in deposits	(642,456)	(119,185)	699,487
Net proceeds from issuance of consolidated obligation bonds	44,534,244	44,339,349	31,219,364
Net proceeds from issuance of consolidated obligation discount notes	1,023,313,238	533,019,759	737,921,622
Payments for maturing consolidated obligation bonds	(51,570,185)	(33,107,025)	(22,863,095)
Payments for maturing/retiring consolidated obligation discount notes	(1,028,534,705)	(533,840,698)	(743,620,607)
Proceeds from issuance of capital stock	1,508,038	967,926	842,431
Payments for redemption of capital stock	(1,920,500)	(649,724)	(735,617)
Cash dividends paid	(163,555)	(166,662)	(229,016)
Net cash (used in) provided by financing activities	(13,475,881)	10,443,740	3,234,569
Net (decrease) increase in cash and cash equivalents	(44,633)	51,949	(11,229)
Cash and cash equivalents at beginning of year	65,426	13,477	24,706
Cash and cash equivalents at end of year	$ 20,793	$ 65,426	$ 13,477
Supplemental disclosures: Interest paid during the year	$ 2,254,449	$ 1,936,050	$ 3,589,791

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

1. Background Information

The Federal Home Loan Bank of New York (Bank), a federally chartered corporation, is one of 12 district Federal Home Loan Banks (FHLBanks). The FHLBanks serve the public by enhancing the availability of credit for residential mortgages and targeted community development. The Bank provides a readily available, low-cost source of funds to its member institutions. The Bank is a cooperative whose member institutions own the capital stock of the Bank. Regulated financial depositories and insurance companies engaged in residential housing finance can apply for membership. All members must purchase stock in the Bank.

The Federal Housing Finance Board (Finance Board), an independent agency in the executive branch of the United States Government, supervises and regulates the FHLBanks and the Office of Finance. The Finance Board ensures that the FHLBanks operate in a safe and sound manner, carry out their housing finance mission, remain adequately capitalized and can raise funds in the capital markets. Also, the Finance Board establishes policies and regulations covering the operations of the FHLBanks. Each FHLBank operates as a separate entity with its own management, employees, and board of directors. The Bank does not hold a variable interest in a variable interest entity nor is it the primary beneficiary of a variable interest entity.

The FHLBanks' debt instruments (consolidated obligations) are the joint and several obligations of all the FHLBanks and are the primary source of funds for the FHLBanks. Deposits, other borrowings, and capital stock issued to members provide other funds. The FHLBanks primarily use these funds to provide advances to members and to purchase loans from members through its Mortgage Partnership Finance® (MPF®) program. Some FHLBanks also provide member institutions with correspondent services, such as item processing, collection, and settlement.

2. Summary of Significant Accounting Policies

Use of estimates
The preparation of financial statements requires management to make assumptions and estimates. These assumptions and estimates may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. Actual results could differ from these estimates.

Investments
The Bank carries investments, for which it has both the ability and intent to hold to maturity, at cost, adjusted for the amortization of premiums and accretion of discounts using the level-yield method.

The Bank computes gains and losses on sales of investment securities using the specific identification method and includes these gains and losses in Other income. The Bank treats securities purchased under agreements to resell as collateralized financings.

The Bank regularly evaluates outstanding investments for impairment. If there is an other-than-temporary impairment in value of an investment, the decline in value is recognized as a loss in Other expenses.

Advances

The Bank presents advances, net of unearned commitment fees and discounts on advances for the Affordable Housing Program (AHP), as discussed below. The Bank credits interest on advances to income as earned. Following the requirements of the Federal Home Loan Bank Act of 1932 (the Act), as amended, the Bank obtains sufficient collateral on advances to protect it from losses. The Act limits eligible collateral to certain investment securities, residential mortgage loans, cash or deposits with the Bank, and other eligible real estate-related assets. As Note 6 more fully describes, community financial institutions (FDIC-insured institutions with assets of $538 million or less during 2003) are subject to more liberal statutory collateral rules for small business and agricultural loans. The Bank has not incurred any credit losses on advances since its inception. Because of the collateral held as security on the advances and repayment history, management of the Bank believes that an allowance for credit losses on advances is unnecessary.

Mortgage loans and participations

The Bank is participating in the Mortgage Partnership Finance (MPF) program under which the Bank invests in government-insured and conventional mortgage loans which are funded by the Bank through or purchased from its participating members. The Bank manages the liquidity, interest rate and options risk of the loans, while the members retain the marketing and servicing activities. The Bank and the members share in the credit risk of the loans with the Bank assuming the first loss obligation limited by the First Loss Account (FLA), and the members assuming credit losses in excess of the FLA, Second Loss Credit Enhancement, up to the amount of the credit enhancement obligation as specified in the master agreement.

Credit enhancement is an obligation on the part of the participating member which ensures the retention of credit risk on loans they originate. The amount of the credit enhancement is determined so that any losses in excess of the enhancement are limited to those required for “AA” level of credit risks. The participating member receives from the Bank a credit enhancement fee for managing this portion of the inherent risk in the loans. These fees are paid monthly based upon the remaining unpaid principal balance. The required credit enhancement obligation amount may vary depending on the various product alternatives selected.

The Bank classifies mortgage loans as held for investment and, accordingly, reports them at their principal amount outstanding net of premiums and discounts.

The Bank defers and amortizes premiums and discounts as interest income over the estimated life of the related mortgage loans. Actual prepayment experience and estimates of future principal prepayments are used in calculating the estimated lives of the mortgage loans. The Bank aggregates the mortgage loans by similar characteristics (type, maturity, note rate and acquisition date) in determining estimates.

The Bank records credit enhancement fee expense in interest income. The Bank records other non-origination fees, such as delivery commitment extension fees and pair-off fees, in Other income.

The Bank places a mortgage loan on nonaccrual status when the collection of the contractual principal or interest from the participating financial institution is 90 days or more past due. When a mortgage loan is placed on nonaccrual status, accrued but uncollected interest is reversed against interest income. The Bank records cash payments received on nonaccrual loans as interest income and a reduction of principal.

The Bank bases the allowance for credit losses on management's estimate of credit losses inherent in the Bank's mortgage loan portfolio as of the balance sheet date. Actual losses greater than defined levels are offset by the members' credit enhancement up to each member's respective limit. The Bank performs periodic reviews of its portfolio to identify the losses inherent within the portfolio and to determine the likelihood of collection of the portfolio. The overall allowance is determined by an analysis that includes consideration of various data observations such as past performance, current performance, loan portfolio characteristics, collateral valuations, industry data, and prevailing economic conditions. As a result of this analysis, the Bank has established an allowance for credit losses in the amounts of $507,000 and $428,000 as of December 31, 2003 and December 2002.

Affordable Housing Program
The Act requires each FHLBank to establish and fund an AHP (see Note 7). The Bank charges the required funding for AHP to earnings and establishes a liability. The AHP funds provide subsidies to members to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. The Bank issues AHP advances at interest rates below the customary interest rate for non-subsidized advances. When the Bank makes an AHP advance, the present value of the variation in the cash flow caused by the difference in the interest rate between the AHP advance rate and the Bank's related cost of funds for comparable maturity funding is charged against the AHP liability and recorded as a discount on the AHP advance. As an alternative, the Bank has the authority to make the AHP subsidy available to members as a grant.

Prepayment fees
The Bank charges its members a prepayment fee when members prepay certain advances before the original maturity. The Bank reports prepayment fees associated with hedged advances and the corresponding gains or losses from the termination of the interest rate exchange agreements in Net realized and unrealized gains (losses) on derivatives and hedging activities in Other income. Prepayment fees not associated with hedged advances are recorded in Prepayment fees in Other income.

When terms are modified for an existing advance, the Bank evaluates whether the advance meets the criteria to qualify as a modification of an existing advance or a new advance. If the advance qualifies as a modification, the net fee on the prepaid advance is deferred, recorded in the basis of the advance, and amortized over the life of the modified advance. This amortization is recorded in advance interest income. If the modified advance is hedged, it is marked to fair value after the amortization of the basis adjustment. This amortization results in offsetting amounts being recorded in Interest income and Net realized and unrealized gain (loss) on derivatives and hedging activities in Other income. The offsetting amortization amounted to $3,213,000, $99,500 and $0 in 2003, 2002, and 2001. If the advance is determined to be a new advance, net prepayment fees are recorded in Prepayment fees in Other income.

Commitment fees
The Bank defers commitment fees for advances and amortizes them to interest income using the straight-line method. The Bank records commitment fees for letters of credit as a deferred credit when it receives the fees and amortizes them over the term of the letters of credit.

Derivatives
Accounting for derivatives is addressed in the Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by

SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities-Deferral of Effective Date of FASB Statement No. 133*, and as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (herein referred to as "SFAS 133"). Accordingly, all derivatives are recognized on the balance sheet at their fair value and those not used for intermediary purposes are designated as (1) a hedge of the fair value of (a) a recognized asset or liability or (b) an unrecognized firm commitment (a "fair-value" hedge); (2) a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash-flow" hedge); or (3) a non-SFAS 133 hedge of an asset or liability ("economic hedge") for asset-liability management purposes. Changes in the fair value of a derivative that is effective as and that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (including changes that reflect losses or gains on firm commitments), are recorded in current-period earnings. Changes in the fair value of a derivative that is effective and that is designated and qualifies as a cash-flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of a variable rate asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the change in the fair value of the derivative exceeds the change in fair value of the hedged item or the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings. Changes in the fair value of a stand-alone derivative designated as an economic hedge are recorded in current-period earnings with no fair value adjustment to an asset or liability. Hedge ineffectiveness and changes in the fair value of stand-alone derivatives are recorded in Other income as Net realized and unrealized gain (loss) on derivatives and hedging activities.

The Bank may acquire financial instruments in which a derivative is "embedded" and that are not remeasured at fair value with changes in fair value reported in earnings as they occur. Upon acquiring the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and designated as either (1) a hedging instrument in a fair-value or cash-flow hedge or (2) a stand-alone derivative instrument pursuant to an economic hedge. However, if the entire instrument were to be measured at fair value, with changes in fair value reported in current earnings (e.g., an investment security classified as "trading" under SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*), or if the Bank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and no portion of the instrument would be designated as a hedging instrument.

The Bank formally documents all relationships between derivative hedging instruments and hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions and its method of assessing ineffectiveness. This process includes linking all derivatives that are designated as fair-value, cash-flow, or foreign-currency hedges to (1) assets and liabilities on the balance sheet, (2) firm commitments or (3) forecasted transactions. The

Bank also formally assesses (both at the hedge's inception and at least quarterly on an ongoing basis) whether the derivatives that are used in hedging transactions have been effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain effective in future periods. The Bank typically uses regression analyses or other statistical analyses to assess the effectiveness of its hedges. When it is determined that a derivative has not been or is not expected to be effective as a hedge, the Bank discontinues hedge accounting prospectively, as discussed below.

The Bank discontinues hedge accounting prospectively when: (1) it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative and/or the hedged item expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) the Bank determines that designating the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued due to the Bank's determination that the derivative no longer qualifies as an effective fair-value hedge, the Bank will continue to carry the derivative on the balance sheet at its fair value, cease to adjust the hedged asset or liability for changes in fair value, and begin amortizing the cumulative basis adjustment of the hedged item into earnings over the remaining life of the hedged item, using the straight-line method, which approximates the level-yield method. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Bank will continue to carry the derivative on the balance sheet at its fair value, removing from the balance sheet any asset or liability that was recorded to recognize the firm commitment and recording it as a gain or loss in current-period earnings. When the Bank discontinues hedge accounting because it is no longer probable that a forecasted transaction will occur in the originally expected period, the gain or loss on the derivative will remain in Accumulated other comprehensive income (loss) and will be reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive income (loss) will be recognized immediately in earnings. When hedge accounting is discontinued due to the Bank's determination that the derivative no longer qualifies as an effective cash-flow hedge of an existing hedged item, the Bank will continue to carry the derivative on the balance sheet at its fair value and amortize the cumulative other comprehensive income (loss) adjustment to earnings when earnings are affected by the original forecasted transaction. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value of the derivative in current-period earnings.

Hedging activities

General – The Bank may enter into interest-rate swaps, swaptions, and interest-rate cap and floor agreements (collectively, interest-rate exchange agreements) to manage its exposure to changes in interest rates. The Bank may adjust the effective maturity, repricing frequency, or option characteristics of financial instruments to achieve risk management objectives. The Bank uses interest-rate exchange agreements in three ways: either by designating them as a fair value or cash flow hedge of an underlying financial instrument or a forecasted transaction, by acting as an intermediary, or in asset-liability management (i.e., a non-SFAS 133 economic hedge). For example, the Bank uses interest-rate exchange agreements in its overall interest-rate risk management to adjust the interest-rate sensitivity of consolidated obligations to approximate more

closely the interest-rate sensitivity of assets (both advances and investments), and/or to adjust the interest-rate sensitivity of advances, investments or mortgage loans to approximate more closely the interest-rate sensitivity of liabilities. In addition to using interest-rate exchange agreements to manage mismatches of interest rates between assets and liabilities, the Bank also uses interest-rate exchange agreements to manage embedded options in assets and liabilities, to hedge the market value of existing assets and liabilities and anticipated transactions, to hedge the duration risk of prepayable instruments and to reduce funding costs.

A non-SFAS 133 economic hedge is defined as an interest-rate exchange agreement, hedging specific or non-specific underlying assets, liabilities or firm commitments, that does not qualify for hedge accounting under the rules of SFAS 133, but is an acceptable hedging strategy under the Bank's risk management program. These strategies also comply with Finance Board regulatory requirements. An economic hedge by definition introduces the potential for earnings variability due to the changes in fair value recorded on the interest-rate exchange agreement(s) that are not offset by corresponding changes in the value of the economically hedged assets, liabilities, or firm commitments.

The Bank, consistent with Finance Board regulation, enters into interest-rate exchange agreements only to reduce the market risk exposures inherent in otherwise unhedged assets and funding positions. The Bank utilizes interest-rate exchange agreements in the most cost efficient manner and may enter into interest-rate exchange agreements that do not necessarily qualify for hedge accounting under SFAS 133 accounting rules. As a result, when entering into such non-qualified hedges, the Bank recognizes only the change in fair value of these interest-rate exchange agreements in Other income as Net realized and unrealized gain (loss) on derivatives and hedging activities with no offsetting fair value adjustments for the asset, liability, or firm commitment.

Consolidated Obligations - The Bank manages the risk arising from changing market prices and volatility of a consolidated obligation by matching the cash inflow on the interest-rate exchange agreement with the cash outflow on the consolidated obligation. In addition, the Bank requires collateral agreements on some interest-rate exchange agreements. While consolidated obligations are the joint and several obligations of the FHLBanks, one or more FHLBanks may individually serve as counterparties to interest-rate exchange agreements associated with specific debt issues. For instance, in a typical transaction, fixed-rate consolidated obligations are issued for one or more FHLBanks, and each of those FHLBanks simultaneously enters into a matching interest-rate exchange agreement in which the counterparty pays fixed cash flows to the FHLBank designed to mirror in timing and amount the cash outflows the FHLBank pays on the consolidated obligation. Such transactions are treated as fair-value hedges under SFAS 133. In this typical transaction, the FHLBank pays a variable cash flow that closely matches the interest payments it receives on short-term or variable-rate advances. This intermediation between the capital and swap markets permits the Bank to raise funds at lower costs than would otherwise be available through the issuance of simple fixed- or floating-rate consolidated obligations in the capital markets.

Advances – With issuances of convertible advances, the Bank may purchase from the member a put option that enables the Bank to convert an advance from fixed rate to floating rate if interest rates increase or to terminate the advance and extend additional credit on new terms. The Bank may hedge a convertible advance by entering into a cancelable interest-rate exchange agreement where the Bank pays fixed and receives variable. This type of hedge is treated as a fair value hedge under SFAS 133. The swap counterparty can cancel the interest-rate exchange agreement on the put date, which would normally occur in a rising rate environment, and the Bank can

convert the advance to a floating rate or terminate the advance and extend additional credit on new terms.

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

Mortgage Loans – The Bank invests in mortgage assets. The prepayment options embedded in mortgage assets can result in extensions or reductions in the expected maturities of these investments, depending on changes in estimated prepayment speeds. Finance Board regulation limits this source of interest-rate risk by restricting the types of mortgage assets the Bank may own to those with limited average life changes under certain interest-rate shock scenarios and establishing limitations on duration of equity and change in market value of equity. The Bank may manage against prepayment and duration risk by funding some mortgage assets with consolidated obligations that have call features. In addition, the Bank may use interest-rate exchange agreements to manage the prepayment and duration variability of mortgage assets. Net income could be reduced if the Bank replaces the mortgages with lower yielding assets and if the Bank's higher funding costs are not reduced concomitantly.

The Bank manages the interest-rate and prepayment risks associated with mortgages through debt issuance. The Bank issues both callable and non-callable debt to achieve cash flow patterns and liability durations similar to those expected on the mortgage loans.

The Bank analyzes the duration, convexity, and earnings risk of the mortgage portfolio on a regular basis under various rate scenarios.

Firm Commitment Strategies - Prior to July 1, 2003, the Bank hedged the market value of purchase commitments on fixed-rate mortgage loans by using derivatives with similar market value sensitivity characteristics. When the derivative settled, the current market value of the commitment was included with the basis of the mortgage loans and amortized accordingly. This transaction was treated as a fair value hedge. Mortgage purchase commitments entered into after June 30, 2003, are considered derivatives. Accordingly, both the commitment and the derivatives used in the firm commitment hedging strategy are recorded on the balance sheet at fair value, with changes in fair value recognized in the current-period earnings.

The Bank may also hedge a firm commitment for a forward starting advance through the use of an interest-rate swap. The basis movement associated with the firm commitment will be rolled into the basis of the advance at the time the commitment is terminated and the advance is issued. The basis adjustment will then be amortized into interest income over the life of the advance.

Investments – The Bank invests in mortgage and residential asset-backed securities ("mortgage related securities"), U.S. agency securities and the taxable portion of state or local housing finance agency securities. The interest-rate and prepayment risks associated with these investment securities are managed through debt issuance.

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

The Bank is not a derivative dealer and thus does not trade derivatives for short-term profit.

Credit Risk – The Bank is subject to credit risk due to the risk of nonperformance by counterparties to the derivative agreements. The degree of counterparty risk on derivative agreements depends on the extent to which master netting arrangements are included in such contracts to mitigate the risk. The Bank manages counterparty credit risk through credit analysis, collateral requirements and by following the requirements set forth in Finance Board regulations. Based on credit analyses and collateral requirements, the management of the Bank does not anticipate any credit losses on its derivative agreements.

The Bank has not issued consolidated obligations denominated in currencies other than U.S. dollars.

To meet the hedging needs of its members, the Bank acts as an intermediary between the members and the other counterparties. This intermediation allows smaller members access to the swap market. The derivatives used in intermediary activities do not qualify for SFAS 133 hedge accounting treatment and are separately marked-to-market through earnings. The net results of the accounting for these derivatives does not significantly affect the operating results of the Bank.

Premises and equipment

The Bank records premises and equipment at cost less accumulated depreciation and amortization of approximately $15,921,000 and $14,646,000 at December 31, 2003 and 2002. Depreciation and amortization expense was $3,714,000, $2,635,000 and $2,066,000 for the years ended December 31, 2003, 2002 and 2001. The Bank computes depreciation and amortization on the straight-line method over the estimated useful lives of assets ranging from 3 to 15 years. It amortizes leasehold improvements on the straight-line basis over the shorter of the estimated useful life of the improvement or the remaining term of the lease. The Bank capitalizes improvements and major renewals but expenses ordinary maintenance and repairs when incurred. The Bank includes gains and losses on disposal of premises and equipment in Other income. The net realized gain (loss) on disposal of premises and equipment was not material in 2003 and 2002. For 2001, the loss on the destruction of the Bank's facilities at 7 World Trade Center was offset by insurance proceeds and release of deferred rent concessions.

Concessions on consolidated obligations

The Bank defers and amortizes, using the straight-line method, the amounts paid to dealers in connection with the sale of consolidated obligation bonds over the term of the bonds. The Office of Finance prorates the amount of the concession to the Bank based upon the percentage of the debt issued that is assumed by the Bank. Unamortized concessions were $16,975,000 and $19,168,000 at December 31, 2003 and 2002 and were included in Other assets. Amortization of such concessions were included in consolidated obligation interest expense and totaled $27,916,700, $25,921,300 and $13,193,100 in 2003, 2002, and 2001. The Bank charges to expense as incurred the concessions applicable to the sale of consolidated obligation discount notes because of the short maturities of these notes.

Discounts and premiums on consolidated obligations
The Bank expenses the discounts on consolidated obligation discount notes using the level-yield method over the term of the related notes and amortizes the discounts and premiums on consolidated bonds also using the level-yield method over the term to maturity of the consolidated obligation bonds.

Resolution Funding Corporation (REFCORP) assessments
Although the Bank is exempt from ordinary federal, state, and local taxation except for local real estate tax, it is required to make payments to REFCORP. Each FHLBank is required to pay 20 percent of net earnings after AHP to REFCORP. The FHLBank will expense this amount until the aggregate amounts actually paid by all 12 FHLBanks are equivalent to a $300 million annual annuity whose final maturity date is April 15, 2030, at which point the required payment of each FHLBank to REFCORP will be fully satisfied. The Finance Board in consultation with the Secretary of the Treasury will select the appropriate discounting factors to be used in this annuity calculation. The cumulative amount to be paid to REFCORP by the Bank is not determinable at this time due to the interrelationships of all future FHLBanks' earnings. The FHLBanks' payments through 2003 defease all future benchmark payments after the third quarter of 2020 and $22 million of the $75 million benchmark payment for the third quarter of 2020.

Finance Board and Office of Finance expenses
The Bank is assessed for its proportionate share of the costs of operating the Finance Board and the Office of Finance, which manages the sale of consolidated obligations.

Estimated fair values
Most of the Bank's financial instruments lack an available trading market characterized by transactions between a willing buyer and a willing seller engaging in an exchange transaction. Therefore, the Bank uses significant estimates and present-value calculations when disclosing estimated fair values. The Bank assumes that book value approximates fair value for financial instruments with three months or less to repricing or maturity. Note 16 details the estimated fair values of the Bank's financial instruments.

Cash flows
In the statements of cash flows, the Bank considers Cash and due from banks as Cash and cash equivalents.

Reclassifications
Certain amounts in the 2002 and 2001 financial statements have been reclassified to conform to the 2003 presentation (See also Note 15).

3. Change in Accounting Principle and Recently Issued Accounting Standards & Interpretations

Adoption of SFAS 145
The Bank adopted Statement of Financial Accounting Standards No. 145, "*Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*" (herein referred to as "SFAS 145") on June 30, 2002. SFAS 145 rescinds both SFAS 4, "*Reporting Gains and Losses from the Extinguishment of Debt*" and the amendment to SFAS 4, SFAS 64 "*Extinguishment of Debt made to Satisfy Sinking-Fund Requirements*," and eliminates

the requirement that gains and losses from the extinguishment of debt (except for those considered unusual or infrequent in nature) be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. See Note 12.

Adoption of SFAS 149
FASB issued Statement of Financial Accounting Standards No. 149, "*Amendment of Statement 133 on Derivative Instruments and Hedging Activities"* (herein referred to as "SFAS 149"), which amends and clarifies financial accounting and reporting for derivative instruments and for hedging activities under SFAS 133, "*Accounting for Derivative Instruments and Hedging Activities"*. In most cases, SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003, and, in most cases, all provisions of SFAS 149 should be applied prospectively. The Bank adopted SFAS 149 as of the effective date and the adoption did not have a material impact on the financial statements.

Adoption of SFAS 150
FASB issued Statement of Financial Accounting Standards No. 150, "*Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"* (herein referred to as "SFAS 150") in May 2003. The Bank will adopt SFAS 150 in 2005 per its provisions. The Bank's capital stock, under certain circumstances, may be considered a mandatory redeemable financial instrument and in such instances would need to be classified as a liability. The Bank does not anticipate the amounts, if any, to be reclassed as a liability to be material.

Adoption of SFAS 132 (revised 2003)
FASB issued Statement of Financial Accounting Standards No. 132 (revised 2003), *"Employers' Disclosures about Pensions and Other Postretirement Benefits"* (herein referred to as "SFAS 132 (revised 2003)") in December 2003. The Bank adopted SFAS 132 (revised 2003) as of the effective date and the adoption did not have a material impact on the financial statements.

Adoption of FIN 45
FASB issued Interpretation No. 45, "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34*" (herein referred to as "FIN 45") on November 25, 2002. FIN 45 expands existing disclosure requirements at December 31, 2002 for guarantees and provides initial recognition and measurement provisions to be applied on a prospective basis for guarantees issued or modified after December 31, 2002. The initial recognition and measurement provisions apply to the Bank's letters of credit. The resulting amounts recognized in Other liabilities in 2003 were not material.

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

For a derivative designated as a fair value hedge, the transition adjustment for the derivative was reported as a cumulative effect adjustment of net income. Concurrently, any fair value gain or loss on the hedged item was recognized as an adjustment of the hedged item's carrying amount, but only to the extent of the offsetting transition adjustment of the derivative, and was also reported as a cumulative effect adjustment of net income. The transition provisions of SFAS 133 also provide that at the date of initial implementation an entity may transfer any security classified as "held-to-maturity" to "available-for-sale" or "trading" (herein referred to as securities held at fair value), and any security classified as "available-for sale" to "trading" (securities held at fair value.) The Bank did not transfer any securities classified as held-to-maturity to securities classified as held at fair value.

In accordance with the transition provisions of SFAS 133, the Bank recorded the following cumulative effect adjustments to earnings as of January 1, 2001:

Net adjustments related to (1) fair value hedges, (2) derivative transactions not designated as hedges under SFAS 133, and (3) derivative transactions not meeting requirements for fair value or cash flow hedges	$ 3,249,000
Total cumulative effect of accounting change on earnings	$ 3,249,000

As a result of SFAS 133, for the years ended December 31, 2003, 2002, and 2001, the Bank recorded net gains (losses) on derivatives and hedging activities of $2.1 million, $(8.4) million, and $3.1 million, respectively, in Net realized and unrealized gain (loss) on derivatives and hedging activities under Other income. Net gains (losses) on derivatives and hedging activities for the years ended December 31, 2003, 2002 and 2001 were as follows:

	2003	2002	2001
Net (losses) gains on derivatives and hedging activities			
Gains (losses) related to fair value hedge ineffectiveness	$ 2,457,000	$ 1,703,000	$ 6,050,000
Gains (losses) on economic hedges	(335,000)	(10,150,000)	(2,928,000)
Net gains (losses) on derivatives and hedging activities	$ 2,122,000	$ (8,447,000)	$ 3,122,000

There were no material amounts for the years ended December 31, 2003, 2002 and 2001, that were reclassified into earnings as a result of the discontinuance of cash flow hedges because it became probable that the original forecasted transactions would not occur by the end of the originally specified time period or within a two month period thereafter. As of December 31, 2003, the deferred net losses on derivative instruments in Accumulated other comprehensive loss that are expected to be reclassified to earnings during the next twelve months are not material. The maximum length of time over which the Bank is hedging its exposure to the variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, is six months.

4. Cash and Due from Banks

Compensating balances
The Bank maintained average required clearing balances with various Federal Reserve Banks of approximately $1,000,000 for each of the years ended December 31, 2003 and 2002. These are required clearing balances and may not be withdrawn; however, the Bank may use earnings credits on these balances to pay for services received from the Federal Reserve Banks.

Pass-through deposit reserves
The Bank acts as a pass-through correspondent for member institutions required to deposit reserves with the Federal Reserve Banks. Pass-through reserves deposited with Federal Reserve Banks were $57,677,500 and $35,490,500 as of December 31, 2003 and 2002. The Bank includes member reserve balances in Other liabilities in the Statements of Condition.

5. Held-to-Maturity Securities

During the third quarter of 2003, the Bank determined that there had been a significant deterioration in the creditworthiness of certain uninsured securities with an amortized cost of $1,033 million backed by manufactured housing loans and certain other uninsured asset-backed securities with an amortized cost of $944 million backed by residential and business loans. The securities were classified as held-to-maturity, and all of these securities had been rated triple-A by at least two rating agencies at the time of purchase. To avoid exposure over time to further credit deterioration and in accordance with the provisions of SFAS 115, the Bank sold these held-to-maturity securities, incurring a loss on the sale of approximately $189 million and reducing the Bank's net income by approximately $139 million.

Major security types
Held-to-maturity securities as of December 31, 2003, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State or local housing agency obligations	$ 1,164,486	$ 33,269	$ (508)	$ 1,197,247
Mortgage-related securities	10,194,881	361,756	(5,596)	10,551,041
Total	$ 11,359,367	$ 395,025	$ (6,104)	$ 11,748,288

Held-to-maturity securities as of December 31, 2002, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury obligations	$ 205,514	$ 5,195	$ -	$ 210,709
U.S. agency obligations	18,553	384	-	18,937
State or local housing agency obligations	1,028,682	51,255	(925)	1,079,012
	1,252,749	56,834	(925)	1,308,658
Mortgage-related securities	11,713,970	510,418	(45,337)	12,179,051
Total	$ 12,966,719	$ 567,252	$ (46,262)	$ 13,487,709

Temporary impairment

The following table summarizes held-to-maturity securities with fair values below their amortized cost, i.e., in an unrealized loss position, at December 31, 2003. The fair values and unrealized losses are aggregated by major security type and rating, and by length of time individual securities have been in a continuous unrealized loss position. Securities to which different rating levels have been assigned by different rating agencies, i.e., split ratings, are assigned to the lower rating category (in thousands):

	Less than 12 months		12 months or more	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Mortgage- and residential asset-backed securities - fixed rate				
AAA-rated	$ 1,450,501	$ 4,373	$ 217	$ 2
AA-rated	-	-	-	-
Below AA	-	-	-	-
Mortgage- and residential asset-backed securities - variable rate				
AAA-rated	1,238,679	938	107,998	283
AA-rated	-	-	-	-
Below AA	-	-	-	-
	2,689,180	5,311	108,215	285
State and local housing finance agencies-fixed rate				
AAA-rated	-	-	-	-
AA-rated	-	-	-	-
Below AA	-	-	-	-
State and local housing finance agencies-variable rate				
AAA-rated	-	-	39,770	230
AA-rated	-	-	24,722	278
Below AA	-	-	-	-
	-	-	64,492	508
Total temporarily impaired	$ 2,689,180	$ 5,311	$ 172,707	$ 793

The Bank has determined, based on creditworthiness of the securities and including any underlying collateral and/ or insurance provisions of the security, that unrealized losses in the above table represent temporary impairments.

Redemption terms

The amortized cost and estimated fair value of held-to-maturity securities, by contractual maturity, are shown below (in thousands). Expected maturities of some securities and mortgage-related securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

	2003		2002	
Year of Maturity	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
Due in one year or less	$ -	-	$ 224,067	1.64 %
Due after one year through five years	-	-	-	-
Due after five years through ten years	67,332	6.35 %	91,770	6.38 %
Due after 10 years	1,097,154	3.15 %	936,912	4.22 %
	1,164,486		1,252,749	
Mortgage-related securities	10,194,881	4.77 %	11,713,970	5.91 %
Total	$ 11,359,367		$ 12,966,719	

The amortized cost of the Bank's mortgage-related securities classified as held-to-maturity includes net premiums of $34,134,669 and $6,094,113 at December 31, 2003 and 2002.

Interest rate payment terms

The following table summarizes interest rate payment terms for investment securities classified as held-to-maturity at December 31, 2003and 2002 (in thousands):

	2003	2002
Amortized cost of held-to-maturity securities other than mortgage related securities		
Fixed-rate	$ 401,791	$ 740,960
Variable-rate	762,695	511,789
	1,164,486	1,252,749
Amortized cost of held-to-maturity mortgage related securities		
Pass through securities		
Fixed-rate	1,185,898	1,298,843
Collateralized mortgage obligations		
Fixed-rate	6,539,026	9,600,732
Variable-rate	2,469,957	814,395
	10,194,881	11,713,970
Total	$ 11,359,367	$ 12,966,719

6. Advances

Redemption terms

At December 31, 2003 and 2002, the Bank had advances outstanding, including AHP advances (see Note 7), at interest rates ranging from 0.80 percent to 9.87 percent and 1.17 percent to 9.87 percent, respectively, as summarized below (in thousands):

	2003		2002	
Year of maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Overdrawn demand deposit accounts	$ -	-	$ 6,194	3.70 %
2003	-	-	19,506,333	2.95 %
2004	19,054,973	2.12 %	11,329,064	3.07 %
2005	9,428,476	3.22 %	8,197,824	3.65 %
2006	5,712,807	3.31 %	3,446,781	4.32 %
2007	3,341,100	3.89 %	2,385,348	4.35 %
2008	5,424,315	4.44 %	3,432,862	5.30 %
2009	1,691,244	5.44 %	1,626,074	5.52 %
Thereafter	17,111,165	4.69 %	16,092,572	4.83 %
Total par value	61,764,080	3.50 %	66,023,052	3.82 %
Discount on AHP Advances	(1,066)		(1,298)	
Premium on advances	2,450		106	
SFAS 133 hedging adjustments	2,157,720		2,904,213	
Total	$ 63,923,184		$ 68,926,073	

The Bank offers convertible advances to members. With a convertible advance, the Bank effectively purchases a put option from the member that allows the Bank to terminate the fixed-rate advance, which is normally exercised when interest rates have increased from those prevailing at the time the advance was made, and convert the advance to floating rate or terminate the advance and extend additional credit on new terms. At December 31, 2003 and 2002, the Bank had convertible advances outstanding totaling $26,514,012,000 and $28,803,337,000.

The following table summarizes advances at December 31, 2003 and 2002, by year of maturity or next put date (in thousands):

Year of maturity or next put date	2003	2002
Overdrawn demand deposit accounts	$ -	$ 6,194
2003	-	38,198,789
2004	37,657,829	11,636,864
2005	9,074,033	7,466,780
2006	7,357,562	4,453,837
2007	4,160,400	3,150,648
2008	2,478,153	502,699
2009	330,144	264,974
Thereafter	705,959	342,267
Total par value	$ 61,764,080	$ 66,023,052

Security terms
The Bank lends to financial institutions involved in housing finance within its district according to Federal statutes, including the Act. The Act requires the Bank to obtain sufficient collateral on advances to protect against losses and to accept only certain U.S. government or government agency securities, residential mortgage loans, cash or deposits in the Bank and other eligible real estate-related assets as collateral on such advances. However, Community Financial Institutions ("CFIs") are subject to expanded statutory collateral provisions dealing with loans to small business or agriculture. It is the Bank's policy not to accept such collateral for advances. Borrowing members pledge their capital stock of the Bank as additional collateral for advances. At December 31, 2003 and 2002, the Bank had rights to collateral with an estimated value greater than outstanding advances. Based upon the financial condition of the member, the Bank:

(1) Allows a member to retain possession of the collateral assigned to the Bank, if the member executes a written security agreement and agrees to hold such collateral for the benefit of the Bank; or

(2) Requires the member specifically to assign or place physical possession of such collateral with the Bank or its safekeeping agent.

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

At December 31, 2003, the Bank had outstanding $23.7 billion in advances for which borrowers were required to place physical possession of the collateral with the Bank or with the Bank's safekeeping agent. In addition, the Bank had advances of $36.8 billion for which borrowers were required to specifically list assigned collateral, and $1.3 billion for which collateral assigned to the Bank was physically retained by the borrowers and for which the listing requirement had been waived. Collateral pledged to the Bank for advances had an aggregate principal value totaling $110.8 billion, consisting of $83.3 billion in eligible mortgages, and $27.5 billion in eligible securities.

Credit risk

While the Bank has never experienced a credit loss on an advance, the expanded eligible collateral for CFIs and nonmember housing associates provides the potential for additional credit risk for the Bank. The management of the Bank has the policies and procedures in place to appropriately manage this credit risk. Accordingly, the Bank has not provided any allowances for credit losses on advances.

The Bank's potential credit risk from advances is concentrated in commercial banks and savings institutions. As of December 31, 2003, the Bank had advances of $6.2 billion to Washington Mutual Bank, FA, a member of the FHLBank of San Francisco, representing 9.96 percent of total advances outstanding. These advances were acquired by Washington Mutual Bank, FA as a result of its acquisition of The Dime Savings Bank of New York, FSB. The Bank also had advances of $14.3 billion outstanding to four member institutions, representing 23.1 percent of total advances outstanding. The income from advances to these non-member and member institutions amounted to $755.8 million during 2003. The Bank held sufficient collateral to cover the advances to these institutions, and the Bank does not expect to incur any credit losses on these advances.

Interest rate payment terms

The following table details additional interest rate payment terms for advances at December 31, 2003 and 2002 (in thousands):

	2003	2002
Par amount of advances		
Fixed-rate	$ 50,975,990	$ 53,061,834
Variable rate	10,788,090	12,961,218
Total advances	61,764,080	66,023,052
Allowance for credit loss	-	-
Total par value	$ 61,764,080	$ 66,023,052

7. Affordable Housing Program

Section 10(j) of the Act requires each FHLBank to establish an AHP. Each FHLBank provides subsidies in the form of direct grants and below-market interest rate advances to members who use the funds to assist the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. Annually, the FHLBanks must set aside for the AHP the greater of $100 million or 10 percent of the current year's income after the assessment for REFCORP (see Note 2). The Bank charges the amount set aside for AHP to income and recognizes it as a liability. The Bank relieves the AHP liability as members use subsidies. If the result of the aggregate 10 percent calculation described above is less than $100 million for all 12 FHLBanks, then the Act requires the shortfall to be allocated among the FHLBanks based on the ratio of each FHLBank's income before AHP and REFCORP to the sum of the income before AHP and REFCORP of the 12 FHLBanks. There was no shortfall in either 2003 or 2002. The Bank had outstanding principal in AHP-related advances of $12,387,000 and $13,065,000 at December 31, 2003, and 2002.

8. Mortgage Loans and Participations

The Bank's mortgage loan portfolio comprises the CMA program, including certain assets purchased under the Finance Board, and the MPF program.

In the CMA program and under the Finance Board regulations, the Bank participates in residential, multi-family and community economic development mortgage loans originated by its members. The members retain servicing rights and may credit-enhance the portion of the loans participated to the Bank. The Bank did not acquire interests in any loans under the CMA program in 2003 or 2002.

The MPF program involves investment by the Bank in mortgage loans which are either funded by the Bank through or purchased from its participating members. The total loans represent loans held for investment under the MPF program whereby the Bank's members create, service, and credit enhance home mortgage loans which are owned by the Bank.

The following table presents information as of December 31, 2003, and 2002, on mortgage loans held for investment (in thousands):

	2003	2002
Fixed medium-term* single-family mortgages	$ 283,300	$ 91,101
Fixed long-term single-family mortgages	352,140	285,966
Multi-family mortgages	27,081	53,165
Non-residential mortgages	2,824	2,864
Unamortized net premiums	6,736	2,465
Net SFAS133 hedging adjustment	70	-
Total mortgage loans before allowance for credit losses	$ 672,151	$ 435,561

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

The par value of mortgage loans held for investment outstanding at December 31, 2003 and December 31, 2002, was comprised of government guaranteed loans totaling $38,818,000 and $82,518,000 and conventional and other loans totaling $626,527,000 and $350,578,000 respectively.

The allowance for credit losses was as follows (in thousands):

	2003	2002	2001
Allowance for credit losses			
Balance, beginning of year	$ 428	$ 193	$ 91
Chargeoffs	-	-	-
Recoveries	-	-	-
	428	193	91
Provision for credit losses	79	235	102
Balance, end of year	$ 507	$ 428	$ 193

At December 31, 2003 and 2002, the Bank had $115,000 and $129,000 of nonaccrual loans. The estimated fair value of the mortgage loans as of December 31, 2003 and 2002 are reported in Note 16. Mortgage loans, other than those included in large groups of smaller-balance homogeneous loans, are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage loan agreements. At December 31, 2003 and 2002, the Bank had no recorded investments in impaired mortgage loans.

9. Loans to Other FHLBanks

Uncollateralized loans to other FHLBanks at December 31, 2003 and 2002 were as follows (in thousands):

	2003		2002	
Year of Maturity	Principal Amount	Weighted Average Interest Rate %	Principal Amount	Weighted Average Interest Rate %
2004	$ 60,000	0.91 %	$ 50,000	5.47 %

Principal amount outstanding at December 31, 2002 matured in 2003.

10. Deposits

The Bank offers demand and overnight deposits for members and qualifying non-members. In addition, the Bank offers short-term deposit programs to members. A member that services mortgage loans may deposit in the Bank funds collected in connection with the mortgage loans pending disbursement of such funds to the owners of the mortgage loans; the Bank classifies these items as Other deposits in the Statements of Condition.

11. Borrowings

Securities sold under agreements to repurchase
The Bank had no amounts of securities sold under agreement to repurchase at December 31, 2003 and 2002.

Other Federal Home Loan Banks
The Bank borrows from other FHLBanks, generally for a period of one day. Such borrowings averaged $22,208,000 and $5,805,000 in 2003 and 2002, respectively. There were no borrowings outstanding as of December 31, 2003 or 2002.

12. Consolidated Obligations

Consolidated obligations are the joint and several obligations of the FHLBanks and consist of consolidated bonds and discount notes. The FHLBanks issue consolidated obligations through the Office of Finance as their agent. Consolidated bonds are issued primarily to raise intermediate and long-term funds for the FHLBanks and are not subject to any statutory or regulatory limits on

maturity. Consolidated discount notes are issued primarily to raise short-term funds. These notes sell at less than their face amount and are redeemed at par value when they mature.

The par amounts of the FHLBanks' outstanding consolidated obligations, including consolidated obligations held by other FHLBanks, were approximately $759.5 billion and $680.7 billion at December 31, 2003 and 2002, respectively. Finance Board regulations require the FHLBanks to maintain, in the aggregate, unpledged qualifying assets equal to the consolidated obligations outstanding. Qualifying assets are defined as cash; secured advances; assets with an assessment or rating at least equivalent to the current assessment or rating of the consolidated obligations; obligations, participations, mortgages, or other securities of or issued by the United States or an agency of the United States; and such securities as fiduciary and trust funds may invest in under the laws of the state in which the FHLBank is located.

On June 2, 2000, the Finance Board adopted a final rule amending the FHLBanks' leverage limit requirements. Effective July 1, 2000, each FHLBank's leverage limit is based on a ratio of assets to capital, rather than a ratio of liabilities to capital. The Finance Board's former regulations prohibited the issuance of consolidated obligations if such issuance would bring the FHLBanks' outstanding consolidated obligations and other unsecured senior liabilities above 20 times the FHLBanks' total capital. The Finance Board's regulations also applied this limit on a FHLBank-by-FHLBank basis. The final rule deletes the FHLBanks' overall leverage limit from the regulations, but limits each FHLBank's assets generally to no more than 21 times its capital. Nevertheless, an FHLBank whose non-mortgage assets, after deducting deposits and capital, do not exceed 11 percent of its assets may have total assets in an amount not greater than 25 times its capital.

To provide the holders of consolidated obligations issued before January 29, 1993 (prior bondholders), the protection equivalent to that provided under the FHLBanks' previous leverage limit of 12 times the FHLBanks' capital stock, prior bondholders have a claim on a certain amount of the qualifying assets [Special Asset Account (SAA)] if capital stock is less than 8.33 percent of consolidated obligations. At December 31, 2003 and 2002, the FHLBanks' capital stock was 4.96 percent and 5.17 percent of the par value of consolidated obligations outstanding, and the SAA balance was approximately $24 million in each of the years. Further, the regulations require each FHLBank to transfer qualifying assets in the amount of its allocated share of the FHLBanks' SAA to a trust for the benefit of the prior bondholders if its capital-to-assets ratio falls below two percent.

General terms

Consolidated obligations are issued with either fixed- or variable-rate coupon payment terms that use a variety of indices for interest rate resets including the London Interbank Offered Rate (LIBOR), Constant Maturity Treasury (CMT), 11th District Cost of Funds Index (COFI), and others. In addition, to meet the expected specific needs of certain investors in consolidated obligations, both fixed and variable-rate bonds may also contain certain features, which may result in complex coupon payment terms and call options. When such consolidated obligations are issued, the Bank enters into interest-rate exchange agreements containing offsetting features that effectively convert the terms of the bond to those of a simple variable or fixed-rate bond.

These consolidated obligations, beyond having fixed-rate or simple variable-rate coupon payment terms, may also have the following broad terms regarding either principal repayment or coupon payment terms:

Optional Principal Redemption Bonds (callable bonds) that the Bank may redeem in whole or in part at its discretion on predetermined call dates according to the terms of the bond offerings.

With respect to interest payments, consolidated bonds may also have the following terms:

Step-up Bonds generally pay interest at increasing fixed rates for specified intervals over the life of the bond. These bonds generally contain provisions enabling the Bank to call bonds at its option on the step-up dates;

Inverse Floating Bonds have coupons that increase as an index declines and decrease as an index rises;
Conversion Bonds have coupons that the Bank may convert from fixed to floating, or floating to fixed, or from one U.S. or other currency index to another, at its discretion;

Comparative Index Bonds have coupon rates determined by the difference between two or more market indices, typically Prime, CMT and LIBOR; and

Zero-Coupon Bonds are long-term discounted instruments that earn a fixed yield to maturity or the optional principal redemption date. All principal and interest are paid at maturity or on the optional principal redemption date, if exercised prior to maturity.

Redemption terms
The following is a summary of the Bank's participation in consolidated bonds outstanding at December 31, 2003 and 2002, by year of maturity (in thousands):

	2003		2002	
Year of Maturity	**Amount**	**Weighted Average Interest Rate**	**Amount**	**Weighted Average Interest Rate**
2003	$ -	-	$ 22,901,185	3.14 %
2004	15,611,780	3.39 %	13,685,780	4.07 %
2005	15,914,075	2.86 %	10,765,300	4.10 %
2006	10,291,170	3.90 %	5,420,600	4.88 %
2007	5,104,750	3.97 %	4,597,850	4.99 %
2008	3,407,900	4.17 %	1,787,200	5.48 %
2009	1,226,100	4.20 %	451,000	5.24 %
Thereafter	2,078,600	5.18 %	1,196,500	6.08 %
Total par value	53,634,375	3.52 %	60,805,415	3.96 %
Bond premiums	158,398		86,188	
Bond discounts	(20,002)		(28,990)	
SFAS 133 hedging adjustments	281,283		637,222	
Deferred net (losses) gains on terminated interest-rate exchange agreements	(2,185)		933	
Total	$ 54,051,869		$ 61,500,768	

During the year 2002, the Bank retired $565,330,000 of consolidated bonds at a cost that exceeded book value by $26,093,000. The cost is included in Other income - Other net. The debt retired

was associated with the prepayment of advances for which prepayment fees were received. During 2003, the Bank retired no debt.

Consolidated bonds outstanding at December 31, 2003 and 2002, include callable bonds totaling $12,472,100,000 and $19,125,500,000. The Bank uses fixed-rate callable debt to finance callable advances (see Note 6) and mortgage-related securities. Simultaneous with such a debt issue, the Bank may also enter an interest-rate swap (in which the Bank pays variable and receives fixed) with a call feature that mirrors the option embedded in the debt (a sold callable swap). The combined sold callable swap and callable debt allows the Bank to provide members attractively priced variable-rate advances.

The Bank's consolidated bonds outstanding at December 31, 2003 and 2002 includes (in thousands):

	2003	2002
Par amount of consolidated bonds		
Non-callable or non-putable	$ 41,162,275	$ 41,679,915
Callable	12,472,100	19,125,500
Total par value	$ 53,634,375	$ 60,805,415

The following table summarizes consolidated bonds outstanding at December 31, 2003 and 2002, by year of maturity or next call date (in thousands):

Year of maturity or next call date	2003	2002
2003	$ -	$ 34,286,685
2004	25,354,280	11,725,280
2005	14,461,575	7,924,300
2006	7,871,170	3,496,600
2007	2,542,250	1,481,850
2008	2,637,900	1,209,200
2009	166,100	136,000
Thereafter	601,100	545,500
Total par value	$ 53,634,375	$ 60,805,415

Interest rate payment terms

The following table summarizes interest rate payment terms for consolidated bonds at December 31, 2003 and 2002 (in thousands).

	2003	2002
Par value of consolidated bonds		
Fixed-rate	$ 47,525,275	$ 54,272,415
Simple variable-rate	6,109,100	6,533,000
Total par value	$ 53,634,375	$ 60,805,415

Interbank transfers of consolidated bonds
In order to meet the Bank's asset and liability management objectives during 2003, two consolidated obligation bonds aggregating $32.0 million at par were transferred to the Bank from two other FHLBanks in exchange for cash. Par amount of $25.0 million matures on January 30, 2007, and par amount $7.0 million matures on September 16, 2013. The average outstanding of transferred consolidated obligations during the year was $13.19 million and the book value at December 31, 2003 was $31.91 million.

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

	Book Value	Par Value	Weighted Average Interest Rate
December 31, 2003	$ 16,804,767	$ 16,819,977	0.99%
December 31, 2002	$ 22,011,104	$ 22,040,021	1.33%

The Act authorizes the Secretary of the Treasury, at his or her discretion, to purchase consolidated obligations of the FHLBanks aggregating not more than $4 billion. The terms, conditions, and interest rates are determined by the Secretary of the Treasury. There were no such purchases by the U.S. Treasury during the two years ended December 31, 2003.

13. Capital

The Gramm-Leach-Bliley Act ("GLB Act") will result in a number of changes in the capital structure of the FHLBanks. The final Finance Board capital rule was published on January 30, 2001, and required each FHLBank to submit a capital structure plan to the Finance Board by October 29, 2001 in accordance with the provisions of the GLB Act and final capital rule. The Finance Board approved the Bank's capital plan on July 18, 2002. The GLB Act provides a transition period to the new capital structure of up to three years from the effective date of each FHLBank's capital structure. Until such time as the Bank fully implements the new capital regulations, the current capital rules remain in effect. In particular, the Federal Home Loan Bank Act of 1932, as amended, requires members to purchase capital stock equal to the greater of 1 percent of their mortgage-related assets or 5 percent of the Bank's outstanding advances. However, the GLB Act removed the provision that required a non-thrift member to purchase additional stock to borrow from the Bank if the non-thrift member's mortgage-related assets were less than 65 percent of total assets. Members may, at the Bank's discretion, redeem at par value any capital stock greater than their statutory requirement or sell it to other Bank members at par value.

When the new capital structure plan has been implemented, the Bank will be subject to risk-based capital rules. Each FHLBank may offer two classes of stock. Members can redeem Class A stock by giving 6 months notice, and members can redeem Class B stock by giving 5 years notice. Only "permanent" capital, defined as retained earnings and Class B stock, can satisfy the risk-based capital requirement. In addition, the GLB Act specifies a 5 percent minimum leverage ratio based on total capital and a 4 percent minimum capital ratio that does not include the 1.5 weighting

factor applicable to the permanent capital which is used in determining compliance with the 5 percent minimum leverage ratio.

The GLB Act made membership voluntary for all members. A member must give six months notice of its intent to withdraw from membership. Members that withdraw from membership must wait 5 years before being readmitted to membership in any FHLBank.

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

Accumulated other comprehensive loss
Changes in Accumulated other comprehensive loss for the years ended December 31, 2003 and 2002 were as follows (in thousands):

	2003	2002
Balance, at the beginning of the year	$ -	$ -
Net unrealized (loss) on hedging activities	(13)	-
Net unrealized (loss) on Benefit Equalization Plan (see note below)	(2,013)	-
Balance, at the end of the year	$ (2,026)	$ -

Note: Represents portion of accrued benefit liability for the supplemental pension plan that has not been recorded through earnings at year-end.

14. Employee Retirement Plans

The Bank participates in the Financial Institutions Retirement Fund (FIRF), a defined-benefit plan. The plan covers substantially all officers and employees of the Bank. The Bank's contributions to FIRF through June 30, 1987 represented the normal cost of the plan. The plan reached the full-funding limitation, as defined by the Employee Retirement Income Security Act, for the plan year beginning July 1, 1987, because of favorable investment and other actuarial experience during previous years. As a result, FIRF suspended employer contributions for all plan years ending after June 30, 1987 through 2001. Contributions to the plan resumed in 2002. Contribution to FIRF charged to operating expenses in 2003 and 2002 was $2,768,650 and $1,108,070 respectively. The FIRF is a multi-employer plan and does not segregate its assets, liabilities, or costs by participating employer. As a result, disclosure of the accumulated benefit obligations, plan assets, and the components of annual pension expense attributable to the Bank cannot be made.

The Bank also participates in the Financial Institutions Thrift Plan, a defined contribution plan. The Bank's contributions are equal to a percentage of participants' compensation and a matching contribution equal to a percentage of voluntary employee contributions, subject to certain limitations. The Bank contributed $1,040,000, $653,300 and $563,000, in the years ended December 31, 2003, 2002 and 2001.

In addition, the Bank maintains a deferred compensation plan, available to all employees, which is, in substance, an unfunded supplemental retirement plan. The plan's liability consists of the

accumulated compensation deferrals and accrued earnings on the deferrals. The accrued pension cost for the Bank's supplemental retirement plan at December 31, 2003 and 2002 were as follows (in thousands):

	2003	2002
Accumulated benefit obligation	$ (6,760)	$ (4,728)
Effect of future salary increase	(2,262)	(1,965)
Projected benefit obligation	(9,022)	(6,693)
Unrecognized prior service cost	(433)	(483)
Unrecognized net loss	2,695	3,436
Accrued Pension Cost	$ (6,760)	$ (3,740)

Components of the projected benefit obligation for the Bank's supplemental retirement plan at December 31, 2003 and 2002 were (in thousands):

	2003	2002
Projected benefit obligation at the beginning of the year	$ 6,929	$ 5,449
Service Cost	379	389
Interest Cost	512	404
Benefits paid	(207)	(158)
Plan Amendments -Discount Rate	1,409	609
Projected benefit obligation at the end of the year	$ 9,022	$ 6,693

Amounts recognized in the Statements of Condition for the Bank's supplemental retirement plan at December 31, 2003 and 2002 were (in thousands):

	2003	2002
Accrued benefit liability	$ (6,760)	$ (3,740)
Net amount recognized	4,747	3,740
Accumulated other comprehensive loss	$ (2,013)	$ -

Changes in the supplemental retirement plan assets during the years ended December 31, 2003 and 2002 were (in thousands):

	2003	2002
Fair value of the plan assets at the beginning of the year	$ -	$ -
Employer contributions	207	157
Benefits Paid	(207)	(157)
Fair value of the plan assets at the end of the year	$ -	$ -

Components of the net periodic pension cost for the Bank's supplemental retirement plan for the years ended December 31, 2003 and 2002 were (in thousands):

	2003	2002
Service Cost	$ 379	$ 389
Interest Cost	512	404
Amortization of unrecognized prior service cost	(50)	(50)
Amortization of unrecognized net loss	372	326
Amortization of unrecognized net obligation	-	5
Net periodic postretirement benefit cost	$ 1,213	$ 1,074

The measurement date used to determine current year's benefit obligation was December 31, 2003.

Key assumptions and other information for the actuarial calculations for the Bank's supplemental retirement plan for the years ended December 31, 2003 and 2002 were:

	2003	2002
Discount Rate	6.25%	7.50%
Salary Increases	5.50%	5.50%
Amortization period (years)	8	8
Benefits paid during the year	$ 207,036	$ 157,806

The Bank also offers a postretirement health benefit plan to retirees. There are no funded plan assets that have been designated to provide postretirement health benefits. Assumptions used in determining the accumulated postretirement benefit obligation included a discount rate of 6.25%. The effect of a percentage point increase in the assumed healthcare trend rates would be an increase in postretirement benefit expense of $120,000 and in APBO of $950,000. Employees over the age of 55 are eligible provided they have completed 10 years of service after age 45. Components of the accumulated postretirement benefit obligation for the Bank's postretirement health benefits plan for the years ended December 31, 2003 and 2002 were (in thousands):

	2003	2002
Accumulated postretirement benefit obligation at the beginning of the year	$ 5,180	$ 4,283
Service Cost	277	228
Interest Cost	353	329
Actuarial Loss	653	662
Benefits paid	(365)	(356)
Participants' contributions	34	34
Accumulated postretirement benefit obligation at the end of the year	6,132	5,180
Unrecognized net loss	-	(1,212)
Accrued postretirement benefit cost	$ 6,132	$ 3,968

Changes in postretirement health benefit plan assets during the years ended December 31, 2003 and 2002 were (in thousands):

	2003	2002
Fair value of plan assets at the beginning of the year	$ -	$ -
Employer Contributions	331	322
Participant's contributions	34	34
Benefits Paid	(365)	(356)
Fair Value of plan assets at the end of the year	$ -	$ -

Components of the net periodic postretirement benefit cost for the Bank's postretirement health benefits plan for the years ended December 31, 2003 and 2002 were (in thousands):

	2003	2002
Service cost (benefits attributed to service during the period)	$ 277	$ 228
Interest cost on accumulated postretirement benefit obligation	353	329
Amortization of loss	80	48
Net periodic postretirement benefit cost	$ 710	$ 605

The measurement date used to determine current year's benefit obligation was December 31, 2003.

Key assumptions and other information for the Bank's postretirement health benefits plan for the years ended December 31, 2003 and 2002 were:

	2003	2002
Weighted average discount rate at the end of the year	6.25%	6.95%
Health care cost trend rates:		
Assumed for next year	8.00%	8.50%
Ultimate rate	4.50%	4.50%
Year that ultimate rate is reached	2010	2010
Alternative amortization methods used to amortize		
Prior service cost	Straight- line	Straight- line
Unrecognized net (gain) or loss	Straight- line	Straight- line

Estimated future benefits payments reflecting expected future services for the years ended December 31 were:

Years	Payments
2004	$ 355
2005	390
2006	427
2007	463
2008	498
2009-2013	3,258

15. Interest-Rate Exchange Agreements

The contractual or notional amount of interest-rate exchange agreements reflects the involvement of the Bank in the various classes of financial instruments. The notional amount of interest-rate exchange agreements does not measure the credit risk exposure of the Bank, and the maximum credit exposure of the Bank is substantially less than the notional amount. The maximum credit risk is the estimated cost of replacing favorable interest-rate swaps, forward agreements, mandatory delivery contracts for mortgage loans executed after June 30, 2003, and purchased caps and floors if the counterparty defaults and the related collateral, if any, is of no value to the Bank. This collateral has not been sold or repledged.

At December 31, 2003 and 2002, the Bank's maximum credit risk, as defined above, was approximately $59,240,000 and $95,767,000. These totals include $44,587,000 and $43,365,000 of net accrued interest receivable. In determining maximum credit risk, the Bank considers accrued interest receivables and payables, and the legal right to offset assets and liabilities by counterparty. The Bank held securities and cash with a fair value of $34,131,000 and $74,489,000 as collateral as of December 31, 2003 and 2002. Additionally, collateral with respect to interest-rate exchange agreements with member institutions includes collateral assigned to the Bank, as evidenced by a written security agreement, and held by the member institution for the benefit of the Bank.

The Bank transacts most of its interest-rate exchange agreements with large banks and major broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell, and distribute consolidated obligations. Note 17 discusses assets pledged by the Bank to these counterparties.

Intermediation
Interest-rate exchange agreements in which the Bank is an intermediary may arise when the Bank: (1) enters into offsetting interest-rate exchange agreements with members and other counterparties to meet the needs of its members, and (2) enters into interest-rate exchange agreements to offset the economic effect of other interest-rate exchange agreements that are no longer designated to either advances, investments, or consolidated obligations. The notional principal of interest-rate exchange agreements in which the Bank was an intermediary was $132,000,000 and $162,000,000 at December 31, 2003 and 2002.

Reclassification
For the years ended December 31, 2002 and 2001, the Bank has reclassified realized gains and losses (e.g., net interest payments, purchased option premiums) on standalone derivative instruments used in economic hedges. Previously, realized gains and losses on standalone derivatives used in economic hedges were classified within Net interest income after provision for credit losses, while unrealized gains and losses on these derivatives were recorded in Net realized and unrealized gain (loss) on derivatives and hedging activities within Other income. These amounts have been reclassified and are included in Net realized and unrealized gain (loss) on derivatives and hedging activities for the years ended December 31, 2002 and 2001. In addition, the Bank has classified the amortization of advance basis resulting from modification of advance terms or from termination of hedge accounting, within Net interest income after provision for credit losses. Prior to the reclassification, the amortization of advance basis was included in Net realized and unrealized gain (loss) on derivatives and hedging activities within Other income. As a result of these reclassifications, Net interest income after provision for credit losses changed from $342,337,000 to $348,588,000 and from $407,988,000 to $408,294,000 for the years ended December 31, 2002 and 2001, respectively. In addition, Net realized and unrealized gain (loss) on derivatives and hedging activities changed from ($2,196,000) to ($8,447,000) and from $3,428,000 to $3,122,000 for the years ended December 31, 2002 and 2001, respectively.

16. Estimated Fair Values

The following estimated fair value amounts have been determined by the Bank using available market information and the Bank's judgment of appropriate valuation methods. These estimates are based on pertinent information available to the Bank as of December 31, 2003 and 2002. Although the Bank uses its judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique or valuation methodology. For example, because an active secondary market does not exist for a portion of the Bank's financial instruments, in certain cases, fair values are not subject to precise quantification or verification and may change as economic and market factors and evaluation of those factors change. Therefore, these estimated fair values are not necessarily indicative of the amounts that would be realized in current market transactions. The Fair Value Summary Tables do not represent an estimate of the overall market value of the Bank as going concern, which would take into account future business opportunities.

Cash and due from banks
The estimated fair value approximates the recorded book balance.

Interest-bearing deposits and investment securities
The estimated fair value is determined based on quoted prices, excluding accrued interest, as of the last business day of the year. For other investments including mortgage-related securities, the estimated fair value has been determined by using techniques such as discounted cash flow analysis and comparison to similar instruments.

Federal funds sold
The estimated fair value is determined by calculating the present value of the expected future cash flows for instruments with more than three months to maturity. The discount rates used in these calculations are the rates for Federal funds with similar terms. The estimated fair value approximates the recorded book balance of Federal funds with three months or less to maturity.

Advances and other loans
The Bank determines the estimated fair value of advances with fixed rates and more than three months to maturity and advances with complex floating rates by calculating the present value of expected future cash flows from the advances and excluding amounts for accrued interest receivable. The discount rates used in these calculations are the replacement advance rates for advances with similar terms. Following the Finance Board's advances regulations, advances with a maturity and repricing period greater than six months require a prepayment fee sufficient to make the Bank financially indifferent to the borrower's decision to prepay the advances. Therefore, the estimated fair value of advances does not assume prepayment risk. The estimated fair value approximates the recorded book balance of advances with floating rates and fixed rates with three months or less to maturity or repricing.

Mortgage loans and participations
The estimated fair values for mortgage loans are determined based on quoted market prices of similar mortgage loans. These prices, however, can change rapidly based upon market conditions and are highly dependent upon the underlying prepayment assumptions.

Accrued interest receivable and payable
The estimated fair value approximates the recorded book value.

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

Deposits
The Bank determines estimated fair values of deposits with fixed rates and more than three months to maturity by calculating the present value of expected future cash flows from the deposits and reducing this amount for accrued interest payable. The discount rates used in these calculations are the cost of deposits with similar terms. The estimated fair value approximates the recorded book balance for deposits with floating rates and fixed rates with three months or less to maturity or repricing.

Consolidated obligations
The Bank estimates fair values based on the cost of raising comparable term debt. The estimated cost of issuing debt includes non-interest selling costs.

Borrowings
The Bank determines the estimated fair value of borrowings with fixed rates and more than three months to maturity by calculating the present value of expected future cash flows from the borrowings and reducing this amount for accrued interest payable. The discount rates used in these calculations are the cost of borrowings with similar terms. For borrowings with floating rates and fixed rates with three months or less to maturity or repricing, the estimated fair value approximates the recorded book balance.

Commitments
The estimated fair values of standby letters of credit, standby bond purchase agreements, and commitments to extend credit are based on discounted cash flows from expected fees through the expiration of the agreements, commitments and letters of credit.

The carrying value and estimated fair values of the Bank's financial instruments at December 31, 2003, were as follows (in thousands):

2003 Fair Value Summary Table

Financial Instruments	Carrying Value	Net Unrealized Gains (Losses)	Estimated Fair Value
Assets			
Cash and due from banks	$ 20,793	$ -	$ 20,793
Interest-bearing deposits	1,653,686	-	1,653,686
Deposits for mortgage loan programs with other FHLBanks	917	-	917
Federal funds sold	1,143,000	-	1,143,000
Held-to-maturity securities	11,359,367	388,921	11,748,288
Advances	63,923,184	266,366	64,189,550
Mortgage loans, net	671,644	15,156	686,800
Other loans	60,686	-	60,686
Accrued interest receivable	287,827	-	287,827
Derivative assets	59,240	-	59,240
Liabilities			
Deposits	2,100,221	-	2,100,221
Consolidated obligations			
Discount notes	16,804,767	65	16,804,702
Bonds	54,051,869	(600,709)	54,652,578
Accrued interest payable	426,437	-	426,437
Derivative liabilities	1,913,274	-	1,913,274
Other			
Standby letters of credit	112	300	412
Standby bond purchase agreements and commitments to extend credit	35	1,724	1,759

The carrying value and estimated fair values of the Bank's financial instruments at December 31, 2002, were as follows (in thousands):

2002 Fair Value Summary Table

Financial Instruments	Carrying Value	Net Unrealized Gains (Losses)	Estimated Fair Value
Assets			
Cash and due from banks	$ 65,426	$ -	$ 65,426
Interest-bearing deposits	7,648,576	-	7,648,576
Deposits for mortgage loan programs with other FHLBanks	444	-	444
Federal funds sold	2,932,000	15	2,932,015
Held-to-maturity securities	12,966,719	520,990	13,487,709
Advances	68,926,073	578,579	69,504,652
Mortgage loans, net	435,133	19,785	454,918
Other loans	50,847	-	50,847
Accrued interest receivable	377,209	-	377,209
Derivative assets	142,284	-	142,284
Liabilities			
Deposits	2,742,677	(38)	2,742,715
Consolidated obligations			
Discount notes	22,011,104	(1,073)	22,012,177
Bonds	61,500,768	(1,160,745)	62,661,513
Accrued interest payable	539,481	-	539,481
Derivative liabilities	2,355,567	-	2,355,567
Other			
Standby letters of credit	141	2,997	3,138
Standby bond purchase agreements and commitments to extend credit	-	-	-

17. Commitments and Contingencies

As described in Note 12, the FHLBanks have joint and several liability for all the consolidated obligations issued on their behalf. Accordingly, should one or more of the FHLBanks be unable to repay their participation in the consolidated obligations, each of the other FHLBanks could be called upon to repay all or part of such obligations, as determined or approved by the Finance Board. The Bank does not recognize a liability for its joint and several obligation related to other FHLBanks' consolidated obligations.

Commitments for additional advances totaled approximately $10,575,207,000 and $10,247,376,000 at December 31, 2003 and 2002. Commitments generally are for periods up to 12 months. Extension of credit under these commitments is subject to certain collateral requirements and other financial criteria at the time the commitment is drawn upon. Standby letters of credit are executed for members for a fee. A standby letter of credit is a financing arrangement between the Bank and its member. If the Bank is required to make payment for a

beneficiary's draw, these amounts are converted into collateralized advances to the member. Outstanding standby letters of credit were approximately $81,370,000 and $202,072,000 at December 31, 2003 and 2002 and had original terms of up to 15 years, with a final expiration in 2015. Unearned fees on standby letters of credit are recorded in other liabilities and amounted to $112,000 and $141,000 at December 31, 2003 and 2002. Unearned fees for transactions prior to 2003 as well as the value of the guarantees related to standby letters of credit entered into after 2002 are recorded in other liabilities and amounted to $112,000 at December 31, 2003. Based on management's credit analyses and collateral requirements, the Bank does not deem it necessary to have any provision for credit losses on these commitments and letters of credit. Standby letters of credit are fully collateralized at the time of issuance (see Note 6). The estimated fair values of commitments and letters of credit as of December 31, 2003 and 2002 are reported in Note 16.

The Bank has entered into standby bond purchase agreements related to securities issued by state housing authorities within its state district whereby the Bank, for a fee, agrees to purchase and hold the authorities' bonds until the designated marketing agent can find a suitable investor or the housing authority repurchases the bonds according to a schedule established by the standby agreement. Each standby agreement dictates the specific terms that would require the Bank to purchase the bonds. The bond purchase commitments entered into by the Bank expire no later than 2005. Some commitments are renewable at the option of the Bank. Total commitments for bond purchases were $543,721,000 at December 31, 2003, with the New York City Transitional Finance Authority. During 2003, the Bank was not required to purchase any bonds under these agreements. The estimated fair values of standby bond purchase agreements as of December 31, 2003 and 2002 are reported in Note 16.

Commitments which unconditionally obligate the Bank to fund or purchase mortgage loans under the MPF program totaled $333,467,000 and $636,661,000 at December 31, 2003 and 2002. Commitments are generally for periods not to exceed 365 days. In accordance with SFAS 149, such commitments entered into after June 30, 2003 were recorded as derivatives at their fair value.

The Bank generally executes interest-rate exchange agreements with major banks and broker-dealers and generally enters into bilateral collateral agreements. As of December 31, 2003, Interest-bearing deposits included cash pledged as collateral of $1,653,686,000 to broker-dealers and banks who have credit risk exposure to the Bank related to interest-rate exchange agreements.

The Bank charged to operating expenses net rental costs of approximately $2,906,997, $2,630,692, and $1,914,692 for the years ended December 31, 2003, 2002, and 2001. Future minimum rentals at December 31, 2003, were as follows (in thousands):

Year	Premises	Equipment	Total
2004	$ 2,724,816	$ 108,165	$ 2,832,981
2005	2,724,810	71,962	2,796,772
2006	2,724,810	7,353	2,732,163
2007	2,767,518	-	2,767,518
2008	2,803,796	-	2,803,796
Thereafter	19,924,277	-	19,924,277
Total	$ 33,670,027	$ 187,480	$ 33,857,507

Lease agreements for Bank premises generally provide for increases in the basic rentals resulting from increases in property taxes and maintenance expenses. Such increases are not expected to have a material effect on the Bank.

18. Other Developments

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

On September 11, 2001, the World Trade Center (WTC) facility of the Bank was destroyed. The loss on the destruction of leasehold improvements, furniture and equipment as well as the costs associated with the resumption of operations were more than offset by insurance proceeds. Insurance proceeds of $1.8 million, and $6.5 million are reported as a reduction in Other expenses in 2003 and 2002, respectively. For 2001, the loss on the destruction assets and recovery costs incurred during that period are reported as Other expenses, net of insurance proceeds received and deferred WTC rent concessions taken into income because of the termination of the lease.