Federal Home Loan Bank of Seattle

Second Quarter 2004 / Financial Report

Board Members

Michael P. Radway
Chairman
Portland, Oregon

Daniel L. Stevens
Vice Chairman
Nampa, Idaho

Carmen Julia Aguiar
Bellevue, Washington

Hector R. Ariceaga
Portland, Oregon

Craig E. Dahl
Juneau, Alaska

Mike Daly
Wheatland, Wyoming

Daniel R. Fauske
Anchorage, Alaska

Robert L. Fenstermacher
Eugene, Oregon

Harold B. Gilkey
Spokane, Washington

W. David Hemingway
Salt Lake City, Utah

James R. Irvine
Portland, Oregon

Allan R. Landon
Honolulu, Hawaii

William A. Longbrake
Seattle, Washington

Jack Riggs, MD
Coeur d'Alene, Idaho

James H. Strosahl
Kalispell, Montana

Vicki Varela
Salt Lake City, Utah

Roy M. Whitehead
Seattle, Washington

Randal S. Yoshida
Honolulu, Hawaii

Executive Staff

President and Chief Executive Officer

Norman B. Rice

Executive Vice Presidents

David Bley
Kelli Bono
Bruce Brooks
Cynthia Chirot

Senior Vice Presidents

Karen Aliabadi
Erin Dunlap
Steve Horton
Margarita Seeley

Vice Presidents

John Blizzard
Kathleen Burns
Kevin Crowe
Craig Fetters
Brien Lautman
Neill LeCorgne
Robin McManus
Mary Grace Roske
Karl Shlaudeman
Glen Simecek
Erik Strom
Greg Teare

Assistant Vice Presidents

John Biestman
Jeff Buttars
Debra Davis
Charlie Eiseman
Jennifer Ernst
Pat Fischer
Laurin Gaudinier
Bret Grassley
William Gregory
Pam Guinasso
Lesley Hogan
Rob Hunter
Tim Jenné
Dale Jeschke
Curtis Jung
David Kidd
Paul Liew
Tracey McCallister
Karen Mefford
Jim Mochizuki
Mary Morehead
Kevin Nelson
Hakeem Olanrewaju
Dianne Schlicke
Nola Sterling
Ron Viera

Corporate Secretary

Jane P. Ramsay

To Our Members

Anticipating and managing change are critically important parts of our job at the Federal Home Loan Bank of Seattle.

We know this is also true for the members of our cooperative, as they re-tool in light of shifting interest rates and their impact on all facets of our industry.

Successfully negotiating change requires preparation and planning. At the Seattle Bank, our strategic plan—approved by our Board of Directors—is what guides us through difficult interest rate and other market conditions, sets the stage for future growth in our Mortgage Purchase Program (MPP), and prepares us for ongoing legislative scrutiny and regulatory demands.

At the Seattle Bank, we are making progress in our efforts to increase capacity to meet the business objectives outlined in our strategic plan. Specifically, we are actively building a more competitive and responsible MPP infrastructure, creating greater transparency in our financial reporting and disclosures, and becoming a more robust and innovative source of housing funds.

As we executed on our strategic plan during second quarter 2004, we contended with the significant effects of historically low interest rates. The Seattle Bank's main source of earnings is net interest income, and low interest rates are a particularly difficult challenge for us. Low interest rates result in accelerated turnover of our assets, as mortgages prepay and investments are called. This also reduces the rates at which we can then reinvest our assets, resulting in lower overall returns on invested capital. Our net income for the quarter was $25.5 million, a decrease of 21.8 percent when compared with the same quarter last year, which reflects the impact of the lower interest rate environment.

While earnings declined relative to previous periods, the bank maintained a strong dividend. During the quarter, we returned to our members a 4.00 percent annualized stock dividend for Class B(1) shares, which compared favorably with prevailing market rates for the period.

With regard to core business segments, mortgage loans held for portfolio—currently our most profitable assets—totaled $11.2 billion for the quarter, compared to $7.7 billion in second quarter 2003 and $11.5 billion for first quarter this year. We continue to expand the capacity, staff, and risk management systems necessary to prudently grow and manage this complex line of business. We were pleased at the increase in the number of member institutions involved in the MPP during this quarter, with 58 members approved to participate in the program and five with applications in progress. At the end of first quarter 2004, there were 49 members eligible to participate in MPP and 12 with pending applications.

Advances outstanding were $17.4 billion at the end of the quarter, down from $24 billion for the same quarter in 2003. While this decline was primarily due to reductions in advances volume from some of our larger member institutions, we did see an increase in advances activity among our smaller-asset member institutions over the course of the quarter. The bank's balance of investments totaled $16.4 billion for this quarter, up from $12.1 billion when compared with the second quarter of 2003.

We also saw changes on the regulatory front this quarter. On June 23, 2004, the Federal Housing Finance Board, our regulatory agency, declared that each Federal Home Loan Bank must register a class of equity securities with the Securities and Exchange Commission (SEC) next year. The regulation requires the Seattle Bank to file a registration statement with the SEC by June 30, 2005, and to ensure that the registration statement becomes effective by August 29, 2005.

Prior to this new regulation, the Seattle Bank was actively putting staffing, processes and formats in place to provide more comprehensive transparency in our financial reporting. We intend to comply with this regulation and are moving to prepare the Seattle Bank for SEC registration in 2005. We look forward to building on our track record of extensive disclosure and regulatory cooperation.

Although we cannot predict changes related to the economy or government oversight, it seems likely that the volatility we're seeing with interest rates and other market factors—as well as the legislative and regulatory issues confronting the Federal Home Loan Bank System—will continue to affect our operations and financial performance.

We will remain steadfast in our strategic planning. This will help us meet the evolving business needs of our members, while protecting and enhancing the value of their investment in our cooperative for the long term.

With sharp focus on our strategic plan and guidance from our Board of Directors and executive leadership team, we will continue working together to build healthy communities and economies throughout the Seattle Bank region.

Thank you for your ongoing partnership.

Sincerely,

Norman B. Rice

Norman B. Rice
President and
Chief Executive Officer

Federal Home Loan Bank of Seattle

Contents

	Page
Management's Discussion and Analysis of Financial Condition and Results of Operations	6
Quantitative and Qualitative Disclosures about Market Risk	34
Legal Proceedings	39
Financial Statements:	
Statements of Condition as of June 30, 2004, and December 31, 2003	40
Statements of Income for the Three and Six Months Ended June 30, 2004 and 2003	41
Statements of Capital for the Six Months Ended June 30, 2004 and 2003	42
Statements of Cash Flows for the Six Months Ended June 30, 2004 and 2003	43
Condensed Notes to Financial Statements	45

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

This discussion and analysis reviews our financial condition as of June 30, 2004, our results of operations for the three and six months ended June 30, 2004 and 2003, and where appropriate, factors that may affect our future financial performance. This discussion should be read in conjunction with our Management's Discussion and Analysis of Financial Condition and Results of Operations and annual audited financial statements as of December 31, 2003, contained in our 2003 Annual Report, and the unaudited financial statements and related condensed notes included in this report.

The amounts used to calculate percentage variances are based on numbers in thousands, and the amounts used to calculate average yields are based on whole numbers. Accordingly, recalculations of percentage variances and average yields may not produce the same results when the relevant amounts are disclosed only in thousands, millions, or billions.

Forward-Looking Information

This report contains certain forward-looking statements that are subject to risk and uncertainty. These statements describe our expectations regarding future events and developments, including future operating results, growth in assets, and continued success of our products. These statements include, without limitation, statements as to future expectations, beliefs, plans, strategies, objectives, events, conditions, and financial performance. The words "will," "believe," "expect," "intend," "may," "could," "should," "anticipate," and words of similar nature are intended in part to help identify forward-looking statements.

Future events are difficult to predict, and the expectations described in this report, including any forward-looking statements, are subject to risk and uncertainty that may cause actual results to differ materially from those we currently anticipate. Consequently, there is no assurance that the expected results will be achieved. Factors that may cause actual results to differ materially from those discussed in this report include, among others, the following:

- Changes in interest rates could reduce interest-rate spreads more than expected and could negatively affect other aspects of our business.
- Volatility of market prices, interest rates, and interest-rate indices could affect the value of our investments and derivatives, as well as the value of collateral that we hold as security.
- We may not be able to fully offset gains and losses on our securities held at fair value with gains and losses on our associated derivatives.
- A sustained low interest-rate environment could result in faster-than-expected prepayments and lower-than-expected yields on mortgage assets.
- Changes in our membership, such as the withdrawal of one or more large members, could affect our capital levels and our ability to generate income.
- Competitive pressure among financial institutions in the secondary mortgage market could increase, thereby reducing the margins on the loans we purchase under our Mortgage Purchase Program (MPP).
- Competitive pressure among other FHLBanks could reduce the demand for our advances or the interest rates we receive on our advances.
- Changes in investor demand for consolidated obligations or changes in our ability to participate in consolidated obligations could affect our borrowing costs and access to funds.

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

CONTINUED

- Costs or regulatory requirements could constrain our ability to introduce new products, and delays in the introduction of, or acceptance of, such products could adversely affect our revenues.
- Regulatory or legislative changes could cause us to modify our current structure, policies, or business operations.
- Negative adjustments in our credit agency ratings could adversely impact the marketability of our consolidated obligations, products, or services.
- Changes in accounting rules, or in the interpretation of existing rules, could contribute to volatility in our earnings.
- If another Federal Home Loan Bank (FHLBank) were unable to make principal or interest payments, we could be required to make payments on behalf of the defaulting FHLBank on their consolidated obligations.
- Local and national economic conditions could be less favorable than expected or could have a more direct and pronounced effect on our business than expected. Changes in these conditions could adversely affect our ability to grow and maintain the quality of our earning assets.
- Events such as terrorism, natural disasters, or other catastrophic events could disrupt the financial markets where we obtain funding, our borrower's ability to repay advances, or the value of our collateral that we hold.

These cautionary statements apply to all related forward-looking statements, wherever they appear in this report. We do not undertake to update any forward-looking statements that we make in this report or that we may make from time to time.

Operating results for the three and six months ended June 30, 2004, are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

Overview

The Federal Home Loan Bank of Seattle (Seattle Bank), a federally chartered corporation, is one of 12 district FHLBanks that, along with the Federal Housing Finance Board (Finance Board) and the Office of Finance, comprise the Federal Home Loan Bank System (Bank System). The FHLBanks serve the public by enhancing the availability of credit for residential mortgages and targeted community development. The Seattle Bank provides a readily available, low-cost source of funds to its member institutions.

The Seattle Bank is a cooperative in which member institutions own the capital stock of the bank and may receive dividends on their investments. Regulated financial depositories and insurance companies engaged in residential housing finance may apply for membership. All members must purchase stock in the Seattle Bank in amounts determined in accordance with the Seattle Bank's capital plan.

The Finance Board, an independent agency in the executive branch of the United States government, supervises and regulates the FHLBanks and the Office of Finance, the FHLBanks' agent for debt issuance. The Finance Board is charged with ensuring that the FHLBanks operate in a safe and sound manner, carry out their housing finance mission, remain adequately capitalized, and can raise funds in the financial markets. In addition, 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 Seattle Bank does not currently have any special purpose entities or any other type of off-balance sheet arrangements.

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

CONTINUED

The FHLBanks' debt instruments (consolidated obligations) are the joint and several obligations of all the FHLBanks and the primary source of funds for the FHLBanks. Deposits, other borrowings, short-term investments, and capital stock issued to members provide additional funds. We primarily use these funds to provide advances to members and to purchase mortgage loans from members through our MPP. The MPP is a residential mortgage purchase program under which we purchase government-insured and conventional residential mortgage loans, secured by one- to four-family residential structures, from participating financial institutions.

On June 23, 2004, the Finance Board adopted its proposed regulation requiring each FHLBank to register a class of its equity securities with the Securities and Exchange Commission (SEC). The regulation requires the Seattle Bank to file a registration statement with the SEC by June 30, 2005, and to ensure that the registration statement is declared effective by August 29, 2005. We intend to comply with this regulation and remain committed to providing comprehensive financial disclosures. Congress has continued work on legislation aimed at changing the regulatory structure of several of the government-sponsored enterprises.

In November 2003, Standard & Poor's (S&P) rating agency revised the individual counterparty rating outlooks of the FHLBanks of Seattle, Chicago, and Indianapolis from stable to negative, citing concerns about the impact of growing mortgage-based asset portfolios on the banks' risk profiles. At that time, S&P did not change the counterparty ratings and reaffirmed both the Seattle Bank's and the Bank System's ratings, which are AAA/A-1+. In June 2004, S&P also changed the rating outlook of the FHLBank of Des Moines from stable to negative.

In July 2004, S&P lowered the long-term debt rating for the FHLBank of Chicago from AAA, its highest rating, to AA, and reaffirmed its short-term debt rating. S&P cited the growing size of the FHLBank of Chicago's mortgage-based asset portfolio as the primary reason for the rating change. In addition, in July 2004, Moody's Investor Service, Inc. (Moody's) reaffirmed its Aaa rating of the FHLBank of Chicago, citing strong financial performance and healthy capital levels.

A change in a rating outlook reflects a rating agency's assessment of the potential direction of a long-term credit rating over the immediate- or longer-term. Individual FHLBank ratings do not necessarily impact the credit rating of the consolidated obligations issued on behalf of the FHLBanks. Credit rating agencies may, from time to time, change a counterparty rating because of various factors, including operating results or actions taken, business developments, or changes in their opinion regarding, among other things, the general outlook for a particular industry or the economy.

We periodically provide the rating agencies with information, as requested, to address their questions regarding the MPP and on our operations. In late 2003, we met with S&P representatives and provided them with detailed information regarding the MPP, including its unique credit-risk-sharing features, as well as the practices we use to manage interest-rate risk. The rating agency did not change the Seattle Bank's counterparty rating outlooks or ratings during the first half of 2004. However, there can be no assurance that S&P will change our counterparty rating outlook back to stable or that S&P, Moody's, or other rating agencies will not reduce our counterparty rating or their ratings of our consolidated obligations or those of the Bank System in the future.

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

CONTINUED

Summary of Critical Accounting Estimates

Our financial statements and reported results are prepared in accordance with accounting principles generally accepted in the United States, which require the use of estimates and assumptions that may affect the reported results and disclosures. Several of these accounting policies involve the use of accounting estimates that we consider to be critical as: (i) they are likely to change from period to period because they require significant management judgment and assumptions about highly complex and uncertain matters, and (ii) the use of a different estimate or a change in estimate could have a material impact on our reported results of operations or financial condition. We review our estimates and assumptions frequently. Estimates and assumptions that are significant to the results of operations and financial condition include: (1) assets and liabilities reported at fair value, (2) accounting for derivatives, (3) allowance for credit losses, (4) amortization of premiums/accretion of discounts, (5) joint and several liability on the Bank System's consolidated obligations, and (6) liability for Resolution Funding Corporation (REFCORP). These critical accounting estimates are described in the Summary of Critical Accounting Estimates section of Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 to the financial statements, "Summary of Significant Accounting Policies," of our 2003 Annual Report.

Accounting Adjustment. During the second quarter of 2004, we changed the manner of accounting we used to value and measure ineffectiveness for certain highly-effective hedging relationship transactions since our adoption of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* on January 1, 2001. Under the prior approach, we assumed no ineffectiveness in these hedging transactions, while under the new approach we will measure ineffectiveness at least quarterly. If this manner of accounting had been applied at the adoption of SFAS No. 133, the difference would not have been material to our results of operations or financial condition for any of these prior reporting periods. The increase of $2.9 million recorded to net income before assessments as of March 31, 2004, reflects the accounting as if we had employed the new approach from the date of adoption of SFAS No. 133 until our implementation of the new approach. These changes could lead to more volatility in our net income in future periods. However, the cumulative amount of these changes will offset each other if the derivative and hedged item are both held to maturity or their call dates, which is generally the case for these transactions.

Results of Operations

Our net income decreased for the three and six months ended June 30, 2004, compared to the same periods in 2003. The decreases in our net income were driven by the decline in the difference between the average yields on our interest-earning assets and interest-bearing liabilities, compared to the same periods in 2003, which compressed our interest-rate spreads and net interest income. Because net interest income is our main source of earnings, compression in the interest-rate spread negatively impacts our net income, and an expansion in the interest-rate spread positively impacts our net income.

The challenging interest-rate environment continues to negatively impact our interest-rate spreads and operating results. During most of 2003 and through the first quarter of 2004, we experienced high prepayment speeds on our mortgage-based assets due to low interest rates. We reinvested the principal at prevailing market rates, which were generally lower than the rates on the assets replaced, while the consolidated obligation bonds that funded the original assets remained on our books. Although interest rates have increased over the second quarter of 2004, the average yields on our interest-earning assets have not increased at the same rate as our cost of funds. This has resulted in a compression of our interest-rate

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

CONTINUED

spread and a decline in our net income. These factors were the primary drivers of the 21.8% decrease in our net income, to $25.5 million, for the three months ended June 30, 2004, compared to $32.6 million for the same period in 2003. For the six months ended June 30, 2004, our net income decreased 34.3%, to $48.4 million, compared to $73.7 million for the same period in 2003.

The Federal Open Market Committee (FOMC) increased the federal funds rate by 25 basis points, to 1.25%, as of June 30, 2004. The rise in interest rates during the second quarter of 2004 was driven by the widely anticipated FOMC increase in the federal funds rate, and contributed to the compression of our interest-rate spread as the average yields on our interest-bearing liabilities increased at a faster rate compared to the average yields on our interest-earning assets. Although changes in interest rates generally impact both interest-earning assets and interest-bearing liabilities, the impact may not be simultaneous due to differences in the repricing periods in the interest-earnings assets and interest-bearing liabilities.

Net Interest Income

Average Balances, Interest Income and Expense, and Average Yields. The following tables present average balances and yields, and interest income and expense of major interest-earning asset and interest-bearing liability categories, for the three and six months ended June 30, 2004 and 2003. They also present spreads between the average yield on total earning assets and the average cost of interest-bearing liabilities, as well as net interest margin for these periods.

	June 30, 2004			June 30, 2003		
For the three months ended	Average Balance	Interest Income / Expense	Average Yield %	Average Balance	Interest Income / Expense	Average Yield %
(in thousands, except average yield data)						
Interest-Earning Assets						
Advances	$ 18,162,141	$ 100,338	2.22	$ 22,907,793	$ 136,970	2.40
Mortgage loans held for portfolio	11,231,042	146,297	5.24	8,162,217	98,637	4.85
Investments	19,898,468	152,632	3.09	16,562,414	152,112	3.68
Other interest-earning assets	63			4,915	15	1.26
Total interest-earning assets	49,291,714	$ 399,267	3.26	47,637,339	$ 387,734	3.26
Other assets	265,415			304,349		
Total assets	$ 49,557,129			$ 47,941,688		
Interest-Bearing Liabilities						
Consolidated obligations	$ 45,268,510	$ 357,635	3.18	$ 42,819,945	$ 336,604	3.15
Deposits	1,018,516	2,300	0.91	1,830,607	5,164	1.13
Other borrowings				8,241	24	1.16
Total interest-bearing liabilities	46,287,026	$ 359,935	3.13	44,658,793	$ 341,792	3.07
Other liabilities	791,689			826,563		
Capital	2,478,414			2,456,332		
Total liabilities and capital	$ 49,557,129			$ 47,941,688		
Net interest income		$ 39,332			$ 45,942	
Interest-rate spread			0.13			0.19
Net interest margin			0.32			0.39

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

CONTINUED

For the six months ended	June 30, 2004 Average Balance	June 30, 2004 Interest Income / Expense	June 30, 2004 Average Yield %	June 30, 2003 Average Balance	June 30, 2003 Interest Income / Expense	June 30, 2003 Average Yield %
(in thousands, except average yield data)						
Interest-Earning Assets						
Advances	$ 18,481,762	$ 207,559	2.26	$ 21,500,956	$ 269,640	2.53
Mortgage loans held for portfolio	11,392,283	283,241	5.00	8,464,489	211,113	5.03
Investments	19,654,127	314,921	3.22	15,858,454	307,680	3.91
Other interest-earning assets	81			6,097	39	1.29
Total interest-earning assets	49,528,253	$ 805,721	3.27	45,829,996	$ 788,472	3.47
Other assets	272,848			314,503		
Total assets	$ 49,801,101			$ 46,144,499		
Interest-Bearing Liabilities						
Consolidated obligations	$ 45,412,848	$ 717,007	3.18	$ 41,123,561	$ 667,225	3.27
Deposits	1,119,798	5,034	0.90	1,780,353	10,123	1.15
Other borrowings	445	3	1.19	13,398	99	1.49
Total interest-bearing liabilities	46,533,091	$ 722,044	3.12	42,917,312	$ 677,447	3.18
Other liabilities	794,072			803,190		
Capital	2,473,938			2,423,997		
Total liabilities and capital	$ 49,801,101			$ 46,144,499		
Net interest income		$ 83,677			$ 111,025	
Interest-rate spread			0.15			0.29
Net interest margin			0.34			0.49

Net interest income consists of interest earned on advances, mortgage loans held for portfolio, and investments, less interest paid on consolidated obligations, deposits, and other borrowings. We use net interest income as the primary measure of the performance of our ongoing operations. Net interest income decreased for the three and six months ended June 30, 2004, compared to the same periods in 2003.

For the three and six months ended June 30, 2004, our interest-rate spread was compressed, compared to the same periods in 2003, as the average yields on our interest-earning assets (e.g., advances, and mortgage loans held for portfolio) decreased at a faster rate than the average yield on our interest-bearing liabilities (e.g., consolidated obligations and other borrowings). This compression reduced the difference between the interest income we earned on our investments and the interest expense we paid on our borrowings, reducing our net interest income and, consequently, our earnings.

Changes in the mix of our interest-earning assets and interest-bearing liabilities also affect our interest-rate spread and our net interest income. In addition, increases and decreases in the rate of growth and in the average yield of our interest-earning assets and interest-bearing liabilities cause fluctuations in our net interest income. Changes in the rate of growth and average yield may be driven by economic factors or by changes in our products or services. These changes are summarized in the Changes in Volume and Rate section below.

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

CONTINUED

The decrease in our net interest margin also reflects the impact of the compression of our interest-rate spread. Net interest margin is calculated as net interest income divided by average interest-earning assets. This measures our ability to earn a return on assets while leveraging the use of debt.

Changes in Volume and Rate. Our net interest income is impacted by changes in the dollar volume (volume) of our interest-earning assets and interest-bearing liabilities and changes in the average yield (rate) for both the interest-earning assets and interest-bearing liabilities. For example, interest income on advances and other loans declined by $36.6 million, to $100.3 million, for the three months ended June 30, 2004, compared to $136.9 million for the same period in 2003. As presented in the table below, the decrease of $36.6 million in interest income for the three months ended June 30, 2004, was due to a decline in the volume of advances and other loans during the period, which accounted for $26.8 million of the decrease, and a decrease in average yield on advances and other loans, which accounted for $9.8 million of the decrease.

The following tables summarize increases and decreases in interest income, interest expense, and net interest income due to changes in the volume of interest-earning assets and interest-bearing liabilities and changes in the average rate for the three and six months ended June 30, 2004 and 2003, compared to the prior period.

	2004 vs. 2003 Increase (Decrease)			2003 vs. 2002 Increase (Decrease)		
For the three months ended June 30,	Volume*	Rate*	Total	Volume*	Rate*	Total
(in millions)						
Interest Income						
Advances and other loans	$ (26.8)	$ (9.8)	$ (36.6)	$ 7.7	$ (36.0)	$ (28.3)
Mortgage loans held for portfolio	39.5	8.2	47.7	75.7	(10.0)	65.7
Investments	27.8	(27.4)	0.4	(23.7)	(36.2)	(59.9)
Total interest income	40.5	(29.0)	11.5	59.7	(82.2)	(22.5)
Interest Expense						
Consolidated obligations	19.3	1.7	21.0	51.5	(56.8)	(5.3)
Deposits and other borrowings	(2.0)	(0.9)	(2.9)	(0.8)	(1.6)	(2.4)
Total interest expense	17.3	0.8	18.1	50.7	(58.4)	(7.7)
Change in net interest income	$ 23.2	$(29.8)	$ (6.6)	$ 9.0	$ (23.8)	$ (14.8)

**Changes in interest income and interest expense not identifiable as either volume-related or rate-related, but rather equally attributable to both volume and rate changes, are allocated to volume and rate categories based on their relative size.*

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

CONTINUED

For the six months ended June 30,	2004 vs. 2003 Increase (Decrease)			2003 vs. 2002 Increase (Decrease)		
	Volume*	Rate*	Total	Volume*	Rate*	Total
(in millions)						
Interest Income						
Advances and other loans	**$ (35.7)**	**$ (26.4)**	**$ (62.1)**	$ (13.2)	$ (56.1)	$ (69.3)
Mortgage loans held for portfolio	**72.8**	**(0.7)**	**72.1**	166.8	(16.0)	150.8
Investments	**66.3**	**(59.0)**	**7.3**	(43.1)	(60.6)	(103.7)
Total interest income	**103.4**	**(86.1)**	**17.3**	110.5	(132.7)	(22.2)
Interest Expense						
Consolidated obligations	**68.1**	**(18.3)**	**49.8**	62.8	(76.9)	(14.1)
Deposits and other borrowings	**(3.3)**	**(1.9)**	**(5.2)**	(1.2)	(4.7)	(5.9)
Total interest expense	**64.8**	**(20.2)**	**44.6**	61.6	(81.6)	(20.0)
Change in net interest income	**$ 38.6**	**$ (65.9)**	**$ (27.3)**	$ 48.9	$ (51.1)	$ 2.2

**Changes in interest income and interest expense not identifiable as either volume-related or rate-related, but rather equally attributable to both volume and rate changes, are allocated to volume and rate categories based on their relative size.*

Interest Income

The following table presents the components of our interest income for the three and six months ended June 30, 2004 and 2003.

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2004	2003	% Increase (Decrease)	2004	2003	% Increase (Decrease)
(in thousands, except percentage data)						
Interest Income						
Advances	**$ 100,338**	$ 136,970	(26.7)	**$ 207,559**	$ 269,640	(23.0)
Investments	**152,632**	152,112	0.3	**314,921**	307,680	2.4
Mortgage loans held for portfolio	**146,297**	98,637	48.3	**283,241**	211,113	34.2
Other		15	(100.0)		39	(100.0)
Total	**$ 399,267**	$ 387,734	3.0	**$ 805,721**	$ 788,472	2.2

Interest income remained relatively level for the three and six months ended June 30, 2004, compared to the same periods in 2003. However, the composition of interest income has shifted among the interest income categories. Interest income from mortgage loans held for portfolio increased to 36.6% of total interest income for the three months ended June 30, 2004, compared to 25.4% for the same period in 2003. For the six months ended June 30, 2004, interest income from mortgage loans held for portfolio increased to 35.2% of total interest income, compared to 26.8% for the same period in 2003. This increase reflects our emphasis on building the MPP operating segment.

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

CONTINUED

Advances. The reduced level of advances outstanding was primarily due to the maturity and non-renewal of advances to two large borrowers. That, as well as a shift from longer-term to short-term advances and the rollover of matured advances into new advances at lower rates are the primary reasons for the decline in interest income from advances for the three and six months ended June 30, 2004, compared to the same period in 2003.

The average yield on advances declined by 18 basis points, to 2.22%, for the three months ended June 30, 2004, from 2.40% for the same period in 2003. For the six months ended June 30, 2004, the average yield on advances declined by 27 basis points, to 2.26%, from 2.53% for the same period in 2003. The decline in average yields reflects both a decrease in the average term of the advances portfolio and the roll-off of advances issued during a higher interest-rate environment.

During the first half of 2004, approximately $600 million of longer-term fixed-rate advances with an average yield of approximately 5.50% matured and were replaced with shorter-term variable-rate advances. Currently, shorter-term advances make up a larger proportion of our advances portfolio. Approximately 50% of the advances portfolio had a term-to-maturity of one year or less as of June 30, 2004, compared to approximately 44% for the same period in 2003. The weighted average interest rate on the shorter-term advances with a term to maturity of one year or less was 1.69% and 1.98%, as of June 30, 2004 and 2003.

Investments. Interest income from investments, which includes shorter-term investments (e.g., interest-bearing deposits, securities purchased under agreements to resell, and federal funds sold), and longer-term investments (e.g., held-to-maturity securities and securities held at fair value), increased by 0.3% for the three months ended June 30, 2004, compared to the same period in 2003. For the six months ended June 30, 2004, interest income from investments increased by 2.4%, compared to the same period in 2003.

Although our income on investments and our average investment balances increased in the first half of 2004, compared to 2003, decreases in the average yield of 59 basis points and 69 basis points for the three and six months ended June 30, 2004, negatively impacted our interest income from investments, compared to the same periods in 2003. These reductions were a result of a significant dollar amount of prepayments on mortgage-backed securities that we held, due to low interest rates, and qualifying sales of held-to-maturity mortgage-backed securities during 2003 and our subsequent reinvestment of the proceeds at lower prevailing rates.

Mortgage Loans Held for Portfolio. Interest income from mortgage loans held for portfolio consists of interest on the mortgage loans we purchased under the MPP. The MPP has grown significantly since its launch in 2001 because of our focus on building this segment of our business.

Interest income on mortgage loans held for portfolio increased by 48.3% for the three months ended June 30, 2004, compared to the same period in 2003. For the six months ended June 30, 2004, interest income on mortgage loans held for portfolio increased by 34.2%, compared to the same period in 2003.

For the three months ended June 30, 2004, a slowdown in prepayment speeds favorably impacted our average yield. Our average yield from mortgage loans held for portfolio increased by 39 basis points, to 5.24%, for the three months ended June 30, 2004, compared to 4.85% for the same period in 2003. The improvement in average yield was primarily due to a decrease in the amount of premium amortized in the three months ended June 30, 2004.

For the six months ended June 30, 2004, the average balance of the mortgage loans held for portfolio increased by $2.9 billion, to $11.4 billion, compared to the same period in 2003. The increase in interest

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

CONTINUED

income was due to growth of mortgage loans held for portfolio. However, the growth in interest income was partially offset by a decrease in the average yield of 3 basis points, to 5.00%, for the six months ended June 30, 2004, compared to 5.03% for the same period in 2003.

Because most of our mortgage loans held for portfolio were acquired at a premium above the principal value, increases in prepayment speeds negatively impact our earnings as more premium is amortized into earnings during the current period. A premium is amortized into earnings over the expected life of the mortgage loan as an adjustment to interest income and average yield, and any changes to the expected life impact the amortization amount and period. If prepayment speeds on a mortgage loan increase, we recognize additional premium amortization in the current period to reflect the shorter expected life of the mortgage loan. If prepayment speeds decrease, we recognize less premium amortization in the current period to reflect the longer expected life of the mortgage loan. During periods of low or decreasing interest rates, prepayment speeds often increase as homeowners prepay their mortgage loans and replace their higher rate mortgage loans with mortgage loans at lower interest rates, and during periods of high or increasing interest rates, prepayment speeds often decrease as homeowners maintain their existing mortgage loans.

For the three months ended June 30, 2004 and 2003, premium amortization on mortgage loans held for portfolio totaled $60,000 and $15.1 million. The decrease in the premium amortization for the three months ended June 30, 2004, compared to the same period in 2003, was due to the increase in interest rates during the second quarter of 2004, as well as a decrease in the expected future prepayment speeds on our mortgage loans held for portfolio. For the six months ended June 30, 2004 and 2003, premium amortization on mortgage loans held for portfolio totaled $15.2 million and $27.2 million.

Interest Expense

The following table presents the components of our interest expense for the three and six months ended June 30, 2004 and 2003.

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2004	2003	% Increase (Decrease)	2004	2003	% Increase (Decrease)
(in thousands, except percentage data)						
Interest Expense						
Consolidated obligations	**$ 357,635**	$ 336,604	6.2	**$ 717,007**	$ 667,225	7.5
Deposits	**2,300**	5,164	(55.5)	**5,034**	10,123	(50.3)
Other borrowings		24	(100.0)	**3**	99	(97.0)
Total	**$ 359,935**	$ 341,792	5.3	**$ 722,044**	$ 677,447	6.6

Consolidated Obligations. Interest expense on consolidated obligations increased for the three months ended June 30, 2004, compared to the same period in 2003, primarily because the average yield on our consolidated obligations increased by 3 basis points, to 3.18%, for the three months ended June 30, 2004, compared to the same period in 2003.

For the six months ended June 30, 2004, interest expense on consolidated obligations also increased, compared to the same period in 2003, primarily due to the increase in our consolidated obligations balance

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

CONTINUED

outstanding. The average yields on our consolidated obligations declined by 9 basis points, to 3.18%, compared to the same period in 2003.

Deposits. Interest expense on deposits for the three and six months ended June 30, 2004 and 2003, continued to decrease both because of lower deposit balances and because we reduced the interest rates we pay on deposits.

Other Income (Loss)

The following table presents the components of our other income and loss for the three and six months ended June 30, 2004 and 2003.

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2004	2003	% Increase (Decrease)	2004	2003	% Increase (Decrease)
(in thousands, except percentage data)						
Other Income (Loss)						
Prepayment fees	**$ 213**	$ 722	(70.5)	**$ 252**	$ 1,419	(82.2)
Service fees	**565**	589	(4.1)	**1,158**	1,136	1.9
Net realized gain on sale of held-to-maturity securities	**1,620**	10,237	(84.2)	**1,623**	10,237	(84.1)
Net unrealized gain (loss) on securities held at fair value	**(18,625)**	10,437	(278.5)	**(7,688)**	11,531	(166.7)
Net realized and unrealized gain (loss) on derivatives and hedging activities	**23,375**	(15,932)	246.7	**9,465**	(19,615)	148.3
Other, net	**25**	279	(91.0)	**51**	381	(86.6)
Total	**$ 7,173**	$ 6,332	13.3	**$ 4,861**	$ 5,089	(4.5)

Other income (loss) includes member service fees, advance prepayment fees, gain and loss on derivatives and hedging activities, and other miscellaneous income or loss not included in our core operations. Because of the type of financial activity reported in this category, other income (loss) can be volatile from one period to another. For instance, advance prepayment activity and associated fees may vary based on individual member liquidity and balance sheet restructuring activity, mergers and acquisitions among member institutions, and other factors. Gain and loss on derivatives and hedging activities is highly dependent on changes in interest rates and spreads between various interest-rate yield curves.

Total other income increased for the three months ended June 30, 2004, compared to the same period in 2003, due primarily to changes in net realized and unrealized losses on derivatives and hedging activities and net unrealized gain on securities held at fair value. Total other income for the three and six months ended June 30, 2004, includes unrealized gains related to our accounting adjustment for certain highly-effective hedging relationships transactions since our adoption of SFAS 133 on January 1, 2001. Details relating to this accounting adjustment accounting are included in the Consolidated Obligation Bonds section below.

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

CONTINUED

For the six months ended June 30, 2004, compared to the same period in 2003, total other income decreased, due primarily to changes in net realized and unrealized losses on derivatives and hedging activities and net unrealized gain on securities held at fair value.

Net Realized Gain on Sale of Held-to-Maturity Securities. Net realized gain on the sale of held-to-maturity securities decreased for the three and six months ended June 30, 2004, compared to the same periods in 2003. These sales are the result of our ongoing review of our investment portfolios to identify small dollar securities for which the cost to maintain the investments exceeds their value to the Seattle Bank (e.g., investments paid down to less than 15% of their original balance). Sales of such securities are made in accordance with generally accepted accounting principles.

Net Realized and Unrealized Gain and Loss on Derivatives and Hedging Activities and Net Unrealized Gain and Loss on Securities Held at Fair Value. The following table summarizes the components of net realized and unrealized gain and loss on derivatives and hedging activities, as well as net unrealized gain on securities held at fair value, for the three and six months ended June 30, 2004 and 2003.

For the Three Months Ended (in thousands)	Advances	Securities Held at Fair Value	Mortgage Loan Commitments	Consolidated Obligation Bonds	Statement of Condition	Intermediary Positions	Total
June 30, 2004							
Net realized and unrealized gain (loss) on derivatives and hedging activities	$ 9	$ 17,404	$ (606)	$ 1,377	$ (743)	$ (20)	$ 17,421
Accounting adjustment:							
Unrealized gain from inception to March 31, 2004				2,941			2,941
Reclassification of deferred interest-rate swap fees				3,013			3,013
Net unrealized gain (loss) on securities held at fair value		(18,625)					(18,625)
Total	$ 9	$ (1,221)	$ (606)	$ 7,331	$ (743)	$ (20)	$ 4,750
June 30, 2003							
Net realized and unrealized gain (loss) on derivatives and hedging activities	$ (3)	$ (14,332)	$	$ 23	$ (1,584)	$ (36)	$ (15,932)
Net unrealized gain (loss) on securities held at fair value		10,437					10,437
Total	$ (3)	$ (3,895)	$	$ 23	$ (1,584)	$ (36)	$ (5,495)

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

CONTINUED

For the Six Months Ended	Advances	Securities Held at Fair Value	Mortgage Loan Commitments	Consolidated Obligation Bonds	Statement of Condition	Intermediary Positions	Total
(in thousands)							
June 30, 2004							
Net realized and unrealized gain (loss) on derivatives and hedging activities	$ 10	$ 4,380	$ 739	$ 1,374	$ (2,941)	$ (51)	$ 3,511
Accounting adjustment:							
Unrealized gain from inception to March 31, 2004				2,941			2,941
Reclassification of deferred interest-rate swap fees				3,013			3,013
Net unrealized gain (loss) on securities held at fair value		(7,688)					(7,688)
Total	$ 10	$ (3,308)	$ 739	$ 7,328	$ (2,941)	$ (51)	$ 1,777
June 30, 2003							
Net realized and unrealized gain (loss) on derivatives and hedging activities	$ (3)	$ (18,240)	$ (193)	$ 119	$ (1,047)	$ (251)	$ (19,615)
Net unrealized gain (loss) on securities held at fair value		11,531					11,531
Total	$ (3)	$ (6,709)	$ (193)	$ 119	$ (1,047)	$ (251)	$ (8,084)

Securities Held at Fair Value. Securities held at fair value consists of one U.S. agency obligation with a fair value of $236.5 million. Most of the change in net realized and unrealized gain and loss on derivatives and hedging activities was due to changes in the fair value of the interest-rate swap that economically hedges that bond. We determine the change in fair value on securities held at fair value using quoted market prices from securities brokers. We calculate the change in fair value on hedging instruments based on estimated fair values of interest-rate exchange agreements on instruments with similar terms or available market prices. When changes in the fair value of securities held at fair value and the corresponding interest-rate swap do not offset each other, the residual amount is included in total other income (loss) on the statement of income. Although we expect the majority of the changes in fair value of securities held at fair value to be offset by opposite changes in fair value of the corresponding interest-rate swap agreement, there will be differences.

For the three and six months ended June 30, 2004, the realized and unrealized gain or loss on the interest-rate swap that economically hedges our securities held at fair value was a gain of $17.4 million and $4.4 million, compared to a loss of $14.3 million and $18.2 million for the same periods in 2003. These amounts include $2.9 million and $2.8 million of interest expense on the interest-rate swap agreement for the three months ended June 30, 2004 and 2003, and $5.8 million and $5.7 million of interest expense on the interest-rate swap agreement for the six months ended June 30, 2004 and 2003.

The shift of the realized and unrealized gain and loss amounts was due to rising interest rates during the second quarter of 2004, which impacted our unrealized gain and loss on securities held at fair value and the corresponding interest-rate swap agreement.

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

CONTINUED

For the three and six months ended June 30, 2004 and 2003, excluding the interest expense on the interest-rate swap agreement, the unrealized gain and loss in the fair value of the interest-rate swap agreement was offset by an unrealized gain and loss in the changes in the fair value of securities held at fair value, resulting in residual net unrealized gain of $1.7 million and $2.5 million, and net unrealized loss of $1.1 million and $1.0 million, respectively.

Mortgage Loan Commitments. Effective July 1, 2003, mortgage loan commitments are classified as derivatives, and the changes in the fair value of commitments are included in other income (loss).

Prior to July 1, 2003, mortgage loan commitments and related hedge items were not classified as derivatives and were eligible for fair value hedge accounting treatment, and as a result, only the ineffective portion between the mortgage loan commitment and the hedging instrument was recorded in current-period earnings.

Net realized and unrealized gain and loss related to mortgage loan commitments was a loss of $606,000 for the three months ended June 30, 2004, and $0 for the same period in 2003. For the six months ended June 30, 2004, net realized and unrealized gain and loss related to mortgage loan commitments was a gain of $739,000, compared to a loss of $193,000 for the same period in 2003.

Consolidated Obligation Bonds. During the second quarter of 2004, we changed the manner of accounting we used to value and measure ineffectiveness for certain highly-effective hedging relationship transactions since our adoption of SFAS No. 133 on January 1, 2001. Under the prior approach, we assumed no ineffectiveness in these hedging transactions, while under the new approach we will measure ineffectiveness at least quarterly. If this manner of accounting had been applied at the adoption of SFAS No. 133, the difference would not have been material to our results of operations or financial condition for any of these prior reporting periods. The increase of $2.9 million recorded to net income before assessments as of March 31, 2004, reflects the accounting as if we had employed the new approach from the date of adoption of SFAS No. 133 until our implementation of the new approach. These changes could lead to more volatility in our net income in future periods. However, the cumulative amount of these changes will offset each other if the derivative and hedged item are both held to maturity or their call dates, which is generally the case for these transactions.

As a result of this accounting adjustment we recognized a gain of $7.3 million in net realized and unrealized gain on derivatives and hedging activities for the three and six months ended June 30, 2004. This included a $4.3 million gain related to hedge ineffectiveness, which includes an unrealized gain of $2.9 million from the inception of each transaction through March 31, 2004, and $1.4 million gain for the three months ended June 30, 2004. In addition, as part of the accounting adjustment, we reclassified $3.0 million of deferred interest-rate swap agreement fees from interest expense to net realized and unrealized gain on derivatives and hedging activities. The reclassification relates to fees recognized on terminated interest-rate swap agreements on consolidated obligations that have been repaid.

Statement of Condition. We hold $700 million notional (face) amount of interest-rate caps that are used to economically hedge changes in the fair value of our assets and liabilities. The losses related to the change in the fair value of the interest-rate caps was $743,000 for the three months ended June 30, 2004, compared to $1.6 million for the same period in 2003. For the six months ended June 30, 2004, the losses related to the change in the fair value of the interest-rate caps was $2.9 million, compared to $1.0 million for the same period in 2003.

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

Other Expense

The following table presents the components of our other expense for the three and six months ended June 30, 2004 and 2003.

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2004	2003	% Increase (Decrease)	2004	2003	% Increase (Decrease)
(in thousands, except percentage data)						
Other Expense						
Operating	**$ 10,438**	$ 6,671	56.5	**$ 19,857**	$ 13,085	51.8
Finance Board	**503**	489	2.9	**861**	979	(12.1)
Office of Finance	**328**	234	40.2	**622**	596	3.8
Other	**576**	573	0.7	**1,269**	1,086	16.9
Total	**$ 11,845**	$ 7,967	48.7	**$ 22,609**	$ 15,746	43.6

Other expense includes operating expenses, Finance Board and Office of Finance assessments, and other items, which consist primarily of mortgage loan administrative fees paid to vendors related to our mortgage loans held for portfolio.

Operating expenses increased for the three months ended June 30, 2004, reflecting incremental additions to staff to support the infrastructure required for our two operating segments and compliance with increased regulatory requirements. The growth in our infrastructure is primarily in the area of personnel as we increase the level of expertise to meet the needs of our changing business profile and regulatory environment. Other infrastructure expenses include professional services to strengthen the financial and operational systems that support our business.

Assessments

The following table presents the components of our assessments for the three and six months ended June 30, 2004 and 2003.

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2004	2003	% Increase (Decrease)	2004	2003	% Increase (Decrease)
(in thousands, except percentage data)						
Assessments						
Affordable Housing Program	**$ 2,829**	$ 3,617	(21.8)	**$ 5,382**	$ 8,193	(34.3)
REFCORP	**6,367**	8,138	(21.8)	**12,110**	18,435	(34.3)
Total	**$ 9,196**	$ 11,755	(21.8)	**$ 17,492**	$ 26,628	(34.3)

Assessments include funding for Affordable Housing Program (AHP) and RECORP payments. The Federal Home Loan Bank Act of 1932, as amended (FHLB Act) requires each FHLBank to establish and fund an AHP to provide resources to member institutions for housing development to assist in the purchase, construction,

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

CONTINUED

and rehabilitation of homes for qualified households. Each FHLBank is required to set aside 10% of earnings before charges for assessments, but after the assessment for REFCORP.

Also, each FHLBank is required to make payments to REFCORP to support the payment of interest on the bonds issued by REFCORP in connection with the savings and loan bailout, until all bonds issued are repaid. Each FHLBank is required to pay 20% of net earnings after AHP to REFCORP.

The AHP and RECORP assessments are calculated simultaneously, and the results from each assessment calculation are needed for the calculation of the other. The calculation of these assessments translates into an effective assessment rate of approximately 8.16% for AHP, and approximately 18.37% for REFCORP, of income before assessments.

Segment Results

We manage our operations by grouping our products into two operating segments: traditional member finance and the MPP. The traditional member finance segment includes revenues from advances, other member services, income from investment securities, and the related funding costs. The MPP segment includes revenues from mortgage loans purchased from members and the related funding costs, as well as other assets, income, and expenses directly related to the MPP. We allocate the AHP and REFCORP assessments to each segment, based on that segment's income as a percentage of total income before assessments.

Traditional Member Finance

The following table presents the components of our traditional member financial segment results for the three and six months ended June 30, 2004 and 2003.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2004	2003	2004	2003
(in thousands)				
Traditional Member Finance				
Net interest income	**$ 18,867**	$ 40,778	**$ 50,321**	$ 87,011
Other income (loss)	**7,771**	6,291	**4,095**	5,232
Other expense	**(10,760)**	(7,118)	**(20,381)**	(13,969)
Income before assessments	**15,878**	39,951	**34,035**	78,274
Assessments	**(4,212)**	(10,600)	**(9,030)**	(20,766)
Net income	**$ 11,666**	$ 29,351	**$ 25,005**	$ 57,508

Net Interest Income. Low interest rates continued to impact our traditional member finance segment, causing fluctuations in the prepayment speeds on mortgage-backed securities that we hold. These prepayments compressed our interest-rate spread as the average yields on our interest-earning assets declined faster than our average cost of funds. These assets are funded with consolidated obligation bonds and discount notes, which have specific redemption terms that may not match our prepayment experience on the assets. During the three and six months ended June 30, 2004, we continued to reinvest principal received from prepayments on mortgage-backed securities into assets at prevailing market interest rates, which were

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

CONTINUED

generally lower than the interest rates on the assets replaced, while a portion of the consolidated obligation bonds that funded the original assets remained on our books.

The interest-rate spread in the traditional member finance segment decreased by 21 basis points, to 3 basis points, for the three months ended June 30, 2004, compared to the same period in 2003. For the six months ended June 30, 2004, the interest-rate spread in the traditional member finance segment decreased by 18 basis points, to 10 basis points, compared to the same period in 2003.

Our average assets decreased by $2.0 billion, to $37.0 billion, for the three months ended June 30, 2004, compared to the same period in 2003. For the six months ended June 30, 2004, our average assets increased by $50.2 million, to $37.4 billion, compared to the same period in 2003. Although our average interest-earning assets increased, our interest income did not grow because of the compression in the interest-rate spread.

Advances outstanding decreased by $2.3 billion, to $17.4 billion, as of June 30, 2004, compared to December 31, 2003. When interest rates are low, consumers generally maintain a larger amount of cash in their bank accounts, which tends to increase the level of liquidity for our member institutions. Because customer deposits at member institutions generally represent a less expensive source of liquidity than advances, demand for advances tends to decline when interest rates are low.

The average balances for advances decreased by $4.7 billion, to $18.2 billion, for the three months ended June 30, 2004, compared to the same period in 2003. For the six months ended June 30, 2004, the average balances for advances decreased by $3.0 billion, to $18.5 billion, compared to the same period in 2003. The average yield on advances declined by 18 basis points, to 2.22%, for the three months ended June 30, 2004, from 2.40% for the same period in 2003. For the six months ended June 30, 2004, the average yield on advances declined by 27 basis points, to 2.26%, from 2.53% for the same period in 2003. The decline in average yields reflects both the decrease in the average term of the advances portfolio and maturities of advances issued during the higher-rate environment of prior business cycles. A decrease in the average term of the advance will adversely impact advances income unless the matured advance is a variable rate instrument.

During the first half of 2004, approximately $600 million of longer-term fixed-rate advances with an average coupon of approximately 5.50% matured and were replaced with shorter-term variable-rate advances. Currently, shorter-term advances make up a larger proportion of our advances portfolio. Approximately 50% of the advances portfolio had a term-to-maturity of one year or less as of June 30, 2004, compared to approximately 44% for the same period in 2003. The weighted average interest rate on the shorter-term advances with a term to maturity of one year or less was 1.69% and 1.98% as of June 30, 2004 and 2003.

Average balances for investments were $19.9 billion and $16.6 billion for the three months ended June 30, 2004 and 2003. Average yields on our investments declined by 59 basis points, to 3.09%, for the three months ended June 30, 2004, compared to the same period in 2003. For the six months ended June 30, 2004, the average yields on our investments declined by 69 basis points, to 3.22%, compared to the same period in 2003. The decrease in average yields for the first half of 2004 was primarily a result of a significant amount of prepayments on mortgage-backed securities and the sale of certain held-to-maturity mortgage-backed securities and our subsequent reinvestment of the proceeds at lower prevailing rates.

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

CONTINUED

Other Income (Loss). Total other income increased for the three and six months ended June 30, 2004, compared to the same period in 2003, due primarily to net unrealized and realized gain on derivatives and hedging activities and net unrealized gain on securities held at fair value.

During the second quarter of 2004, we changed the manner of accounting we used to value and measure ineffectiveness for certain highly-effective hedging relationship transactions since our adoption of SFAS No. 133 on January 1, 2001. Under the prior approach, we assumed no ineffectiveness in these hedging transactions, while under the new approach we will measure ineffectiveness at least quarterly. If this manner of accounting had been applied at the adoption of SFAS No. 133, the difference would not have been material to our results of operations or financial condition for any of these prior reporting periods. The increase of $2.9 million recorded to net income before assessments as of March 31, 2004, reflects the accounting as if we had employed the new approach from the date of adoption of SFAS No. 133 until our implementation of the new approach. These changes could lead to more volatility in our net income in future periods. However, the cumulative amount of these changes will offset each other if the derivative and hedged item are both held to maturity or their call dates, which is generally the case for these transactions.

As a result of this accounting adjustment we recognized a gain of $7.3 million in net realized and unrealized gain on derivatives and hedging activities for the three and six months ended June 30, 2004. This included a $4.3 million gain related to hedge ineffectiveness, which includes an unrealized gain of $2.9 million from the inception of each transaction through March 31, 2004, and $1.4 million gain for the three months ended June 30, 2004. In addition, as part of the accounting adjustment, we reclassified $3.0 million of deferred interest-rate swap agreement fees from interest expense to net realized and unrealized gain on derivatives and hedging activities. The reclassification relates to fees recognized on terminated interest-rate swap agreements on consolidated obligations that have been repaid.

Other Expense. Other expense increased for the three and six months ended June 30, 2004, compared to the same periods in 2003. Other expense primarily consists of operating expenses, which include staffing costs, facilities costs, professional fees, and other costs. Increases in salaries and benefits in the traditional member finance segment reflect higher staffing levels to address the increasingly complex nature of our regulatory environment. They also reflect general increases in pay and benefits.

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

CONTINUED

Mortgage Purchase Program

The following table presents the components of our MPP segment results for the three and six months ended June 30, 2004 and 2003.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2004	2003	2004	2003
(in thousands)				
Mortgage Purchase Program				
Net interest income	**$ 20,465**	$ 5,164	**$ 33,356**	$ 24,014
Other income (loss)	**(598)**	41	**766**	(143)
Other expense	**(1,085)**	(849)	**(2,228)**	(1,777)
Income before assessments	**18,782**	4,356	**31,894**	22,094
Assessments	**(4,984)**	(1,155)	**(8,462)**	(5,862)
Net income	**$ 13,798**	$ 3,201	**$ 23,432**	$ 16,232

Net Interest Income. Average assets related to our MPP segment increased by $3.7 billion, to $12.3 billion, for the three months ended June 30, 2004, compared to the same period in 2003. For the six months ended June 30, 2004, average assets increased by $3.6 billion, to $12.1 billion, compared to the same period in 2003. The growth in our average assets related to our MPP segment was the main driver of the increase in net interest income in this segment. Our interest-rate spread increased by 44 basis points, to 45 basis points, for the three months ended June 30, 2004, compared to the same period in 2003. For the six months ended June 30, 2004, our interest-rate spread decreased by 1 basis point, to 33 basis points, compared to the same period in 2003.

The volatility in our interest-rate spread is primarily due to fluctuating prepayment speeds on mortgage loans held for portfolio. In addition, because the principal received due to the high dollar amount of paydowns of mortgage loans held for portfolio was reinvested into new mortgage loans at the prevailing market rates, which were generally lower yielding than the mortgage loans replaced, the spread between the original debt and the new assets declined. Premium amortization on mortgage loans held for portfolio totaled $60,000 and $15.1 million for the three months ended June 30, 2004 and 2003. For the six months ended June 30, 2004 and 2003, premium amortization on mortgage loans held for portfolio totaled $15.2 million and $27.2 million.

Average yields were not impacted by credit losses for the three and six months ended June 30, 2004 or 2003. We have not experienced any credit losses on our MPP investments since the program's inception. The conventional mortgage loans that we purchase under the MPP are credit-enhanced by our member institutions to a level equivalent to at least an investment-grade rating. Additionally, the conventional mortgage loans are covered by supplemental mortgage insurance sufficient to raise the credit quality of the loan pools to the equivalent of an AA rating. Based on our analysis of the mortgage loan portfolio, we have determined that the credit enhancements provided by the sellers and the supplemental mortgage insurance are currently sufficient to cover expected credit losses and that an allowance for credit loss is unnecessary.

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

CONTINUED

Other Income (Loss). Other income (loss) includes fair value adjustments on our mortgage delivery commitments to purchase mortgage loans from participating financial institutions. Mortgage delivery commitments are derivative instruments that we record in our financial statements at fair value. Other income (loss) also includes pair-off fees, which are fees that we charge to participating financial institutions when the amount of loans they deliver to us differs from the committed amount.

Other Expense. Other expense increased for the three and six months ended June 30, 2004, compared to the same periods in 2003. Other expense includes operating expenses and other infrastructure costs associated with the ongoing operations of the MPP. The expense increase reflects growth in our staffing, facilities, and information systems needed to support growth of the MPP segment.

Financial Condition

Advances

Advances decreased by $2.3 billion, to $17.4 billion, as of June 30, 2004, compared to December 31, 2003, due primarily to the maturity and non-renewal of approximately $1.5 billion of advances to one member institution and approximately $1.2 billion to another member institution.

Average advances decreased by $4.7 billion, to $18.2 billion, for the three months ended June 30, 2004, compared to the same period in 2003. For the six months ended June 30, 2004, average advances decreased by $3.0 billion, to $18.5 billion, compared to the same period in 2003. This decrease was primarily due to a decline in the use of advances by larger member institutions ($3.0 billion and above in assets), which generally have access to a broader range of funding sources at competitive rates. Member institutions with smaller asset sizes (below $3.0 billion) have continued to use and grow their advance balances during 2004.

As of June 30, 2004, and December 31, 2003, five member institutions held approximately 53% and 61% of our outstanding advances balances. One member institution had advances totaling approximately 26% as of June 30, 2004, compared to two member institutions with approximately 42% (one with 30% and another with 12%) as of December 31, 2003. No other member had more than 10% of advances outstanding during these periods. Because only a few members hold a large percentage of our advances, changes in their borrowing decisions may cause volatility in the amount of our advances outstanding.

New advances totaled $19.1 billion and $23.5 billion for the six months ended June 30, 2004 and 2003, compared to repayments of $21.2 billion and $19.6 billion during the same periods. Many of the new advances were shorter-term in nature, with advances with maturities of more than one year declining to approximately 50% of outstanding advances as of June 30, 2004, compared to approximately 56% as of June 30, 2003.

Member institutions regularly evaluate financing options as their advances mature. Many factors affect the demand for advances, including changes in interest rates and changes in member institution needs. In a low interest-rate environment, our member institutions typically have less need for advances.

Variable-rate advances accounted for 34.2% and 36.7% of advances outstanding as of June 30, 2004, and December 31, 2003. Convertible advances, which are made at fixed rates, totaled approximately $3.4 billion and $3.6 billion of advances as of June 30, 2004, and December 31, 2003. With a convertible advance, we effectively purchase a put option from the member, which allows us to terminate the fixed-rate advance prior to maturity. We might terminate a convertible advance for a number of reasons, which include changes in interest rates, changes in the value of the embedded put option in the convertible advance, or other factors

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

CONTINUED

that may impact the value of the advance asset. If we should elect to terminate a convertible advance, we would provide alternative funding, at the current advance rates.

We believe that the demand for new advances is likely to remain modest in our district because our members' cash balances are likely to remain high. Given the current interest-rate environment, we do not expect growth in advances in the near term. The demand for advances is dependent upon the borrowing decision of a few large member institutions. If member institutions decide not to replace their maturing advances with new advances, we expect to reduce our consolidated obligations and capital stock as they mature.

Credit Risk. As of December 31, 2003, we classified as substandard $180.0 million of advances and $530,000 of letters of credit to two insurance companies under common ownership. The companies experienced financial distress in late 2003 and consented to supervisory orders from their respective state regulators to refrain from certain business actions without prior regulatory approval. In 2004, both companies were placed in receivership by their state regulators. During April 2004, one insurance company repaid its outstanding advances in full and no outstanding issues remain with this company. As of June 30, 2004, the advances outstanding to the remaining insurance company totaled $153.5 million and the letters of credit totaled $250,000. This credit exposure is fully collateralized with high-grade, marketable securities under the Seattle Bank's control. Because the borrower continues to pay according to contractual requirements and because of our collateral position, interest continues to accrue on the advances. We expect full repayment and have concluded that, given current circumstances, no allowance for credit losses is necessary.

Investments

The following table presents our investments as of June 30, 2004, and December 31, 2003.

(in thousands)	June 30, 2004	December 31, 2003
Investments		
Mortgage-backed securities	**$ 7,093,916**	$ 7,245,569
U.S. agency obligations	**4,538,871**	5,569,228
Other FHLBanks' bonds	**4,500,566**	3,500,000
Federal funds sold	**3,455,000**	2,506,500
Other	**1,769,414**	1,184,822
State or local housing agency obligations	**33,944**	41,273
Total	**$ 21,391,711**	$ 20,047,392

Mortgage-backed Securities. Our total investment in mortgage-backed securities represented 284.0% and 295.1% of our total capital as of June 30, 2004, and December 31, 2003. Finance Board regulations limit each FHLBank's investment in mortgage-backed securities to 300% of the bank's capital. The mortgage-backed securities balances as of June 30, 2004, and December 31, 2003, consisted of $1.7 billion and $2.0 billion in Federal Home Loan Mortgage Corporation mortgage-backed securities, and $1.5 billion and $1.7 billion of investments in Federal National Mortgage Association mortgage-backed securities.

As of June 30, 2004, we hold $202.8 million in mortgage-backed securities with unrealized losses of $4.0 million that have been in a continuous unrealized loss position for over 12 months. Based on the

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

CONTINUED

creditworthiness of the issuers and underlying collateral, we believe that these unrealized losses represent temporary impairments. If these unrealized losses proved other than temporary, we could be required to establish an allowance for losses on these investments. A table summarizing the held-to-maturity securities with unrealized losses as of June 30, 2004, is included in Note 3 of the Condensed Notes to Financial Statements.

U.S. Agency Obligations and Other FHLBanks' Bonds. We invest in U.S. agency obligations, including securities issued by other government-sponsored enterprises. U.S. agency obligations decreased by $1.1 billion as of June 30, 2004, compared to December 31, 2003. These investments consisted of $1.8 billion and $2.3 billion of Fannie Mae debt securities as of June 30, 2004, and December 31, 2003, and $2.4 billion of Freddie Mac debt securities for both periods. The Finance Board limits our investments in the debt of any one government-sponsored enterprise to 100% of our capital, with the exception of FHLBank investments, which have no limits.

Mortgage Loans Held for Portfolio

As of June 30, 2004, the MPP included 58 member institutions approved to participate, 22 of which have actively participated during the year, and 5 member institutions with applications in process, compared to 45, 25, and 10, as of December 31, 2003. Through June 30, 2004, we had purchased over 86% of our existing mortgage loans portfolio from one member institution and over 96% of our mortgage loans held for portfolio from three participating financial institutions. Consequently, changes in the volume of mortgages originated by these members are likely to cause volatility in the volume of mortgage loans we purchase under the MPP. We are actively working to increase the number of members participating in the MPP by increasing our marketing efforts.

The total outstanding principal value of mortgage loans held for portfolio was $11.1 billion as of June 30, 2004, and December 31, 2003. This balance comprised $8.5 billion and $8.6 billion in conventional mortgage loans held as of June 30, 2004, and December 31, 2003, and $2.6 billion and $2.5 billion in government-insured mortgage loans held. The balance of total mortgage loans held for portfolio was $11.2 billion as of June 30, 2004, and December 31, 2003.

Since late 2002, the Seattle Bank and the other FHLBanks offering the MPP have been in discussions with the principal federal banking agencies regarding the appropriate risk-based capital treatment of the MPP by participating financial institutions. Our member institutions are required to maintain a minimum level of risk-based capital, which is calculated based on the composition of their assets and liabilities. A higher required level of risk-based capital could impact the volume of loans that a participating financial institution sells to the FHLBanks. We are working to answer the questions that have been raised by the federal banking agencies with respect to the MPP's regulatory capital treatment, and we believe that this inquiry will be favorably resolved. However, depending on the resolution of this issue, we may modify the MPP to address this issue.

Derivative Assets and Liabilities

As of June 30, 2004, and December 31, 2003, we had derivative assets of $27.8 million and $45.8 million and derivative liabilities of $292.2 million and $306.5 million. Interest-rate exchange agreements are derivative instruments, and we classify them as derivative assets or liabilities according to the net fair value of the derivatives with each counterparty. If the net fair value of the derivatives with a counterparty is positive, it is classified as an asset; if the net fair value of the derivatives with a counterparty is negative,

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

CONTINUED

it is classified as a liability. Increases and decreases in the fair value of an interest-rate exchange agreement are caused by increases and decreases in interest rates that translate into changes in the fair value.

Funding

We fund our operations primarily with proceeds from the issuance of consolidated obligations in the financial markets. Other funding sources are member deposits, capital, short-term investments and, to a lesser extent, repurchase agreements. We make significant use of interest-rate exchange agreements to restructure interest rates on consolidated obligations to better match our funding needs and to reduce funding costs. We are able to obtain favorable funding for our operations because of our ability to access the financial markets, particularly through the sale of consolidated obligations across the entire maturity spectrum and through a variety of debt structures.

Consolidated Obligations. Finance Board regulations govern the issuance of debt on behalf of the FHLBanks, and the Office of Finance is responsible for issuing and servicing consolidated obligations. There are two forms of consolidated obligations: discount notes and bonds. Under the FHLB Act, all of the FHLBanks are jointly and severally liable for the consolidated obligations issued. We record our allocated portion of the combined consolidated obligations, but we do not record our joint and several liability, relative to the other FHLBanks' consolidated obligations, on our statement of condition, because its occurrence is conditional on the default of another FHLBank. To do so, we would have to be able to determine the probability of failure of each of the other FHLBanks and evaluate that probability against the particular FHLBank's debt level. We consider the possibility that one of the FHLBanks would be unable to repay its participation to be remote.

The FHLB Act does not permit individual FHLBanks to issue individual debt without Finance Board approval. We have not issued any such debt.

We actively manage our debt portfolio to closely match the anticipated cash flows of our assets. The cash flows of mortgage loans and investments are dependent in part on borrower prepayment behavior. If mortgage interest rates rise, mortgage-based assets typically remain outstanding for a longer period of time. Likewise, when mortgage interest rates fall, mortgage loans tend to be prepaid, and our balances decline faster than originally expected. We seek to manage these changes in our outstanding balances by using a combination of callable and non-callable debt to closely match the expected principal balances outstanding on our mortgage-based assets, under a variety of expected prepayment scenarios. With callable debt, we have the option to repay the obligation, without penalty, prior to the contractual maturity date of the debt obligation. We would generally elect to repay the debt when interest rates fall and refinance the debt at lower rates.

Consolidated Obligation Discount Notes. Consolidated obligation discount notes have maturities of up to 360 days and are a significant funding source for advances with short-term maturities or short repricing intervals, for convertible advances, and for money-market investments. Discount notes are sold at a discount to par, and they mature at par. Our allocated portion of the combined consolidated obligation discount notes outstanding was $5.8 billion and $6.6 billion as of June 30, 2004, and December 31, 2003.

Consolidated Obligation Bonds. Consolidated obligation bonds satisfy longer-term funding requirements and have maturities ranging from one year to 20 years. The maturity terms are not subject to any statutory or regulatory limit. Consolidated obligation bonds can be issued and distributed through negotiated or competitively bid transactions with approved underwriters or selling group members. We use a number of different structures and maturity terms to meet our funding needs. Our allocated portion of the combined

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

consolidated obligation bonds outstanding was $40.2 billion and $39.9 billion as of June 30, 2004, and December 31, 2003. Refer to Note 7 of the Condensed Notes to Financial Statements for additional information on consolidated obligation bonds.

Other Liabilities

Other liabilities decreased by $117.2 million as of June 30, 2004, compared to December 31, 2003. Other liabilities as of December 31, 2003, primarily included $119.9 million of investments purchased but not settled.

Capital Resources, Statutory Capital Requirements, Retained Earnings, and Dividends

Capital Resources. Our capital increased by 1.7%, to $2.5 billion, as of June 30, 2004, compared to December 31, 2003. Member stock requirements are based on the volume of activity with the Seattle Bank, as discussed below. Class B(1) stock decreased by $80.3 million, to $2.2 billion, as of June 30, 2004, compared to $2.3 billion as of December 31, 2003. Class B(2) stock increased by $118.8 million, to $232.3 million, as of June 30, 2004, compared to $113.5 million as of December 31, 2003, as Class B(1) stock was converted to Class B(2) due to limits on the amount of excess Class B(1) stock that a member can hold.

Our capital plan provides for two classes of Class B stock, each of which has a par value of $100. Each class of stock is issued, redeemed, and repurchased only at par value. Members are required to hold Class B(1) stock equal to the sum of: (1) 3.5% of the member's outstanding principal balance of advances; (2) the greater of $500 or 0.75% of the member's home mortgage loans; and (3) 5.0% of the outstanding principal balance of loans that the member has sold the Seattle Bank under the MPP, minus the amount in (2) above (cannot be less than 0). Members can also hold some amount of Class B(1) stock in excess of the required balance under certain circumstances. Members cannot purchase Class B(2) stock and are not required to hold any amount of Class B(2) stock. Any Class B(1) stock held by members that exceeds the permitted amount of Class B(1) stock will automatically convert to Class B(2) stock five days after the Seattle Bank notifies the member of that conversion. We monitor our members' activity-based stock requirements and notify members of any changes.

We review our capital plan annually to determine if modifications are needed. The Finance Board must approve any changes to the capital plan before they become effective.

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

CONTINUED

Statutory Capital Requirements. We are subject to three statutory capital requirements, as follows.

First, we are required to hold risk-based capital equal to the sum of our credit-risk requirement, market-risk requirement, and operations-risk requirement, calculated in accordance with Finance Board regulations. As of June 30, 2004, we were in compliance with this regulatory requirement. Only permanent capital, defined as retained earnings and Class B stock, can satisfy the risk-based capital requirement. The Finance Board may require the Seattle Bank to maintain a greater amount of permanent capital than is required by the risk-based capital requirements, as defined, but has not done so.

(in thousands)	June 30, 2004	December 31, 2003
Permanent Capital		
Class B(1) stock	$ 2,204,737	$ 2,285,032
Class B(2) stock	232,309	113,473
Retained earnings	61,106	57,177
Permanent capital	$ 2,498,152	$ 2,455,682
Risk-Based Capital Requirement		
Credit-risk capital	$ 175,727	$ 172,940
Market-risk capital	267,420	361,599
Operations-risk capital	132,944	160,362
Risk-based capital requirement	$ 576,091	$ 694,901

Second, the Gramm-Leach-Bliley Act (GLB Act) imposes a 5% minimum leverage ratio based on total capital, which includes a 1.5 weighting factor applicable to permanent capital. As of June 30, 2004, we were in compliance with this requirement. A minimum leverage ratio, which is defined as total capital (with permanent capital multiplied by 1.5) divided by total assets, is intended to ensure that the Seattle Bank maintains a sufficient amount of capital to service our debt. The leverage ratio measures the degree to which we use debt. Leverage ratios at or near the 5% minimum would indicate that we have reached our maximum capacity to issue debt, and leverage ratios that exceed the 5% minimum indicate that we have additional capacity to fund operations through debt.

(in thousands, except ratio data)	June 30, 2004	December 31, 2003
Leverage Ratio		
Minimum leverage capital (5% of total assets)	$ 2,512,220	$ 2,558,191
Leverage capital (includes 1.5 weighting factor applicable to permanent capital)	3,747,228	3,683,523
Leverage ratio (leverage capital as a percentage of total assets)	7.5%	7.2%

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

CONTINUED

Third, the GLB Act imposes a 4% minimum capital ratio, defined as total capital over total assets, that does not include the 1.5 weighting factor applicable to permanent capital. As of June 30, 2004, we were in compliance with this requirement. The capital ratio is another measure used to monitor our operations. Capital ratios at or near the 4% minimum would indicate that we have fully utilized our capital resources to run our operations, and capital ratios that exceed the 4% minimum indicate that we have additional capacity to grow our asset base to increase earnings capacity.

(in thousands, except ratio data)	June 30, 2004	December 31, 2003
Capital Ratio		
Minimum capital (4% of total assets)	**$ 2,009,776**	$ 2,046,553
Capital ratio (permanent capital as a percentage of total assets)	**5.0%**	4.8%

Retained Earnings. Retained earnings increased by 6.9%, to $61.1 million, as of June 30, 2004, compared to $57.2 million as of December 31, 2003. The increase of $3.9 million for the six months ended June 30, 2004, resulted from net income of $48.4 million less dividends paid to member institutions of $44.5 million.

In 2003, the Finance Board issued guidance to the FHLBanks calling for each FHLBank, at least annually, to assess the adequacy of its retained earnings in light of alternative possible future financial and economic scenarios, including parallel and non-parallel interest-rate shifts, changes in the basis relationship between different yield curves, and changes in the credit quality of the FHLBank's assets. Each FHLBank's board of directors is expected to adopt a retained earnings policy that includes a target level of retained earnings, as well as a plan that will enable the FHLBank to reach the target level of retained earnings.

In April 2004, the Seattle Bank's Board of Directors adopted a retained earnings policy and a target level of retained earnings. The new target level of retained earnings is intended to help cushion our earnings volatility due to the application of certain accounting principles, including volatility caused by changes in the fair value of derivatives and amortization of premiums and accretion of discounts on mortgage-based securities. If our retained earnings were not sufficient to cover the volatility in our earnings due to the application of accounting principles, including volatility stemming from operational, credit, and interest-rate risk, Class B stock would absorb all remaining losses. This policy is reviewed quarterly by our Board of Directors and is subject to change based on changes in our operations. As part of its ongoing supervision, the Finance Board also will review this policy as part of its annual examination, which commenced in July 2004.

Based on circumstances as of June 30, 2004, a retained earnings level of $35.0 million would be required to comply with the retained earnings policy and target level of retained earnings. As of June 30, 2004, our retained earnings balance of $61.1 million exceeded the retained earnings required to meet the target level. Future quarterly reviews and changes in our operations may result in adjustments to the required level of retained earnings.

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

CONTINUED

Dividends. We may pay dividends from current income and retained earnings. Our Board of Directors may declare and pay dividends in either cash or capital stock. Dividends on Class B(1) stock totaled $21.7 million, and dividends on Class B(2) stock totaled $437,000 for the three months ended June 30, 2004. For the six months ended June 30, 2004, dividends declared and paid on Class B(1) stock totaled $43.8 million, and dividends on Class B(2) stock totaled $713,000. As of June 30, 2004, the 2004 annualized dividend rate for Class B(1) stock was 4.00% and for Class B(2) stock was 0.71%, compared to 6.00% and 0.76% for the same period in 2003.

Although we expect to continue paying dividends in the foreseeable future, payment of future dividends is subject to the discretion of our Board of Directors and satisfaction of regulatory requirements. The amount and timing will depend on many factors, including our financial condition, earnings, capital requirements, retained earnings policy, regulatory constraints, legal requirements, and other factors that our Board of Directors deem relevant.

During 2004 and 2003, our Board of Directors declared dividends in the form of stock only, with cash paid for any fractional shares.

The following table presents the dividends paid in 2004 and 2003 on Class B(1) stock.

	2004		2003	
	Amount	Annualized Dividend Rate	Amount	Annualized Dividend Rate
(in thousands, except annualized dividend rate data)				
Class B(1) Stock				
First Quarter	**$ 22,120**	**4.00%**	$ 35,005	6.75%
Second Quarter	**21,675**	**4.00%**	28,448	5.25%
Third Quarter			29,659	5.25%
Fourth Quarter			28,636	5.00%
Total	**$ 43,795**	**4.00%**	$ 121,748	5.56%

The following table represents the dividends paid in 2004 and 2003 on Class B(2) stock.

	2004		2003	
	Amount	Annualized Dividend Rate	Amount	Annualized Dividend Rate
(in thousands, except annualized dividend rate data)				
Class B(2) Stock				
First Quarter	**$ 276**	**0.64%**	$ 449	0.79%
Second Quarter	**437**	**0.77%**	412	0.73%
Third Quarter			324	0.65%
Fourth Quarter			200	0.67%
Total	**$ 713**	**0.71%**	$ 1,385	0.71%

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

CONTINUED

Liquidity

We serve the public by enhancing the availability of credit to our member institutions for residential mortgage loans and targeted community development. We are required to maintain liquidity in accordance with Finance Board regulations and policies established by our Board of Directors. We actively manage our liquidity to preserve stable, reliable, and cost-effective sources of cash to meet all current and future normal operating financial commitments.

In their asset/liability management planning, member institutions may look to the Seattle Bank to provide standby liquidity. We seek to be in a position to meet our member institutions' credit and liquidity needs without maintaining excessive holdings of low-yielding liquid investments or being forced to incur unnecessarily high borrowing costs. Our primary sources of liquidity are short-term investments and new consolidated obligations. Other short-term borrowings, including federal funds purchased, securities sold under agreements to repurchase, and loans from other FHLBanks, provide additional liquidity. To ensure that adequate liquidity is available to meet our cash requirements, we monitor and forecast our future cash flows and our members' liquidity needs, and we adjust funding and investment strategies as needed.

We have ready access to funding at relatively favorable spreads to U.S. Treasury rates. However, the U.S. government does not guarantee FHLBank debt.

We maintain contingency liquidity plans designed to enable us to meet our obligations and the liquidity needs of our members in the event of operational disruptions at the Seattle Bank or the Office of Finance, or in the event of short-term financial market disruptions. These include back-up funding sources in the repurchase and federal funds markets. We continuously monitor our liquidity position and anticipated funding needs. If an operational disruption should occur in which the Bank System were not able to issue consolidated obligations, we could borrow against our held-to-maturity investment portfolio to meet funding needs.

Quantitative and Qualitative Disclosures About Market Risk

Our operating segments provide our member institutions and housing associates with advances and other credit products with a wide range of maturities and terms and provide our members with an alternative funding source in the secondary mortgage market. The principal sources of funds for these activities are consolidated obligations and, to a lesser extent, capital and deposits from member institutions. Lending and investing funds and engaging in interest-rate exchange agreements may expose us to a number of risks, including credit, interest-rate, operational, and business risks. We have established policies and practices to evaluate and control these risks. In addition, the Finance Board has established regulations governing our risk management practices, and we file periodic compliance reports with the Finance Board.

We do not currently have any special purpose entities or any other type of off-balance sheet arrangements. We record all derivatives in the statement of condition at fair value. Finance Board regulations prohibit the speculative use of interest-rate exchange agreements, and we do not trade derivatives for short-term profit.

Interest-Rate Risk Management

Interest-rate risk is the risk that net interest income or net market value of our equity will change because of changes in market conditions, such as interest rates or spreads. We measure interest-rate risk exposure by a variety of methods, including calculation of the effective duration of equity. Effective duration approximates the percentage change in the value of a financial instrument, given a shift in the yield curve. Duration of equity is the market-value-weighted effective duration of assets minus the market-value-weighted effective duration of liabilities, divided by the market value of equity. In this calculation, we consider all components of capital as equity. Duration of equity shows the sensitivity of market value of equity to instantaneous changes in interest rates. Higher duration numbers, whether positive or negative, indicate greater potential volatility of the market value of equity.

Duration of Equity. The value of an instrument with a duration of five years will change by approximately 5% with a 100-basis-point instantaneous change in interest rates. Our current policy, adopted by our Board of Directors, was developed in accordance with Finance Board regulations. We were in compliance with this policy throughout the six months ended June 30, 2004. Under this policy, duration of equity must stay within a range of +5 to -5 years when measured using current interest rates, and must stay within a range of +7 to -7 years when measured under an instantaneous parallel increase or decrease in interest rates of 200 basis points. However, with short-term Treasury rates around 1%, a decrease of 200 basis points would result in short-term rates below zero. As allowed under Finance Board guidance, we are permitted to adjust the instantaneous parallel decrease when a decrease of 200 basis points would result in short-term rates below zero. Based on this guidance, we adjusted the instantaneous parallel decrease to approximately 100 basis points as of June 30, 2004, and 60 basis points as of December 31, 2003, since this provides a more reasonable measure of our duration of equity in a low interest-rate environment.

Quantitative and Qualitative Disclosures About Market Risk

CONTINUED

The following table summarizes the interest-rate risk associated with our financial instruments outstanding as of June 30, 2004, and December 31, 2003, based on the duration of equity in years.

(in years)	June 30, 2004	December 31, 2003
Duration of Equity		
Up 200 basis points	**5.4**	6.4
Base Case	**4.7**	4.1
Down: 100 basis points – June 30, 2004	**5.7**	
60 basis points – December 31, 2003		3.2

The increase in the base case (i.e., using current interest rates) duration of equity to 4.7 years as of June 30, 2004, compared to 4.1 years as of December 31, 2003, was primarily due to a slight increase in the duration of our mortgage-based assets as long-term interest rates increased, which caused the prepayment speeds of mortgage-based assets to decrease. As of June 30, 2004, at current interest rate levels, and under current prepayment modeling assumptions, our mortgage-based assets are slightly less sensitive to further duration increases if rates rise compared to those as of December 31, 2003. As a result, projected duration of equity in the up-200-basis-points rate shock scenario decreased by 1.0 year, to 5.4 years, as of June 30, 2004, compared to 6.4 years as of December 31, 2003.

Duration Gap. In calculating and measuring duration of equity, we also calculate and measure our duration gap (i.e., the difference between the durations of assets and liabilities). Duration gap summarizes the extent to which estimated cash flows for assets and liabilities are matched, on average, over time and across interest-rate scenarios. A positive duration gap signals a greater exposure to rising interest rates because it indicates that the duration of our assets exceeds the duration of our liabilities. A negative duration gap signals a greater exposure to declining interest rates because the duration of our assets is less than the duration of our liabilities.

The following table summarizes the range of our duration gap in months between our assets and liabilities.

(in months)	June 30, 2004	December 31, 2003
Duration Gap		
From	**1.1**	(2.9)
To	**2.0**	1.3

Market Value of Equity Sensitivity. We also measure the interest-rate sensitivity of our market value of equity, which is defined as the present value of the expected net cash flows from all assets, liabilities, and off-balance sheet instruments. Our market value of equity is sensitive to changes in interest rates primarily because of mismatches in the maturities and embedded options associated with our mortgage-based assets and the consolidated obligation bonds we use to fund these assets. We evaluate our market value sensitivity, on an ongoing basis, under a variety of parallel and non-parallel shock scenarios. The resulting risk profile provides a general indicator of our exposure to interest-rate risk from a market value perspective. It also provides a rough indicator of earnings exposure to long-term repricing gaps and options positions in our statement of condition. For policy compliance purposes, market value of equity in the up-and-down-200-basis-point shock

Quantitative and Qualitative Disclosures About Market Risk

CONTINUED

scenarios is compared to the market value of equity in the base case. By policy adopted by our Board of Directors, the largest negative change in market value after applying the up and down shock scenarios may not exceed 20% of the base case. We were in compliance with this policy throughout the six months ended June 30, 2004. As with duration of equity, a shock of approximately 100 basis points was used for the June 30, 2004, down scenario, since the down-200-basis-point rate shock scenario would result in interest rates below zero.

The following table summarizes the range of our market value of equity sensitivity as of June 30, 2004, and December 31, 2003.

(in thousands)	June 30, 2004	December 31, 2003
Market Value of Equity Sensitivity		
Up 200 basis points	**$ 1,949,372**	$ 1,957,414
Base Case	**2,162,237**	2,211,053
Down: 100 basis points – June 30, 2004	**2,288,673**	
60 basis points – December 31, 2003		2,208,954

The base case market value of equity dropped slightly as of June 30, 2004, compared to December 31, 2003, mostly as the result of the decrease in our advances and mortgage-based securities balances. As of June 30, 2004, our market value risk profile showed slightly less exposure in percentage terms to the up-200-basis-point shock than it did as of December 31, 2003. With the increase in long-term interest rates during the first half of 2004, we are slightly less sensitive to additional upward rate moves and more sensitive to downward moves.

Quantitative and Qualitative Disclosures About Market Risk

CONTINUED

Interest-Rate Exchange Agreements

We use interest-rate exchange agreements, such as interest rate swaps, interest rate caps and floors, and forward purchase and sale agreements, to manage our exposure to changes in interest rates. This enables us to adjust the effective maturity, repricing frequency, or option characteristics of our assets and liabilities in response to changing market conditions. Total notional (face) amount of interest-rate exchange agreements outstanding was $14.6 billion as of June 30, 2004, compared to $17.5 billion as of December 31, 2003. The notional amount of these agreements serves as a factor in determining periodic interest payments or cash flows received and paid, and does not represent actual amounts exchanged or our exposure to credit or market risk. The amount potentially subject to credit loss is much less. Notional values are not meaningful measures of the risks associated with interest-rate exchange agreements or other derivatives, which can only be meaningfully measured on a market-value basis, taking into consideration the cost of replacing interest-rate exchange agreements with similar agreements from a highly rated counterparty.

As of June 30, 2004, and December 31, 2003, our maximum credit risk on interest-rate exchange agreements, before considering collateral, was approximately $24.6 million and $45.2 million. In determining maximum credit risk, we consider accrued interest receivables and payables, and the legal right to offset assets and liabilities by counterparty. Our net exposure after considering collateral was approximately $17.3 million as of June 30, 2004, and $25.1 million as of December 31, 2003. The credit risk on our interest-rate exchange agreements is low because we contract with experienced counterparties that are of very high credit quality. Excluding interest-rate exchange agreements in which we are an intermediary for member institutions and which are fully collateralized, approximately 95%, as of June 30, 2004, and approximately 96%, as of December 31, 2003, of the notional amount of our outstanding interest-rate exchange agreements are with counterparties rated “A” or higher.

We record all derivative instruments on the statement of condition at their fair values. We classify derivative assets and derivative liabilities according to the net fair value of derivatives with each counterparty. If the net fair value of derivatives with a counterparty is positive, the net amount is classified as an asset; if the net fair value of derivatives with a counterparty is negative, it is classified as a liability. As of June 30, 2004, and December 31, 2003, we held derivative assets of $27.8 million and $45.8 million and derivative liabilities of $292.3 million and $306.5 million.

Quantitative and Qualitative Disclosures About Market Risk

CONTINUED

The following table categorizes the estimated fair value of derivative financial instruments, excluding accrued interest, by product and type of accounting treatment. Under "Fair Value," we include derivative instruments where hedge accounting is achieved. In a fair value hedge, the changes in fair value of the hedged item and the derivative offset each other, resulting in little or no impact to earnings. Under "Economic," we include hedge strategies where derivative hedge accounting is not applied and, therefore, changes in the fair value of the derivatives are recorded in current-period earnings with no adjustments made to the economically hedged asset or liability.

	June 30, 2004			December 31, 2003		
	Notional	Estimated Fair Value (excludes accrued interest)	Hedged Item Fair Value (excludes accrued interest)	Notional	Estimated Fair Value (excludes accrued interest)	Hedged Item Fair Value (excludes accrued interest)
(in thousands)						
Advances						
Fair Value	$ 3,451,057	$ (151,674)	$ 151,674	$ 3,372,309	$ (254,844)	$ 254,844
Investments						
Economic	200,000	(38,303)	36,500*	200,000	(48,522)	44,187*
Mortgage Loans Held for Portfolio						
Fair Value	252,000	(3,373)				
Standalone delivery commitments	13,186	61		612,674	(2,736)	
Economic		(212)		746,000	2,061	
Consolidated Obligation Bonds						
Benchmark Fair Value	9,109,495	(108,954)	107,464	10,728,495	4,038	(4,035)
Statement of Condition						
Economic	700,000	3,244		700,000	6,185	
Intermediary Positions						
Intermediaries	836,800	110		1,134,800	151	
Total	$ 14,562,538	$ (299,101)	$ 295,638	$ 17,494,278	$ (293,667)	$ 294,996
Accrued Interest		34,543			32,920	
Net Derivative Balance		$ (264,558)			$ (260,747)	
Derivative Balance						
Assets		$ 27,768			$ 45,766	
Liabilities		(292,326)			(306,513)	
Net derivative balance		$ (264,558)			$ (260,747)	

** Fair value adjustment on securities held at fair value.*

Refer to our 2003 Annual Report for additional discussion about Quantitative and Qualitative Disclosures about Market Risk.

Legal Proceedings

From time to time, the Seattle Bank is subject to legal proceedings arising in the normal course of business. After consultations with legal counsel, we do not anticipate any liability that may arise out of current matters will have a material impact on our financial condition, results of operations, or cash flows.

Statements of Condition

(Unaudited)	June 30, 2004	December 31, 2003
(In thousands, except par value data)		
Assets		
Cash and due from banks	$ 4,611	$ 4,313
Interest-bearing deposits	1,489,215	770,000
Securities purchased under agreements to resell		100,000
Federal funds sold	3,455,000	2,506,500
Investments:		
Held-to-maturity securities (Note 3)	16,210,996	16,426,705
Securities held at fair value (Note 4)	236,500	244,187
Advances (Note 5)	17,412,064	19,652,566
Mortgage loans held for portfolio (Note 6)	11,178,435	11,171,517
Accrued interest receivable	207,264	222,045
Premises and equipment, net	6,630	5,259
Derivative assets	27,768	45,766
Other assets	15,926	14,957
Total Assets	$ 50,244,409	$ 51,163,815
Liabilities and Capital		
Liabilities		
Deposits:		
Demand and overnight	$ 871,805	$ 1,125,313
Term	121,185	171,325
Other	7,275	20,100
Total deposits	1,000,265	1,316,738
Consolidated obligations, net (Note 7):		
Discount notes	5,769,184	6,609,074
Bonds	40,248,880	39,909,274
Total consolidated obligations	46,018,064	46,518,348
Accrued interest payable	365,470	374,298
Affordable Housing Program	46,101	48,368
Payable to Resolution Funding Corporation	6,366	9,065
Derivative liabilities	292,326	306,513
Other liabilities	17,665	134,878
Total liabilities	47,746,257	48,708,208
Capital (Note 8)		
Class B stock ($100 par value) issued and outstanding shares:		
Class B(1) stock: 22,047 and 22,850	2,204,737	2,285,032
Class B(2) stock: 2,323 and 1,134	232,309	113,473
Retained earnings	61,106	57,177
Accumulated other comprehensive income:		
Unrealized loss related to hedging activities		(75)
Total capital	2,498,152	2,455,607
Total Liabilities and Capital	$ 50,244,409	$ 51,163,815

See condensed notes to financial statements.

Statements of Income

(Unaudited)	For the Three Months Ended June 30, 2004	2003	For the Six Months Ended June 30, 2004	2003
(In thousands, except per share and annualized dividend rate data)				
Interest Income				
Advances (Note 5)	$ 100,338	$ 136,970	$ 207,559	$ 269,640
Interest-bearing deposits	3,569	3,445	5,806	5,399
Securities purchased under agreements to resell	117	435	375	913
Federal funds sold	6,539	9,576	12,118	17,848
Investments:				
Held-to-maturity securities (Note 3)	138,782	135,031	289,372	276,270
Securities held at fair value (Note 4)	3,625	3,625	7,250	7,250
Mortgage loans held for portfolio (Note 6)	146,297	98,637	283,241	211,113
Other		15		39
Total interest income	399,267	387,734	805,721	788,472
Interest Expense				
Consolidated obligations (Note 7)	357,635	336,604	717,007	667,225
Deposits	2,300	5,164	5,034	10,123
Other borrowings		24	3	99
Total interest expense	359,935	341,792	722,044	677,447
Net Interest Income	39,332	45,942	83,677	111,025
Other Income (Loss)				
Prepayment fees	213	722	252	1,419
Service fees	565	589	1,158	1,136
Net realized gain on sale of held-to-maturity securities	1,620	10,237	1,623	10,237
Net unrealized gain (loss) on securities held at fair value	(18,625)	10,437	(7,688)	11,531
Net realized and unrealized gain (loss) on derivatives and hedging activities	23,375	(15,932)	9,465	(19,615)
Other, net	25	279	51	381
Total other income (loss)	7,173	6,332	4,861	5,089
Other Expense				
Operating	10,438	6,671	19,857	13,085
Federal Housing Finance Board	503	489	861	979
Office of Finance	328	234	622	596
Other	576	573	1,269	1,086
Total other expense	11,845	7,967	22,609	15,746
Income Before Assessments	34,660	44,307	65,929	100,368
Assessments				
Affordable Housing Program	2,829	3,617	5,382	8,193
Resolution Funding Corporation	6,367	8,138	12,110	18,435
Total assessments	9,196	11,755	17,492	26,628
Net Income	$ 25,464	$ 32,552	$ 48,437	$ 73,740
Earnings per share	$ 1.06	$ 1.36	$ 2.02	$ 3.12
Average number of shares of Class B(1) and Class B(2) stock outstanding	24,073	24,014	24,020	23,667
Annualized dividend rate on Class B(1) stock	4.00%	5.25%	4.00%	6.00%
Annualized dividend rate on Class B(2) stock	0.77%	0.73%	0.71%	0.76%

See condensed notes to financial statements.

Statements of Capital

(Unaudited)	Class B(1) stock		Class B(2) stock		Retained Earnings	Accumulated Other Comprehensive Income	Total Capital
	Shares	Par Value	Shares	Par Value			
(In thousands, except annualized dividend rate data)							
Balance as of December 31, 2002	20,911	$ 2,091,138	2,541	$ 254,186	$ 36,540	$ 280	$ 2,382,144
Issuance of stock	631	63,087					63,087
Redemption of stock	(314)	(31,417)	(1)	(155)			(31,572)
Transfers	449	44,878	(449)	(44,878)			
Comprehensive income:							
Net Income					73,740		73,740
Other comprehensive income:							
Reclassification adjustment for gain on hedging activities included in net income						(261)	(261)
Comprehensive income					73,740	(261)	73,479
Dividends on stock:							
Class B(1) stock (6.00%)							
Class B(2) stock (0.76%)							
Cash					(44)		(44)
Stock	634	63,416	9	856	(64,272)		
Balance as of June 30, 2003	22,311	$ 2,231,102	2,100	$ 210,009	$ 45,964	$ 19	$ 2,487,094
Balance as of December 31, 2003	22,850	$ 2,285,032	1,134	$ 113,473	$ 57,177	$ (75)	$ 2,455,607
Issuance of stock	417	41,665					41,665
Redemption of stock	(464)	(46,351)	(12)	(1,238)			(47,589)
Transfers	(1,194)	(119,367)	1,194	119,367			
Comprehensive income:							
Net Income					48,437		48,437
Other comprehensive income:							
Reclassification adjustment for loss on hedging activities included in net income						75	75
Comprehensive income					48,437	75	48,512
Dividends on stock:							
Class B(1) stock (4.00%)							
Class B(2) stock (0.71%)							
Cash					(43)		(43)
Stock	438	43,758	7	707	(44,465)		
Balance as of June 30, 2004	22,047	$ 2,204,737	2,323	$ 232,309	$ 61,106	$	$ 2,498,152

See condensed notes to financial statements.

Statements of Cash Flows

(Unaudited) (In thousands)	For the Six Months Ended June 30, 2004	2003
Operating Activities		
Net income	$ 48,437	$ 73,740
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization:		
Net premiums and discounts on consolidated obligations, investments, mortgage loans held for portfolio, and deferred costs and fees received on interest-rate exchange agreements	(247)	(3,529)
Concessions on consolidated obligation bonds	5,408	9,853
Premises and equipment	856	510
Other	74	(261)
Net realized (gains) losses on sales of held-to-maturity securities	(1,623)	(10,237)
Decrease (increase) on securities held at fair value	7,687	(11,531)
Loss (gain) due to change in net fair value adjustment on derivatives and hedging activities	(7,721)	440
Decrease (increase) in accrued interest receivable	14,781	34,910
Decrease (increase) in net accrued interest on derivative assets	4,292	(36)
Increase (decrease) in net accrued interest on derivative liabilities	(5,914)	16,268
Decrease (increase) in other assets	(6,375)	(11,200)
Net increase (decrease) in Affordable Housing Program (AHP) liability and discount on AHP advances	(2,267)	(4,083)
Increase (decrease) in accrued interest payable	(8,828)	(9,379)
Increase (decrease) in payable to Resolution Funding Corporation	(2,699)	(3,048)
Increase (decrease) in other liabilities	2,688	10,729
Total adjustments	112	19,406
Net cash provided by operating activities	$ 48,549	$ 93,146
Investing Activities		
Net decrease (increase) in interest-bearing deposits	$ (719,215)	$ (180,035)
Net decrease (increase) in securities purchased under agreements to resell	100,000	200,000
Net decrease (increase) in federal funds sold	(1,013,500)	577,000
Proceeds from maturities of held-to-maturity securities	4,962,976	5,300,633
Proceeds from sale of held-to-maturity securities	36,531	306,150
Purchases of held-to-maturity securities	(4,836,393)	(5,345,098)
Principal collected on advances	21,196,246	19,555,632
Advances made	(19,057,565)	(23,496,233)
Principal collected on mortgage loans held for portfolio	1,265,175	2,038,196
Purchases of mortgage loans held for portfolio	(1,283,865)	(668,904)
Net decrease (increase) in premises and equipment	(2,229)	(1,167)
Net cash provided by (used in) investing activities	$ 648,161	$ (1,713,826)

Continued on the following page.

Statements of Cash Flows

CONTINUED

(Unaudited)	For the Six Months Ended June 30, 2004	2003
(In thousands)		
Financing Activities		
Net increase (decrease) in deposits	$ (316,473)	$ 329,445
Net proceeds from issuance of consolidated obligations:		
Discount notes	107,114,446	83,702,442
Bonds	9,243,370	13,692,223
Payments for maturing and retiring consolidated obligations:		
Discount notes	(107,951,775)	(85,141,276)
Bonds	(8,780,013)	(11,003,939)
Proceeds from issuance of Class B(1) stock	41,665	63,087
Payments for redemption of Class B(1) stock	(46,351)	(31,417)
Payments for redemption of Class B(2) stock	(1,238)	(155)
Cash dividends paid	(43)	(44)
Net cash provided by (used in) financing activities	$ (696,412)	$ 1,610,366
Net increase (decrease) in cash and cash equivalents	298	(10,314)
Cash and cash equivalents at beginning of the year	4,313	17,813
Cash and cash equivalents at end of the quarter	$ 4,611	$ 7,499
Supplemental Disclosures		
Interest paid	$ 730,872	$ 686,826
Stock dividends paid	44,465	64,272

See condensed notes to financial statements.

Condensed Notes to Financial Statements (Unaudited)

NOTE 1 – Summary of Significant Accounting Policies

Basis of Reporting

These unaudited financial statements and condensed notes should be read in conjunction with the financial statements and notes included in the Federal Home Loan Bank of Seattle's (Seattle Bank) 2003 Annual Report. These unaudited financial statements and condensed notes have been prepared in conformity with accounting principles generally accepted in the United States for interim financial information. Certain financial information, which is required in the annual financial statements, may not be required for interim financial reporting purposes and has been condensed or omitted.

In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of results for the interim periods have been included.

Accounting Adjustment

During the second quarter of 2004, we changed the manner of accounting we used to value and measure ineffectiveness for certain highly-effective hedging relationship transactions since our adoption of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* on January 1, 2001. Under the prior approach, we assumed no ineffectiveness in these hedging transactions, while under the new approach we will measure ineffectiveness at least quarterly. If this manner of accounting had been applied at the adoption of SFAS No. 133, the difference would not have been material to our results of operations or financial condition for any of these prior reporting periods. The increase of $2.9 million recorded to net income before assessments as of March 31, 2004, reflects the accounting as if we had employed the new approach from the date of adoption of SFAS No. 133 until our implementation of the new approach. These changes could lead to more volatility in our net income in future periods. However, the cumulative amount of these changes will offset each other if the derivative and hedged item are both held to maturity or their call dates, which is generally the case for these transactions.

Use of Estimates

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

Earnings Per Share

We calculate earnings per share by dividing net income by the average number of Class B(1) and Class B(2) stock outstanding during the period.

Reclassifications

Certain reclassifications have been made to the prior period amounts to conform to the current year presentation.

Condensed Notes to Financial Statements (Unaudited)

CONTINUED

NOTE 2 – Recently Issued Accounting Standards and Interpretations

SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (SFAS 149)

The Financial Accounting Standards Board (FASB) issued SFAS 149, which amends and clarifies financial accounting and reporting for derivative instruments and hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities – Deferral of Effective Date of FASB Statement No. 133*, and as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* (herein referred to as SFAS 133). In most cases, SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003, and, in most cases, all provisions of SFAS 149 should be applied prospectively. We adopted SFAS 149 as of June 30, 2003, and the adoption did not have a material impact on our financial statements.

SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (SFAS 150)

SFAS 150 was issued in May 2003. As a nonpublic entity with mandatorily redeemable financial instruments, the provisions of SFAS 150 are effective January 1, 2005. We will adopt SFAS 150 as of the effective date. SFAS 150 requires an entity that issues equity shares to classify as a liability shares that meet certain redemption criteria. Because of the redemption feature of our Class B(1) stock and Class B(2) stock, we meet the redemption criteria and would reclassify the Class B(1) stock and Class B(2) stock from the capital section to the liability section of our statement of condition from the time a member submits a redemption request until we redeem the equity shares. Because we generally process redemption requests when received, we do not expect the adoption of SFAS 150 to have a material impact on our financial statements.

Condensed Notes to Financial Statements (Unaudited)

CONTINUED

NOTE 3 – Held-to-Maturity Securities

Major Security Types

Our held-to-maturity securities were as follows.

As of June 30, 2004 (in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
U.S. agency obligations	$ 4,302,371	$ 64,157	$ (40,055)	$ 4,326,473
Other Federal Home Loan Banks' bonds	4,500,566		(44,314)	4,456,252
State or local housing agency obligations	33,944	97	(577)	33,464
Other	280,199	12,348		292,547
	9,117,080	76,602	(84,946)	9,108,736
Mortgage-backed securities	7,093,916	40,897	(126,502)	7,008,311
Total	$ 16,210,996	$ 117,499	$ (211,448)	$ 16,117,047

As of December 31, 2003 (in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
U.S. agency obligations	$ 5,325,041	$ 117,911	$ (24,440)	$ 5,418,512
Other Federal Home Loan Banks' bonds	3,500,000	3,354	(2,044)	3,501,310
State or local housing agency obligations	41,273	225	(256)	41,242
Other	314,822	14,793		329,615
	9,181,136	136,283	(26,740)	9,290,679
Mortgage-backed securities	7,245,569	74,152	(48,061)	7,271,660
Total	$ 16,426,705	$ 210,435	$ (74,801)	$ 16,562,339

The following table summarizes our held-to-maturity securities with unrealized losses as of June 30, 2004. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position.

	Less than 12 months		More than 12 months		Total	
As of June 30, 2004 (in thousands)	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
U.S. agency obligations	$ 1,771,634	$ (8,004)	$ 527,163	$ (32,051)	$ 2,298,797	$ (40,055)
Other Federal Home Loan Banks' bonds	4,456,252	(44,314)			4,456,252	(44,314)
State or local housing agency obligations	13,412	(577)			13,412	(577)
	6,241,298	(52,895)	527,163	(32,051)	6,768,461	(84,946)
Mortgage-backed securities	4,435,139	(122,498)	202,783	(4,004)	4,637,922	(126,502)
Total	$ 10,676,437	$ (175,393)	$ 729,946	$ (36,055)	$ 11,406,383	$ (211,448)

Condensed Notes to Financial Statements (Unaudited)

CONTINUED

We have determined, based on the creditworthiness of the issuers and any underlying collateral, that unrealized losses in the above table represent temporary declines in value.

Redemption Terms

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

	June 30, 2004		December 31, 2003	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(in thousands)				
Non-mortgage-backed securities				
Due in one year or less	$	$	$ 1,000,017	$ 1,005,075
Due after one year through five years	7,223,689	7,190,075	6,498,508	6,555,339
Due after five years through 10 years	1,767,165	1,792,537	1,541,594	1,588,358
Due after 10 years	126,226	126,124	141,017	141,907
Total non-mortgage-backed securities	9,117,080	9,108,736	9,181,136	9,290,679
Mortgage-backed securities				
Due after one year through five years	5,511	5,851	16,974	17,362
Due after five years through 10 years	58,582	60,021	65,972	70,066
Due after 10 years	7,029,823	6,942,439	7,162,623	7,184,232
Total mortgage-backed securities	7,093,916	7,008,311	7,245,569	7,271,660
Total	$ 16,210,996	$ 16,117,047	$ 16,426,705	$ 16,562,339

The amortized cost of our mortgage-backed securities classified as held-to-maturity includes net discounts of $63.9 million and $64.5 million as of June 30, 2004, and December 31, 2003.

NOTE 4 – Securities Held at Fair Value

Major Security Types and Redemption Terms

Our securities held at fair value were as follows.

	June 30, 2004	December 31, 2003
(in thousands)		
U.S. agency obligations		
Due after 10 years	$ 236,500	$ 244,187
Total	$ 236,500	$ 244,187

Net gain and loss on securities held at fair value for the three months ended June 30, 2004 and 2003, included changes in unrealized loss of $18.6 million and gain of $10.4 million. For the six months ended June 30, 2004 and 2003, net gain and loss on securities held at fair value includes changes in unrealized loss of $7.7 million and gain of $11.5 million.

Condensed Notes to Financial Statements (Unaudited)

CONTINUED

NOTE 5 – Advances

Redemption Terms

As of June 30, 2004, and December 31, 2003, we had advances outstanding, including Affordable Housing Program (AHP) advances, at interest rates ranging from 1.09% to 8.65% and 1.03% to 8.65%, as summarized below. As of June 30, 2004, and December 31, 2003, AHP subsidized advance interest rates ranged from 2.80% to 5.99%.

	June 30, 2004		December 31, 2003	
Term to Maturity	Amount	Weighted Average Interest Rate %	Amount	Weighted Average Interest Rate %
(in thousands, except interest rate data)				
Due in one year or less	$ 8,684,366	1.69	$ 9,779,304	1.81
Due after one year through two years	2,680,757	4.22	3,087,950	2.81
Due after two years through three years	1,173,647	3.56	1,858,332	4.40
Due after three years through four years	1,298,218	4.36	913,428	3.71
Due after four years through five years	738,287	4.37	988,318	4.94
Thereafter	2,687,488	5.13	2,774,709	5.19
Total par value	17,262,763	3.06	19,402,041	2.95
Unamortized commitment fees	(980)		(1,027)	
Discount on AHP advances	(449)		(480)	
Deferred prepayment fees	(2,293)		(2,812)	
Derivative hedging adjustments	153,023		254,844	
Total	$ 17,412,064		$ 19,652,566	

Condensed Notes to Financial Statements (Unaudited)

CONTINUED

The following table summarizes the par value of advances as of June 30, 2004, and December 31, 2003, by term to maturity or next call date for callable advances.

Term to Maturity or Next Call Date	June 30, 2004	December 31, 2003
(in thousands)		
Due in one year or less	**$ 8,684,541**	$ 9,780,406
Due after one year through two years	**2,680,886**	3,088,083
Due after two years through three years	**1,173,647**	1,858,332
Due after three years through four years	**1,298,218**	913,428
Due after four years through five years	**738,287**	988,318
Thereafter	**2,687,184**	2,773,474
Total	**$ 17,262,763**	$ 19,402,041

Convertible advances are fixed-rate advances that provide us with the option to terminate the advance prior to maturity. In the event we terminate a convertible advance, we will provide alternative funding, at current advance rates, to the member for the remaining term of the terminated advance. As of June 30, 2004, and December 31, 2003, we had convertible advances outstanding of $3.4 billion and $3.6 billion.

The following table summarizes the par value of advances as of June 30, 2004, and December 31, 2003, by term to maturity or next put date.

Term to Maturity or Next Put Date	June 30, 2004	December 31, 2003
(in thousands)		
Due in one year or less	**$ 11,350,241**	$ 12,297,499
Due after one year through two years	**2,356,112**	3,140,242
Due after two years through three years	**1,263,541**	1,827,222
Due after three years through four years	**877,805**	716,215
Due after four years through five years	**466,488**	437,618
Thereafter	**948,576**	983,245
Total	**$ 17,262,763**	$ 19,402,041

Credit Risk

As of December 31, 2003, we classified as substandard $180.0 million of advances and $530,000 of letters of credit to two insurance companies under common ownership. The companies experienced financial distress in late 2003 and consented to supervisory orders from their respective state regulators to refrain from certain business actions without prior regulatory approval. In 2004, both companies were placed in receivership by their state regulators. During April 2004, one insurance company repaid its outstanding advances in full and no outstanding issues remain with this company. As of June 30, 2004, the advances outstanding to the remaining insurance company totaled $153.5 million and the letters of credit totaled $250,000. This credit exposure is fully collateralized with high-grade, marketable securities under the Seattle Bank's control. Because the borrower continues to pay according to contractual requirements and because of our collateral position, interest continues to accrue on the advances. We expect full repayment and have concluded that, given current circumstances, no allowance for credit losses is necessary.

Condensed Notes to Financial Statements (Unaudited)

CONTINUED

We have never experienced a credit loss on an advance to a member. We have policies and procedures in place to appropriately manage our credit risk. Because of the collateral held as security on the advances and repayment history, we believe that an allowance for credit losses on advances is unnecessary.

Interest-Rate Payment Terms

The following table details par value information on interest-rate payment terms for advances.

(in thousands)	June 30, 2004	December 31, 2003
Fixed-rate	**$ 11,365,588**	$ 12,287,277
Variable-rate	**5,897,175**	7,114,764
Total	**$ 17,262,763**	$ 19,402,041

NOTE 6 – Mortgage Loans Held For Portfolio

We purchase our mortgage loans held for portfolio from participating members through the Mortgage Purchase Program (MPP). The mortgage loans held for portfolio represent investments that our members originate, service, and credit enhance. Members participating in the servicing released program do not service these loans. The servicing on these loans is sold to a designated mortgage service provider at the time we purchase the loan.

The following table presents information on mortgage loans held for portfolio.

(in thousands)	June 30, 2004	December 31, 2003
Fixed, medium-term*, single-family mortgage loans	**$ 1,671,704**	$ 1,939,564
Fixed, long-term, single-family mortgage loans	**9,416,321**	9,141,616
Total par value	**11,088,025**	11,081,180
Unamortized premiums	**158,935**	158,034
Unamortized discounts	**(72,001)**	(67,697)
Derivative hedging adjustments	**3,476**	
Total	**$ 11,178,435**	$ 11,171,517

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

The par value of mortgage loans held for portfolio outstanding as of June 30, 2004, and December 31, 2003, comprised government-insured loans totaling $2.6 billion and $2.5 billion and conventional loans totaling $8.5 billion and $8.6 billion.

Based on our analysis of our mortgage loans held for portfolio, we have determined that the credit enhancements provided by the sellers, including supplemental mortgage insurance, is sufficient to absorb inherent credit losses and that an allowance for credit loss is unnecessary. We had no nonaccrual loans as of June 30, 2004, and December 31, 2003.

Condensed Notes to Financial Statements (Unaudited)

CONTINUED

NOTE 7 – Consolidated Obligations

Consolidated Obligation Bond Redemption Terms

The following is a summary of our participation in consolidated obligation bonds outstanding as of June 30, 2004, and December 31, 2003.

	June 30, 2004		December 31, 2003	
Term to Maturity	Amount	Weighted Average Interest Rate %	Amount	Weighted Average Interest Rate %
(in thousands, except interest rate data)				
Due in one year or less	$ 5,964,695	2.84	$ 7,800,400	3.36
Due after one year through two years	9,427,600	2.77	7,840,595	2.75
Due after two years through three years	6,683,925	3.81	5,656,100	3.67
Due after three years through four years	3,769,000	4.02	3,902,625	4.81
Due after four years through five years	3,682,550	3.97	3,842,050	3.85
Thereafter	10,835,300	5.27	10,868,800	5.31
Total par value	40,363,070	3.85	39,910,570	4.00
Bond premiums	71,463		64,067	
Bond discounts	(78,099)		(75,777)	
Deferred net losses on terminated interest-rate exchange agreements	(90)		(101)	
Derivative hedging adjustments	(107,464)		10,515	
Total	$ 40,248,880		$ 39,909,274	

The following table summarizes the par value of our participation in consolidated obligation bonds outstanding as of June 30, 2004, and December 31, 2003, by call and put terms.

	June 30, 2004	December 31, 2003
(in thousands)		
Non-callable or non-putable	$ 21,875,220	$ 21,145,720
Callable	17,937,850	18,214,850
Putable	550,000	550,000
Total	$ 40,363,070	$ 39,910,570

Condensed Notes to Financial Statements (Unaudited)

CONTINUED

The following table summarizes the par value of our participation in consolidated obligation bonds outstanding as of June 30, 2004, and December 31, 2003, by term to maturity or next call date.

Term to Maturity or Next Call Date	June 30, 2004	December 31, 2003
(in thousands)		
Due in one year or less	$ 21,939,545	$ 23,125,250
Due after one year through two years	7,163,300	5,880,295
Due after two years through three years	4,016,925	3,268,100
Due after three years through four years	1,920,000	2,527,625
Due after four years through five years	1,222,000	965,500
Thereafter	4,101,300	4,143,800
Total	$ 40,363,070	$ 39,910,570

Consolidated Obligation Discount Notes

Our participation in consolidated obligation discount notes, all of which are due within one year, was as follows.

	June 30, 2004	December 31, 2003
(in thousands, except interest rate data)		
Book value	$ 5,769,184	$ 6,609,074
Par value	5,775,436	6,613,749
Weighted-average interest rate	1.22%	1.06%

Condensed Notes to Financial Statements (Unaudited)

CONTINUED

NOTE 8 – Capital

We are subject to three statutory capital requirements, as follows.

First, we are required to hold risk-based capital equal to the sum of our credit-risk requirement, market-risk requirement, and operations-risk requirement, calculated in accordance with Federal Housing Finance Board (Finance Board) regulations. As of June 30, 2004, we were in compliance with this regulatory requirement. Only permanent capital, defined as retained earnings and Class B stock, can satisfy the risk-based capital requirement. The Finance Board may require the Seattle Bank to maintain a greater amount of permanent capital than is required by the risk-based capital requirements, as defined, but has not done so.

(in thousands)	June 30, 2004	December 31, 2003
Permanent Capital		
Class B(1) stock	**$ 2,204,737**	$ 2,285,032
Class B(2) stock	**232,309**	113,473
Retained earnings	**61,106**	57,177
Permanent capital	**$ 2,498,152**	$ 2,455,682
Risk-Based Capital Requirement		
Credit-risk capital	**$ 175,727**	$ 172,940
Market-risk capital	**267,420**	361,599
Operations-risk capital	**132,944**	160,362
Risk-based capital requirement	**$ 576,091**	$ 694,901

Second, the Gramm-Leach-Bliley Act (GLB Act) imposes a 5% minimum leverage ratio based on total capital, which includes a 1.5 weighting factor applicable to permanent capital. As of June 30, 2004, we were in compliance with this requirement. A minimum leverage ratio, which is defined as total capital (with permanent capital multiplied by 1.5) divided by total assets, is intended to ensure that the Seattle Bank maintains a sufficient amount of capital to service our debt. The leverage ratio measures the degree to which we use debt. Leverage ratios at or near the 5% minimum would indicate that we have reached our maximum capacity to issue debt, and leverage ratios that exceed the 5% minimum indicate that we have additional capacity to fund operations through debt.

(in thousands, except ratio data)	June 30, 2004	December 31, 2003
Leverage Ratio		
Minimum leverage capital (5% of total assets)	**$ 2,512,220**	$2,558,191
Leverage capital (includes 1.5 weighting factor applicable to permanent capital)	**3,747,228**	3,683,523
Leverage ratio (leverage capital as a percentage of total assets)	**7.5%**	7.2%

Condensed Notes to Financial Statements (Unaudited)

CONTINUED

Third, the GLB Act imposes a 4% minimum capital ratio, defined as total capital over total assets, that does not include the 1.5 weighting factor applicable to permanent capital. As of June 30, 2004, we were in compliance with this requirement. The capital ratio is another measure used to monitor our operations. Capital ratios at or near the 4% minimum would indicate that we have fully utilized our capital resources to run our operations, and capital ratios that exceed the 4% minimum indicate that we have additional capacity to grow our asset base to increase earnings capacity.

(in thousands, except ratio data)	June 30, 2004	December 31, 2003
Capital Ratio		
Minimum capital (4% of total assets)	**$ 2,009,776**	$ 2,046,553
Capital ratio (permanent capital as a percentage of total assets)	**5.0%**	4.8%

Condensed Notes to Financial Statements (Unaudited)

CONTINUED

NOTE 9 – Segment Information

We have two operating segments, traditional member finance and the MPP, based on our method of internal reporting. The products and services provided reflect the manner in which financial information is evaluated by management.

The traditional member finance segment includes income primarily from the interest on advances and investments, less the borrowing costs related to those assets. The MPP segment includes income primarily from the interest on mortgage loans, less the borrowing cost related to those assets.

The following table presents our condensed statements of income by operating segment.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2004	2003	2004	2003
(in thousands)				
Traditional Member Finance				
Net interest income	$ 18,867	$ 40,778	$ 50,321	$ 87,011
Other income (loss)	7,771	6,291	4,095	5,232
Other expense	(10,760)	(7,118)	(20,381)	(13,969)
Income before assessments	15,878	39,951	34,035	78,274
Assessments	(4,212)	(10,600)	(9,030)	(20,766)
Net income	$ 11,666	$ 29,351	$ 25,005	57,508
Mortgage Purchase Program				
Net interest income	$ 20,465	$ 5,164	$ 33,356	$ 24,014
Other income (loss)	(598)	41	766	(143)
Other expense	(1,085)	(849)	(2,228)	(1,777)
Income before assessments	18,782	4,356	31,894	22,094
Assessments	(4,984)	(1,155)	(8,462)	(5,862)
Net income	$ 13,798	$ 3,201	$ 23,432	$ 16,232
Total				
Net interest income	$ 39,332	$ 45,942	$ 83,677	$ 111,025
Other income (loss)	7,173	6,332	4,861	5,089
Other expense	(11,845)	(7,967)	(22,609)	(15,746)
Income before assessments	34,660	44,307	65,929	100,368
Assessments	(9,196)	(11,755)	(17,492)	(26,628)
Net income	$ 25,464	$ 32,552	$ 48,437	$ 73,740

The following table presents our total assets by operating segment.

	June 30, 2004	December 31, 2003
(in thousands)		
Traditional Member Finance	$ 37,613,538	$ 39,064,788
Mortgage Purchase Program	12,630,871	12,099,027
Total	$ 50,244,409	$ 51,163,815

Condensed Notes to Financial Statements (Unaudited)

CONTINUED

NOTE 10 – Estimated Fair Value

We have determined the following estimated fair value amounts using available market information and our best judgment of appropriate valuation methods. We base these estimates on pertinent information available to us as of June 30, 2004, and December 31, 2003. Although we use our best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique or valuation methodology. For example, because an active secondary market does not exist for a portion of our financial instruments, in certain cases, fair values are not subject to precise quantification or verification and may change as economic and market factors and evaluation of those factors change. Therefore, these estimated fair values are not necessarily indicative of the amounts that would be realized in current market transactions. The fair value summary tables do not represent an estimate of the overall market value of the Seattle Bank as a going concern, which would take into account future business opportunities.

The carrying value and estimated fair values of our financial instruments were as follows.

As of June 30, 2004	Carrying Value	Net Unrealized Gain (Loss)	Estimated Fair Value
(in thousands)			
Assets			
Cash and due from banks	$ 4,611	$	$ 4,611
Interest-bearing deposits	1,489,215	(313)	1,488,902
Securities purchased under agreements to resell			
Federal funds sold	3,455,000	(239)	3,454,761
Held-to-maturity securities	16,210,996	(93,949)	16,117,047
Securities held at fair value	236,500		236,500
Advances	17,412,064	100,553	17,512,617
Mortgage loans held for portfolio	11,178,435	(205,664)	10,972,771
Accrued interest receivable	207,264		207,264
Derivative assets	27,768		27,768
Other assets	15,926		15,926
Liabilities			
Deposits	(1,000,265)	28	(1,000,237)
Consolidated obligations:			
Discount notes	(5,769,184)	2,203	(5,766,981)
Bonds	(40,248,880)	(159,597)	(40,408,477)
Accrued interest payable	(365,470)		(365,470)
Derivative liabilities	(292,172)		(292,172)
Other			
Commitments to extend credit for advances	980		980
Commitments to extend credit for mortgage loans held for portfolio	(61)		(61)
Commitments to issue consolidated obligation bonds		(60)	(60)
Commitments to enter into interest-rate exchange agreements		(2)	(2)

Condensed Notes to Financial Statements (Unaudited)

CONTINUED

As of December 31, 2003 (in thousands)	Carrying Value	Net Unrealized Gain (Loss)	Estimated Fair Value
Assets			
Cash and due from banks	$ 4,313	$	$ 4,313
Interest-bearing deposits	770,000	22	770,022
Securities purchased under agreements to resell	100,000		100,000
Federal funds sold	2,506,500	15	2,506,515
Held-to-maturity securities	16,426,705	135,634	16,562,339
Securities held at fair value	244,187		244,187
Advances	19,652,566	219,282	19,871,848
Mortgage loans held for portfolio	11,171,517	(15,470)	11,156,047
Accrued interest receivable	222,045		222,045
Derivative assets	45,766		45,766
Other assets	14,957		14,957
Liabilities			
Deposits	(1,316,738)	(4)	(1,316,742)
Consolidated obligations:			
Discount notes	(6,609,074)	151	(6,608,923)
Bonds	(39,909,274)	(668,090)	(40,577,364)
Accrued interest payable	(374,298)		(374,298)
Derivative liabilities	(306,513)		(306,513)
Other liabilities	(134,878)		(134,878)
Other			
Commitments to extend credit for advances	1,027		1,027
Commitments to extend credit for mortgage loans held for portfolio	(2,736)		(2,736)
Commitments to issue consolidated obligation bonds		2,644	2,644
Commitments to enter into interest-rate exchange agreements		(232)	(232)