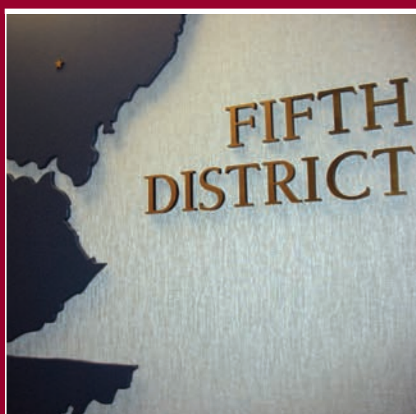
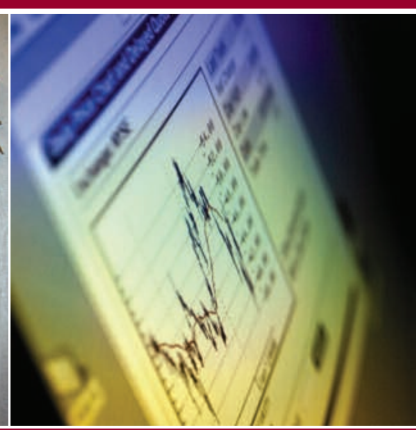
FEDERAL HOME LOAN BANK OF CINCINNATI



your housing finance partner






2007 ANNUAL REPORT

the federal home loan bank of cincinnati

is a triple-A rated regional wholesale bank providing financial services for residential housing and economic development to 725 member stockholders in the Fifth FHLBank District of Kentucky, Ohio and Tennessee.

2007 ANNUAL REPORT

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financial highlights

(dollars in millions)	**2007**	**2006**	**2005**	**2004**	**2003**
Selected Items at Year End					
Total assets	$ 87,532	$ 81,387	$ 77,180	$ 76,577	$ 77,144
Advances to members	53,310	41,956	40,262	41,301	43,129
Mortgage loans held for portfolio, net	8,928	8,461	8,418	8,371	8,101
Investments	24,866	30,620	28,220	26,671	25,624
Deposits	1,054	927	911	1,041	1,418
Consolidated Obligations	81,616	75,186	71,098	70,451	69,804
Retained earnings	286	255	208	168	92
Total capital	3,755	3,907	3,709	3,963	3,734
Annual Operating Results					
Net income	$ 269	$ 253	$ 220	$ 227	$ 171
Operating expenses	38	36	33	29	25
Affordable Housing Program assessments	31	30	26	25	19
Total dividends paid	238	205	179	152	143
Weighted average dividend rate	6.59%	5.81%	5.00%	4.13%	4.00%
Average rate on three-month LIBOR	5.29%	5.20%	3.56%	1.62%	1.21%
Average Federal funds target	5.05%	4.96%	3.19%	1.34%	1.12%
Performance Ratios					
Return on average assets	0.32%	0.32%	0.28%	0.28%	0.22%
Return on average equity	6.87%	6.70%	5.79%	5.97%	4.66%
Operating expenses to average assets	0.046%	0.046%	0.042%	0.035%	0.032%

a message for our members

On behalf of the Board of Directors (Board) and management, we are pleased to report the Federal Home Loan Bank of Cincinnati (FHLBank) achieved another year of solid financial performance for its member stockholders and made significant housing contributions to Fifth District communities.

The credit crunch of 2007 hit hard in August, testing the very core of our mission: to provide a reliable and stable source of liquidity for members. Congress created the FHLBank System in 1932, and it is remarkable that 75 years later, as the financial markets faced a severe crisis of widespread magnitude, we were called upon to fulfill that simple mission. We responded by smoothly and efficiently meeting significantly increased member demand for liquidity. Our 2007 results not only demonstrated the value of our mission but enabled us to continue paying our members a strong dividend and to fund our affordable housing activities at record levels.

RECORD EARNINGS

The FHLBank achieved record earnings of $268.5 million in 2007, an increase of $15.4 million, or 6 percent, from 2006. Our return on equity (ROE) averaged 6.87 percent compared to 6.70 percent a year ago. Our ROE in 2007 was 158 basis points above the 3-month LIBOR, which averaged 5.29 percent during the year. Our operating expenses as a percent of average assets were 0.046 percent, unchanged from 2006 and one of the lowest expense ratios among the 12 District FHLBanks. Our average regulatory capital-to-assets ratio fell to 4.80 in 2007 from 5.05 percent in 2006. This increase in financial leverage was the result of asset growth, the absence of stock dividends in 2007, and the repurchase of stock from members whose charters were transferred out of district.

Two factors were largely responsible for the rise in earnings and ROE in 2007. First, spreads on many short-term assets widened, particularly in the third and fourth quarters, as disruptions in the financial markets drove down our short-term funding costs relative to other market rates. Second, growth in average Advance balances enabled us to increase the leverage of our members' capital. These favorable factors were somewhat offset in 2007 by the maturity of a significant amount of low-cost debt, larger net unrealized market value losses related to SFAS 133 accounting for derivatives, and a reduction in Advance prepayment fees.

DIVIDENDS

In 2007, we distributed $237.6 million of earnings to stockholders as a dividend return on their capital investment in our FHLBank. This amount represented a 6.59 percent annualized dividend, which was 130 basis points above the average 3-month LIBOR for 2007.

Beginning with the first quarter of 2007, our dividend was paid in cash following 20 continuous years of paying dividends in the form of capital stock. This change was necessitated by a Federal Housing Finance Board (Finance Board) regulation that took effect in 2007, which required the FHLBanks to pay dividends in the form of cash whenever member excess stock exceeds one percent of assets. The Board's preference is to pay dividends in stock, since stock provides members with greater flexibility with respect to liquidity, asset/liability management and corporate taxation.

RETAINED EARNINGS

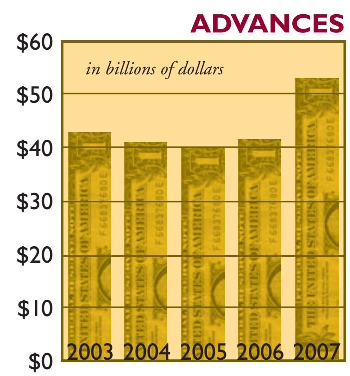
Retained earnings increased $30.9 million during 2007, to end the year at $286.4 million. Your Board has elected to continue to build retained earnings in order to help promote stable and competitive dividends over the long term, and to provide a cushion against any unexpected and significant events. Our retained earnings at year end were well in excess of the $160 million target level established by the Board.

CREDIT SERVICES

Credit activity grew to historically high levels in 2007. Many of our members faced liquidity challenges given the disruptions in the credit and mortgage markets, and as a result, members relied upon FHLBank Advances funding at unprecedented levels during the second half of 2007. The daily average principal Advance balance outstanding to members in 2007 was $49.3 billion, a gain of 8 percent from the daily average balance in 2006. Advance principal balances ended the year at $53.0 billion, an increase of $11.0 billion, or 26 percent, from the 2006 year-end balance. This increase in Advances was realized even as one of the FHLBank's largest members merged out of the Fifth District. The Advances lost from this member were more than offset by a broad-based increase in usage of Advances by the members. In fact, Advances as a percentage of assets increased during the year for members of all asset groups.

Our belief that Advance products continue to be a key source of funding for members has been reinforced during the recent market disruptions, as members have found the FHLBank's pricing and availability of liquidity to be advantageous.

All major lines of Advances experienced growth in 2007. The Advance products with the most activity and the largest balances at year end were LIBOR-based Advances at $24.3 billion, REPO Advances at $10.5 billion, Convertible Fixed-Rate Advances/ Putable Advances at $9.7 billion combined, and Regular Fixed-Rate Advances at $6.6 billion.



In 2007, the practice of offering members periodic Advance Specials continued to grow. More than $3.3 billion in Advance funding was provided to 198 participating members in these specials. That volume was up from $1.8 billion in 2006 and just $535 million in 2005. These specials included Prime-Rate Based, Putable and Regular Fixed-Rate Advances of various terms.

At the end of 2007, nearly three of every four members had Advances outstanding. While the average daily balances rose, the number of credit users declined by less than 1 percent, to 557 in 2007 from 562 in 2006, reflecting an overall decline in membership due to mergers and acquisitions.

Letter of Credit (LOC) balances were up about 7 percent in 2007, ending the year at $6.9 billion. Average daily LOC balances increased to $5.6 billion in 2007 from $1.9 billion in 2006. The significant growth of the average LOC balances is the result of several large members increasing their use of LOCs, beginning in late 2006, to support their public unit deposits. As of year-end 2007, 536 LOCs were issued to support the credit needs of 103 members.

MORTGAGE PURCHASE PROGRAM

The FHLBank's Mortgage Purchase Program (MPP) activity reached two important milestones in 2007. MPP unpaid principal balances outstanding exceeded $9 billion during the year, and total loans purchased since 2000 topped $18 billion. Both are milestones for MPP.

We believe that the structure of the MPP has significantly insulated the program from the impact of the mortgage market crisis. Delinquencies remain low, well below national and state averages. Our credit quality has held up under 2007's market conditions, as our asset quality has not been severely impacted.

Despite the difficulties in the mortgage market and a lackluster economy in the Fifth District, we were able to execute $1.5 billion of Mandatory Delivery Contracts during the year. MPP unpaid principal balances outstanding at the end of 2007 were almost $8.9 billion, an increase of $483 million from the previous year end. We approved eight members to participate in the program in 2007, for a total number of currently approved Participating Financial Institutions of 134.

HOUSING AND COMMUNITY INVESTMENT

The FHLBank's commitment to affordable housing again reached new heights in 2007. The FHLBank committed $38.8 million to serve the affordable housing needs of more than 4,100 households through the Affordable Housing Program (AHP) and American Dream Homeownership Challenge (American Dream). In 2007, 285 members took part in one or more of our housing and community investment programs, up from 278 in 2006.

Total affordable housing subsidies awarded in 2007
$38.8 million

Housing units supported
4,182

Members taking part in one or more HCI programs
285

Our programs continue to serve diverse housing needs throughout the district. For example, victims of the 2007 floods in and around Findlay, Ohio, benefited from $60,000 in American Dream funds. We have committed nearly $4.7 million in AHP

grants to help fund 10 Recovery Kentucky centers statewide for people battling substance abuse, and two of those centers have recently opened. In Nashville, Tennessee, more than $700,000 in AHP grants helped build Providence Park, an entire community of 138 Habitat homes. The final phase of that development was dedicated in 2007.

Our Housing and Community Investment Department (HCI) worked with members to address the problem of rising foreclosures in our district. In June, the Board approved creation of the HomeProtect Program. Through this program, the FHLBank made available $250 million in Advances to members at the FHLBank's cost of funds. Members can use those funds to help homeowners at risk of foreclosure to refinance their homes on more favorable terms. By the end of 2007, Advances totaling $75 million had been approved for members. We will continue to explore additional programs that could help reduce foreclosures in Kentucky, Ohio and Tennessee.

Also in 2007, the Board approved an expansion of the voluntary American Dream program. Created in 2003 to increase homeownership opportunities for minorities and families with special needs, American Dream was broadened in scope to include households recovering from natural disasters. The Board expanded funding for American Dream to $3 million, awarded in three rounds of $1 million.

In addition to our housing programs, our community and economic development programs continue to grow, assisting rural and low-income areas of the Fifth District in creating jobs. We disbursed $54.9 million in low-cost funds through our Community Investment Program and our Economic Development Advance Program.

MEMBERSHIP AND OUTREACH

Member stockholders declined to 725 in 2007, from 741 in 2006. In 2007, 16 institutions became stockholders, while 32 members were lost through mergers and acquisitions. The number of member stockholders at year end was 310 in Ohio, 219 in Kentucky and 196 in Tennessee.

In 2007, FHLBank staff conducted a series of outreach initiatives that resulted in contacts with nearly 60 percent of the membership. We view this type of customer service as vital to our success and you will read more about our efforts later in this report.

BOARD OF DIRECTORS

For the first time since 2004, the Board has a full complement of six public interest directors and a full slate of 16 directors. Beginning in January 2007, the Finance Board took action to fill vacancies among public interest directors Systemwide. In January, the Finance Board reappointed directors Carl Wick and Stephen Smith to the Board. In April, the Finance Board returned former director Charles Ruma of Columbus, Ohio, and former director and Advisory Council member Don Ball of Lexington, Kentucky, to the Board, and also named Advisory Council member Grady Appleton of Akron, Ohio, as a director. In July, the Finance Board named Leslie Dolin Dunn of Shaker Heights, Ohio, to the Board. For 2008, the Finance Board reappointed Mr. Wick, our current Chairman, and appointed Charles “Bud” Koch of Cleveland, Ohio, both as public interest directors. Mr. Koch is a long-time Ohio bank executive and former FHLBank Chairman. We are extremely pleased with these appointments as these directors bring a diversity of skills, experience, and background to your Board.

Our Ohio members elected one new director, and our Tennessee members re-elected two directors in 2007. Elected from Ohio was James DeRoberts, Chairman of The Arlington Bank in Upper Arlington. In Tennessee, William Carroll, Sr., Chairman of SmartBank, Pigeon Forge, returns for his third term on the Board, and Stan Puckett, Chairman and CEO, GreenBank, Greeneville, returns for his second term. Mr. Carroll and Mr. Puckett were unopposed for re-election and were declared directors-elect by the Board in accordance with Finance Board rules governing the election of FHLBank directors.

We extend our sincere gratitude to retiring directors James Powell and Stephen Smith. Jim and Steve helped guide the FHLBank through a number of challenges. We are grateful for their service and valuable contributions to the board and its committees. In addition, Jim and Steve were instrumental in the successful implementation of the capital plan and SEC registration.

MANAGEMENT CHANGES

Effective January 1, 2008, Andrew Howell was promoted to Executive Vice President and Chief Operating Officer. In 2007, Mr. Howell became Executive Vice President, Mission Asset Activity, with overall responsibility for the FHLBank’s Credit Services, Mortgage Purchase Program, and Housing and Community Investment. As Chief Operating Officer, he assumes additional responsibility for the FHLBank’s Accounting, Bank Operations and Treasury departments. Mr. Howell joined the FHLBank in 1989 as Credit Department Manager.

Kyle Lawler was named in April 2007 to succeed Mr. Howell as Senior Vice President, Credit Services. He is responsible for the general management and daily operations of the Credit Services Department, which encompasses member Advances, collateral, and capital stock. Mr. Lawler was previously Senior Vice President, Mortgage Purchase Program. Mr. Lawler joined the FHLBank in 2000 to lead the development of the Mortgage Purchase Program.

THE YEAR AHEAD

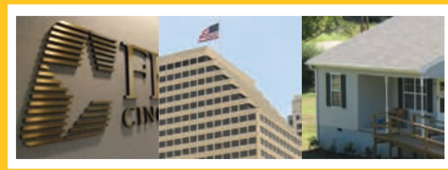
For the FHLBank, 2007 was a successful and extraordinary year. Although we were pleased that our financial results enabled us to pay our members a competitive dividend and allowed us to increase funding to our affordable housing programs, we share our members' concerns over market uncertainties. While we cannot predict the future, we can prepare for it. We manage this FHLBank conservatively with the priority of providing member service. Our current business model and 75-year-old housing finance mission were well tested in 2007 as the FHLBank effectively met a strong surge in demand for Advances, our core product.

In these uncertain times we will continue to focus on business operations over which we have some control. We will manage our interest rate risk exposure and work to maintain a strong capital base, ample liquidity, acceptable credit risk exposure, a sustainable business model and a stable membership base. In January 2008, Moody's Investors Service reaffirmed our triple-A rating, recognizing the diligence of our efforts amid the difficulties in the economy. Our triple-A rating from Standard & Poor's remains intact. In 2008, we will again stand ready as your reliable housing finance partner to deliver the funding you need to serve your communities.

Carl Wick

Carl F. Wick
Chairman, Board of Directors

David H. Hehman
President and CEO



Federal Home Loan Bank of Cincinnati

(front row, from left to right)

William J. Small, Chairman and CEO, First Federal Bank of the Midwest, *Defiance, Ohio*

Carl F. Wick, Board Chair, Principal, Wick and Associates, *Centerville, Ohio*

Charles J. Ruma, President, Virginia Homes, Ltd., *Columbus, Ohio*

R. Stan Puckett, Chairman and CEO, GreenBank, *Greeneville, Tennessee*

Richard C. Baylor, Board Vice Chair, Chairman, CEO and President, Advantage Bank, *Cambridge, Ohio*

James R. Powell, Chairman and CEO, Liberty Savings Bank, FSB, *Wilmington, Ohio*

2007 Board of Directors

(back row, from left to right)

Stephen B. Smith, Chairman, Haury and Smith Contractors, *Nashville, Tennessee*

B. Proctor Caudill, Jr., Director, Kentucky Bank, *Paris, Kentucky*

Donald R. Ball, Chairman, Ball Homes, *Lexington, Kentucky*

Billie W. Wade, President and CEO, Citizens Union Bank, *Shelbyville, Kentucky*

William Y. Carroll, Sr., Chairman of the Board, SmartBank, *Pigeon Forge, Tennessee*

Grady P. Appleton, Executive Director, East Akron Neighborhood Development Corp., *Akron, Ohio*

Robert E. Brosky, President and Chairman of the Board, First Federal Savings and Loan Association of Lorain, *Lorain, Ohio*

Leslie D. Dunn, Retired Partner, Jones Day, *Cleveland, Ohio*

Stephen D. Hailer, President and CEO, North Akron Savings Bank, *Akron, Ohio*

Michael R. Melvin, President and Director, Perpetual Federal Savings Bank, *Urbana, Ohio*

federal home loan bank of cincinnati

your housing finance partner

FHLBank President David Hehman welcomes guests to the 75th anniversary luncheon in Cincinnati.

2007

would have been a perfect time to reflect on the Federal Home Loan Bank of Cincinnati's housing finance mission, as it was the 75th anniversary of the Federal Home Loan Bank Act of 1932. However, the year did not afford much time for reflection. Events of 2007 affirmed the FHLBank's mission by placing us in a central role of the dynamic housing sector.

The core mission of the FHLBank is to support housing finance by providing funding to member financial institutions and, in 2007, we saw demand for Advances rise to historic levels. For several years, economists and housing experts had debated the presence of a housing bubble. By August 2007, the rising tide of mortgage defaults made housing the primary economic issue in the United States. Wall Street closed the window on many categories of asset-based lending, and industry access to critical liquidity was substantially restricted. In an unprecedented move, the Federal Reserve extended and promoted credit to banks, making available billions of dollars.

Nationwide, FHLBank members turned to their District FHLBanks to meet additional liquidity needs. In August alone, Advances for the 12 FHLBanks on a combined basis were $769 billion, up $110 billion compared to July. Fifth District members were part of that surge, and the FHLBank Cincinnati saw Advance principal balances rise to $51.8 billion in August, up $3.9 billion from July. Lending levels remained consistently high through the rest of 2007. At year end, Advance principal balances were at $53.0 billion, a 26 percent increase from year-end 2006. It is remarkable that a mission conceived in 1932 would be so relevant 75 years later, and we believe that it is our decades-long commitment to customer service that has made the FHLBank a trusted housing finance partner of our members.

Board Chair Carl Wick addresses the membership during the Regional Stockholder Meeting in Dayton, Ohio.

THE CORE MISSION OF THE FHLBANK IS **TO SUPPORT HOUSING FINANCE** BY PROVIDING LIQUIDITY TO MEMBER FINANCIAL INSTITUTIONS.

We are always looking for ways to improve service to our members. We strive to meet face-to-face with as many of our members as possible each year to showcase our varied products and services and to learn how we could better serve members' credit and community needs. In August, we held four workshops in Tennessee, at locations easily accessible to our members. These meetings were well attended and enthusiastically received, paving the way for more workshops in the fall, two each in Kentucky and Ohio. The workshops included an overview of FHLBank performance, current legislative and regulatory matters, and Credit, Mortgage Purchase Program (MPP) and Housing and Community Investment updates. Break-out sessions offered member specific peer group reports, Web site reports, financial modeling tools and in-depth applications of Credit Services and MPP. Taking into account these eight workshops, five regional meetings and a two-day seminar in the spring in Cincinnati, our outreach activities were attended by 410 individual members, or 57 percent of our member stockholders. Also during 2007, we hosted nine Housing and Community Investment seminars for members and project sponsors to review program updates and assist with application procedures. We participated with members and sponsors in 44 affordable housing program community events, and we initiated 26 Internet-based "webinars," all of which were well attended. With such strong participation, we intend to continue and enhance these outreach activities in 2008.

With housing markets hard hit by foreclosures in many parts of the Fifth District, we have been called into service to help address these problems. The FHLBank responded with technical resources and targeted income lending programs. We participated in the Ohio Governor's Foreclosure Prevention Task Force and a bi-partisan U.S. Congressional Roundtable to seek an effective balance between short-term intervention and longer-term consumer outreach and education. We are working with a broad coalition of members and public officials to actively share information and resources through our Web site. Our Board of Directors

(front row) Janie King Salyer, Family Bank, Paintsville, Kentucky; Leslie Inman, Winchester Federal Bank, Winchester, Kentucky; and (back row) Todd Johnson, Ohio Valley Bank, Henderson, Kentucky, attend a Fifth District member workshop.

David Hehman provides the "State of the FHLBank" update during a Regional Stockholder Meeting.

WE BELIEVE THAT IT IS OUR DECADES-LONG **COMMITMENT TO CUSTOMER SERVICE** THAT HAS MADE THE FHLBANK A TRUSTED HOUSING FINANCE PARTNER OF OUR MEMBERS.

FHLBank Executive Vice President and Chief Operating Officer Andy Howell welcomes attendees of the two-day "Margins, Market Share and the Yield Curve" seminar in Cincinnati.

approved a $250 million Advance program, HomeProtect, to help members respond to consumers at risk of delinquency or default. These efforts are continuing in 2008, as your Board authorized $2.5 million for "Preserving the American Dream," a new program intended to help troubled Fifth District homeowners avoid foreclosure by funding counseling and foreclosure mitigation services.

Though the foreclosure situation has taken center stage, there remains a critical need for affordable housing. In 2007 we provided funding for our flagship housing program, the Affordable Housing Program (AHP), at record levels. The AHP is a reliable source of funding for our members in partnership with nonprofit housing sponsors and advocates. Often, these programs provide homeownership counseling, budgeting and social services support to the families served. Over and above our mandated AHP set-aside, your Board approved an expansion of the voluntary American Dream Homeownership Challenge program, to $3 million in 2007.

Through this extraordinary year, we took time to observe our 75th anniversary with a Board of Directors celebratory luncheon, held in July, to coincide with the July 22, 1932, signing of the Federal Home Loan Bank Act. FHLBank President David Hehman and the Board welcomed 100 member institutions, affordable housing partners, community leaders and local congressional offices. Mr. Hehman acknowledged the broad support enjoyed by the FHLBank and the valuable contributions to housing, community lending and economic development made possible by the successful cooperative membership structure of the FHLBank System.

From inception in 1932 to the current housing crisis 75 years later, our housing finance mission has withstood the test of time as a reliable source of funding. We look forward to our continued role as your housing finance partner.

FHLBank Senior Vice President, Housing and Community Investment Carol Peterson (fourth from right) and Billie Wade, FHLBank Board Member and President and CEO, Citizens Union Bank, Shelbyville, Kentucky (third from right), join project sponsors and supporters in Louisville at the opening of Nuestro Banco, a bank specializing in servicing the Latino community.

FHLBank Vice President, Housing and Community Investment Jeff Reynolds and Marketing Communications Specialist Jamie Helmes administer an Affordable Housing Program webinar to the membership.

2007 Advisory Council

(front row, seated left to right)

Larry E. Murtaugh, Executive Director, Catholic Charities Facilities/Housing Corp., *Cleveland, Ohio*
Garry D. Watkins, Council Chair, Partner, Wabuck Development Company, *Leitchfield, Kentucky*
Cecil F. Dunn, Executive Director, HOPE Center, Inc., *Lexington, Kentucky*

(back row, left to right)

Susan E. Weaver, CEO and Executive Director, Community Housing Network, Inc., *Columbus, Ohio*
Mark K. Milligan, Principal Owner, Passage Management, *Columbus, Ohio*
Larry R. West, Executive Director, Scott Appalachian Industries, *Huntsville, Tennessee*
Terry W. Cunningham, Executive Director, Kingsport Housing and Redevelopment Authority, *Kingsport, Tennessee*
Jerry Rickett, President/CEO, Kentucky Highlands Investment Corp., *London, Kentucky*
Timothy E. Bolding, Executive Director, United Housing, *Memphis, Tennessee*
Kenneth F. Danter, President, The Danter Company, *Columbus, Ohio*
Stacey D. Epperson, Executive Director, Frontier Housing, Inc., *Morehead, Kentucky*
Marie Williams, Council Vice Chair, Executive Director, Recovery and Planning Services, Tennessee Dept. of Mental Health and Developmental Disabilities, *Nashville, Tennessee*

not pictured:

José González, Executive Director, Conexión Américas, *Nashville, Tennessee*

Federal Home Loan Bank of Cincinnati Officers

David H. Hehman
President and CEO

Andrew S. Howell
Executive Vice President
Chief Operating Officer

Donald R. Able
Senior Vice President
Controller

Carole L. Cossé
Senior Vice President
Chief Financial Officer

Paul J. Imwalle
Senior Vice President
Member Services

R. Kyle Lawler
Senior Vice President
Credit Services

Carol M. Peterson
Senior Vice President
Housing and Community
Investment

Thomas F. Schlager
Senior Vice President
Bank Operations

Stephen J. Sponaugle
Senior Vice President
Chief Risk Officer

Thomas J. Ciresi
Vice President
Member Services

Melissa D. Dallas
Vice President
Public Affairs

David C. Eastland
Vice President
Credit Risk Management

Richard T. Fitzpatric
Vice President
Human Resources and
Administration

S.G. Frank Haas, III
Vice President
Risk Management

Robin C. McNulty
Vice President
Mortgage Purchase Program

W. Jeff Reynolds
Vice President
Housing and Community
Investment

Keith B. Thurman
Vice President
Director of Information
Systems

Maura H. Wolf
Vice President
Treasurer

Damon v. Allen
Assistant Vice President
Housing and Community
Investment

Lori A. Aman
Assistant Vice President
Capital Markets

Nancy J. Baker
Assistant Vice President
Member Services

J. Christopher Bates
Assistant Vice President
Financial Reporting

Jerome C. Bauer
Assistant Vice President
Investment Services

Diane C. Bender
Assistant Vice President
Human Resources

Todd W. Berry
Assistant Vice President
Marketing

Jeffery S. Berryman
Assistant Vice President
Credit Operations

John J. Byczkowski
Assistant Vice President
Communications

Debbra M. DeMaris
Assistant Vice President
Accounting Operations

Paul J. Doyle
Assistant Vice President
Systems and Programming

Mary H. Estell
Assistant Vice President
Demand Deposit Services

Jeffrey A. Fields
Assistant Vice President
Business Development

Tami L. Hendrickson
Assistant Vice President
Capital Markets

C. David Hedrick, Jr.
Assistant Vice President
Credit Risk Management

Katia V. Hoffer
Assistant Vice President
Financial and Market Risk
Analysis

Thomas C. Muth
Assistant Vice President
Marketing

James J. O'Toole
Assistant Vice President
Marketing

Michael J. Byrnes
Administrative Services
Officer

Connie L. Gabbard
Corporate Secretary

Darren M. Kuntz
Funding Officer
Capital Markets

Brenda A. Pierre
Affordable Housing
Program Officer

Janice L. Weber
Technical Support Officer

James G. Dooley, Sr.
Vice President
Director of Internal Audit

federal home loan bank of cincinnati

2007 Annual Report

For Management's Discussion and Analysis of Financial Condition and Results of Operations as well as other information and exhibits, please reference the FHLBank's Form 10-K report filed with the SEC. The Form 10-K can be found either on the FHLBank's Web site, www.fhlbcin.com, Investor Relations button, or directly at www.sec.gov.

Audit Committee Letter

March 19, 2008

The Audit Committee of the Board of Directors of the Federal Home Loan Bank of Cincinnati (FHLBank) for 2007 was composed of seven Directors, three who represent the public sector and four who represent industry members. The members of the Audit Committee at year-end 2007 were Billie W. Wade, Chair; Grady P. Appleton; Richard C. Baylor; Leslie Dolin Dunn; James R. Powell; R. Stan Puckett and Stephen B. Smith.

The 2008 Audit Committee is comprised of six Directors, two who represent the public sector and four who represent industry members. Both the 2007 and 2008 Audit Committee members are independent, as defined by the Federal Housing Finance Board.

The Audit Committee oversees the FHLBank'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 as posted on the FHLBank's Web site at www.fhlbcin.com. The Audit Committee met on 11 occasions to satisfy its responsibilities during 2007 in compliance with the charter. In fulfilling its responsibilities under its charter, the Audit Committee has reviewed and discussed the audited financial statements with management and the Independent Registered Public Accounting Firm. The Audit Committee also discussed with the Independent Registered Public Accounting Firm the matters required to be discussed by Statement on Auditing Standards (SAS) No. 61 and SAS No. 90, Audit Committee Communications. The Committee also received the written disclosures and the letter from the Independent Registered Public Accounting Firm required by Independence Standard Board Statement No. 1, and discussed with the auditors the Firm's independence.

Based on the review and discussions referred to above, the 2008 Audit Committee recommended to the Board of Directors that the FHLBank's audited financial statements for the fiscal year ended December 31, 2007, be included in the Annual Report and in the FHLBank's annual report on Form 10-K filed with the Securities and Exchange Commission.

Billie W. Wade, *Chair*
Grady P. Appleton
Richard C. Baylor
James R. DeRoberts
Leslie Dolin Dunn
R. Stan Puckett

PricewaterhouseCoopers LLP
41 S. High Street
Suite 2500
Columbus OH 43215
Telephone: (614) 225-8700
Facsimile: (614) 224-1044

To the Board of Directors and Shareholders
of the Federal Home Loan Bank of Cincinnati:

In our opinion, the accompanying statements of condition and the related statements of income, capital, and of cash flows present fairly, in all material respects, the financial position of the Federal Home Loan Bank of Cincinnati (the "FHLBank") at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the FHLBank'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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 28, 2008

STATEMENTS OF CONDITION

(In thousands, except par value)

	December 31, 2007	December 31, 2006
ASSETS		
Cash and due from banks (Note 3)	$ 52,606	$ 4,022
Interest-bearing deposits	2,252,800	6,535,562
Securities purchased under agreements to resell (Note 4)	300,000	1,150,000
Federal funds sold	10,136,000	9,641,700
Trading securities (Note 5)	3,587	4,602
Available-for-sale securities (Note 6)	-	1,188,450
Held-to-maturity securities includes $0 and $0 pledged as collateral in 2007 and 2006 that may be repledged (a) (Note 7)	12,173,492	12,099,348
Advances (Note 8)	53,309,664	41,956,538
Mortgage loans held for portfolio, net (Note 9)	8,927,950	8,460,716
Accrued interest receivable	305,839	300,555
Premises, software, and equipment	8,763	8,412
Derivative assets (Note 10)	35,928	12,555
Other assets	24,928	24,210
TOTAL ASSETS	$ 87,531,557	$ 81,386,670
LIABILITIES		
Deposits (Note 11):		
Interest bearing	$ 1,053,560	$ 926,874
Non-interest bearing	365	360
Total deposits	1,053,925	927,234
Consolidated Obligations, net (Note 12):		
Discount Notes	35,437,545	21,946,379
Bonds	46,178,651	53,239,244
Total Consolidated Obligations, net	81,616,196	75,185,623
Mandatorily redeemable capital stock (Note 15)	117,624	137,109
Accrued interest payable	430,873	559,358
Affordable Housing Program (Note 13)	103,374	96,240
Payable to REFCORP (Note 14)	16,539	17,205
Derivative liabilities (Note 10)	350,155	107,559
Other liabilities	88,285	449,493
Total liabilities	83,776,971	77,479,821
Commitments and contingencies (Note 19)		
CAPITAL (Note 15)		
Capital stock: Class B putable ($100 par value); 34,734 and 36,576 shares issued and outstanding in 2007 and 2006	3,473,361	3,657,645
Retained earnings	286,428	255,529
Accumulated other comprehensive income:		
Net unrealized loss on available-for-sale securities (Note 6)	-	(531)
Pension and postretirement plans (Note 16)	(5,203)	(5,794)
Total capital	3,754,586	3,906,849
TOTAL LIABILITIES AND CAPITAL	$ 87,531,557	$ 81,386,670

(a) Fair values: $12,136,302 and $11,822,438 at December 31, 2007 and 2006.

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

STATEMENTS OF INCOME

(In thousands)

	For the Years Ended December 31, 2007	2006	2005
INTEREST INCOME			
Advances	$ 2,589,246	$ 2,290,444	$ 1,526,609
Prepayment fees on Advances, net	2,631	5,841	337
Interest-bearing deposits	325,174	233,671	152,416
Securities purchased under agreements to resell	36,984	54,332	22,369
Federal funds sold	308,999	309,483	224,615
Trading securities	234	262	289
Available-for-sale securities	35,690	59,619	45,622
Held-to-maturity securities	581,683	548,569	536,644
Mortgage loans held for portfolio	467,298	430,416	428,033
Loans to other FHLBanks	334	465	433
Total interest income	4,348,273	3,933,102	2,937,367
INTEREST EXPENSE			
Consolidated Obligations – Discount Notes	1,234,743	924,690	676,545
Consolidated Obligations – Bonds	2,631,881	2,566,112	1,878,316
Deposits	51,236	42,562	29,177
Borrowings from other FHLBanks	-	20	-
Mandatorily redeemable capital stock	9,115	13,162	13,335
Other borrowings	-	120	6
Total interest expense	3,926,975	3,546,666	2,597,379
NET INTEREST INCOME	421,298	386,436	339,988
OTHER (LOSS) INCOME			
Service fees	1,280	1,268	1,533
Net (losses) gains on trading securities	(25)	17	(35)
Net (losses) gains on derivatives and hedging activities	(11,907)	1,929	(648)
Other, net	4,528	2,467	2,260
Total other (loss) income	(6,124)	5,681	3,110
OTHER EXPENSE			
Compensation and benefits	25,481	24,783	21,700
Other operating	12,968	11,655	11,959
Finance Board	2,843	2,920	2,890
Office of Finance	2,923	2,115	2,222
Other	4,435	4,690	3,846
Total other expense	48,650	46,163	42,617
INCOME BEFORE ASSESSMENTS	366,524	345,954	300,481
Affordable Housing Program	30,850	29,584	25,890
REFCORP	67,135	63,274	54,918
Total assessments	97,985	92,858	80,808
NET INCOME	$ 268,539	$ 253,096	$ 219,673

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

STATEMENTS OF CAPITAL

(In thousands)

	Capital Stock Class B* Shares	Capital Stock Class B* Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total Capital
BALANCE, DECEMBER 31, 2004	37,999	$ 3,799,852	$ 167,540	$ (4,229)	$ 3,963,163
Proceeds from sale of capital stock	246	24,569			24,569
Net reclassified to mandatorily redeemable capital stock	(4,973)	(497,254)			(497,254)
Comprehensive income:					
Net income			219,673		219,673
Other comprehensive income:					
Net unrealized losses on available-for-sale securities				1,972	1,972
Pension and postretirement plans				53	53
Total other comprehensive income				2,025	2,025
Total comprehensive income					221,698
Dividends on capital stock:					
Cash			(149)		(149)
Stock	1,763	176,314	(179,279)		(2,965)
BALANCE, DECEMBER 31, 2005	35,035	3,503,481	207,785	(2,204)	3,709,062
Proceeds from sale of capital stock	382	38,258			38,258
Net reclassified to mandatorily redeemable capital stock	(928)	(92,764)			(92,764)
Comprehensive income:					
Net income			253,096		253,096
Other comprehensive income:					
Net unrealized losses on available-for-sale securities				(2,413)	(2,413)
Pension and postretirement plans				44	44
Total other comprehensive income				(2,369)	(2,369)
Total comprehensive income					250,727
Adjustment to initially apply SFAS 158 (Note 16)				(1,752)	(1,752)
Dividends on capital stock:					
Cash			(167)		(167)
Stock	2,087	208,670	(205,185)		3,485
BALANCE, DECEMBER 31, 2006	36,576	3,657,645	255,529	(6,325)	3,906,849
Proceeds from sale of capital stock	3,568	356,769			356,769
Net reclassified to mandatorily redeemable capital stock	(5,410)	(541,053)			(541,053)
Comprehensive income:					
Net income			268,539		268,539
Other comprehensive income:					
Net unrealized losses on available-for-sale securities				531	531
Pension and postretirement plans				591	591
Total other comprehensive income				1,122	1,122
Total comprehensive income					269,661
Dividends on capital stock:					
Cash			(237,640)		(237,640)
BALANCE, DECEMBER 31, 2007	34,734	$ 3,473,361	$ 286,428	$ (5,203)	$ 3,754,586

*Putable (Note 15)

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

STATEMENTS OF CASH FLOWS

(In thousands)

	For the Years Ended December 31,		
	2007	2006	2005
OPERATING ACTIVITIES:			
Net income	$ 268,539	$ 253,096	$ 219,673
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	41,811	(36,058)	(16,393)
Change in net fair value adjustment on derivative and hedging activities	56,043	(75,630)	517
Other adjustments	(11)	13,130	13,325
Net change in:			
Trading securities	1,015	1,585	2,276
Accrued interest receivable	(5,284)	(61,930)	(52,797)
Other assets	(3,530)	(1,936)	1,599
Accrued interest payable	(128,485)	122,377	47,523
Other liabilities	18,931	18,726	18,099
Total adjustments	(19,510)	(19,736)	14,149
Net cash provided by operating activities	249,029	233,360	233,822
INVESTING ACTIVITIES:			
Net change in:			
Interest-bearing deposits	4,282,762	(251,396)	(502,900)
Securities purchased under agreements to resell	850,000	(150,000)	(300,000)
Federal funds sold	(494,300)	(2,153,800)	54,900
Premises, software and equipment	(2,700)	(2,369)	(3,209)
Available-for-sale securities:			
Proceeds	37,981,000	108,395,000	96,735,645
Purchases	(36,756,328)	(108,374,973)	(96,928,730)
Held-to-maturity securities:			
Net decrease in short-term	(954)	(5,521)	(3,384)
Proceeds from long-term	2,088,521	2,142,008	2,757,179
Purchases of long-term	(2,527,944)	(1,575,562)	(3,319,993)

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

STATEMENTS OF CASH FLOWS *(continued from previous page)*

(In thousands)

	For the Years Ended December 31,		
	2007	2006	2005
Advances:			
Proceeds	$ 1,732,023,103	$ 1,974,813,063	$ 2,261,563,078
Made	(1,743,032,593)	(1,976,598,421)	(2,260,800,609)
Mortgage loans held for portfolio:			
Proceeds	1,027,343	1,105,720	1,694,935
Purchases	(1,505,230)	(1,164,375)	(1,760,102)
Net cash used in investing activities	(6,067,320)	(3,820,626)	(813,190)
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits and pass-through reserves	126,691	16,517	(130,463)
Net proceeds from issuance of Consolidated Obligations:			
Discount Notes	625,424,375	821,869,538	951,365,321
Bonds	34,773,537	20,410,899	16,612,816
Bonds transferred from other FHLBanks	120,000	-	85,734
Payments for maturing and retiring Consolidated Obligations:			
Discount Notes	(611,987,159)	(817,494,689)	(952,423,677)
Bonds	(42,149,160)	(20,870,337)	(14,831,592)
Proceeds from issuance of capital stock	356,769	38,258	24,569
Payments for redemption of mandatorily redeemable capital stock	(560,538)	(383,679)	(129,505)
Cash dividends paid	(237,640)	(167)	(149)
Net cash provided by financing activities	5,866,875	3,586,340	573,054
Net increase (decrease) in cash and cash equivalents	48,584	(926)	(6,314)
Cash and cash equivalents at beginning of the year	4,022	4,948	11,262
Cash and cash equivalents at end of the year	$ 52,606	$ 4,022	$ 4,948
Supplemental Disclosures:			
Interest paid	$ 3,938,336	$ 3,466,937	$ 2,501,909
AHP payments, net	$ 23,716	$ 24,379	$ 23,774
REFCORP assessments paid	$ 67,801	$ 61,842	$ 54,255

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

Background Information

The Federal Home Loan Bank of Cincinnati (the FHLBank), 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 FHLBank provides a readily available, competitively-priced source of funds to its member institutions. The FHLBank is a cooperative whose member institutions own nearly all of the capital stock of the FHLBank and are entitled to receive dividends on their investment to the extent declared by the FHLBank's Board of Directors. Former members own the remaining capital stock to support business transactions still carried on the FHLBank's Statements of Condition. Regulated financial depositories and insurance companies engaged in residential housing finance may apply for membership. State and local housing authorities that meet certain statutory criteria may also borrow from the FHLBank; while eligible to borrow, housing authorities are not members of the FHLBank and, as such, are not required to hold capital stock.

All members must purchase stock in the FHLBank. Members must own capital stock in the FHLBank based on the amount of their total assets. Each member may be required to purchase activity-based capital stock as it engages in certain business activities with the FHLBank. As a result of these requirements, the FHLBank conducts business with stockholders in the normal course of business. For financial statement purposes, the FHLBank defines related parties as those members with more than 10 percent of the voting interests of the FHLBank capital stock outstanding. See Note 21 for more information relating to transactions with stockholders.

The Federal Housing Finance Board (Finance Board), an independent agency in the executive branch of the U.S. government, supervises and regulates the FHLBanks and the Federal Home Loan Banks' Office of Finance (Office of Finance). The Office of Finance is a joint office of the FHLBanks established by the Finance Board to facilitate the issuance and servicing of the Consolidated Obligations of the FHLBanks and to prepare combined quarterly and annual financial reports of all 12 FHLBanks. The Finance Board's principal purpose is to ensure that the FHLBanks operate in a safe and sound manner. In addition, the Finance Board ensures that the FHLBanks carry out their housing finance mission, remain adequately capitalized, and are able to 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 FHLBank does not have any special purpose entities or any other type of off-balance sheet conduits.

As provided by the Federal Home Loan Bank Act of 1932, as amended (the Act), or Finance Board Regulation, the FHLBanks' debt instruments (Consolidated Obligations) are backed only by the financial resources of 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 FHLBank primarily uses these funds to provide Advances to members and to purchase loans from members through its Mortgage Purchase Program. Some FHLBanks also provide member institutions with correspondent services, such as wire transfer, security safekeeping, and settlement services.

Note 1—Summary of Significant Accounting Policies

Use of Estimates. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make assumptions and estimates. These assumptions and estimates 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.

Interest Bearing Deposits in Banks, Securities Purchased Under Agreements to Resell (Resale Agreements), and Federal Funds Sold. These investments provide short-term liquidity and are carried at cost. The FHLBank treats securities purchased under agreements to resell as collateralized financings.

Investment Securities. The FHLBank classifies certain investments acquired for purposes of liquidity and asset/liability management as trading and carries them at fair value. The FHLBank records changes in the fair value of these investments through other income as a net gain or loss on trading securities. However, the FHLBank does not participate in speculative trading practices and holds these investments indefinitely as management periodically evaluates its liquidity needs.

The FHLBank classifies certain investments that it may sell before maturity as available-for-sale and carries them at fair value. The change in fair value of available-for-sale securities is recorded in other comprehensive income as a net unrealized gain or loss on available-for-sale securities.

The FHLBank carries, at cost, investments that it has both the ability and intent to hold to maturity (classified as held-to-maturity on the Statements of Condition), adjusted for periodic principal repayments, amortization of premiums and accretion of discounts. Amortization of premiums and accretion of discounts are computed using a level-yield methodology.

Under Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115), changes in circumstances may cause the FHLBank to change its intent to hold a security to maturity without calling into question its intent to hold other debt securities to maturity in the future. Thus, the sale or transfer of a held-to-maturity security due to certain changes in circumstances, such as evidence of significant deterioration in the issuer's creditworthiness or changes in regulatory requirements, is not considered to be inconsistent with its original classification. Other events that are isolated, nonrecurring, and unusual for the FHLBank that could not have been reasonably anticipated may cause the FHLBank to sell or transfer a held-to-maturity security without necessarily calling into question its intent to hold other debt securities to maturity.

In addition, in accordance with SFAS 115, sales of debt securities that meet either of the following two conditions may be considered as maturities for purposes of the classification of securities: (1) the sale occurs near enough to its maturity date (or call date if exercise of the call is probable) that interest rate risk is substantially eliminated as a pricing factor and changes in market interest rates would not have a significant effect on the security's fair value, or (2) the sale of the security occurs after the FHLBank has already collected a substantial portion (at least 85 percent) of the principal outstanding at acquisition due either to prepayments on the security or to scheduled payments on the security payable in equal installments (both principal and interest) over its term.

The FHLBank amortizes premiums and accretes discounts on mortgage-backed securities and other investments with a term of greater than one year using the retrospective level-yield method (retrospective method) over the estimated cash flows of the securities. The retrospective method requires that the FHLBank estimate prepayments over the estimated life of the securities and make a retrospective adjustment of the effective yield each time that the FHLBank changes the estimated life as if the new estimate had been known since the original acquisition date of the securities. The FHLBank uses nationally recognized, market-tested third party prepayment models to project estimated cash flows. The FHLBank amortizes premiums and accretes discounts on other investments with a term of one year or less using a straight-line methodology to the contractual maturity of the securities due to their short term nature. Analyses of a straight-line compared to a level-yield methodology have been performed by the FHLBank and the FHLBank has determined that the impact to the financial statements for each period reported, taken individually and as a whole, is not material.

The FHLBank computes gains and losses on sales of investment securities using the specific identification method and includes these gains and losses in other income.

The FHLBank regularly evaluates outstanding available-for-sale and held-to-maturity investments for changes in fair value and records impairment when a decline in fair value is deemed to be other than temporary. An investment is deemed impaired if the fair value of the investment is less than its amortized cost. After the investment is determined to be impaired, the FHLBank evaluates whether this decline in value is other than temporary. When evaluating whether the impairment is other than temporary, the FHLBank takes into consideration whether or not it is going to receive all of the investment's contractual cash flows based on factors that include, but are not limited to, the creditworthiness of the issuer (including rating agency actions) and the underlying collateral; the length of time and extent that fair value has been less than amortized cost; and the FHLBank's intent and ability to hold the investment for a sufficient amount of time to recover the unrealized losses. The FHLBank may also evaluate the issuer's business and financial outlook as well as broader industry and sector performance indicators.

If there is an other-than-temporary impairment in value of an investment, the decline in value is recognized as a loss and presented in the Statements of Income as other (loss) income. The FHLBank did not experience any other-than-temporary impairment in the value of its investments during 2007, 2006, or 2005.

Advances. The FHLBank reports Advances (loans to members or housing associates) net of unearned commitment fees and discounts on Advances related to the Affordable Housing Program (AHP), as discussed below. The FHLBank amortizes the premiums and accretes the discounts on Advances to interest income using a contractual level-yield methodology. The FHLBank credits interest on Advances to income as earned. Following the requirements of the Act, the FHLBank 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 FHLBank, and other eligible real estate-related assets. As Note 8 more fully describes, Community Financial Institutions (CFIs) (FDIC-insured institutions with average assets over the preceding three-year period of $599 million or less during 2007) are eligible to utilize expanded statutory collateral rules that include secured small business and agricultural loans and securities representing a whole interest in such secured loans. The FHLBank has not incurred any credit losses on Advances since its inception. Based upon the collateral held as security for the Advances and the repayment history of the FHLBank's Advances, management believes that an allowance for credit losses on Advances is unnecessary.

Mortgage Loans Held for Portfolio. The FHLBank has a Mortgage Purchase Program under which it invests in government-guaranteed/insured mortgage loans (mortgage loans insured or guaranteed by the Federal Housing Administration (FHA)) and conventional residential mortgage loans purchased directly from participating members. The FHLBank manages the liquidity and interest rate risk (including prepayment risk) of the loans, while the members either retain or release the servicing activities. If participating in the servicing-released program, a member concurrently sells the servicing of the mortgage loans to an unrelated designated mortgage service provider. The FHLBank and the member share in the credit risk on conventional loans, with the member assuming a first loss obligation equivalent to the greater of expected losses or the required deductible for a supplemental mortgage insurance policy and with the FHLBank assuming credit losses in excess of mortgage insurance coverage, supplemental mortgage insurance coverage, and the member's obligation.

To ensure the retention of credit risk on conventional loans originated or acquired by a member, a Lender Risk Account (LRA) is funded by the FHLBank as a portion of the purchase proceeds of the loans to cover, at a minimum, the expected losses. This account is established to conform to Finance Board Regulations for all conventional Mortgage Purchase Programs that stipulate the member is responsible for all expected losses on the mortgages being sold to the FHLBank. In order to comply with this Regulation, the FHLBank evaluates, through use of a Nationally Recognized Statistical Rating Organization (NRSRO) model, the proposed conventional mortgages to be sold (either the specific portfolio or a representative sample) to determine the amount of expected losses that will occur. This amount is to be deposited into the LRA and these funds are used to offset any losses that may occur. After five years, excess funds over required balances are distributed to the member in accordance with a step-down schedule that is established at the time of a Master Commitment Contract. No LRA balance is required after eleven years. The LRA is recorded in other liabilities and totaled $49,853,000 and $45,961,000 at December 31, 2007 and 2006.

In addition to the expected losses covered by the LRA, the member selling conventional loans also is required to purchase Supplemental Mortgage Insurance (SMI) and to designate the FHLBank as the beneficiary as an enhancement to cover losses over and above losses covered by the LRA. The LRA and SMI are calculated to provide, at a minimum, the equivalent to an investment grade rating (e.g., AA credit rating) for the loans purchased. In the event the LRA and the standard SMI policy do not provide sufficient loss protection to support the equivalent investment grade rating, additional mortgage insurance coverage called SMI Plus also must be purchased by the member. This policy covers the expected losses to achieve an investment grade rating equivalent to AA over and above the LRA and SMI.

The FHLBank classifies mortgage loans as held for portfolio and, accordingly, reports them at their principal amount outstanding net of unamortized premiums and discounts and unrealized gains and losses from loans initially classified as mortgage loan commitments.

The FHLBank defers and amortizes mortgage premiums and discounts paid to and received by the FHLBank's participating members as interest income using the retrospective method. The FHLBank aggregates the mortgage loans by similar characteristics (type, maturity, note rate and acquisition date) in determining prepayment estimates for the retrospective method.

The FHLBank may receive non-origination fees, called pair-off fees. Pair-off fees represent a make-whole provision and are assessed when a member fails to deliver the quantity of loans committed to in a Mandatory Delivery Contract. The FHLBank includes the pair-off fees in determining the periodic mark-to-market adjustment of its Mandatory Delivery Contracts, which is recorded in "Net (losses) gains on derivatives and hedging activities." A Mandatory Delivery Contract is a legal commitment the FHLBank makes to purchase, and a Participating Financial Institution (PFI) makes to deliver, a specified dollar amount of mortgage loans, with a forward settlement date, at a specified range of mortgage note rates and prices.

The FHLBank places a conventional mortgage loan on nonaccrual status when the collection of the contractual principal or interest is 90 days or more past due. However, there may be exceptions, such as when a loan is well secured and in the process of collection (e.g., through credit enhancements), or when the FHLBank's agreements with its PFIs include monthly settlement on a schedule/scheduled basis. Monthly settlement on a schedule/scheduled basis means that the PFI is obligated to remit the contractual mortgage payments on mortgage loans sold to the FHLBank, regardless of whether or not the PFI received payment from the mortgagor. For those mortgage loans placed on nonaccrual status, accrued but uncollected interest is reversed against interest income. The FHLBank generally records cash payments received on nonaccrual loans first as interest income and then as a reduction of principal as specified in the contractual agreement, unless the collection of the remaining principal amount due is considered doubtful. Government-insured loans are not placed on nonaccrual status when the collection of the contractual principal or interest is 90 days or more past due because of the (1) U.S. government guarantee of the loans and (2) contractual obligation of the loan servicer.

The FHLBank bases the allowance for credit losses on management's estimate of credit losses inherent in the FHLBank's mortgage loan portfolio as of the Statement of Condition date. The FHLBank performs periodic reviews of its portfolio to identify the losses inherent within the portfolio and to determine the likelihood of collection of the portfolio. The overall allowance is determined by an analysis that includes consideration of various data observations such as past performance, current performance, loan portfolio characteristics, collateral valuations, industry data, and prevailing economic conditions. As a result of this analysis, the FHLBank has determined that each member's obligation for losses and the mortgage insurance coverage exceeds the inherent loss in the portfolio. Accordingly, no allowance for loan losses is considered necessary.

Premises, Software and Equipment. The FHLBank records premises, software and equipment at cost less accumulated depreciation and amortization. The FHLBank's accumulated depreciation and amortization related to these items was $11,205,000 and $9,760,000 at December 31, 2007 and 2006. The FHLBank computes depreciation on a straight-line methodology over the estimated useful lives of relevant assets ranging from three to ten years. The FHLBank amortizes leasehold improvements on a straight-line basis over the shorter of the estimated useful life of the improvement or the remaining term of the lease. The FHLBank capitalizes improvements and major renewals but expenses ordinary maintenance and repairs when incurred. Depreciation and amortization expense for premises, software and equipment was $2,361,000, $1,954,000, and $1,693,000 for the years ended December 31, 2007, 2006, and 2005. The FHLBank includes gains and losses on disposal of premises, software and equipment in other income. The net realized gain (loss) on disposal of premises, software and equipment was $11,000, $(2,000), and $(1,000) in 2007, 2006, and 2005.

The cost of computer software developed or obtained for internal use is accounted for in accordance with Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1). SOP 98-1 requires the cost of purchased software and certain costs incurred in developing computer software for internal use to be capitalized and amortized over future periods. As of December 31, 2007 and 2006, the FHLBank had $5,139,000 and $4,367,000 in unamortized computer software costs. Amortization of computer software costs charged to expense was $1,283,000, $964,000, and $777,000 for the years ended December 31, 2007, 2006, and 2005.

Derivatives. Accounting for derivatives is addressed in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement No. 133*, SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, and SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, and Amendment of FASB Statements No. 133 and 140* (SFAS 133). All derivatives are recognized on the Statements of Condition at their fair values.

In accordance with SFAS 133, each derivative is designated as one of the following:

1. a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (a "fair value" hedge); or

2. a non-qualifying hedge of an asset or liability ("economic hedge") for asset/liability management purposes.

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, are recorded in other income as "Net (losses) gains on derivatives and hedging activities." Any hedge ineffectiveness (which represents the amount by which the change in the fair value of the derivative differs from the change in the fair value of the hedged item) on fair value hedges is reflected in other income as "Net (losses) gains on derivatives and hedging activities."

An economic hedge is defined as a derivative hedging specific or non-specific underlying assets, liabilities, or firm commitments that does not qualify or was not designated for hedge accounting, but is an acceptable hedging strategy under the FHLBank's risk management program. These economic hedging strategies also comply with Finance Board regulatory requirements prohibiting speculative hedge transactions. An economic hedge by definition introduces the potential for earnings variability caused by the changes in fair value of the derivatives that are recorded in the FHLBank's income but that are not offset by corresponding changes in the value of the economically hedged assets, liabilities, or firm commitments. As a result, the FHLBank recognizes only the change in fair value of these derivatives in other income as "Net (losses) gains on derivatives and hedging activities" with no offsetting fair value adjustments for the asset, liability, or firm commitment. Cash flows associated with such stand-alone derivatives (derivatives not qualifying as a hedge) are reflected as cash flows from operating activities in the Statement of Cash Flows.

The differentials between accruals of interest receivables and payables on derivatives that are designated and qualify as fair value hedges are recognized as adjustments to the income or expense of the designated underlying investment securities, Advances, Consolidated Obligations or other financial instruments. The differentials between accruals of interest receivables and payables on economic hedges are recognized in other income as "Net (losses) gains on derivatives and hedging activities."

The FHLBank may issue debt, make Advances, or purchase financial instruments in which a derivative instrument is "embedded." Upon execution of these transactions, the FHLBank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the Advance or debt (the host contract) and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When the FHLBank determines that (1) the embedded derivative has economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and designated as a stand-alone derivative instrument pursuant to an economic hedge. However, if the entire contract (the host contract and the embedded derivative) is to be measured at fair value, with changes in fair value reported in current-period earnings (such as an investment security classified as “trading” under SFAS 115 as well as hybrid financial instruments accounted for under SFAS 155), or if the FHLBank cannot reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract is carried on the Statements of Condition at fair value and no portion of the contract is designated as a hedging instrument.

If hedging relationships meet certain criteria specified in SFAS 133, they are eligible for hedge accounting and the offsetting changes in fair value of the hedged items may be recorded in earnings. The application of hedge accounting generally requires the FHLBank to evaluate the effectiveness of the hedging relationships on an ongoing basis and to calculate the changes in fair value of the derivatives and related hedged items independently. This is known as the “long-haul” method of accounting. Transactions that meet more stringent criteria qualify for the “shortcut” method of hedge accounting in which an assumption can be made that the change in fair value of a hedged item exactly offsets the change in value of the related derivative.

Derivatives are typically executed at the same time as the hedged Advances or Consolidated Obligations and the FHLBank designates the hedged item in a qualifying hedge relationship as of the trade date. In many hedging relationships, the FHLBank may designate the hedging relationship upon its commitment to disburse an Advance or trade a Consolidated Obligation in which settlement occurs within the shortest period of time possible for the type of instrument based on market settlement conventions. The FHLBank defines market settlement conventions for Advances to be five business days or less and for Consolidated Obligations to be thirty calendar days or less, using a next business day convention. The FHLBank records the changes in fair value of the derivative and the hedged item beginning on the trade date. When the hedging relationship is designated on the trade date and the fair value of the derivative is zero on that date, the hedge meets the criteria within SFAS 133 for applying the shortcut method provided all the other criteria in paragraph 68 are also met.

The FHLBank discontinues hedge accounting prospectively when: (1) it determines that the derivative is no longer effective in offsetting changes in the fair value of a hedged item; (2) the derivative and/or the hedged item expires or is sold, terminated, or exercised; or (3) management determines that designating the derivative as a hedging instrument in accordance with SFAS 133 is no longer appropriate.

When hedge accounting is discontinued because the FHLBank determines that the derivative no longer qualifies as an effective fair value hedge of an existing hedged item, the FHLBank continues to carry the derivative on the Statements of Condition at its fair value, ceases to adjust the hedged asset or liability for changes in fair value, and amortizes the cumulative basis adjustment on the hedged item into earnings over the remaining life of the hedged item using a level-yield methodology.

Mandatorily Redeemable Capital Stock. In accordance with SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (SFAS 150), the FHLBank reclassifies the stock subject to redemption from equity to liability upon expiration of the “grace period” after a member provides written notice of redemption, gives notice of intent to withdraw from membership, or attains non-member status by merger or acquisition, charter termination, or involuntary termination from membership, because the member shares will then meet the definition of a mandatorily redeemable financial instrument. Shares meeting this definition are reclassified to a liability at fair value. Dividends declared on shares classified as a liability in accordance with SFAS 150 are accrued at the expected dividend rate and reflected as interest expense in the Statements of Income. The repayment of mandatorily redeemable financial instruments (by repurchase or redemption of the shares) is reflected as a cash outflow in the financing activities section of the Statements of Cash Flows.

If a member cancels its written notice of redemption or notice of withdrawal, the FHLBank will reclassify mandatorily redeemable capital stock from a liability to equity in compliance with SFAS 150. After the reclassification, dividends on the capital stock will no longer be classified as interest expense.

Prepayment Fees. The FHLBank charges a member a prepayment fee when the member prepays certain Advances before the original maturity. The FHLBank records prepayment fees, net of SFAS 133 basis adjustments included in the book value of the Advances, as "Prepayment fees on Advances, net" in the interest income section of the Statements of Income. In cases in which the FHLBank funds a new Advance concurrent with or within a short period of time after the prepayment of an existing Advance, the FHLBank evaluates whether the new Advance meets the accounting criteria to qualify as a modification of an existing Advance or whether it constitutes a new Advance in accordance with EITF Issue No. 01-7, *Creditor's Accounting for a Modification or Exchange of Debt Instruments*, and SFAS 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (SFAS 91).

If the new Advance qualifies as a modification of the existing Advance, the net prepayment fee on the prepaid Advance is deferred, recorded in the basis of the modified Advance, and amortized over the life of the modified Advance using a level-yield methodology. This amortization is recorded in Advance interest income.

For prepaid Advances that are hedged and meet the hedge accounting requirements of SFAS 133, the FHLBank terminates the hedging relationship upon prepayment and records the associated fair value gains and losses, adjusted for the prepayment fees, in interest income. If the FHLBank funds an Advance to a member concurrent with or within a short period of time after the prepayment of a previous Advance to that member, the FHLBank evaluates whether the new Advance qualifies as a modification of the original hedged Advance. If the new Advance qualifies as a modification of the original hedged Advance, the fair value gains or losses of the Advance and the prepayment fees are included in the carrying amount of the modified Advance, and gains or losses and prepayment fees are amortized in interest income over the life of the modified Advance using a level-yield methodology. If the modified Advance is also hedged and the hedge meets the hedging criteria in accordance with SFAS 133, the modified Advance is marked to fair value after the modification, and subsequent fair value changes are recorded in other income. The amortization results in offsetting amounts being recorded in net interest income and in other income as "Net (losses) gains on derivatives and hedging activities." The basis adjustment amortization amounted to a decrease to net interest income of $240,000, $360,000, and $1,254,000 in 2007, 2006 and 2005.

If the FHLBank determines that the transaction does not qualify as a modification of an existing Advance, it is treated as an Advance termination with subsequent funding of a new Advance and the net fees are recorded in interest income as "Prepayment fees on Advances, net."

Commitment Fees. The FHLBank defers commitment fees for Advances and amortizes them to interest income using a level-yield methodology. Refundable fees are deferred until the commitment expires or until the Advance is made. The FHLBank records commitment fees for Standby Letters of Credit as a deferred credit when it receives the fees and accretes them using a straight-line methodology over the term of the Standby Letter of Credit. The FHLBank's management believes that the likelihood of Standby Letters of Credit being drawn upon is remote based upon past experience.

Concessions on Consolidated Obligations. The FHLBank defers and amortizes, using a level-yield methodology, amounts paid to dealers in connection with the sale of Consolidated Obligation Bonds over the terms to maturity or estimated cash flows of the Consolidated Obligation Bonds. The Office of Finance prorates the amount of the concession to the FHLBank based upon the percentage of the debt issued that is assumed by the FHLBank. Unamortized Bond concessions were $15,914,000 and $18,565,000 at December 31, 2007 and 2006 and are included in other assets. Amortization of such concessions is included in Consolidated Obligation interest expense and totaled $10,760,000, $8,597,000, and $10,125,000 in 2007, 2006, and 2005.

The FHLBank charges to expense as incurred the concessions applicable to Consolidated Obligation Discount Notes because of the short maturities of these Notes. Analyses of expensing concessions as incurred compared to a level-yield methodology have been performed by the FHLBank and it has determined that the impact to the financial statements for each period reported, taken individually and as a whole, is not material. Such concessions are included in Consolidated Obligation interest expense and totaled $4,414,000, $3,082,000, and $4,334,000 in 2007, 2006, and 2005.

Discounts and Premiums on Consolidated Obligations. The FHLBank accretes the discounts and amortizes the premiums on Consolidated Obligation Bonds to interest expense using a level-yield methodology over the terms to maturity of the Consolidated Obligation Bonds and expenses the discounts on Consolidated Obligation Discount Notes using a straight-line methodology over the term of the Notes due to their short-term nature. Analyses of a straight-line compared to a level-yield methodology have been performed by the FHLBank and the FHLBank has determined that the impact to the financial statements for each period reported, taken individually and as a whole, is not material.

Finance Board Expenses. The FHLBank is assessed for its proportionate share of the costs of operating the Finance Board. The Finance Board allocates its operating and capital expenditures to the FHLBanks based on each FHLBank's percentage of total combined regulatory capital stock plus retained earnings.

Office of Finance Expenses. The FHLBank is assessed for its proportionate share of the costs of operating the Office of Finance. The Office of Finance allocates its operating and capital expenditures based equally on each FHLBank's percentage of capital stock, percentage of Consolidated Obligations issued and percentage of Consolidated Obligations outstanding.

Other Expenses. The FHLBank classifies third party volume-related mortgage loan costs and amounts awarded under its American Dream Homeownership Challenge grant fund as other expenses.

Affordable Housing Program (AHP). The Act requires each FHLBank to establish and fund an AHP. The FHLBank charges the required funding for AHP to earnings and establishes a liability. The AHP funds provide subsidies to members to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. The FHLBank issues AHP Advances at interest rates below the customary interest rate for non-subsidized Advances. As an alternative, the FHLBank also has the authority to make the AHP subsidy available to members as a grant. When the FHLBank makes an AHP Advance, the present value of the variation in the cash flow caused by the difference in the interest rate between the AHP Advance rate and the FHLBank's related cost of funds for comparable maturity funding is charged against the AHP liability and recorded as a discount on the AHP Advance. The discount on AHP Advances is accreted to interest income on Advances using a level-yield methodology over the life of the Advance. See Note 13 for more information.

Resolution Funding Corporation (REFCORP) Assessments. Although the FHLBanks are exempt from ordinary Federal, state, and local taxation except for local real estate tax, they are required to make quarterly payments to REFCORP to pay toward interest on bonds issued by REFCORP. REFCORP is a corporation established by Congress in 1989 to provide funding for the resolution and disposition of insolvent savings institutions. Officers, employees, and agents of the Office of Finance are authorized to act for and on behalf of REFCORP to carry out the functions of REFCORP. See Note 14 for more information.

Estimated Fair Values. Some of the FHLBank'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 FHLBank uses pricing services and/or internal models employing significant estimates and present value calculations when disclosing estimated fair values. Note 18 details the estimated fair values of the FHLBank's financial instruments.

Cash Flows. In the Statements of Cash Flows, the FHLBank considers cash and due from banks as cash and cash equivalents. Federal funds sold are not treated as cash equivalents for purposes of the Statements of Cash Flows, but are instead treated as short-term investments and are reflected in the investing activities section of the Statements of Cash Flows.

Note 2—Recently Issued Accounting Standards and Interpretations

SFAS No. 157 *Fair Value Measurements* (SFAS 157). In September 2006, the FASB issued SFAS 157. In defining fair value, SFAS 157 retains the exchange price notion in earlier definitions of fair value. However, the definition of fair value under SFAS 157 focuses on the price that would be received to sell an asset or paid to transfer a liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). SFAS 157 applies whenever other accounting pronouncements require or permit assets or liabilities to be measured at fair value. Accordingly, SFAS 157 does not expand the use of fair value in any new circumstances. SFAS 157 also establishes a fair value hierarchy that prioritizes the information used to develop assumptions used to determine the exit price. SFAS 157 establishes valuation techniques that are used to measure fair value. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 – quoted prices in active markets for identical assets or liabilities,
- Level 2 – directly or indirectly observable inputs other than quoted prices, and
- Level 3 – unobservable inputs.

SFAS 157 requires disclosures detailing (1) the extent to which companies measure assets and liabilities at fair value, (2) the methods and assumptions used to measure fair value, and (3) the effect of fair value measurements on earnings, as applicable. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 (January 1, 2008 for the FHLBank) and interim periods within those fiscal years. The adoption of SFAS 157 had no impact on the FHLBank's retained earnings balance at January 1, 2008.

SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities–Including an Amendment of FASB Statement No. 115* (SFAS 159). In February 2007, the FASB issued SFAS 159. SFAS 159 creates a fair value option allowing, but not requiring, an entity to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities, with changes in fair value recognized in earnings as they occur. It requires entities to separately display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. Additionally, SFAS 159 requires an entity to provide information that would allow users to understand the effect on earnings of changes in the fair value on those instruments selected for the fair value election. SFAS 159 is effective at the beginning of an entity's first fiscal year beginning after November 15, 2007 (January 1, 2008 for the FHLBank). The FHLBank did not elect to record any financial assets and financial liabilities at fair value as a result of adopting SFAS 159 and, therefore, it had no impact on the FHLBank's retained earnings balance as of January 1, 2008.

FASB Staff Position No. FIN 39-1, *Amendment of FASB Interpretation No. 39* (FSP FIN 39-1). In April 2007, the FASB issued FSP FIN 39-1. FSP FIN 39-1 permits an entity to offset fair value amounts recognized for derivative instruments against fair value amounts recognized for the right or obligation to cash collateral arising from derivative instruments recognized at fair value executed with the same counterparty under a master netting arrangement. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007 (January 1, 2008 for the FHLBank). An entity should recognize the effects of applying FSP FIN 39-1 as a change in accounting principle through retrospective application for all financial statements presented unless it is impracticable to do so. The adoption of FSP FIN 39-1 at January 1, 2008 did not have a material impact on the FHLBank's results of operations or financial condition.

DIG Issue No. E23, *Issues Involving the Application of the Shortcut Method Under Paragraph 68* (DIG E23). The FASB issued DIG E23 in December 2007 which amends paragraph 68 of SFAS 133 with respect to the conditions that must be met in order to apply the shortcut method for assessing hedge effectiveness. DIG E23 is effective for hedging relationships designated on or after January 1, 2008. The FHLBank adopted DIG E23 as of January 1, 2008. The adoption of DIG E23 did not have a material impact on the FHLBank's results of operations or financial condition.

Note 3—Cash and Due from Banks

The FHLBank maintains collected cash balances with commercial banks in return for certain services. These agreements contain no legal restrictions on the withdrawal of funds. The average collected cash balances for the years ended December 31, 2007 and 2006 were approximately $275,000 and $272,000.

In addition, the FHLBank maintained average required balances with various Federal Reserve Banks (and their branches) of approximately $1,000,000 for the years ended December 31, 2007 and 2006. These represent average balances legally required to be maintained over each 14-day cycle and contain no legal restrictions on the withdrawal of the funds. The FHLBank may use earnings credits on these balances to pay for services received from the Federal Reserve Banks.

Pass-through Deposit Reserves. The FHLBank acts as a pass-through correspondent for member institutions required to deposit reserves with the Federal Reserve Banks. The amount shown as "Cash and due from banks" includes pass-through reserves deposited with Federal Reserve Banks of approximately $365,000 and $360,000 as of December 31, 2007 and 2006. The FHLBank includes the related liability for member reserve balances in "Deposits" on the Statements of Condition.

Note 4—Securities Purchased Under Agreements to Resell

The FHLBank periodically holds securities purchased under agreements to resell those securities. These amounts represent short-term loans and are classified as assets in the Statements of Condition. The securities purchased under agreements to resell are held in safekeeping in the name of the FHLBank by one of the Federal Reserve Banks or other third-party custodians approved by the FHLBank. Should the market value of the underlying securities decrease below the market value required as collateral, the counterparty must place an equivalent amount of additional securities in safekeeping in the name of the FHLBank or the dollar value of the resale agreement will be decreased accordingly.

Note 5—Trading Securities

Major Security Types. Trading securities as of December 31 were as follows (in thousands):

	2007 Estimated Fair Value	2006 Estimated Fair Value
Mortgage-backed securities:		
Other U.S. obligations *	$ 3,587	$ 4,602

* Consists of Government National Mortgage Association (Ginnie Mae) securities.

Prior to the effective date of SFAS 133, the FHLBank had purchased two mortgage-backed securities and effectively removed the embedded caps and floors by executing interest rate swaps. The interest rate swaps matured during 2005. The FHLBank did not execute replacement interest rate swaps to continue to economically hedge the two mortgage-backed securities due to their relatively small size at that point in their life cycle.

The FHLBank has never purchased mortgage-backed securities that represent loans purchased directly from and/or securitized by its members or other FHLBanks and therefore the above balances do not include any such purchases.

Net (losses) gains on trading securities for the years ended December 31, 2007, 2006, and 2005 include a change in net unrealized (loss) gain (in thousands) of $(25), $17, and $(35) for securities held on December 31, 2007, 2006, and 2005.

Note 6—Available-for-Sale Securities

Major Security Types. There were no available-for-sale securities outstanding as of December 31, 2007. Available-for-sale securities as of December 31, 2006 were as follows (in thousands):

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Commercial paper	$ 1,188,981	$ -	$ (531)	$ 1,188,450

All securities outstanding with gross unrealized losses at December 31, 2006 were short-term securities with terms of less than 12 months.

Interest Rate Payment Terms. The following table details additional interest rate payment terms for investment securities classified as available-for-sale at December 31 (in thousands):

	2006
Amortized cost of available-for-sale securities other than mortgage-backed securities:	
Fixed-rate	$ 1,188,981

Gains and Losses. There were no gross gains and gross losses realized on sales of available-for-sale securities for the years ended December 31, 2007, 2006 and 2005.

Note 7—Held-to-Maturity Securities

Major Security Types. Held-to-maturity securities as of December 31, 2007 and 2006 were as follows (in thousands):

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Government-sponsored enterprises *	$ 25,724	$ 13	$ -	$ 25,737
State or local housing agency obligations	17,570	193	-	17,763
Mortgage-backed securities:				
Other U.S. obligations **	16,398	-	(146)	16,252
Government-sponsored enterprises *	11,758,561	63,268	(88,266)	11,733,563
Other ***	355,239	-	(12,252)	342,987
Total mortgage-backed securities	12,130,198	63,268	(100,664)	12,092,802
Total	$ 12,173,492	$ 63,474	$ (100,664)	$ 12,136,302

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Government-sponsored enterprises *	$ 24,770	$ 6	$ -	$ 24,776
State or local housing agency obligations	23,915	242	(4)	24,153
Mortgage-backed securities:				
Other U.S. obligations **	27,599	-	(510)	27,089
Government-sponsored enterprises *	11,607,132	2,145	(268,355)	11,340,922
Other ***	415,932	-	(10,434)	405,498
Total mortgage-backed securities	12,050,663	2,145	(279,299)	11,773,509
Total	$ 12,099,348	$ 2,393	$ (279,303)	$ 11,822,438

* Consists of securities issued or guaranteed by Federal Home Loan Mortgage Corporation (Freddie Mac) and/or Federal National Mortgage Association (Fannie Mae), which are not obligations of the U.S. Government.

** Consists of Ginnie Mae securities.

*** Consists of private-label mortgage-backed securities.

The FHLBank has never purchased mortgage-backed securities that represent loans purchased directly from and/or securitized by its members or other FHLBanks and therefore the above balances do not include any such purchases.

The FHLBank reviewed its held-to-maturity investments at December 31, 2007 and has determined that all unrealized losses reflected below are temporary, based on the creditworthiness of the issuers as well as the underlying collateral, if applicable. The FHLBank believes it is probable that it will be able to collect all amounts due according to the contractual terms of the individual securities. Additionally, because the FHLBank has the ability and intent to hold such securities through to recovery of the unrealized losses, it does not consider the investments to be other-than-temporarily impaired at December 31, 2007.

The following tables summarize the held-to-maturity securities with unrealized losses as of December 31, 2007 and 2006. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position (in thousands).

	December 31, 2007					
	Less than 12 Months		12 Months or more		Total	
	Estimated Fair Value	Gross Unrealized (Losses)	Estimated Fair Value	Gross Unrealized (Losses)	Estimated Fair Value	Gross Unrealized (Losses)
Mortgage-backed securities:						
Other U.S. obligations *	$ -	-	$ 16,252	$ (146)	$ 16,252	$ (146)
Government-sponsored enterprises **	9,596	(35)	6,233,729	(88,231)	6,243,325	(88,266)
Other	-	-	342,987	(12,252)	342,987	(12,252)
Total temporarily impaired	$ 9,596	$ (35)	$ 6,592,968	$ (100,629)	$ 6,602,564	$ (100,664)

	December 31, 2006					
	Less than 12 Months		12 Months or more		Total	
	Estimated Fair Value	Gross Unrealized (Losses)	Estimated Fair Value	Gross Unrealized (Losses)	Estimated Fair Value	Gross Unrealized (Losses)
State or local housing agency obligations	$ 1,886	$ (4)	$ -	$ -	$ 1,886	$ (4)
Mortgage-backed securities:						
Other U.S. obligations *	-	-	27,089	(510)	27,089	(510)
Government-sponsored enterprises **	2,609,254	(12,575)	8,493,601	(255,780)	11,102,855	(268,355)
Other	-	-	405,498	(10,434)	405,498	(10,434)
Total temporarily impaired	$ 2,611,140	$ (12,579)	$ 8,926,188	$ (266,724)	$ 11,537,328	$ (279,303)

* Consists of Ginnie Mae securities.

** Consists of securities issued or guaranteed by Freddie Mac and/or Fannie Mae, which are not obligations of the U.S. Government.

Redemption Terms. The amortized cost and estimated fair value of held-to-maturity securities at December 31 by contractual maturity are shown below (in thousands). Expected maturities of some securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

	2007		2006	
Year of Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 25,724	$ 25,737	$ 25,490	$ 25,497
Due after one year through five years	-	-	-	-
Due after five years through ten years	-	-	-	-
Due after ten years	17,570	17,763	23,195	23,432
Total other	43,294	43,500	48,685	48,929
Mortgage-backed securities	12,130,198	12,092,802	12,050,663	11,773,509
Total	$ 12,173,492	$ 12,136,302	$ 12,099,348	$ 11,822,438

The amortized cost of the FHLBank's mortgage-backed securities classified as held-to-maturity includes net discounts (in thousands) of $22,845 and $8,785 at December 31, 2007 and 2006.

Interest Rate Payment Terms. The following table details additional interest-rate payment terms for investment securities classified as held-to-maturity at December 31 (in thousands):

	2007	2006
Amortized cost of held-to-maturity securities other than mortgage-backed securities:		
Fixed-rate	$ 39,744	$ 44,955
Variable-rate	3,550	3,730
Total other	43,294	48,685
Amortized cost of held-to-maturity mortgage-backed securities:		
Pass-through securities:		
Fixed-rate	6,968,409	5,999,899
Collateralized mortgage obligations:		
Fixed-rate	5,161,332	6,048,732
Variable-rate	457	2,032
Total mortgage-backed securities	12,130,198	12,050,663
Total	$ 12,173,492	$ 12,099,348

The FHLBank did not sell any securities out of its held-to-maturity portfolio during 2007, 2006 or 2005.

Note 8—Advances

Redemption Terms. At December 31, 2007 and 2006, the FHLBank had Advances outstanding, including AHP Advances (see Note 13), at interest rates ranging from 0.00 percent to 9.75 percent, as summarized below (dollars in thousands). Advances with interest rates of 0.00 percent are AHP-subsidized Advances.

	2007		2006	
Year of Contractual Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Overdrawn demand deposit accounts	$ 158	4.49%	$ 125	5.42%
Due in 1 year or less	14,868,467	4.32	14,604,942	5.17
Due after 1 year through 2 years	11,972,324	5.07	3,940,640	5.17
Due after 2 year through 3 years	5,012,499	5.09	6,779,335	5.32
Due after 3 year through 4 years	4,929,897	5.06	5,452,810	5.49
Due after 4 year through 5 years	7,398,716	4.76	4,712,975	5.27
Thereafter	8,770,738	4.79	6,451,631	4.89
Total par value	52,952,799	4.77	41,942,458	5.20
Commitment fees	(1,417)		(1,795)	
Discount on AHP Advances	(33,743)		(33,396)	
Discount	(1,156)		(919)	
SFAS 133 hedging adjustments	393,181		50,190	
Total	$ 53,309,664		$ 41,956,538	

The FHLBank offers Advances to members that may be prepaid on pertinent dates (call dates) without incurring prepayment or termination fees (callable Advances). Other Advances may only be prepaid by paying a fee to the FHLBank (prepayment fee) that makes the FHLBank financially indifferent to the prepayment of the Advance. At December 31, 2007 and 2006, the FHLBank had callable Advances (in thousands) of $20,879,684 and $21,221,507.

The following table summarizes Advances at December 31 by year of contractual maturity or next call date for callable Advances (in thousands):

Year of Contractual Maturity or Next Call Date	2007	2006
Overdrawn demand deposit accounts	$ 158	$ 125
Due in 1 year or less	31,859,139	32,639,126
Due after 1 year through 2 years	7,903,845	1,461,303
Due after 2 year through 3 years	2,262,603	1,498,856
Due after 3 year through 4 years	1,392,397	1,582,414
Due after 4 year through 5 years	5,503,716	1,296,475
Thereafter	4,030,941	3,464,159
Total par value	$ 52,952,799	$ 41,942,458

The FHLBank also offers Putable Advances. With a Putable Advance, the FHLBank effectively purchases a put option from the member that allows the FHLBank to terminate the Advance at predetermined exercise dates, which the FHLBank normally would exercise when interest rates increase. At December 31, 2007 and 2006, the FHLBank had Putable Advances outstanding totaling (in thousands) $5,779,450 and $444,000.

Through December 2005, the FHLBank offered Convertible Advances. With a Convertible Advance, the FHLBank purchases an option from the member that allows the FHLBank to convert the interest rate from fixed to variable by terminating the fixed-rate Advance and offering a variable-rate Advance at the current market rate or another structure after an agreed-upon lockout period. At December 31, 2007 and 2006, the FHLBank had Convertible Advances outstanding totaling (in thousands) $3,891,700 and $4,485,200.

The following table summarizes Advances at December 31 by year of contractual maturity or next put/convert date for Putable/Convertible Advances (in thousands):

Year of Contractual Maturity or Next Put/Convert Date	2007	2006
Overdrawn demand deposit accounts	$ 158	$ 125
Due in 1 year or less	23,364,817	19,067,142
Due after 1 year through 2 years	11,849,924	3,831,140
Due after 2 year through 3 years	4,027,499	6,130,635
Due after 3 year through 4 years	4,208,897	4,223,310
Due after 4 year through 5 years	3,693,216	3,921,475
Thereafter	5,808,288	4,768,631
Total par value	$ 52,952,799	$ 41,942,458

The FHLBank also offers Advances with a prepayment option based on the 12-month average prepayment speed on a Freddie Mac or Fannie Mae mortgage-backed security with a similar coupon rate and term. During each 12-month period beginning with the date of disbursement, the borrower has the option of making one partial payment of principal without incurring a prepayment fee. At December 31, 2007 and 2006, the FHLBank had (in thousands) $374,276 and $396,743 of Advances with such coupons, which are included in the above tables by original maturity date.

Security Terms. The FHLBank lends to financial institutions involved in housing finance within its district according to Federal statutes, including the Act. The Act requires the FHLBank to obtain sufficient collateral on Advances to protect against losses and permits the FHLBank to accept the following as eligible collateral on these Advances: residential mortgage loans, certain U.S. government or government agency securities, cash or deposits, and other eligible real estate-related assets. The capital stock of the FHLBank owned by each borrowing member is pledged as additional collateral for the member's indebtedness to the FHLBank. Community Financial Institutions (CFIs) are eligible under expanded statutory collateral rules to pledge small business, small farm, and small agricultural loans fully secured by collateral other than real estate, or securities representing a whole interest in such secured loans, as collateral. As additional security, the FHLBank has a statutory lien on each borrower's capital in the FHLBank.

At December 31, 2007 and 2006, the FHLBank had rights to collateral with an estimated value exceeding $145 billion and $150 billion, respectively. The FHLBank requires a member (or borrower) to execute a written security agreement and, based upon the financial condition of the member (or borrower), the type of security agreement, and other factors, the FHLBank may either:

1. Allow the member (or borrower) to retain possession of the collateral assigned to the FHLBank and agree to hold such collateral for the benefit of the FHLBank; or

2. Require the member (or borrower) specifically to place physical possession of such collateral with the FHLBank or a third-party custodian approved by the FHLBank.

Beyond these provisions, the Act affords any security interest granted by a member (or borrower) or any affiliate of the member to the FHLBank priority over the claims and rights of any other party except those claims that would be entitled to priority under otherwise applicable law and that are held by bona fide purchasers for value or by secured parties with perfected security interests.

Credit Risk. While the FHLBank has never experienced a credit loss on an Advance to a member, the expanded statutory collateral rules for CFIs provides the potential for additional credit risk for the FHLBank. To date, the FHLBank has no collateral of this type pledged to support Advance activity. The management of the FHLBank has policies and procedures in place that it believes enable it to appropriately manage this credit risk. Accordingly, the FHLBank has not provided any allowances for losses on these Advances.

The FHLBank's potential credit risk from Advances is concentrated in commercial banks and savings institutions. The income from Advances to member institutions holding 5 percent or more of total Advances at December 31, 2007, 2006 and 2005 amounted to $1,134.5 million, $1,371.3 million and $896.9 million, respectively, during those years. The FHLBank held sufficient collateral to cover the Advances to these institutions, and the FHLBank does not expect to incur any credit losses on these Advances.

The following table shows Advance balances at December 31 to members holding 5 percent or more of total Advances and includes any known affiliates that are members of the FHLBank (dollars in millions):

2007			2006		
	Principal	**% of Total**		**Principal**	**% of Total**
U.S. Bank, N.A.	$ 16,856	32%	RBS Citizens, N.A. (1)	$ 10,772	26%
Fifth Third Bank	5,539	10	U.S. Bank, N.A.	6,757	16
National City Bank	4,696	9	Fifth Third Bank	4,048	10
The Huntington National Bank	3,085	6	AmTrust Bank (2)	3,971	9
Total	$ 30,176	57%	Total	$ 25,548	61%

(1) Formerly Charter One Bank, N.A.

(2) Formerly Ohio Savings Bank.

Interest Rate Payment Terms. The following table details additional interest-rate payment terms for Advances at December 31 (in thousands):

	2007		2006	
	Amount	% of Total	Amount	% of Total
Par amount of Advances:				
Fixed-rate	$ 24,912,958	47%	$ 18,490,826	44%
Variable-rate	28,039,841	53	23,451,632	56
Total	$ 52,952,799	100%	$ 41,942,458	100%

Prepayment Fees. The FHLBank records prepayment fees received from members on prepaid Advances net of any associated SFAS 133 hedging fair-value adjustments on those Advances. The net amount of prepayment fees is reflected as interest income in the Statements of Income. Gross Advance prepayment fees received from members (in thousands) were $8,497, $10,357 and $337 for the years ended December 31, 2007, 2006, and 2005.

Note 9—Mortgage Loans Held for Portfolio

Under the Mortgage Purchase Program, the FHLBank invests in mortgage loans that it purchases from participating members. Total mortgage loans held for portfolio represent home mortgage loans under the Mortgage Purchase Program that the FHLBank's members originate, service in some cases, credit enhance, and then sell to the FHLBank. Those members participating in the servicing-released program do not service the loans owned by the FHLBank. The servicing on these loans was sold concurrently to a designated mortgage service provider. The following table presents information as of December 31 on mortgage loans held for portfolio (in thousands):

	2007	2006
Real Estate:		
Fixed rate medium-term single-family mortgages (1)	$ 1,238,775	$ 1,414,698
Fixed rate long-term single-family mortgages	7,622,777	6,963,964
Subtotal fixed rate single-family mortgages	8,861,552	8,378,662
Premiums	88,867	98,804
Discounts	(13,905)	(6,674)
SFAS 133 basis adjustments	(8,564)	(10,076)
Total	$ 8,927,950	$ 8,460,716

(1) Medium-term is defined as a term of 15 years or less.

The following table details the par value of mortgage loans held for portfolio outstanding at December 31 (in thousands):

	2007	2006
Government-guaranteed/insured loans	$ 1,336,598	$ 1,563,548
Conventional loans	7,524,954	6,815,114
Total par value	$ 8,861,552	$ 8,378,662

The conventional mortgage loans are supported by primary and supplemental mortgage insurance and the LRA (see Note 1) in addition to the associated property as collateral. The FHLBank has experienced no credit losses on mortgage loans to date and no event has occurred that would cause the FHLBank to believe it will have to absorb any credit losses on these mortgage loans. Accordingly, the FHLBank has not provided any allowances for losses on these mortgage loans.

The following table presents changes in the Lender Risk Account for the years ended December 31 (in thousands):

	2007	2006
Lender Risk Account at beginning of year	$ 45,961	$ 42,472
Additions	4,866	3,779
Claims	(249)	(203)
Scheduled distributions	(725)	(87)
Lender Risk Account at end of year	$ 49,853	$ 45,961

The FHLBank had no nonaccrual loans at December 31, 2007 and 2006.

Mortgage loans, other than those included in large groups of smaller-balance homogeneous loans, are considered impaired when, based on current information and events, it is probable that the FHLBank will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage loan agreement. At December 31, 2007 and 2006, the FHLBank had no recorded investments in impaired mortgage loans.

The following table shows unpaid principal balances at December 31 to members supplying 5 percent or more of total unpaid principal and includes any known affiliates that are members of the FHLBank (dollars in millions):

	2007		2006	
	Principal	% of Total	Principal	% of Total
National City Bank	$ 5,378	61%	$ 4,767	57%
Union Savings Bank	1,992	22	2,097	25
Guardian Savings Bank FSB	518	6	517	6
Total	$ 7,888	89%	$ 7,381	88%

Note 10—Derivatives and Hedging Activities

Nature of Business Activity

The FHLBank may enter into interest-rate swaps (including callable and putable swaps), swaptions, interest-rate cap and floor agreements, calls, puts, and futures and forward contracts (collectively, derivatives) to manage its exposure to changes in interest rates.

The FHLBank may adjust the effective maturity, repricing frequency, or option characteristics of financial instruments to achieve risk management objectives. The FHLBank may use derivatives in several ways: by designating them as either a fair value hedge of an underlying financial instrument, by acting as an intermediary, or in asset-liability management (i.e., an economic hedge). For example, the FHLBank may use derivatives in its overall interest-rate risk management to adjust the interest-rate sensitivity of Consolidated Obligations to approximate more closely the interest-rate sensitivity of assets (Advances, investments, and mortgage loans) and/or to adjust the interest-rate sensitivity of Advances, investments, or mortgage loans to approximate more closely the interest-rate sensitivity of liabilities.

In addition to using derivatives to manage mismatches of interest rates between assets and liabilities, the FHLBank also may use derivatives (1) to manage embedded options in assets and liabilities, (2) to hedge the market value of existing assets and liabilities and anticipated transactions, (3) to hedge the duration risk of prepayable instruments, (4) to exactly offset other derivatives executed with members (when the FHLBank serves as an intermediary) and (5) to reduce funding costs.

Consistent with Finance Board Regulation, the FHLBank only may enter into derivatives to reduce the interest rate risk exposures inherent in otherwise unhedged assets and funding positions, to achieve the FHLBank's risk management objectives, and/or to act as an intermediary between its members and counterparties. FHLBank management may use derivatives when they are considered to be the most cost-effective alternative to achieve the FHLBank's financial and risk management objectives. Accordingly, the FHLBank may enter into derivatives that do not necessarily qualify for hedge accounting (economic hedges).

Types of Assets and Liabilities Hedged

The FHLBank documents at inception all relationships between derivatives designated as hedging instruments and the hedged items, its risk management objectives and strategies for undertaking various hedge transactions, and its method of assessing effectiveness. This process includes linking all derivatives that are designated as fair value hedges to assets and liabilities on the Statements of Condition. The FHLBank also formally assesses (both at the hedge's inception and at least quarterly) whether the derivatives that are used in hedging transactions have been effective in offsetting changes in the fair value of the hedged items and whether those derivatives may be expected to remain effective in future periods. The FHLBank currently uses regression analyses to assess the effectiveness of its hedges.

Consolidated Obligations – While Consolidated Obligations are the joint and several obligations of the FHLBanks, each FHLBank has Consolidated Obligations for which it is the primary obligor. The FHLBank enters into derivatives to hedge the interest rate risk associated with its specific debt issuances.

For instance, in a typical transaction, fixed-rate Consolidated Obligations are issued for one or more FHLBanks, and the FHLBank simultaneously enters into a matching derivative 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. The FHLBank pays a variable cash flow that closely matches the interest payments it receives on short-term or variable-rate Advances, typically 3-month LIBOR. These transactions are treated as fair value hedges under SFAS 133. This intermediation between the capital and derivatives markets permits the FHLBank to raise funds at lower costs than would otherwise be available through the issuance of simple fixed- or variable-rate Consolidated Obligations in the capital markets.

Advances – The FHLBank offers a wide array of Advance structures to meet members' funding needs. These Advances may have maturities up to 30 years with variable or fixed rates and may include early termination features or options. The FHLBank may use derivatives to adjust the repricing and/or options characteristics of Advances in order to more closely match the characteristics of the FHLBank's funding liabilities. In general, whenever a member executes a fixed-rate Advance or a variable-rate Advance with embedded options, the FHLBank will simultaneously execute a derivative with terms that offset the terms and embedded options, if any, in the Advance. For example, the FHLBank may hedge a fixed-rate Advance with an interest-rate swap where the FHLBank pays a fixed-rate coupon and receives a floating-rate coupon, effectively converting the fixed-rate Advance to a floating-rate Advance. These types of hedges are treated as fair-value hedges under SFAS 133.

Mortgage Loans – The FHLBank invests in fixed rate mortgage loans. The prepayment options embedded in mortgage loans can result in extensions or contractions in the expected repayment of these investments, depending on changes in estimated prepayment speeds. The FHLBank may manage the interest-rate and prepayment risks associated with mortgages through a combination of debt issuance and derivatives. The FHLBank issues both callable and noncallable debt and prepayment linked Consolidated Obligations to achieve cash flow patterns and liability durations similar to those expected on the mortgage loans. The FHLBank is permitted to use derivatives to match the expected prepayment characteristics of the mortgages, although to date it has not done so.

Firm Commitment Strategies – In accordance with SFAS 149, certain mortgage purchase commitments entered into after June 30, 2003 are considered derivatives. The FHLBank normally hedges these commitments by selling to-be-announced (TBA) mortgage-backed securities for forward settlement. A TBA represents a forward contract for the sale of mortgage-backed securities at a future agreed upon date for an established price. The mortgage purchase commitment and the TBA used in the firm commitment hedging strategy (economic hedge) are recorded as a derivative asset or derivative liability at fair value, with changes in fair value recognized in the current period earnings. When the mortgage purchase commitment derivative settles, the current market value of the commitment is included in the basis of the mortgage loan and amortized accordingly.

Investments – The FHLBank invests in U.S. agency obligations, mortgage-backed securities, and the taxable portion of state or local housing finance agency obligations, which may be classified as held-to-maturity, available-for-sale or trading securities. The interest rate and prepayment risk associated with these investment securities is managed through a combination of debt issuance and, possibly, derivatives. The FHLBank may manage the prepayment and interest rate risk by funding investment securities with Consolidated Obligations that have call features or by hedging the prepayment risk with caps or floors, callable swaps or swaptions.

The FHLBank may also manage the risk arising from changing market prices or cash flows of investment securities classified as trading by entering into derivatives (economic hedges) that offset the changes in fair value or cash flows of the securities. The market value changes of both the trading securities and the associated derivatives are included in other income in the Statements of Income and presented, respectively, as part of the "Net (losses) gains on trading securities" and "Net (losses) gains on derivatives and hedging activities."

Managing Credit Risk on Derivatives

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

The contractual or notional amount of derivatives reflects the involvement of the FHLBank in the various classes of financial instruments. The notional amount of derivatives does not measure the credit risk exposure of the FHLBank, and the maximum credit exposure of the FHLBank is substantially less than the notional amount. The FHLBank requires collateral agreements on all derivatives that establish collateral delivery thresholds. The maximum credit risk is the estimated cost of replacing interest-rate swaps, forward rate agreements, and mandatory delivery contracts for mortgage loans that have a net positive market value, assuming the counterparty defaults and the related collateral, if any, is of no value to the FHLBank. This collateral has not been sold or repledged.

As of December 31, 2007 and 2006, the FHLBank's maximum credit risk, as defined above, was approximately $35,928,000 and $12,555,000. These totals include $33,778,000 and $38,010,000 of net accrued interest receivable. In determining maximum credit risk, the FHLBank considers accrued interest receivables and payables, and the legal right to offset derivative assets and liabilities by counterparty. The FHLBank held $7,700,000 and $450,000 cash as collateral as of December 31, 2007 and 2006. The FHLBank held no securities as collateral as of December 31, 2007 or 2006. Additionally, collateral related to derivatives with member institutions includes collateral assigned to the FHLBank, as evidenced by a written security agreement, and held by the member institution for the benefit of the FHLBank.

The FHLBank transacts most of its derivatives with large banks and major broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell, and distribute Consolidated Obligations. Note 19 discusses assets pledged by the FHLBank to these counterparties. The FHLBank is not a derivative dealer and thus does not trade derivatives for short-term profit.

The FHLBank has not issued Consolidated Obligations denominated in currencies other than U.S. dollars.

Financial Statement Impact and Additional Financial Information

Net (losses) gains on derivatives and hedging activities recorded in other income for the years ended December 31 were as follows (in thousands):

	For the Year Ended		
	2007	2006	2005
Amortization of basis adjustments on modified Advance hedging relationships	$ 240	$ 360	$ 1,254
(Losses) gains related to fair value hedge ineffectiveness	(12,693)	643	(1,090)
Gains (losses) on economic hedges	546	926	(812)
Net (losses) gains on derivatives and hedging activities	$ (11,907)	$ 1,929	$ (648)

The FHLBank had no transactions that qualified for cash flow hedge accounting, or any derivatives that required bifurcation from a host contract in 2007, 2006, or 2005. The following table provides outstanding notional balances and estimated fair values excluding accrued interest by category on derivatives outstanding at December 31 (in thousands):

	2007		2006	
	Notional	Estimated Fair Value	Notional	Estimated Fair Value
Interest-rate Swaps:				
Fair value	$ 27,909,830	$ (382,694)	$ 31,769,255	$ (207,745)
Economic	98,050	98	20,000	580
Forward rate Agreements:				
Economic	24,000	(66)	86,000	236
Mortgage Delivery Commitments:				
Economic	48,432	171	106,508	(275)
Total	$ 28,080,312	$ (382,491)	$ 31,981,763	$ (207,204)
Total derivatives excluding accrued interest		$ (382,491)		$ (207,204)
Accrued interest		68,264		112,200
Net derivative balances		$ (314,227)		$ (95,004)
Net derivative asset balances		$ 35,928		$ 12,555
Net derivative liability balances		(350,155)		(107,559)
Net derivative balances		$ (314,227)		$ (95,004)

Note 11—Deposits

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

Certain financial institutions have agreed to maintain compensating balances in consideration for correspondent and other non-credit services. These balances are classified as interest bearing in the deposits section on the accompanying financial statements. The compensating balances held by the FHLBank averaged (in thousands) $21,824 and $21,938 during 2007 and 2006.

Deposits classified as demand, overnight, and other pay interest based on a daily interest rate. Term deposits pay interest based on a fixed rate determined at the issuance of the deposit. The average interest rates paid on interest bearing deposits during 2007 and 2006 were 4.82 percent and 4.72 percent.

Non-interest bearing deposits represent funds where the FHLBank acts as a pass-through correspondent for member institutions required to deposit reserves with the Federal Reserve Banks.

The following table details deposits with the FHLBank that are interest bearing and non-interest bearing at December 31 (in thousands):

	2007	2006
Interest bearing:		
Demand and overnight	$ 910,493	$ 826,873
Term	117,325	88,425
Other	25,742	11,576
Total interest bearing	1,053,560	926,874
Non-interest bearing:		
Other	365	360
Total non-interest bearing	365	360
Total deposits	$ 1,053,925	$ 927,234

The aggregate amount of time deposits with a denomination of $100 thousand or more was (in thousands) $117,200 and $88,000 as of December 31, 2007 and 2006.

Note 12—Consolidated Obligations

Consolidated Obligations consist of Consolidated Bonds and Discount Notes. The FHLBanks issue Consolidated Obligations through the Office of Finance as their agent. In connection with each debt issuance, each FHLBank specifies the amount of debt it wants issued on its behalf. The Office of Finance tracks the amount of debt issued on behalf of each FHLBank. In addition, the FHLBank separately tracks and records as a liability its specific portion of Consolidated Obligations for which it is the primary obligor. The Finance Board and the U.S. Secretary of the Treasury have oversight over the issuance of FHLBank debt through the Office of Finance. Consolidated Bonds are issued primarily to raise intermediate- and long-term funds for the FHLBanks and are not subject to any statutory or regulatory limits on 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.

Although the FHLBank is primarily liable for its portion of Consolidated Obligations (i.e., those issued on its behalf), the FHLBank is also jointly and severally liable with the other eleven FHLBanks for the payment of principal and interest on all Consolidated Obligations of each of the FHLBanks. The Finance Board, at its discretion, may require any FHLBank to make principal or interest payments due on any Consolidated Obligation whether or not the Consolidated Obligation represents a primary liability of such FHLBank. Although it has never occurred, to the extent that an FHLBank makes any payment on a Consolidated Obligation on behalf of another FHLBank that is primarily liable for the Consolidated Obligation, Finance Board Regulations provide that the paying FHLBank is entitled to reimbursement from the non-complying FHLBank for those payments and other associated costs (including interest to be determined by the Finance Board). If, however, the Finance Board determines that the non-complying FHLBank is unable to satisfy its repayment obligations, the Finance Board may allocate the outstanding liabilities of the non-complying FHLBank among the remaining FHLBanks on a *pro rata* basis in proportion to each FHLBank's participation in all Consolidated Obligations outstanding or in any other manner it may determine to ensure that the FHLBanks operate in a safe and sound manner.

The par amounts of the 12 FHLBanks' outstanding Consolidated Obligations were approximately $1,189.7 billion and $952.0 billion at December 31, 2007 and 2006. Regulations require the FHLBank to maintain unpledged qualifying assets equal to its participation in the Consolidated Obligations outstanding. Qualifying assets are defined as cash; secured Advances; assets with an assessment or rating at least equivalent to the current assessment or rating of the Consolidated Obligations; obligations of or fully guaranteed by the United States; obligations, participations, or other instruments of or issued by Fannie Mae or Ginnie Mae; mortgages, obligations, or other securities which are or have ever been sold by Freddie Mac under the Act; and such securities as fiduciary and trust funds may invest in under the laws of the state in which the FHLBank is located.

General Terms. Consolidated Obligations are issued with either fixed-rate coupon payment terms or variable-rate coupon payment terms that use a variety of indices for interest rate resets, including the London Interbank Offered Rate (LIBOR). To meet the expected specific needs of certain investors in Consolidated Obligations, both fixed-rate bonds and variable-rate bonds may contain features that result in complex coupon payment terms and call options. When such Consolidated Obligations are issued, the FHLBank may enter into derivatives containing offsetting features that effectively convert the terms of the bond to those of a simple variable-rate bond or of a 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 principal repayment terms:

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

Interest Rate Payment Terms. The following table details Consolidated Bonds by interest-rate payment type at December 31 (in thousands):

	2007	2006
Par value of Consolidated Bonds:		
Fixed-rate	$ 38,020,604	$ 51,445,308
Variable-rate	8,143,289	1,973,973
Total par value	$ 46,163,893	$ 53,419,281

Redemption Terms. The following is a summary of the FHLBank's participation in Consolidated Bonds outstanding at December 31 by year of contractual maturity (dollars in thousands):

	2007		2006	
Year of Contractual Maturity	**Amount**	**Weighted Average Interest Rate**	**Amount**	**Weighted Average Interest Rate**
Due in 1 year or less	$ 19,723,019	4.55%	$ 20,555,348	4.21%
Due after 1 year through 2 years	7,418,000	4.55	13,045,230	4.56
Due after 2 years through 3 years	4,511,000	4.51	5,057,000	4.49
Due after 3 years through 4 years	3,149,750	4.84	3,731,000	4.59
Due after 4 years through 5 years	3,642,399	4.94	2,714,750	4.92
Thereafter	7,719,725	5.04	8,315,953	4.93
Total par value	46,163,893	4.68	53,419,281	4.49
Premiums	33,175		26,847	
Discounts	(41,474)		(50,505)	
Deferred net loss on terminated hedges	3		62	
SFAS 133 hedging adjustments	23,054		(156,441)	
Total	$ 46,178,651		$ 53,239,244	

The FHLBank's Consolidated Bonds outstanding at December 31 included (in thousands):

	2007	**2006**
Par amount of Consolidated Bonds:		
Non-callable	$ 30,492,604	$ 31,267,308
Callable	15,671,289	22,151,973
Total par value	$ 46,163,893	$ 53,419,281

The following table summarizes Consolidated Bonds outstanding at December 31 by year of contractual maturity or next call date (in thousands):

Year of Contractual Maturity or Next Call Date	**2007**	**2006**
Due in 1 year or less	$ 30,741,019	$ 35,812,848
Due after 1 year through 2 years	5,218,000	7,595,730
Due after 2 years through 3 years	3,181,000	2,677,000
Due after 3 years through 4 years	1,526,750	2,282,000
Due after 4 years through 5 years	2,117,399	1,186,750
Thereafter	3,379,725	3,864,953
Total par value	$ 46,163,893	$ 53,419,281

Consolidated Discount Notes. Consolidated Discount Notes are issued to raise short-term funds. Discount Notes are Consolidated Obligations with original maturities up to 365 days. These notes are issued at less than their face amount and redeemed at par value when they mature. The FHLBank's participation in Consolidated Discount Notes, all of which are due within one year was as follows (dollars in thousands):

	Book Value	Par Value	Weighted Average Interest Rate (1)
December 31, 2007	$ 35,437,545	$ 35,576,770	4.20%
December 31, 2006	$ 21,946,379	$ 22,021,300	5.22%

(1) The Consolidated Discount Notes weighted average interest rate represents an implied rate.

Note 13—Affordable Housing Program (AHP)

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 in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. Annually, the FHLBanks must set aside for the AHP the greater of $100 million or 10 percent of regulatory income. Regulatory income is income before assessments and before interest expense related to mandatorily redeemable capital stock under SFAS 150, but after the assessment for REFCORP. The exclusion of interest expense related to mandatorily redeemable capital stock is a regulatory interpretation of the Finance Board. The AHP and REFCORP assessments are calculated simultaneously because of their interdependence. The FHLBank accrues AHP expense monthly based on its income before assessments. The FHLBank reduces the AHP liability as members use subsidies. Calculation of the REFCORP assessment is discussed in Note 14.

If the FHLBank experienced a regulatory loss during a quarter, but still had regulatory income for the year, the FHLBank's obligation to the AHP would be calculated based on the FHLBank's year-to-date regulatory income. If the FHLBank had regulatory income in subsequent quarters, it would be required to contribute additional amounts to meet its calculated annual obligation. If the FHLBank experienced a regulatory loss for a full year, the FHLBank would have no obligation to the AHP for the year unless the aggregate 10 percent calculation described above was less than $100 million for all 12 FHLBanks; if it were, each FHLBank would be required to contribute a pro rata amount sufficient to assure that the aggregate contributions of the FHLBanks equaled $100 million. The pro ration would be made on the basis of an FHLBank's income in relation to the income of all FHLBanks for the previous year. Each FHLBank's required annual AHP contribution is limited to its annual net earnings.

There was no shortfall, as described above, in either 2007, 2006 or 2005. If an FHLBank finds that its required AHP obligations are contributing to its financial instability, it may apply to the Finance Board for a temporary suspension of its contributions. The FHLBank has never made such an application. The FHLBank had outstanding principal in AHP-related Advances (in thousands) of $173,929 and $169,165 at December 31, 2007 and 2006. An analysis of the AHP liability for the years ended December 31 follows (in thousands):

	2007	2006
Balance at beginning of year	$ 96,240	$ 91,035
Expense	30,850	29,584
Subsidy uses, net	(23,716)	(24,379)
Balance at end of year	$ 103,374	$ 96,240

Note 14—Resolution Funding Corporation (REFCORP)

Each FHLBank is required to pay to REFCORP 20 percent of income calculated in accordance with GAAP after the assessment for AHP, but before the assessment for REFCORP. The AHP and REFCORP assessments are calculated simultaneously because of their interdependence. The FHLBank accrues its REFCORP assessment on a monthly basis. Calculation of the AHP assessment is discussed in Note 13. REFCORP has been designated as the calculation agent for AHP and REFCORP assessments. Each FHLBank provides its net income before AHP and REFCORP to the REFCORP, which then performs the calculations for each quarter end.

The FHLBanks will continue to be obligated for these amounts until the aggregate amounts actually paid by all 12 FHLBanks are equivalent to a $300 million annual annuity (or a scheduled payment of $75 million per quarter) whose final maturity date is April 15, 2030, at which point the required payment of each FHLBank to REFCORP will be fully satisfied. The cumulative amount to be paid to REFCORP by the FHLBank is not determinable at this time because it depends both on the future earnings of all FHLBanks and on interest rates over time. If the FHLBank experienced a net loss during a quarter, but still had net income for the year, the FHLBank's obligation to REFCORP would be calculated based on the FHLBank's year-to-date GAAP net income. The FHLBank would be entitled to a refund of amounts paid for the full year that were in excess of its calculated annual obligation. If the FHLBank had net income in subsequent quarters, it would be required to contribute additional amounts to meet its calculated annual obligation. If the FHLBank experienced a net loss for a full year, the FHLBank would have no obligation to REFCORP for the year.

The Finance Board is required to extend the term of the FHLBanks' obligation to REFCORP for each calendar quarter in which the FHLBanks' quarterly payment falls short of $75 million.

The FHLBanks' aggregate payments through 2007 exceeded the scheduled payments, effectively accelerating payment of the REFCORP obligation and shortening its remaining term to October 15, 2013, effective December 31, 2007. The FHLBanks' aggregate payments through 2007 have satisfied $24.2 million of the $75 million scheduled payment due on October 15, 2013 and all scheduled payments thereafter. This date assumes the FHLBanks will pay exactly $300 million annually after December 31, 2007 until the annuity is satisfied.

The benchmark payments or portions of them could be reinstated if the actual REFCORP payments of the FHLBanks fall short of $75 million in a quarter. The maturity date of the REFCORP obligation may be extended beyond April 15, 2030 if such extension is necessary to ensure that the value of the aggregate amounts paid by the FHLBanks exactly equals a $300 million annual annuity. Any payment beyond April 15, 2030 will be paid to the Department of the Treasury.

Note 15—Capital

The FHLBank is subject to three capital requirements under its Capital Plan and the Finance Board rules and regulations: (1) risk-based capital, (2) total capital and (3) leverage capital. First, under the risk-based capital requirement, the FHLBank must maintain at all times permanent capital, defined as Class B stock and retained earnings, in an amount at least equal to the sum of its credit risk, market risk, and operations risk capital requirements, all of which are calculated in accordance with the rules and regulations of the Finance Board. The Finance Board may require the FHLBank to maintain a greater amount of permanent capital than is required by the risk-based capital requirements. Second, the FHLBank is required to maintain at all times a total capital-to-assets ratio of at least four percent. Total capital is the sum of permanent capital, Class A stock, any general loss allowance, if consistent with GAAP and not established for specific assets, and other amounts from sources determined by the Finance Board as available to absorb losses. Third, the FHLBank is required to maintain at all times a leverage capital-to-assets ratio of at least five percent. Leverage capital is defined as the sum of (i) permanent capital weighted 1.5 times and (ii) all other capital without a weighting factor. Mandatorily redeemable capital stock is considered capital for determining the FHLBank's compliance with its regulatory requirements. At December 31, 2007 and 2006, the FHLBank was in compliance with the aforementioned capital rules and requirements.

The following table demonstrates the FHLBank's compliance with these capital requirements at December 31 (dollars in thousands):

	2007		2006	
	Required	Actual	Required	Actual
Regulatory capital requirements:				
Risk based capital	$ 610,800	$ 3,877,413	$ 576,678	$ 4,050,283
Capital-to-assets ratio	4.00%	4.43%	4.00%	4.98%
Regulatory capital	$ 3,501,262	$ 3,877,413	$ 3,255,467	$ 4,050,283
Leverage capital-to-assets ratio	5.00%	6.64%	5.00%	7.46%
Leverage capital	$ 4,376,578	$ 5,816,120	$ 4,069,334	$ 6,075,425

The FHLBank currently offers only Class B stock, which is issued and redeemed at a par value of $100 per share. Class B stock may be issued to meet membership and activity stock purchase requirements, to pay dividends, and to pay interest on mandatorily redeemable capital stock. Membership stock is required to become a member of and maintain membership in the FHLBank. The membership stock requirement is based upon a percentage of the member's total assets, currently determined within a range from 0.03 percent to 0.15 percent, that varies inversely to total assets. In addition to membership stock, a member may be required to hold activity stock to capitalize its Mission Asset Activity with the FHLBank.

Mission Asset Activity includes Advances, certain funds and rate Advance commitments, and Mortgage Purchase Program activity that occurred after implementation of the Capital Plan on December 30, 2002. Members must maintain a Class B stock balance at least equal to the minimum activity allocation percentage, which currently is zero percent of Mission Asset Activity for the Mortgage Purchase Program and two percent of Mission Asset Activity for all other Mission Asset Activity. If a member owns more than the maximum activity allocation percentage, which currently is four percent of Mission Asset Activity, the additional stock is that member's excess stock. The FHLBank's unrestricted excess stock is defined as total Class B stock minus membership stock, activity stock calculated at the maximum allocation percentage, shares reserved for exclusive use after a stock dividend, and shares subject to redemption and withdrawal notices. The FHLBank's excess stock may normally be used by members to support a portion of their activity requirement as long as those members maintain their minimum activity stock allocation percentage.

A member may request redemption of all or part of its Class B stock by giving five years' written notice. The FHLBank may also repurchase the excess stock of any stockholder with no less than five calendar days' prior written notice. When the FHLBank repurchases capital stock, it must first repurchase shares for which a redemption or withdrawal notice's five-year redemption period or withdrawal period has expired. Since its Capital Plan was implemented, the FHLBank has repurchased, at its discretion, all member shares subject to outstanding redemption notices prior to the expiration of the five-year redemption period.

The Gramm-Leach-Bliley Act of 1999 (GLB Act) made membership in the FHLBanks voluntary for all members. Any member that has withdrawn from membership may not be readmitted to membership in any FHLBank until five years from the divestiture date for all capital stock that was held as a condition of membership. That requirement is set out in the FHLBank's capital plan as described in the section below, unless the institution has cancelled its notice of withdrawal prior to that date, before being readmitted to membership in any FHLBank. This restriction does not apply if the member is transferring its membership from one FHLBank to another.

The FHLBank's retained earnings are owned proportionately by the current holders of Class B stock. The holders' interest in the retained earnings is realized at the time the FHLBank periodically declares dividends or at such time as the FHLBank is liquidated. The FHLBank's Board of Directors may declare and pay dividends in either cash or capital stock, assuming the FHLBank is in compliance with Finance Board rules.

Mandatorily Redeemable Capital Stock. The FHLBank is a cooperative whose members and former members own all of the FHLBank's capital stock. Member shares cannot be purchased or sold except between the FHLBank and its members at its $100 per share par value. In accordance with SFAS 150, the FHLBank reclassifies stock subject to redemption from equity to liability upon expiration of the "grace period" after a member submits a written redemption request or withdrawal notice, or when the member attains non-member status by merger or acquisition, charter termination, or involuntary termination of membership, since the shares of capital stock then meet the definition of a mandatorily redeemable financial instrument. A member may cancel or revoke its written redemption request or its withdrawal notice prior to the end of the five-year redemption period. Under the FHLBank's Capital Plan, there is a five calendar day "grace period" for revocation of a redemption request and a 30 calendar day "grace period" for revocation of a withdrawal notice during which the member may cancel the redemption request or withdrawal notice without a penalty or fee. The cancellation fee after the "grace period" is currently two percent of the requested amount in the first year and increases one percent a year until it reaches a maximum of six percent in the fifth year. The cancellation fee can be waived by the FHLBank's Board of Directors for a bona fide business purpose.

Stock subject to a redemption or withdrawal notice that is within the "grace period" continues to be considered equity because there is no penalty or fee to retract these notices. Expiration of the "grace period" triggers the reclassification from equity to a liability (mandatorily redeemable capital stock) at fair value because after the "grace period" the penalty to retract these notices is considered substantive. If a member cancels its written notice of redemption or notice of withdrawal, the FHLBank will reclassify mandatorily redeemable capital stock from a liability to equity in accordance with SFAS 150. Dividends related to capital stock classified as a liability are accrued at the expected dividend rate and reported as interest expense in the Statements of Income. The repayment of these mandatorily redeemable financial instruments is reflected as a cash outflow in the financing activities section of the Statements of Cash Flows. For the years ended December 31, 2007, 2006, and 2005 dividends on mandatorily redeemable capital stock in the amount (in thousands) of $9,115, $13,162, and $13,335 were recorded as interest expense.

As of December 31, 2007 and 2006, the FHLBank had (in thousands) $117,624 and $137,109 in capital stock classified as mandatorily redeemable capital stock on its Statements of Condition. At December 31, 2007 and 2006, these balances were comprised as follows:

	2007		2006	
	Number of Stockholders	**Amount**	**Number of Stockholders**	**Amount**
Capital stock subject to mandatory redemption due to:				
Withdrawals	16	$ 117,624	14	$ 49,839
Other redemptions	-	-	6	87,270
Total	16	$ 117,624	20	$ 137,109

The following table provides the dollar amounts for activities recorded in mandatorily redeemable capital stock during 2007, 2006 and 2005:

	2007	**2006**	**2005**
Balance, beginning of year	$ 137,109	$ 418,381	$ 34,344
Capital stock subject to mandatory redemption reclassified from equity:			
Withdrawals	530,928	4,600	369,182
Other redemptions	10,125	88,164	128,072
Redemption (or other reduction) of mandatorily redeemable capital stock:			
Withdrawals	(463,143)	(382,785)	(1,433)
Other redemptions	(97,395)	(894)	(128,072)
Stock dividend classified as mandatorily redeemable	-	9,643	16,288
Balance, end of year	$ 117,624	$ 137,109	$ 418,381

As of December 31, 2007, there were no members or former members that had requested redemptions of capital stock whose stock had not been reclassified as mandatorily redeemable capital stock because the "grace periods" had not yet expired on these requests.

The following table shows the amount of mandatorily redeemable capital stock by year of redemption at December 31 (in thousands). Year of redemption in the table is the end of the five-year redemption period. Consistent with the Capital Plan currently in effect, the FHLBank is not required to redeem membership stock until five years after either (i) the membership is terminated or (ii) the FHLBank receives notice of withdrawal. The FHLBank is not required to redeem activity-based stock until the later of the expiration of the notice of redemption or until the activity to which the capital stock relates no longer remains outstanding. If activity-based stock becomes excess stock as a result of an activity no longer remaining outstanding, the FHLBank may repurchase such shares, in its sole discretion, subject to the statutory and regulatory restrictions on capital stock redemption discussed below.

Contractual Year of Redemption	**2007**	**2006**
Due in 1 year or less	$ 311	$ 1,252
Due after 1 year through 2 years	44	595
Due after 2 years through 3 years	18,296	573
Due after 3 years through 4 years	8,658	36,729
Due after 4 years through 5 years	90,315	97,960
Thereafter	-	-
Total par value	$ 117,624	$ 137,109

Statutory and Regulatory Restrictions on Capital Stock Redemption. In accordance with the GLB Act, each class of FHLBank stock is putable by the member. However, there are significant statutory and regulatory restrictions on the FHLBank's obligation or right to redeem outstanding stock, including the following:

- The FHLBank may not redeem any capital stock if, following the redemption, the FHLBank would fail to satisfy any of its minimum capital requirements. By law, no FHLBank stock may be redeemed if the FHLBank becomes undercapitalized.

- The FHLBank may not redeem any capital stock without approval of the Finance Board if either its Board of Directors or the Finance Board determines that the FHLBank has incurred or is likely to incur losses resulting or expected to result in a charge against capital while such charges are continuing or expected to continue.

Additionally, the FHLBank may not redeem or repurchase shares of stock from any member if (1) the principal or interest on any Consolidated Obligation has not been paid in full when due; (2) the FHLBank has failed to certify in writing to the Finance Board that it will remain in compliance with its liquidity requirements and will remain capable of making full and timely payment of all of its current obligations; (3) the FHLBank has notified the Finance Board that it cannot provide the foregoing certification, projects it will fail to comply with statutory or regulatory liquidity requirements, or will be unable to timely and fully meet all of its current obligations; or (4) the FHLBank has failed to comply with statutory or regulatory liquidity requirements or to timely and fully meet all of its current obligations, or has entered into or negotiated to enter into an agreement with one or more other FHLBanks to obtain financial assistance to meet its current obligations.

If the FHLBank is liquidated, after payment in full to the FHLBank's creditors, the FHLBank's stockholders will be entitled to receive the par value of their capital stock. In addition, the FHLBank's Class B stockholders will be entitled to any retained earnings in an amount proportional to the stockholder's share of the total shares of capital stock. In the event of a merger or consolidation of the FHLBank, the Board of Directors shall determine the rights and preferences of the FHLBank's stockholders, subject to any terms and conditions imposed by the Finance Board.

In addition to possessing the authority to prohibit stock redemptions, the FHLBank's Board of Directors has the right to call for the FHLBank's members, as a condition of membership, to make additional capital stock purchases as needed to satisfy statutory and regulatory capital requirements under the GLB Act.

The FHLBank's Board of Directors has a statutory obligation to review and adjust member capital stock requirements in order to comply with the FHLBank's minimum capital requirements, and each member must comply promptly with any such requirement. However a member could reduce its outstanding business with the FHLBank as an alternative to purchasing stock.

The GLB Act states that an FHLBank may repurchase, in its sole discretion, any member's stock investments that exceed the required minimum amount.

Finance Board Rule Limiting Excess Stock. On December 22, 2006, the Finance Board adopted a final rule prohibiting any FHLBank with excess stock greater than one percent of its total assets from further increasing member excess stock by paying stock dividends or otherwise issuing new excess stock. The final rule also requires the FHLBanks to declare and pay dividends only out of known income. The FHLBank paid cash dividends in each quarter of 2007. Previously, the Finance Board had issued a proposed rule that would have established minimum amounts of retained earnings for the FHLBanks. While the provisions regarding minimum amounts of retained earnings were not carried forward into the final rule, it is possible that the Finance Board may take up the matter in a subsequent rulemaking.

Capital Concentration. The following table presents holdings of 5 percent or more of the FHLBank's total Class B stock, including mandatorily redeemable capital stock, outstanding at December 31 and includes any known affiliates that are members of the FHLBank (dollars in millions):

2007			2006		
	Balance	**% of Total**		**Balance**	**% of Total**
U.S. Bank, N.A.	$ 675	19%	RBS Citizens, N.A. (2)	$ 582	15%
Fifth Third Bank	372	10	U.S. Bank, N.A.	526	14
National City Bank	327	9	Fifth Third Bank	372	10
The Huntington National Bank	231	7	AmTrust Bank (1)	214	6
AmTrust Bank (1)	214	6			
Total	$ 1,819	51%	Total	$ 1,694	45%

(1) Formerly Ohio Savings Bank.

(2) Formerly Charter One Bank, N.A.

Note 16—Employee Retirement Plans

The FHLBank participates in the Pentegra Defined Benefit Plan for Financial Institutions (Pentegra Defined Benefit Plan), a tax-qualified defined benefit pension plan. The plan covers substantially all officers and employees of the FHLBank. Funding and administrative costs of the Pentegra Defined Benefit Plan charged to other operating expenses were $3,152,000, $3,290,000 and $2,969,000 in 2007, 2006 and 2005. The Pentegra Defined Benefit Plan is a multiemployer plan in which assets contributed by one participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. As a result, disclosure of the accumulated benefit obligations, plan assets, and the components of annual pension expense attributable to the FHLBank are not presented herein.

The FHLBank also participates in the Pentegra Defined Contribution Plan for Financial Institutions, a tax-qualified defined contribution pension plan. The FHLBank contributes a percentage of the participants' compensation by making a matching contribution equal to a percentage of voluntary employee contributions, subject to certain limitations. The FHLBank contributed $602,000, $571,000, and $489,000 in the years ended December 31, 2007, 2006, and 2005.

The FHLBank has a Benefit Equalization Plan (BEP). The BEP is a non-qualified supplemental retirement plan which restores those pension benefits that would be available under the qualified plans (both defined benefit and defined contribution features) were it not for legal limitations on such benefits. The FHLBank also sponsors a fully insured postretirement benefits program that includes health care and life insurance benefits for eligible retirees. Future retirees are eligible for the postretirement benefits program if they were hired prior to August 1, 1990, are age 55 or older, and their age plus years of continuous service at retirement are greater than or equal to 80. Spouses are covered subject to required contributions. There are no funded plan assets that have been designated to provide benefits from either the BEP or the postretirement benefits plan.

The FHLBank's contributions to the defined contribution feature of the BEP use the same matching rules as the qualified defined contribution plan discussed above plus the related earnings. The FHLBank contributed $362,000, $697,000, and $345,000 in the years ended December 31, 2007, 2006, and 2005.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) became law in the United States. The Medicare Act introduced a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare Part D benefit. In May 2004, the FASB issued Staff Position FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, which provides guidance on the accounting and disclosures for the effects of the federal subsidy provided by the Medicare Act. The FHLBank's disclosures regarding its accumulated postretirement benefit obligation and net periodic postretirement benefit cost reflect estimated amounts associated with the federal subsidy.

The obligations and funding status of the defined benefit feature of the FHLBank's BEP and postretirement benefits plan as of December 31 were as follows (in thousands):

	BEP		Postretirement Benefits Plan	
Change in benefit obligation [1]**:**	**2007**	**2006**	**2007**	**2006**
Benefit obligation at beginning of year	$ 15,785	$ 15,113	$ 3,040	$ 3,161
Service cost	328	383	47	51
Interest cost	930	873	178	178
Amendments	-	(4)	-	-
Actuarial loss	267	756	(42)	239
Recognition of Medicare Act retiree drug subsidy	-	-	-	(492)
Benefits paid	(906)	(1,336)	(97)	(97)
Benefit obligation at end of year	16,404	15,785	3,126	3,040
Change in plan assets:				
Fair value of plan assets at beginning of year	-	-	-	-
Employer contribution	906	1,336	97	97
Benefits paid	(906)	(1,336)	(97)	(97)
Fair value of plan assets at end of year	-	-	-	-
Funded status at end of year	(16,404)	(15,785)	(3,126)	(3,040)
Unrecognized net actuarial loss	5,142	5,691	64	107
Unrecognized prior service benefit	(3)	(4)	-	-
Net amount recognized in earnings	$ (11,265)	$ (10,098)	$ (3,062)	$ (2,933)

(1) Represents projected benefit obligation and accumulated postretirement benefit obligation for the BEP and postretirement benefits plan, respectively.

Amounts recognized in "Other liabilities" on the Statements of Condition for the FHLBank's BEP and postretirement benefits plan as of December 31, 2007 and 2006 were (in thousands) $19,530 and $18,825.

Amounts recognized in accumulated other comprehensive income as of December 31, 2007 and 2006 consist of (in thousands):

	BEP		Postretirement Benefits Plan	
	2007	**2006**	**2007**	**2006**
Net actuarial loss	$ 5,142	$ 5,691	$ 64	$ 107
Prior service benefit	(3)	(4)	-	-
	$ 5,139	$ 5,687	$ 64	$ 107

Components of the net periodic benefit cost and other amounts recognized in other comprehensive income for the defined benefit feature of the BEP and postretirement benefits plan for the years ended December 31 were (in thousands):

	BEP			Postretirement Benefits Plan		
Net Periodic Benefit Cost	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
Service cost	$ 328	$ 383	$ 281	$ 47	$ 51	$ 49
Interest cost	930	873	806	178	178	173
Amortization of unrecognized prior service benefit	(1)	(108)	(107)	-	-	-
Amortization of unrecognized net loss	816	899	1,320	-	3	2
Net periodic benefit cost	2,073	$ 2,047	$ 2,300	225	$ 232	$ 224
Other Changes in Benefit Obligations Recognized in Other Comprehensive Income						
Net loss (gain)	267			(43)		
Amortization of unrecognized net loss	(816)			-		
Amortization of unrecognized prior service benefit	1			-		
Total recognized in other comprehensive income	(548)			(43)		
Total recognized in net periodic benefit cost and other comprehensive income	$ 1,525			$ 182		

The estimated net actuarial loss and prior service benefit that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are (in thousands):

	BEP	Postretirement Benefit Plan
Net actuarial loss	$ 701	$ -
Prior service benefit	(1)	-
Total	$ 700	$ -

The measurement date used to determine the current year's benefit obligation was December 31, 2007.

Key assumptions and other information used for the actuarial calculations to determine benefit obligations and net periodic benefit cost for the BEP for the years ended December 31 were (dollars in thousands):

	2007	2006	2005
Discount rate	6.13%	5.75%	5.50%
Salary increases	4.50%	4.50%	4.50%
Amortization period	6 years	6 years	4 years
Benefits paid during the year	$ 906	$ 1,336	$ 833

Key assumptions and other information used for the actuarial calculations to determine benefit obligations and net periodic benefit cost for the postretirement benefits plan for the years ended December 31 were:

	2007	2006	2005
Discount rate	6.00%	5.75%	5.75%
Weighted average discount rate at the end of the year	6.00%	6.00%	5.75%
Health care cost trend rates:			
Assumed for next year	8.50%	9.00%	8.00%
Ultimate rate	5.25%	5.25%	5.25%
Year that ultimate rate is reached	2017	2017	2014

The effect of a percentage point increase in the assumed health care trend rates would be an increase in net periodic postretirement benefit expense of $38,000 and in accumulated postretirement benefit obligation (APBO) of $475,000. The effect of a percentage point decrease in the assumed health care trend rates would be a decrease in net periodic postretirement benefit expense of $31,000 and in APBO of $385,000.

The discount rates for the disclosures as of December 31, 2007 were determined by using a discounted cash flow approach, which incorporates the timing of each expected future benefit payment. Estimated future benefit payments are based on each plan's census data, benefit formulae and provisions, and valuation assumptions reflecting the probability of decrement and survival. The present value of the future benefit payments is determined by using weighted average duration based interest rate yields from a variety of highly rated relevant corporate bond indices as of December 31, 2007, and solving for the single discount rate that produces the same present value.

The defined benefit feature of the BEP and the postretirement benefits plan are not funded; therefore, no contributions will be made in 2008 except for the payment of benefits. Estimated future benefits payments reflecting expected future services for the years ended after December 31, 2007 were (in thousands):

		Postretirement Benefit Plan	
Years	BEP	Gross Benefit Payments	Estimated Medicare Retiree Drug Subsidy
2008	$ 1,071	$ 161	$ 18
2009	1,041	163	19
2010	1,141	177	20
2011	1,263	183	22
2012	1,391	188	23
Years 2013 – 2017	8,211	1,058	137

Note 17—Segment Information

The FHLBank has identified two primary operating segments based on its methodology of internal reporting: Traditional Member Finance and the Mortgage Purchase Program. These segments reflect the FHLBank's two primary Mission Asset Activities and the manner in which they are managed from the perspective of development, resource allocation, product delivery, pricing, credit risk management, and operational administration. The segments identify the primary ways the FHLBank provides services to member stockholders. The FHLBank, as an interest rate spread manager, considers a segment's net interest income, net interest rate spread and, ultimately, net income as the key factors in allocating resources. Resource allocation decisions are made by considering these profitability measures in the context of the historical, current and expected risk profile of each segment and the entire balance sheet, as well as current incremental profitability measures relative to the incremental market risk profile.

Overall financial performance and risk management are dynamically managed primarily at the level of, and within the context of, the entire balance sheet rather than at the level of individual business segments or product lines. Also, the FHLBank hedges specific asset purchases and specific subportfolios in the context of the entire mortgage asset portfolio and the entire balance sheet. Under this holistic approach, the market risk/return profile of each business segment does not correspond, in general, to the performance that each segment would generate if it were completely managed on a separate basis. It is not possible, given this approach, to accurately determine what the performance would be if the two business segments were managed on a stand-alone basis. Further, because financial and risk management is a dynamic process, the performance of a segment over a single identified period may not reflect the long-term expected or actual future trends for the segment.

The Traditional Member Finance segment includes products such as Advances and investments and the borrowing costs related to those assets. The FHLBank assigns its investments to this segment primarily because they historically have been used to provide liquidity for Advances and to support the level and volatility of earnings from Advances. Income from the Mortgage Purchase Program is derived primarily from the difference, or spread, between the yield on mortgage loans and the borrowing cost of Consolidated Obligations outstanding allocated to this segment at the time debt is issued. Both segments also earn income from investment of interest-free capital. Capital is allocated proportionate to each segment's average assets based on the total balance sheet's average capital-to-assets ratio. Expenses are allocated based on cost accounting techniques that include direct usage, time allocations and square footage of space used. AHP and REFCORP assessments are calculated using the current assessment rates based on the income before assessments for each segment. All interest rate swaps, including their market value adjustments under SFAS 133, are allocated to the Traditional Member Finance segment because the FHLBank has not executed interest rate swaps in its management of the Mortgage Purchase Program's market risk. All derivatives classified as mandatory delivery commitments and forward rate agreements are allocated to the Mortgage Purchase Program segment.

The following table sets forth the FHLBank's financial performance by operating segment for the years ended December 31 (in thousands):

	Traditional Member Finance	Mortgage Purchase Program	Total
2007			
Net interest income	$ 331,428	$ 89,870	$ 421,298
Other (loss) income	(7,675)	1,551	(6,124)
Other expenses	40,313	8,337	48,650
Income before assessments	283,440	83,084	366,524
Affordable Housing Program	24,068	6,782	30,850
REFCORP	51,875	15,260	67,135
Total assessments	75,943	22,042	97,985
Net income	$ 207,497	$ 61,042	$ 268,539
Average assets	$ 74,225,302	$ 10,067,217	$ 84,292,519
Total assets	$ 78,242,362	$ 9,289,195	$ 87,531,557

	Traditional Member Finance	Mortgage Purchase Program	Total
2006			
Net interest income	$ 302,319	$ 84,117	$ 386,436
Other income	4,801	880	5,681
Other expenses	37,599	8,564	46,163
Income before assessments	269,521	76,433	345,954
Affordable Housing Program	23,345	6,239	29,584
REFCORP	49,235	14,039	63,274
Total assessments	72,580	20,278	92,858
Net income	$ 196,941	$ 56,155	$ 253,096
Average assets	$ 69,598,701	$ 9,802,524	$ 79,401,225
Total assets	$ 71,455,084	$ 9,931,586	$ 81,386,670
2005			
Net interest income	$ 261,376	$ 78,612	$ 339,988
Other income (loss)	3,915	(805)	3,110
Other expenses	34,662	7,955	42,617
Income before assessments	230,629	69,852	300,481
Affordable Housing Program	20,188	5,702	25,890
REFCORP	42,088	12,830	54,918
Total assessments	62,276	18,532	80,808
Net income	$ 168,353	$ 51,320	$ 219,673
Average assets	$ 70,040,700	$ 9,348,840	$ 79,389,540
Total assets	$ 67,408,082	$ 9,771,768	$ 77,179,850

Note 18—Estimated Fair Values

The following estimated fair value amounts have been determined by the FHLBank using available market information and the FHLBank's best judgment of appropriate valuation methods. These estimates are based on pertinent information available to the FHLBank as of December 31, 2007 and 2006. Although the FHLBank uses its best judgment in estimating the fair value of its 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 FHLBank'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, although they do reflect the FHLBank's judgment of how a market participant would estimate the fair values. The Fair Value Summary Tables do not represent an estimate of the overall market value of the FHLBank as a going concern, which would take into account future business opportunities and the net profitability of assets versus liabilities.

Subjectivity of estimates. Estimates of the fair value of Advances with options, mortgage instruments, derivatives with embedded options and bonds with options using the methods described below and other methods are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows, prepayment speed assumptions, expected interest rate volatility, methodologies to determine possible distributions of future interest rates used to value options, and the selection of discount rates that appropriately reflect market and credit risks. Changes in these judgments often have a material effect on the fair value estimates. Since these estimates are made as of a specific point in time, they are susceptible to material near term changes.

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

Interest bearing deposits and investment securities. The estimated fair value is determined based on each security's quoted prices, excluding accrued interest, as of the last business day of the year.

Securities purchased under agreements to resell. The estimated fair value approximates the recorded book balance.

Federal funds sold. The estimated fair value of overnight Federal funds approximates the recorded book balance. The estimated fair value of term Federal funds is determined by calculating the present value of the expected future cash flows. The discount rates used in these calculations are the rates for Federal funds with similar terms, as approximated by adding an estimated current spread to the LIBOR swap curve for Federal funds with similar terms.

Held-to-maturity securities. The estimated fair value for each individual mortgage-backed security and collateralized mortgage obligation is obtained from a third-party provider, which bases the fair value on indicative, quoted, and/or trading prices of similar instruments, matrix pricing, or a discounted cash flow methodology. The estimated fair value excludes accrued interest. The estimated fair value for taxable municipal bonds is determined based on each security's indicative market price obtained from a third-party provider excluding accrued interest. The FHLBank uses various techniques to validate the fair values received from third-party providers for accuracy and reasonableness.

Advances and other loans. The FHLBank determines the estimated fair value of Advances by calculating the present value of expected future cash flows from the Advances and excluding the amount of the accrued interest receivable. The discount rates used in these calculations are the replacement rates for Advances with similar terms, as approximated either by adding an estimated current spread to the LIBOR swap curve or by using current indicative market yields, as indicated by the FHLBank Advance pricing methodologies for Advances with similar current terms. In accordance with Finance Board Regulations, Advances with a maturity and repricing period greater than six months require a prepayment fee sufficient to make the FHLBank financially indifferent to the borrower's decision to prepay the Advances. Therefore, the estimated fair value of Advances does not assume prepayment risk.

For swapped Advances, the estimated fair value is determined (independently of the related derivative) by the discounted cash flow methodology based on the LIBOR swap curve and forward rates at year end adjusted for the estimated current spread on new swapped Advances to the swap curve. For swapped Advances with a conversion option, the conversion option is valued by taking into account the LIBOR swap curve and forward rates at year end and the market's expectations of future interest rate volatility implied from current market prices of similar options.

Mortgage loans held for portfolio. The estimated fair values of mortgage loans are determined based on quoted market prices offered to approved members as indicated by the FHLBank's Mortgage Purchase Program pricing methodologies for mortgage loans with similar current terms excluding accrued interest. The quoted prices offered to members are based on Fannie Mae price indications on to-be-announced mortgage-backed securities and FHA price indications on government-guaranteed loans; the FHLBank then adjusts these indicative prices to account for particular features of the FHLBank's Mortgage Purchase Program that differ from the Fannie Mae and FHA securities. These features include, but may not be limited to:

- the Mortgage Purchase Program's credit enhancements;
- marketing adjustments that reflect the FHLBank's cooperative business model, appetite for purchasing mortgage loans given the current net spreads to funding costs relative to their risks and preferences for particular kinds of loans and mortgage note rates.

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 FHLBank determines the estimated fair value of interest-rate exchange agreements based on current market conditions of interest-rate exchange agreements with similar current terms, including accrued interest receivable and payable. The estimated fair value is based on the LIBOR swap curve and forward rates at year end and, for agreements containing options, the market's expectations of future interest rate volatility implied from current market prices of similar options. The estimated fair value uses standard valuation techniques for interest-rate swap agreements, including discounted cash flow analysis and comparisons to similar instruments. 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. The FHLBank determines the estimated fair values of mortgage delivery commitments similarly to the way in which it determines the estimated fair values of mortgage loans held for portfolio discussed above.

Deposits. The FHLBank determines the estimated fair value of FHLBank deposits with fixed rates 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.

Consolidated Obligations. The FHLBank determines the estimated fair value of Discount Notes by calculating the present value of expected future cash flows from the Discount Notes excluding accrued interest. The discount rates used in these calculations are current replacement rates for Discount Notes with similar current terms, as approximated by adding an estimated current spread to the LIBOR swap curve. Each month's cash flow is discounted at that month's replacement rate.

The FHLBank determines the estimated fair value of non-callable Consolidated Obligation Bonds (both unswapped and swapped) by calculating the present value of scheduled future cash flows from the bonds excluding accrued interest. The discount rates used in these calculations are estimated current market yields, as indicated by the Office of Finance, for bonds with similar current terms.

The FHLBank determines the estimated fair value of callable Consolidated Obligation Bonds (both unswapped and swapped) by calculating the present value of expected future cash flows from the bonds excluding accrued interest. The estimated fair value is determined by the discounted cash flow methodology based on the LIBOR swap curve and forward rates adjusted for the estimated spread on new callable bonds to the swap curve and based on the market's expectations of future interest rate volatility implied from current market prices of similar options.

Mandatorily redeemable capital stock. The fair value of capital subject to mandatory redemption is generally at par value as indicated by member contemporaneous purchases and sales at par value. Fair value also includes the estimated dividend earned at the time of reclassification from equity to a liability, until such amount is paid, and any subsequently declared stock dividend. FHLBank stock can only be acquired by members at par value and redeemed at par value. FHLBank stock is not traded and no market mechanism exists for the exchange of stock outside the cooperative structure.

Commitments. The estimated fair value of the FHLBank's commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The estimated fair value of Standby Letters of Credit is based on the present value of fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties. The estimated fair value of standby bond purchase agreements is based on the present value of the estimated fees taking into account the remaining terms of the agreements.

The carrying values and estimated fair values of the FHLBank's financial instruments as of December 31, 2007 and 2006 were as follows (in thousands):

2007 FAIR VALUE SUMMARY TABLE

	2007		
Financial Instruments	**Carrying Value**	**Net Unrealized Gains (Losses)**	**Estimated Fair Value**
Assets:			
Cash and due from banks	$ 52,606	$ -	$ 52,606
Interest-bearing deposits	2,252,800	435	2,253,235
Securities purchased under agreements to resell	300,000	-	300,000
Federal funds sold	10,136,000	-	10,136,000
Trading securities	3,587	-	3,587
Available-for-sale securities	-	-	-
Held-to-maturity securities	12,173,492	(37,190)	12,136,302
Advances	53,309,664	92,950	53,402,614
Mortgage loans held for portfolio, net	8,927,950	(12,024)	8,915,926
Accrued interest receivable	305,839	-	305,839
Derivative assets	35,928	-	35,928
Liabilities:			
Deposits	(1,053,925)	18	(1,053,907)
Consolidated Obligations:			
Discount Notes	(35,437,545)	8,503	(35,429,042)
Bonds	(46,178,651)	(259,416)	(46,438,067)
Mandatorily redeemable capital stock	(117,624)	-	(117,624)
Accrued interest payable	(430,873)	-	(430,873)
Derivative liabilities	(350,155)	-	(350,155)
Other:			
Commitments to extend credit for Advances	-	29	29
Standby bond purchase agreements	-	670	670

2006 FAIR VALUE SUMMARY TABLE

Financial Instruments	2006 Carrying Value	2006 Net Unrealized Gains (Losses)	2006 Estimated Fair Value
Assets:			
Cash and due from banks	$ 4,022	$ -	$ 4,022
Interest-bearing deposits	6,535,562	361	6,535,923
Securities purchased under agreements to resell	1,150,000	-	1,150,000
Federal funds sold	9,641,700	(29)	9,641,671
Trading securities	4,602	-	4,602
Available-for-sale securities	1,188,450	-	1,188,450
Held-to-maturity securities	12,099,348	(276,910)	11,822,438
Advances	41,956,538	(80,925)	41,875,613
Mortgage loans held for portfolio, net	8,460,716	(152,163)	8,308,553
Accrued interest receivable	300,555	-	300,555
Derivative assets	12,555	-	12,555
Liabilities:			
Deposits	(927,234)	56	(927,178)
Consolidated Obligations:			
Discount Notes	(21,946,379)	1,352	(21,945,027)
Bonds	(53,239,244)	366,372	(52,872,872)
Mandatorily redeemable capital stock	(137,109)	-	(137,109)
Accrued interest payable	(559,358)	-	(559,358)
Derivative liabilities	(107,559)	-	(107,559)
Other:			
Commitments to extend credit for Advances	-	82	82
Standby bond purchase agreements	-	959	959

Note 19—Commitments and Contingencies

As previously described, Consolidated Obligations are backed only by the financial resources of the FHLBanks. The joint and several liability Finance Board Regulation authorizes the Finance Board to require any FHLBank to repay all or a portion of the principal and interest on Consolidated Obligations for which another FHLBank is the primary obligor. No FHLBank has had to assume or pay the Consolidated Obligation of another FHLBank.

The FHLBank considered the guidance under FASB interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others – an Interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34* (FIN 45), and determined that it was not necessary to recognize a liability for the fair values of its joint and several obligation related to other FHLBanks' Consolidated Obligations at December 31, 2007 or 2006. The joint and several obligations are mandated by Finance Board Regulations and are not the result of arms-length transactions among the FHLBanks. The FHLBanks have no control over the amount of the guaranty or the determination of how each FHLBank would perform under the joint and several obligation. Because the FHLBanks are subject to the authority of the Finance Board as it relates to decisions involving the allocation of the joint and several liability for the FHLBank's Consolidated Obligations, the FHLBank's joint and several obligation is excluded from the initial recognition and measurement provisions of FIN 45. The par amounts of the FHLBanks' outstanding Consolidated Obligations for which the FHLBank is jointly and severally liable were approximately $1,189.7 billion and $952.0 billion at December 31, 2007 and 2006.

Commitments that legally bind and unconditionally obligate the FHLBank for additional Advances totaled approximately (in thousands) $5,627 and $7,875 at December 31, 2007 and 2006. Commitments generally are for periods up to 12 months. Standby Letters of Credit are executed for members for a fee. A Standby Letter of Credit is a financing arrangement between the FHLBank and its member. If the FHLBank is required to make payment for a beneficiary's draw, the payment amount is converted into a collateralized Advance to the member. Outstanding Standby Letters of Credit were as follows:

	2007	2006
Outstanding Notional (in thousands)	$ 6,923,230	$ 6,498,480
Original Terms	6 days to 18 years	14 days to 18.5 years
Final Expiration Year	2024	2024

Unearned fees for transactions prior to 2003 as well as the value of the guarantees related to Standby Letters of Credit entered into after 2002 are recorded in other liabilities and amounted to (in thousands) $2,530 and $1,229 at December 31, 2007 and 2006. Based on credit analyses performed by the FHLBank's management as well as collateral requirements, the FHLBank has not deemed it necessary to record any additional liability on these commitments. Commitments are fully collateralized at the time of issuance (see Note 8). The estimated fair values of commitments as of December 31, 2007 and 2006 are reported in Note 18.

The FHLBank has executed standby bond purchase agreements with one state housing authority whereby the FHLBank, for a fee, agrees as a liquidity provider if required, to purchase and hold the authority's 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 FHLBank to purchase the bonds. The bond purchase commitments entered into by the FHLBank expire after five years, currently no later than 2010, although some are renewable at the option of the FHLBank. Total commitments for standby bond purchases were $211.9 million and $243.2 million at December 31, 2007 and 2006. During 2007 and 2006, the FHLBank was not required to purchase any bonds under these agreements. The estimated fair values of standby bond purchase agreements as of December 31, 2007 and 2006 are reported in Note 18.

Commitments that unconditionally obligate the FHLBank to purchase mortgage loans totaled $48.4 million and $106.5 million at December 31, 2007 and 2006. Commitments are generally for periods not to exceed 90 days. Such commitments are recorded as derivatives at their fair values.

The FHLBank generally executes derivatives with major banks and broker-dealers and generally enters into bilateral pledge (collateral) agreements. As of December 31, 2007 and 2006, the FHLBank had no securities pledged as collateral to broker-dealers.

At December 31, 2007, the FHLBank was committed to issue $230.0 million in Consolidated Obligations, of which $0 million were hedged with associated interest rate swaps. At December 31, 2006, the FHLBank was committed to issue $1,305.6 million in Consolidated Obligations, of which $1,040.0 million were hedged with an associated interest rate swap.

The FHLBank charged to operating expenses net rental costs of approximately $1,865,000, $1,807,000, and $1,698,000 for the years ending December 31, 2007, 2006, and 2005. Future minimum rentals at December 31, 2007 were as follows (in thousands):

Year	Premises	Equipment	Total
2008	$ 876	$ 129	$ 1,005
2009	837	46	883
2010	833	-	833
2011	842	-	842
2012	877	-	877
Thereafter	1,582	-	1,582
Total	$ 5,847	$ 175	$ 6,022

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

The FHLBank is subject to 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 FHLBank's financial condition or results of operations.

Notes 1, 8, 10, 11, 12, 13, 14, 15, and 16 discuss other commitments and contingencies.

Note 20—Transactions with Other FHLBanks

Occasionally, the FHLBank loans short-term funds to and borrows short-term funds from other FHLBanks. These loans and borrowings are transacted at then current market rates when traded. The FHLBank notes such activity on the face of its financial statements. There were no such loans or borrowings outstanding at December 31, 2007, 2006, or 2005. The following table details the average daily balance of lending and borrowing between the FHLBank and other FHLBanks for the years ended December 31 (in thousands).

	Average Daily Balances		
	2007	2006	2005
Loans to other FHLBanks	$ 7,112	$ 9,667	$ 13,271
Borrowings from other FHLBanks	-	411	-

The FHLBank may, from time to time, assume the outstanding primary liability for Consolidated Obligations of another FHLBank rather than issue new debt for which the FHLBank is the primary obligor. The FHLBank then becomes the primary obligor on the transferred debt. There are no formal arrangements governing the transfer of Consolidated Obligations between the FHLBanks. These transfers are not investments of one FHLBank in another FHLBank. They reflect, rather, the act of one FHLBank assuming the debt obligation (at then current market rates on the day when the transfer is traded) that was originally issued by another FHLBank. Transferring debt at current market rates enables the FHLBank System to satisfy the debt issuance needs of individual FHLBanks without incurring the additional selling expenses (concession fees) associated with new debt and provides the transferring FHLBanks with outlets for extinguishing debt structures no longer required for their balance sheet management strategies.

During the year ended December 31, 2007 the par amount of the liability on Consolidated Obligations transferred to the FHLBank totaled (in thousands) $120,000. All such transfers were from the FHLBank of Dallas. The net discounts associated with these transactions (in thousands) were $142 in 2007. There were no Consolidated Obligations transferred to the FHLBank during the year ended December 31, 2006. During the year ended December 31, 2005 the par amount of the liability on Consolidated Obligations transferred to the FHLBank totaled (in thousands) $87,000. All such transfers were from the FHLBank of Chicago. The net discounts associated with these transactions (in thousands) were $1,266 in 2005. The FHLBank accounts for these transfers in the same manner as it accounts for new debt issuances (see Note 12). The FHLBank did not transfer any Consolidated Obligations to other FHLBanks in 2007, 2006, or 2005.

Note 21—Transactions with Stockholders

As a cooperative, the FHLBank's capital stock is owned by its members, by former members that retain the stock as provided in the FHLBank's Capital Plan and by non-member institutions that have acquired members and must retain the stock to support Advances or other activities with the FHLBank. All Advances are issued to members and all mortgage loans held for portfolio are purchased from members. The FHLBank also maintains demand deposit accounts for members, primarily to facilitate settlement activities that are directly related to Advances and mortgage loan purchases. Additionally, the FHLBank may enter into interest-rate exchange agreements with its stockholders. The FHLBank may not invest in any equity securities issued by its stockholders and it has not purchased any mortgage-backed securities securitized by, or other direct long-term investments in, its stockholders.

For financial statement purposes, the FHLBank defines related parties as those members with more than 10 percent of the voting interests of the FHLBank capital stock outstanding. In accordance with the Act and Finance Board Regulations, members elect a majority of the FHLBank's Board of Directors. The remaining directors are appointed by the Finance Board. The Act prescribes the voting rights of the FHLBank's members in the election of directors. Under the statute and regulations, each elective directorship is designated to one of the three states in the FHLBank's district and each member is entitled to vote only for candidates for the state in which the member's principal place of business is located. A member is entitled to cast, for each applicable directorship, one vote for each share of capital stock that the member is required to hold, subject to a statutory limitation. Under this limitation, the total number of votes that a member may cast is limited to the average number of shares of the FHLBank's capital stock that were required to be held by all members in that state as of the record date for voting. Non-member stockholders are not entitled to cast votes for the election of directors. Due to statutory limitations, no member owned more than 10 percent of the voting interests of the FHLBank in the election of directors at December 31, 2007 and 2006.

All transactions with stockholders are entered into in the ordinary course of business. Finance Board Regulations require the FHLBank to provide the same pricing for Advances and other services to all members regardless of asset or transaction size, charter type, or geographic location. The FHLBank may, in pricing its Advances, distinguish among members based upon its assessment of the credit and other risks to the FHLBank of lending to any particular member, or other reasonable criteria that may be applied equally to all members. The FHLBank's policies and procedures require that such standards and criteria be applied consistently and without discrimination to all members applying for Advances.

Transactions with Directors' Financial Institutions. In the ordinary course of its business, the FHLBank may provide products and services to members whose officers or directors serve as directors of the FHLBank (Directors' Financial Institutions). Finance Board Regulations require that transactions with Directors' Financial Institutions be made on the same terms as those with any other member. The following table reflects balances with Directors' Financial Institutions for the items indicated below as of December 31, 2007 and 2006 (dollars in millions).

	2007		2006	
	Balance	**% of Total** (1)	**Balance**	**% of Total** (1)
Advances	$ 1,289	2.4%	$ 11,808	28.2%
Mortgage Purchase Program	19	0.2	56	0.7
Mortgage-backed securities	-	-	-	-
Regulatory capital stock	118	3.3	668	17.6
Derivatives	-	-	55	0.2

(1) Percentage of total principal (Advances), unpaid principal balance (Mortgage Purchase Program), principal balance (mortgage-backed securities), regulatory capital stock, and notional balances (derivatives).

Concentrations. The following table shows regulatory capital stock balances, outstanding Advance principal balances, and unpaid principal balances of Mortgage Loans Held for Portfolio at December 31, 2007 and 2006 to members and former members holding 5 percent or more of regulatory capital stock and includes any known affiliates that are members of the FHLBank (dollars in millions):

	Regulatory Capital Stock			Mortgage Purchase Program Unpaid
December 31, 2007	**Balance**	**% of Total**	**Advance Principal**	**Principal Balance**
U. S. Bank, N.A.	$ 675	19%	$ 16,856	$ 134
Fifth Third Bank	372	10	5,539	17
National City Bank	327	9	4,696	5,378
The Huntington National Bank	231	7	3,085	171
AmTrust Bank (1)	214	6	2,093	-
Total	$ 1,819	51%	$ 32,269	$ 5,700

	Regulatory Capital Stock			Mortgage Purchase Program Unpaid
December 31, 2006	**Balance**	**% of Total**	**Advance Principal**	**Principal Balance**
RBS Citizens, N.A. (2)	$ 582	15%	$ 10,772	$ -
U. S. Bank, N.A.	526	14	6,757	159
Fifth Third Bank	372	10	4,048	19
AmTrust Bank (1)	214	6	3,971	-
Total	$ 1,694	45%	$ 25,548	$ 178

(1) Formerly Ohio Savings Bank.
(2) Formerly Charter One Bank, N.A.

In the third quarter of 2007, RBS Citizens, N.A. (RBS) consolidated the charters of multiple banks it owns in the United States, including Charter One Bank, N.A. (Charter One). RBS consolidated Charter One's banking charter outside of the FHLBank's District, which resulted in the automatic termination of Charter One's membership in the FHLBank.

Non-member Affiliates. The FHLBank has a relationship with a non-member affiliate, the Kentucky Housing Corporation. The nature of this relationship is twofold: one as an approved borrower from the FHLBank and one in which the FHLBank invests in the purchase of the Kentucky Housing Corporation bonds. The Kentucky Housing Corporation had no borrowings during the years ended December 31, 2007, 2006, or 2005. The FHLBank had investments in the bonds of the Kentucky Housing Corporation of $13,140,000, $13,820,000, and $14,435,000 as of December 31, 2007, 2006, and 2005, respectively. The FHLBank did not have any investments in or borrowings to any other non-member affiliates during the years ended December 31, 2007, 2006, or 2005.

FEDERAL HOME LOAN BANK OF CINCINNATI

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