FEDERAL HOME LOAN BANK OF TOPEKA

INFORMATION STATEMENT

FOR CAPITAL CONVERSION

Table of Contents

INFORMATION STATEMENT

FEDERAL HOME LOAN BANK OF TOPEKA

CAPITAL STOCK

The Federal Home Loan Bank of Topeka ("FHLBank") is one of the 12 Federal Home Loan Banks ("FHLBanks"), which were created by Congress in 1932 to provide liquidity in the mortgage market and to promote homeownership in the United States. At the close of business on September 30, 2004, the FHLBank will implement a new capital structure and convert all of its existing outstanding capital stock into shares of two new classes of stock: Class A Common Stock, six-month redeemable and par value $100, and Class B Common Stock, five-years redeemable and par value $100, (collectively "Capital Stock").

The change to a new capital structure is required by amendments to the Federal Home Loan Bank Act ("Bank Act") contained in the Gramm-Leach-Bliley Act of 1999 ("GLB Act"). The shares of Capital Stock will be issued in accordance with regulations adopted by the Federal Housing Finance Board ("Finance Board") to implement the GLB Act and pursuant to a capital plan ("Capital Plan") of the FHLBank, adopted by the FHLBank Board of Directors on April 9, 2004 and approved by the Finance Board on April 14, 2004.

FHLBank Members should review this Information Statement carefully. It describes the FHLBank's new Capital Plan and Capital Stock and provides other information required by the Finance Board regulations. FHLBank Members should also be thoroughly familiar with the Bank Act, as amended by the GLB Act, and implementing regulations of the Finance Board, as they relate to the new capital structure of the FHLBank.

At the close of business on September 30, 2004 ("Conversion Date"), outstanding shares of the existing capital stock of the FHLBank, other than the shares of Members that have opted out of the conversion process, shall automatically be deemed converted into shares of Class A Common Stock or Class B Common Stock pursuant to the "Conversion of Shares" provision of the Capital Plan. Thereafter, the FHLBank may issue Capital Stock from time to time either to new Members or to current Members in accordance with the Capital Plan, and as necessary to satisfy the FHLBank's minimum capital requirements established by the GLB Act.

The shares of Capital Stock offered hereby will be issued at par value and will not trade in a market. Redemptions and Repurchases of such stock by the FHLBank must be made at par value. For a discussion of the Redemption, Repurchase and Exchange provisions relating to such stock, see "Limitations on Redemption," "Limitations on Repurchase" and "Limitations on Exchange" on pages 28 to 30.

There are differences between the existing capital stock of the FHLBank outstanding prior to the Conversion Date of the Capital Plan and the new Capital Stock offered hereby. For a discussion of those differences, see "Capital Requirements - Pre-GLB Act", "Capital Requirements - Post-GLB Act" on pages 20 to 21 and "Comparison of Terms of Existing Stock and Capital Stock" on pages 33 to 37.

IF YOU DO NOT OPT OUT OF THE CAPITAL CONVERSION ON OR BEFORE AUGUST 31, 2004, YOUR OUTSTANDING SHARES OF EXISTING FHLBANK STOCK WILL BE AUTOMATICALLY CONVERTED TO NEW CLASS A COMMON STOCK, REDEEMABLE ONLY UPON SIX MONTHS' NOTICE TO THE FHLBANK AND/OR, UNDER THE TERMS OF THE CAPITAL PLAN, CLASS B COMMON STOCK, REDEEMABLE UPON FIVE YEARS' NOTICE TO THE FHLBANK.

IF YOU DO OPT OUT OF THE CAPITAL CONVERSION AND WITHDRAW FROM MEMBERSHIP, YOU MAY NOT BE READMITTED TO MEMBERSHIP IN ANY OF THE FHLBANKS FOR A PERIOD OF FIVE YEARS FROM THE DATE ON WHICH YOUR MEMBERSHIP TERMINATED AND YOU DIVESTED ALL SHARES OF FHLBANK STOCK.

This Information Statement should be read in conjunction with the FHLBank's 2003 Annual Report distributed to Members and filed with the Finance Board. See "Incorporation of Certain Documents by Reference" on the next page.

The Capital Stock is exempt from registration under the Securities Act of 1933, as amended. The Capital Stock has not been approved or disapproved by the Securities and Exchange Commission, or any state securities commission, nor has the Securities and Exchange Commission, the Finance Board, or any state securities commission passed upon the adequacy or accuracy of this Information Statement. Any representation to the contrary is a criminal offense.

The United States Government does not guarantee payments due on funds invested in the stock or indebtedness of the FHLBank, any dividend payments on shares of Capital Stock or the profitability of the FHLBank.

No person has been authorized to make representations or warranties, either express or implied, with respect to the Capital Stock, except the representations contained herein. Only information contained herein, or in documents incorporated herein by reference, may be relied upon by any Member as constituting representations of the FHLBank.

For a discussion of certain factors that you should consider before participating in this Capital Conversion, see "Risk Factors" beginning on page 37 of this Information Statement.

This Information Statement does not constitute an offer to sell or the solicitation of an offer to buy any of the Capital Stock in any jurisdiction in which such offer or solicitation would be unlawful.

The date of this Information Statement is June 30, 2004.

I. INCORPORATION OF CERTAIN DOCUMENTS

This Information Statement only summarizes the Capital Plan and certain aspects of the GLB Act and the Finance Board regulations. Capitalized terms not defined herein have the meaning given to them in the Capital Plan. This Information Statement includes previously published financial statements of the FHLBank to which you may want to refer.

The following information contained in the previously published FHLBank's 2003 Annual Report ("Annual Report") is included in this Information Statement:

- Report of Independent Auditors at page 45;
- The audited financial statements of the FHLBank and notes thereto at pages 46-81;
- Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 89;

The Annual Report is included in this document as previously published without change. This information is an integral part of this Information Statement and should be reviewed by Members in evaluating the FHLBank's Capital Plan and in determining whether to opt out from the conversion of their existing capital stock.

Any statement contained in the portions of the Annual Report is deemed to be modified or superseded to the extent that any statement in this Information Statement contains new or additional information. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Statement.

II. AVAILABLE INFORMATION

You are strongly encouraged to review and become thoroughly familiar with the Capital Plan, the GLB Act and the Finance Board regulations. They will govern in the event of any conflict with the information presented in this document. You may obtain, without charge, copies of the FHLBank's Annual Report, the Capital Plan, the GLB Act and the Finance Board regulations by writing or calling:

FHLBank Topeka
One Security Benefit Place, Suite 100
Topeka, Kansas 66606-2444
Telephone (800) 933-2988

The Annual Report can also be obtained by accessing the FHLBank's Web site on the Internet at www.fhlbtopeka.com.

III. INTRODUCTORY STATEMENT

This Information Statement is provided to furnish information about the FHLBank's Capital Plan and the implementation of the FHLBank's new capital structure as mandated by the GLB Act. The Capital Stock will be issued at the close of business on the Conversion Date of the Capital Plan. A copy of the Capital Plan is attached as Appendix A.

The GLB Act imposes new minimum leverage and risk-based capital requirements on each of the 12 regional FHLBanks. The GLB Act further requires each of the FHLBanks to implement a new capital structure to replace the stock subscription structure in effect since 1932. Under the new capital structure, the FHLBanks may issue Class A stock or Class B stock, or both, to their Members. Such stock must be issued in amounts sufficient to enable the FHLBanks to satisfy their new minimum capital requirements.

The principal difference between Class A and Class B stock is that Class A stock is redeemable upon six-months' notice, whereas Class B stock is redeemable upon five years' notice. Class B stock also has a higher weighting than Class A stock for purposes of calculating the FHLBank's minimum leverage requirement.

Additionally, only Class B stock may be counted towards satisfying the FHLBank's risk based capital requirement.

The FHLBank has determined to implement its new capital structure through the issuance of first, Class A Common Stock and, under the terms of the Capital Plan, where additional existing stock is held by a Member at the close of business on the Conversion Date, Class B Common Stock. Capital Stock will be issued by the FHLBank pursuant to its Capital Plan, approved by the Finance Board on April 14, 2004. Each of the other regional FHLBanks is also required to implement a new capital structure pursuant to capital plans approved by the Finance Board.

Under the FHLBank's Capital Plan, the existing stock of each Member shall automatically be deemed converted into shares of Class A Common Stock up to the amount that equals the Member's Asset-Based Stock Purchase Requirement, and shares of Class B Common Stock in an amount equal to the additional shares of existing stock held by the Member, unless a Member files a written notice with the Finance Board on or before August 31, 2004 ("Opt Out Date"), to withdraw from Membership in the FHLBank. This notice must also be filed with the FHLBank on the same date. The membership of an institution that files its notice to withdraw on or before the Opt Out Date shall terminate on either the Conversion Date, or before if the requisite notice period has expired prior to the Conversion Date.

Each Member is required to maintain a certain minimum investment of Capital Stock of the FHLBank. An "Asset-Based" component, which is held as a condition of becoming and remaining a Member of the FHLBank, and an "Activity-Based"component, which is held as a condition of doing certain business with the FHLBank, determine the Minimum Stock Purchase Requirement. The FHLBank may adjust these stock purchase requirements from time to time within the limits established in the Capital Plan. For a discussion of the Minimum Stock Purchase Requirements initially established by the FHLBank, see "Minimum Stock Purchase Requirement" on pages 24 to 26.

Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Capital Plan.

A. Summary of Capital Stock

This summary contains selected information about the Capital Stock. It does not contain all of the information a Member should consider before determining whether to opt out of the conversion to Capital Stock and thereby withdraw from Membership in the FHLBank. Members should refer to the remainder of this Information Statement and any incorporated documents for further information.

Issuer	FHLBank of Topeka
Securities Offered	Shares of Class A Common Stock, par value $100 per share, and shares of Class B Common Stock, par value $100 per share.
Conversion of Existing Stock	At the close of business on the Conversion Date, each Member that does not opt out of the conversion will have its existing stock converted to Class A Common Stock, on a share-per-share basis, up to an amount equal to the minimum Asset-Based Stock Purchase Requirement and Class B Common Stock, on a share-per-share basis, in the event the Member holds additional shares of existing stock following the conversion to Class A Common Stock.
Minimum Stock Purchase Requirement	Each Member is required to hold Capital Stock as a condition to (1) becoming and remaining a Member of the FHLBank (Asset-Based Stock Purchase Requirement; Class A Common Stock) and (2) entering into specified activities with the FHLBank, including but not limited to access to the

FHLBank's credit products, and selling Acquired Member Assets to the FHLBank (Activity-Based Stock Purchase Requirement; Class A Common Stock or Class B Common Stock).

The minimum Capital Stock purchase is the sum of the Asset-Based Stock Purchase Requirement and the Activity-Based Stock Purchase Requirement. The amount of Class A Common Stock that a Member must acquire and maintain is the Asset-Based Stock Purchase Requirement equal initially to 0.2% of a Member's total assets as of December 31 of the preceding calendar year; at a minimum, $1,000, and at a maximum, $1,000,000. The amount of Class B Common Stock that a Member must acquire and maintain is the Activity-Based Stock Purchase Requirement equal to the sum of the following less the Member's Asset-Based Stock Requirement:
(1) 5% of the principal amount of Advances outstanding to the Member, plus
(2) 2% of the current outstanding principal balance of Acquired Member Assets (AMA) originated by or through the Member and acquired by the FHLBank subject to a maximum AMA requirement of 1.5% of the Member's total assets as of December 31 of the preceding calendar year, plus
(3) 0% of the principal amount of letters of credit outstanding at the request of the Member, plus
(4) 0% of the notional principal of the outstanding interest rate exchange agreements with the Member.

Change in Minimum Stock Purchase Requirement

After the Conversion Date, the Board of Directors of the FHLBank has the right to adjust from time to time the above percentages, and to adjust the cap on the dollar amount of Capital Stock any Member must purchase as a result of the Asset-Based Stock Purchase Requirement or the Activity-Based Stock Purchase Requirement in order to comply with Bank Act requirements to maintain capital levels at or above the minimum regulatory requirements. The Board of Directors may apply any such revised Activity-Based Stock Purchase Requirement to all activity then outstanding or only to activity which arises after the effective date of the change. Each Member is required to comply within 60 calendar days with any adjustments in the Minimum Stock Purchase Requirement, or the FHLBank will take action as set forth in the Capital Plan.

Dividends

The Board of Directors of the FHLBank may, but is not required to, declare and pay non-cumulative dividends, expressed as a percentage rate per annum, in either cash or Class B Common Stock to Capital Stockholders. In the event dividends are paid, Class A Common Stockholders and Class B Common Stockholders will share equally in such dividend payment up to the Dividend Parity

Threshold determined at the discretion of the Board of Directors of the FHLBank and based on a published interest rate index or an internally calculated reference interest rate based upon any of the FHLBank's assets or liabilities. The FHLBank must notify Members of any changes to the Dividend Parity Threshold at least 90 days prior to a dividend payment. Dividend rates in excess of the Dividend Parity Threshold may be paid on Class A Common Stock or Class B Common Stock at the discretion of the Board of Directors, provided, however, that the dividend rate per annum paid on Class B Common Stock shall equal or exceed the dividend rate per annum paid on the Class A Common Stock.

Restrictions

The Board of Directors of the FHLBank cannot declare a dividend if 1) the FHLBank's capital position is below its minimum Regulatory Capital Requirements; 2) the FHLBank's capital position will be below its minimum Regulatory Capital Requirements after paying the dividend; 3) the principal or interest due on any consolidated obligations issued by the Office of Finance has not been paid in full; 4) the FHLBank fails to provide the Finance Board quarterly certification required by section 966.9(b)(1) of the Finance Board's rules prior to declaring or paying dividends for a quarter; or 5) the FHLBank is unable to provide the required certification, projects that it will fail to comply with statutory or regulatory liquidity requirements or will be unable to timely and fully meet all of its obligations, actually fails to satisfy these requirements or obligations, or negotiates to enter or enters into an agreement with another FHLBank to obtain financial assistance to meet its current obligations.

Redemption Upon Voluntary Withdrawal from Membership

The applicable Redemption periods for a Member's Capital Stock shall begin upon receipt by the FHLBank of written notice of the Member's intention to withdraw from membership.

The Member must retain sufficient Class A Common Stock to meet the Minimum Asset-Based Stock Purchase Requirement until the six-month Redemption period has passed and must retain sufficient Class A Common Stock or Class B Common Stock to meet its Activity-Based Stock Purchase Requirement in effect on the effective date of withdrawal as long as any activity creating the requirement remains outstanding. The FHLBank, at its discretion, will determine if the Activity-Based Stock Purchase Requirement of a former Member must be met with Class A Common Stock or Class B Common Stock.

Six months after receiving written notice the FHLBank, may in its discretion, exchange Class A Common Stock in an amount sufficient to meet the former Member's Activity-Based Stock Purchase Requirement with Class B Common Stock and/or, to the extent such Class A Common Stock is Excess Stock and not necessary to meet the former Member's Activity-Based Stock Purchase Requirement, redeem such Class A Common Stock at par in cash by crediting the former Member's demand deposit account. When activity creating the Activity-Based Stock Purchase Requirement is completed, the FHLBank will, if the applicable Redemption period has expired, redeem such former Member's Excess Stock (as defined herein) at par and in cash by crediting the former Member's demand deposit account provided that the FHLBank will continue to meet its Regulatory Capital Requirements after the Redemption. If the applicable Redemption period has not expired, the FHLBank may allow the Redemption period to proceed or, in its discretion, Repurchase such former Member's outstanding Excess Stock at par and for cash by crediting the former Member's demand deposit account provided that the FHLBank will continue to meet its Regulatory Capital Requirements after the Redemption.

No Member may withdraw from Membership unless, on the date the Membership is terminated, there is in effect a certification from the Finance Board that the withdrawal of a Member will not cause the FHLBanks to fail to satisfy their obligation to make payments to the Resolution Funding Corporation ("REFCORP") established under the Financial Institutions Reform, Recovery and Enforcement Act of 1989. The Finance Board has established a "standing" certification, which will remain in effect until rescinded or superseded by the Finance Board, providing that a member's withdrawal will not affect an FHLBank's REFCORP obligation.

Redemption Not in Connection with Withdrawal

A Member may make a written request, not in connection with a notice of withdrawal, for the Redemption of a part of its Class A Common Stock or all or part of its Class B Common Stock. The applicable Redemption period shall commence upon the FHLBank's receipt of a written Redemption request. Subject to certain limitations, the FHLBank will redeem a Member's Excess Stock at the end of the applicable Redemption period. The Redemption periods are six months for Class A Common Stock and five years for Class B Common Stock.

On each written Redemption request, the FHLBank will notify the Member within 5 business days of the receipt if the FHLBank does not intend to

Repurchase or cannot Repurchase the Class A Common Stock and/or Class B Common Stock.

Redemption Request Cancellation Fee

A Member may cancel its notice of withdrawal at any time prior to the effective date of the withdrawal upon written notice of such cancellation. The effective date of the withdrawal will be the date on which the applicable stock Redemption period ends relative to that Member's Class A Common Stock. A cancellation of notice of withdrawal automatically constitutes a cancellation of the stock Redemption request for both Class A Common Stock and Class B Common Stock.

A Member may cancel any request to redeem Capital Stock not in conjunction with a request to withdraw from Membership. As to a Redemption request made of the FHLBank that is not in connection with a notice of withdrawal, an automatic cancellation of a Member's stock Redemption request will occur five business days from the end of the Redemption period if the FHLBank is prevented from redeeming a Member's stock during this five-day period because the Redemption would cause the Member to fail to meet its Minimum Stock Purchase Requirement.

Unless otherwise waived under the Capital Plan, a Member shall pay a Redemption Request Cancellation Fee of 1% of the par value of Class A Common Stock plus an increasing percentage of the par value of Class B Common Stock equal to 1% if cancelled in the first year of the Redemption period, 2% if cancelled in the second year, 3% if cancelled in the third year, 4% if cancelled in the fourth year, and 5% if cancelled in the fifth year under any of the above mentioned situations.

Repurchase of Excess Stock

Subject to certain limitations, the FHLBank may, at its sole discretion, develop a Repurchase program as to Excess Stock that a Member is not required to hold to meet a Member's Minimum Stock Purchase Requirement or may Repurchase such Excess Stock at the written request of a Member for par value payable in cash. In the event that the FHLBank institutes a Repurchase program on its own initiative, the FHLBank shall provide a Member not less than five business days' written notice of its intent to make such Repurchase.

Exchange

Subject to certain limitations, the FHLBank may, in its sole discretion, elect to establish a regular Exchange program upon not less than 30 calendar days' notice to Members prior to the first Exchange or occasionally Exchange all or a portion of shares of Excess Class B Common Stock for shares of Class A Common Stock upon not less than five business days' written notice to the Member of the

Exchange. Members may direct the FHLBank to pay cash in lieu of a Class A Common Stock Exchange upon 30 calendar days' written notice.

Likewise, the FHLBank at its discretion may exchange excess shares of Class A Common Stock for shares of Class B Common Stock or excess shares of Class B Common Stock for shares of Class A Common Stock per a Member's written request provided that the FHLBank will continue to meet its Regulatory Capital Requirements.

Limitations on Redemption and Repurchase

In no event may the FHLBank redeem or Repurchase any Capital Stock if, following the Redemption: 1) the FHLBank would fail to meet any of its minimum Regulatory Capital Requirements; 2) the Member would fail to meet its Minimum Stock Purchase Requirement in Capital Stock; 3) the Finance Board or the Board of Directors of the FHLBank has determined that the FHLBank has incurred, or is likely to incur, losses that result in charges against the FHLBank's capital and the Finance Board has not granted the FHLBank written permission to continue the Redemption; 4) the Board of Directors of the FHLBank suspends stock Redemption due to its reasonable belief that continued Redemption of stock would cause the FHLBank to fail to meet its minimum Regulatory Capital Requirements, prevent the FHLBank from maintaining adequate capital against a potential risk that may not adequately be reflected in its minimum Regulatory Capital Requirements, or otherwise prevent the FHLBank from operating in a safe and sound manner; 5) the principal or interest due on any consolidated obligation issued by the Office of Finance has not been paid in full; 6) the FHLBank fails to provide the Finance Board quarterly certification required by section 966.9(b)(1) of the Finance Board's rules prior to declaring or paying dividends for a quarter; or 7) the FHLBank is unable to provide the required certification, projects that it will fail to comply with statutory or regulatory liquidity requirements or will be unable to timely and fully meet all of its obligations, actually fails to satisfy these requirements or obligations, or negotiates to enter or enters into an agreement with another FHLBank to obtain financial assistance to meet its current obligations.

Liquidation Rights

With respect to the assets of the FHLBank, the claims of each share of Class A Common Stock are equal to the claims of each share of Class B Common Stock in any liquidation proceeding.

With respect to retained earnings, surplus, undivided profits and equity reserves, if any, the owners of Class B Common Stock have an ownership interest and the right to receive a portion of those items in

	any liquidation proceeding, provided that such ownership interest does not adversely impact the rights of Class A Common stockholders to receive liquidation distributions or to be paid dividends from retained earnings.
Voting Rights for Election of Directors	Members have voting rights in the election of members of the Board of Directors to represent Members in the particular Member's state. For each director position, each Member located in the state to be represented by the directorship shall be entitled to cast one vote for each share of Capital Stock that the Member was required to hold as of December 31 of the calendar year immediately preceding the election year (the "Record Date"); except that, the number of votes that each Member may cast for each directorship shall not exceed the average number of shares of Capital Stock that were required to be held by all Members located in that state on the Record Date. This limitation shall be calculated separately for holdings of Class A Common Stock and Class B Common Stock. There are no voting preferences for any share of Capital Stock.
Conversion Date	The Conversion Date for conversion of existing FHLBank stock to Capital Stock is the close of business on September 30, 2004.
Opt Out Date	Any Member that elects not to have its existing FHLBank stock converted to Capital Stock must provide written notice of its intent to withdraw from Membership in the FHLBank to the Finance Board at Federal Housing Finance Board, 1777 F Street, N.W., Washington, D.C. 20006, or by facsimile transfer to the Finance Board at 202-408-2995. A copy of the notice must also be filed with the FHLBank at the same time. This notice must be received by the Finance Board on or before August 31, 2004.

B. Summary Financial Data

The following tables set forth selected financial data and other statistical information for the FHLBank. The financial data was derived from the FHLBank's financial statements. This information is qualified in its entirety by reference to, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 89 and the FHLBank's financial statements and related notes appearing herein and incorporated by reference to the Annual Report.

Dollar amounts in millions	**Three months ended March 31, 2004 (Unaudited)**	**2003**	**2002**	**2001**
Key amounts included on the Statements of Condition:				
Advances	$ 25,725	$ 26,887	$ 25,926	$ 22,830
MPF® loans, net	1,259	684	200	100
Total investments[1]	12,431	12,635	11,429	9,847
Total assets	39,945	40,517	37,966	33,089
Deposits	1,371	1,141	1,544	1,366
Consolidated obligations	35,220	36,132	33,360	29,330
Total capital	1,854	1,800	1,669	1,447
Average Balances:				
Advances	27,257	26,873	25,326	20,073
MPF® loans, net	871	448	135	50
Total investments[1]	13,113	12,247	11,070	10,315
Earning assets	41,333	39,666	36,608	30,457
Total assets	41,548	39,901	36,873	30,798
Deposits	1,380	1,566	1,728	1,723
Consolidated obligations	36,878	35,116	32,566	27,045
Total capital	1,827	1,708	1,547	1,331
Operating Results:				
Net interest income	35	128	124	132
Net income	6	88	55	88
Dividends paid (in cash and stock)	15	58	68	86
Average dividends rate	3.50%	3.50%	4.56%	6.78%
Return on average equity	1.40%	5.17%	3.55%	6.59%
Return on average assets	0.06%	0.22%	0.15%	0.28%
Net interest margin[2]	0.35%	0.32%	0.34%	0.43%
Capital:				
Total capital ratio[3]	4.64%	4.44%	4.40%	4.37%
Leverage limit requirement[4]	21.52	22.41	22.75	22.87

Notes:

(1) Investments include held-to-maturity securities, available-for-sale securities, securities held at fair value, interest-bearing deposits, securities purchased under agreements to resell, loans to other FHLBanks and Federal funds sold.

(2) Net interest margin is net interest income before loan loss provision as a percentage of average earning assets.

(3) Total capital ratio is total generally accepted accounting principles ("GAAP") capital as a percentage of total assets at period end.

(4) The FHLBank's leverage limit requirement is based on a ratio of total assets to total capital (excluding accumulated other comprehensive income). The FHLBank's assets are limited to no more than 21 times its capital. Nevertheless, an FHLBank whose non-mortgage assets, after deducting deposits and capital, do not exceed 11 percent of its assets may have total assets in an amount greater than 21 times its capital but not greater than 25 times its capital.

(5) Change in accounting principle. The FHLBank adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by

SFAS 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133*, as amended by SFAS 138, *Accounting for Certain Derivative Instruments and Certain Hedging* Activities, and as amended by SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (herein referred to as SFAS 133) on January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income (OCI), depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The gains and losses on derivative instruments that are reported in OCI will be reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recognized in current period earnings.

(6) Certain amounts have been reclassified in prior years to conform to current year financial information.

IV. FORWARD-LOOKING STATEMENTS

This Information Statement includes statements describing anticipated developments, projections, estimates or future predictions of the FHLBank. These statements may use forward-looking terminology, such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or their negatives or other variations on these terms. The FHLBank cautions that, by their nature, forward-looking statements are subject to a number of risks or uncertainties, including risks set forth below, in the "Risk Factors" section and elsewhere in this Information Statement, and that actual results could differ materially from those expressed or implied in these forward-looking statements. As a result, Members are cautioned not to place undue reliance on such statements. The FHLBank does not undertake to update any forward-looking statement herein or that may be made from time to time on behalf of the FHLBank.

These forward-looking statements involve risks and uncertainties including, but not limited to, the following:

- Economic and market conditions;
- Demand for FHLBank advances resulting from changes in FHLBank stockholders' deposit flows and/or credit demands;
- Volatility of market prices, rates and indices that could affect the value of investments or collateral held by the FHLBank as security for the obligations of FHLBank stockholders and counterparties to interest rate exchange agreements and similar agreements;
- Political events, including legislative, regulatory, judicial, or other developments that affect the FHLBank, its stockholders, counterparties, and/or investors in the consolidated obligations of the 12 Federal Home Loan Banks (FHLBanks);
- Competitive forces including, without limitation, other sources of funding available to FHLBank stockholders, other entities borrowing funds in the capital markets, and the ability to attract and retain skilled individuals;
- The pace of technological change and the ability to develop and support technology and information systems, including the Internet, sufficient to manage the risks of the FHLBank's business effectively;
- Changes in investor demand for consolidated obligations of the 12 FHLBanks and/or the terms of interest rate exchange agreements and similar agreements including, without limitation, changes in the relative attractiveness of consolidated obligations as compared to other investment opportunities;
- Timing and volume of market activity;
- Ability to introduce new FHLBank products and services, and successfully manage the risks associated with those products and services, including new types of collateral used to secure advances;
- Risks related to the operations of the other 11 FHLBanks that could trigger our joint and several liability for debt issued by the other 11 FHLBanks;
- Risk of loss arising from litigation filed against the FHLBank; and
- Inflation/deflation.

V. CAPITALIZATION

A. Regulatory Capital Requirements

The GLB Act specifies that each FHLBank must meet certain minimum Regulatory Capital Requirements, including the maintenance of a minimum level of permanent capital as a cushion against loss. The FHLBank must maintain: (1) a capital ratio of at least 4.0%; (2) a leverage capital ratio of at least 5.0%; and (3) permanent capital in an amount equal to or greater than the "Risk-Based Capital Requirement" which is equivalent to the sum of its credit risk, market risk and operations risk capital requirements described in detail below.

The following sets forth, for the month ended March 31, 2004, the FHLBank's (1) actual capitalization on that date and (2) pro forma capitalization, adjusted to give effect to the implementation of the Capital Plan as if the Conversion Date had occurred on that date. This table is based on various assumptions set forth below and should be read in conjunction with the financial statements of the FHLBank and the related notes contained herein and in the Annual Report.

1. *Total Capital Ratio Compliance*

The total capital ratio is the ratio of the FHLBank's total capital to its total assets. Total capital is the sum of: (1) Capital Stock; (2) retained earnings; (3) the amount of the FHLBank's general allowance for losses (if any); and (4) such other amounts (if any) as may be approved by the Finance Board. All are determined in accordance with GAAP.

Dollar amounts in thousands	Actual 3/31/2004	Pro Forma 3/31/2004
Capital stock	$ 1,796,923	$ 1,807,211
Retained earnings	59,259	59,259
Total capital	$ 1,856,182	$ 1,866,470
Total assets	$ 39,944,889	$ 39,944,889
Total capital ratio	4.65%	4.67%
Minimum total capital ratio	4.00%	4.00%

2. *Leverage Capital Ratio Compliance*

The leverage capital ratio is the ratio of (a) 1.5 times the sum of the FHLBank's Class B Common Stock and retained earnings, plus the other components of total capital detailed in (1) above to (b) its total assets.

Dollar amounts in thousands	Actual 3/31/2004	Pro Forma 3/31/2004
Total capital	$ 1,856,182	$ 1,866,470
Leverage capital	$ N/A	$ 2,680,989
Total assets	$ 39,944,889	$ 39,944,889
Leverage capital ratio	N/A	6.71%
Minimum leverage capital ratio	N/A	5.00%

3. *Risk-Based Capital Compliance*

The FHLBank is required to maintain permanent capital in an amount that exceeds its risk-based capital requirement. Permanent capital is the capital available to cushion against realized losses resulting from market, credit and operating risks. It is equal to the sum of Class B Common Stock and retained earnings. The risk-based capital requirement has three components:

(a) "Credit risk capital requirement" is the sum of the capital charges for the FHLBank's assets, off-balance-sheet items and derivatives contracts. These charges are calculated using the methodology and risk weights assigned to each classification in the Finance Board's regulation. The FHLBank may request approval from the Finance Board at some future date to use a model-based approach for determining some portions of credit risk but has not done so at this time;

(b) "Market risk capital requirement" is the sum of (1) the market value of the FHLBank's portfolio at risk utilizing a model and approach approved by the Finance Board and calculated in accordance with the methodology in the Finance Board regulations; and (2) the amount, if any, by which the market value of total capital is less than 85% of the book value of total capital; and

(c) "Operations risk capital requirement" is 30% of the sum of the FHLBank's (1) credit risk capital requirement and (2) market risk capital requirement. The FHLBank may request approval from the Finance Board at some future date for the implementation of an alternative methodology for calculating operations risk but has not done so at this time.

Dollar amounts in thousands		Pro Forma 3/31/2004
Credit risk capital requirement	$	112,102
Market risk capital requirement	$	182,102
Operations risk capital requirement	$	88,262
Risk-based capital requirement	$	382,466
Permanent capital	$	1,629,037

The tables set forth above indicate that on a pro forma basis the FHLBank would comply with all of its minimum Regulatory Capital Requirements as of March 31, 2004, if that date were the actual Conversion Date.

It is anticipated that upon implementation of the Capital Plan on the Conversion Date, the FHLBank will meet or exceed all three of its minimum Regulatory Capital Requirements. The FHLBank does not anticipate that it will Repurchase any Excess Capital Stock or otherwise alter its asset composition as a result of the Capital Conversion.

After September 30, 2004, the FHLBank may determine to adjust the Asset-Based Stock Purchase Requirement and/or Activity-Based Stock Purchase Requirement to meet its target capital ratios, but the FHLBank does not anticipate any such action will be necessary at this time.

B. Material Assumptions

The pro forma capitalization, capital ratio and leverage ratio set forth above are calculated based upon the Capital Stock requirements calculated on an individual Member basis:

- The Capital Stock requirements were calculated using the specified Asset-Based Stock Purchase Requirement and Activity-Based Stock Purchase Requirement set forth previously.

Member total assets for December 31, 2003, were utilized for the Asset-Based Stock Purchase Requirement. Actual Member activity outstanding as of March 31, 2004, was utilized for the Activity-Based Stock Purchase Requirement.

- For purposes of the pro formas, it was assumed that no existing Members at March 31, 2004, would withdraw from Membership.
- This calculation would have resulted in approximately $478 million of Excess Stock from the Members if March 31, 2004, were the Conversion Date.
- In addition, Members would be required to purchase $10 million of additional stock if March 31, 2004, were the Conversion Date. This additional stock purchase was assumed to have reduced Member deposits on the FHLBank's balance sheet as of March 31, 2004, thus resulting in no increase or decrease in total assets for the FHLBank for purposes of the pro formas.
- Capital ratio and leverage ratio compliance were calculated based on March 31, 2004, balances, consistent with existing Finance Board regulatory guidance.

VI. BUSINESS OF THE FHLBANK

A. General

The FHLBank is one of 12 regional FHLBanks, created by Congress to increase the supply of funds to local lenders that, in turn, finance loans for home mortgages, small businesses, agriculture and farms, and otherwise help finance the country's housing and community development needs. Commercial banks, savings banks, savings and loan associations, credit unions and insurance companies that meet certain requirements are eligible for Membership in the FHLBank for the region in which such institutions are located. Certain housing finance agencies and similar organizations are eligible to become borrowers from an FHLBank without buying stock. The FHLBank's region comprises the states of Colorado, Kansas, Nebraska and Oklahoma. At March 31, 2004, the FHLBank had 870 Members.

The FHLBanks borrow funds to support their operations principally through the sale of debt securities, known as consolidated obligations, to the public through the Office of Finance. The Office of Finance is a joint office of the FHLBanks and has the responsibility for facilitating and executing the issuance of consolidated obligations. Each FHLBank is jointly and severally liable with the other FHLBanks for the consolidated obligations issued through the Office of Finance. Consolidated obligations are not obligations of the United States and the U. S. government does not guarantee them.

The FHLBank's principal place of business is located at One Security Benefit Place, Topeka, Kansas 66606-2444. The FHLBank employs approximately 140 people.

The descriptions of FHLBank products and services contained herein generally describe the FHLBank's current products and services. The FHLBank makes no representation that it will continue to offer any or all of the described products and services in the future or that the terms on which the FHLBank offers such products or services will remain as described in this Information Statement.

B. Lending

The FHLBank offers a wide range of credit programs to assist Members and non-member housing associates in providing affordable credit in their local markets to support housing, small farm, small business and community development. The FHLBank helps Members manage liquidity, assets, liabilities and interest rate risk as well as improve margins and enhance profitability. The FHLBank's primary business is making secured Advances to its Members and non-member housing associates. The FHLBank's Members can pledge as collateral for their Advances: 1) one-to-four family and multifamily mortgages; 2) Treasury and U.S. government-agency securities; 3) mortgage-backed securities; 4) commercial and other real estate loans; and 5) for those FDIC-insured Members with total assets over the last three years of less than $548 million[1], small-business, small agribusiness and small-farm loans.

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[1] Computed on average using total assets as of December 31 of the preceding three years as reported to the Member's primary regulator. The asset limit is adjusted annually by the Finance Board. These Members qualify as "community financial institutions." See page 132 for a more detailed discussion.

Members can use their loans from the FHLBank to make mortgage and business loans in their communities. Products available through the FHLBank's lending desk include short-term and long-term adjustable-rate, variable-rate and fixed-rate loans (including option-embedded loans and amortizing loans), standby letters of credit, and interest rate exchange agreements.

C. Acquired Member Asset Programs

The FHLBanks are permitted to acquire certain mortgage assets from their Members subject to certain risk-sharing requirements. These programs are referred to as Acquired Member Asset (AMA) programs. The FHLBank offers Members the Mortgage Partnership Finance® Program (MPF® Program[2]) as an alternative to originating and selling long-term, fixed-rate mortgages in the traditional secondary market. Under the MPF Program, the FHLBank funds or purchases conforming fixed-rate mortgages originated or owned by its Members. Members are then paid a credit enhancement fee for assuming a portion of the credit risk of the mortgages acquired by the FHLBank while the FHLBank assumes the liquidity, interest rate and prepayment risks of holding the mortgages in its portfolio as well as a portion of the credit risk. The MPF Program funds mortgages with terms up to 30 years.

D. FHLBank Correspondent Services

The FHLBank offers its Members and those institutions eligible for Membership (collectively "Customers") an array of correspondent banking services including depository services, funds transfer services, settlement services and safekeeping services.

Depository services include processing of Customer transactions in their demand deposit accounts. Demand deposit accounts are the central account each Customer has with the FHLBank. All Customer-related transactions (Federal Reserve Bank ("Fed") settlements, Advances, securities transactions, wires, etc.) are posted to these accounts each business day, and the resulting balances are an integral part of each Customer's cash positions. Funds transfer services provide domestic and foreign wire transfers as well as automated clearing house transactions received through the FHLBank's Fed account for FHLBank Customers. In settlement services, the FHLBank passes along credits and charges to Customers' accounts for which the FHLBank is credited or charged by the Fed on behalf of its Customers. The FHLBank offers Customers a range of securities custodial services, such as settlement of book entry (electronically held) and physical securities.

E. Affordable Housing Program and Community Investment Programs

Each FHLBank contributes the greater of 10 percent of its net income, after satisfying its REFCORP obligation, or an amount such that the aggregate contribution of the 12 FHLBanks is $100 million, to its Affordable Housing Program ("AHP") to be used to make grants or subsidized loans to Members to support housing for very low- and low-income individuals and families. The FHLBank's AHP is generally a competitive program that supports projects that provide affordable housing to individuals and families whose incomes are 80% or less of the area median income. A total of $7.0 million in funds was awarded through the competitive portion of the AHP during 2003. The FHLBank awarded these funds to 33 Members to support 46 projects totaling 2,171 housing units for very low- and low-income individuals and families.

The Rural First-time Homebuyer Program ("RFHP"), a part of the FHLBank's AHP, is a down payment assistance program designed to help first-time homebuyers in rural areas purchase homes. The maximum RFHP subsidy per household in 2004 is $4,000, and the maximum amount each Member can request is $50,000 annually. Before requesting funds, Members must have a prospective homebuyer identified. FHLBank Members reserve funds for prospective homebuyers in their communities and then pass on the funds for the homebuyer to use for down payment, closing costs or rehabilitation assistance through the RFHP. A total of $1.6 million was allocated in 2003 with the subsidy per homebuyer set at $4,000. The FHLBank disbursed $1.3 million to 85 Members through the RFHP in 2003. In 2002, the FHLBank implemented the Targeted Ownership Program ("TOP") a down payment assistance grant

[2] "Mortgage Partnership Finance" and "MPF" (as used throughout this Information Statement) are registered trademarks of the FHLBank of Chicago.

program, to help handicapped and disabled first-time homebuyers in urban and rural areas purchase a home. The FHLBank disbursed TOP funds in the amount of $110,468 in 2003.

In addition to the AHP, the FHLBank offers other programs to support housing for low- and moderate-income individuals and communities: the Community Housing Program ("CHP"); the Community Development Program ("CDP"); the Rural Technical Assistance Program ("RTAP") and the Housing and Community Development Emergency Loan Program ("HELP").

Members can use CHP and CDP funds to provide financing for low- and moderate-income housing and community development projects. These programs encourage Members' involvement in their communities through the financing of commercial loans, small business and other community and economic development loans. The FHLBank disbursed $225.2 million in Advances to its Members for CHP and CDP purposes in 2003. RTAP helps communities in the FHLBank's four-state area address unmet affordable housing needs in their communities. The program helps communities establish a rural housing partnership consisting of city officials, nonprofit housing organizations, social service agencies, banks, builders, developers, rental property owners, real estate businesses and others that work together to expand the area's housing resources. As of December 31, 2003, there were 23 communities involved in the RTAP. HELP, established in September 2003, provides up to $25 million annually in Advances to Members priced below the FHLBank's cost of funds. Members are limited to no more than two HELP Advances annually and no more than $1 million per HELP application. The Member's rate to the borrowers funded by HELP is limited to no more than 150 basis points over the HELP Advance rate. HELP funding must be used for financing related to damage resulting from a federally declared disaster.

F. REFCORP Obligation

REFCORP is a mixed-ownership government corporation established by Title V of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"). The day-to-day operations of REFCORP are under the management of a three-member Directorate comprised of the Managing Director of the Office of Finance and two members selected from among the presidents of the 12 FHLBanks. Pursuant to FIRREA, REFCORP was authorized to issue debentures, bonds and other obligations, subject to regulatory limitations. The proceeds of the debt were used solely to purchase non-redeemable capital certificates of the Resolution Trust Corporation or to refund any previously issued obligations.

Each FHLBank must pay 20% of its net earnings (after its AHP contribution) to REFCORP to support the payment of part of the interest on the bonds issued by REFCORP. The FHLBanks must make these payments to REFCORP until the total amount of payments made is equivalent to a $300 million annual annuity whose final maturity date is April 15, 2030. The period during which the FHLBanks are required to make such payments to REFCORP will be adjusted depending on actual payments relative to the referenced annuity. The FHLBanks' prior payments and those for 2003 defease all future benchmark payments after the 3rd quarter of 2020 as well as $21,456,000 of the $75,000,000 benchmark payment for the 3rd quarter of 2020. The Finance Board obtains from the Secretary of the Treasury the appropriate discounting factors used in this calculation.

VII. FUNDING SOURCES

A. General

The principal funding source for the FHLBank is consolidated obligations, issued to the public through the Office of Finance, which consist of consolidated bonds and consolidated discount notes. Deposits of Members and certain other parties and the proceeds from the issuance of capital stock are also funding sources of the FHLBank. Generally, discount notes are consolidated obligations with maturities up to 360 days, and consolidated bonds have maturities of one year or longer. The FHLBank determines its participation in each issuance of consolidated obligations based on, among other things, its own funding and operating requirements and the amounts, maturities, rates of interest and other terms available in the marketplace. The Office of Finance establishes the terms of the issuance of consolidated obligations. The Government Corporation Control Act provides that, before a government corporation issues and offers debt to the public, the Secretary of the Treasury shall prescribe the form, denomination, maturity, interest rate, and conditions of the debt, the way and time issued, and the selling price. The

Bank Act authorizes the Secretary of the Treasury to purchase consolidated obligations up to an aggregate principal amount of $4 billion.

Consolidated bonds satisfy term funding requirements. Typically, the maturity of these securities ranges from one year to fifteen years, but their maturity is not subject to any statutory or regulatory limit. Consolidated bonds can be issued and distributed through negotiated or competitively bid transactions with approved underwriters or selling group members. Consolidated discount notes are a significant funding source for advances with short-term maturities or short re-pricing intervals, for convertible advances and for money-market investments. These consolidated obligations have maturities up to 360 days and are offered daily through a consolidated discount note selling group. Discount notes are sold at a discount and mature at par.

Consolidated obligations, along with Member deposits, represent the principal funding sources that support the FHLBank's asset base. It has been the FHLBank's practice to combine consolidated obligations with interest rate exchange agreements, usually interest rate swap agreements, to lower the all-in effective cost of funds and/or reduce interest rate risk. The funding strategy of issuing consolidated bonds while simultaneously entering into interest rate swap agreements, a combination typically referred to as structured debt, enables the FHLBank to offer a wider range of attractively priced advance products to its Member institutions. Consolidated discount notes are not frequently combined with interest rate exchange agreements.

Factors that generally influence deposit levels include turnover in Members' portfolios, change in Member demand for liquidity, the slope of the market yield curve, and the FHLBank's deposit pricing as compared to other short-term market rates. When the FHLBank's Member deposit balances decline, funding is typically replaced through the issuance of consolidated obligations, usually discount notes.

B. Strategy with Respect to Interest Rate Exchange Agreements

The FHLBank enters into interest rate exchange agreements (swap, cap, floor, and swaption agreements) and future and forward contracts (collectively, derivative transactions or derivatives) for the purposes of managing interest rate risk and creating attractively priced funds to support Advances to Members and non-member housing associates. Under Finance Board regulations, the FHLBank is not permitted to use derivatives for speculative purposes. From time to time the FHLBank serves as an intermediary, entering into offsetting interest rate exchange agreements between its Members and other counterparties.

SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. SFAS 133 represents the culmination of the U.S. Financial Accounting Standards Board's nearly decade-long effort to develop a comprehensive framework for derivatives and hedge accounting. The Financial Accounting Standards Board establishes generally accepted accounting principles for most companies operating in the United States or requiring financial statements meeting U.S. GAAP. Under SFAS 133, the FHLBank is required to carry derivative instruments on its Statement of Condition at fair value. Any change in the fair value of a derivative is required to be reflected in current period earnings or other comprehensive income, regardless of how fair-value changes in the assets or liabilities being hedged may be treated. The FHLBank's general practice has remained that of utilizing derivatives when doing so appears to provide a cost-effective means of managing the risks inherent in its underlying business.

The most common objectives of hedging with derivatives include: 1) preserving an interest spread between the yield of an asset and the cost of a supporting liability of mismatched maturity; 2) mitigating the adverse earnings effects resulting from potential prepayment or extension of certain assets and liabilities; and 3) protecting the value of existing asset or liability positions or of anticipated transactions. Much of the FHLBank's hedging activity is directed toward managing interest rate risk and basis risk from Advances and supporting debt.

Through the use of structured debt, low-cost funding is created, which is used primarily to provide attractively priced Advances to the FHLBank's Members. Derivatives are also used to create

Advances with specialized embedded pricing features, customized to meet individual Member funding needs and/or to reduce Member borrowing costs.

It remains the FHLBank's policy to use derivative instruments only to manage the market interest rate risk exposures inherent in the otherwise unhedged asset and funding positions of the FHLBank. When doing so represents what FHLBank management believes to be a cost-efficient strategy, management intends to continue utilizing derivative instruments as a means to manage the FHLBank's exposure to changes in market interest rates. As such, the central focus of the financial management practices of the FHLBank remains that of preserving and enhancing the long-term economic performance of the FHLBank. Under SFAS 133, it is expected that reported GAAP net income will exhibit greater variability than was experienced prior to implementation of the new accounting standard.

C. Joint and Several Liability

Although the FHLBank is primarily liable for its portion of consolidated obligations (i.e., those issued on its behalf), the FHLBank is also jointly and severally liable with the other FHLBanks for the payment of principal and interest on consolidated obligations of all 12 FHLBanks. If the principal or interest on any consolidated obligation is not paid in full when due, the FHLBank may not pay dividends to, or redeem or Repurchase shares of stock from, any Member of the FHLBank. The FHLBank is also subject to redemption and dividend restrictions if the FHLBank fails to provide the Finance Board quarterly certification required by section 966.9(b)(1) of the Finance Board's rules prior to declaring or paying dividends for a quarter, upon its inability to provide such certification, or upon a projection that it will fail to comply with statutory or regulatory liquidity requirements, or will be unable to timely and fully meet all of its current obligations. The Finance Board, at its discretion, may require any FHLBank to make principal or interest payments due on any consolidated obligation.

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

D. Negative Pledge Requirements

The FHLBank must maintain certain assets free from any lien or pledge in an amount at least equal to its pro rata share of the total amount of outstanding consolidated obligations and equal to its participation in such outstanding consolidated obligations. Eligible assets for this purpose include: (1) cash; (2) obligations of, or fully guaranteed by, the United States; (3) secured Advances; (4) mortgages, that have any guaranty, insurance, or commitment from the United States or any agency of the United States; (5) investments described in Section 16(a) of the Bank Act, which, among other items, includes securities that a fiduciary or trust fund may purchase under the laws of the state in which the FHLBank is located; and (6) other securities that are rated Aaa by Moody's or AAA by Standard & Poor's.

E. Office of Finance

The Office of Finance is a joint office of the 12 FHLBanks which issues consolidated obligations, as an agent on behalf of the FHLBanks. The Office of Finance also services all outstanding debt, serves as a source of information for the FHLBanks on capital market developments, manages the FHLBanks' relationships with rating agencies and prepares and distributes the combined annual and quarterly financial reports for the 12 FHLBanks.

The Office of Finance is governed by a board of directors, which consists of three part-time directors appointed by the Finance Board. Under current Finance Board regulations, two of these directors are presidents of FHLBanks and the third is a private citizen of the United States with a demonstrated expertise in financial markets. The private citizen director of the Office of Finance board of directors serves as its chairperson. The Finance Board has regulatory oversight and enforcement authority over the

Office of Finance and its directors and officers to the same extent as it has such authority over an FHLBank and its respective directors and officers. The FHLBanks are responsible for jointly funding the expenses of the Office of Finance.

The Finance Board amended its regulations governing the issuance of consolidated obligations, effective January 2, 2001. Through December 31, 2000, consolidated obligations were issued by the Finance Board through the Office of Finance under the authority of Section 11(c) of the Bank Act. The Bank Act provides that debt issued under Section 11(c) is the joint and several obligation of the 12 FHLBanks. The amended regulation authorizes the FHLBanks to issue consolidated obligations through the Office of Finance under the authority of Section 11(a) of the Bank Act. While the Bank Act does not impose joint and several liability on the FHLBanks for debt issued under Section 11(a), the Finance Board determined in the amended regulation that the same rules governing joint and several liability should apply whether consolidated obligations are issued by the Finance Board under Section 11(c) or by the FHLBanks under Section 11(a). Since January 2, 2001, the FHLBanks have issued consolidated obligations jointly through the Office of Finance under Section 11(a) of the Bank Act. No FHLBank is permitted to issue individual debt under Section 11(a) of the Bank Act without Finance Board approval.

In the most recent regulatory agenda issued by the Finance Board and published in the Federal Register on December 22, 2003, the regulatory considerations of the Finance Board for 2004 were identified as including efforts to: (1) enhance public disclosure by the FHLBanks as applied to the Securities Act of 1933 and the Securities Exchange Act of 1934; (2) strengthen FHLBank governance by boards of directors; and (3) enhance FHLBanks' anti-money laundering programs.

VIII. CAPITAL REQUIREMENTS

A. Pre-GLB Act - Prior Capital Structure

Prior to the enactment of the GLB Act in 1999, the Bank Act provided for a "subscription" capital structure for the FHLBanks. Under that structure, which remains in effect for each FHLBank until the effective date of its capital plan, a single class of capital stock is issued to members pursuant to a statutory formula. In accordance with that formula, each member is required to purchase stock in its FHLBank in an amount equal to the greater of (1) $500; (2) 1% of the mortgage loan principal on the member's balance sheet; or (3) 5% of FHLBank Advances outstanding to the member. The stock is redeemable by members that seek to withdraw from FHLBank Membership upon six months' prior written notice to the FHLBank. Upon Redemption, a member shall receive in cash the $100 par value it originally paid for the stock.

The pre-GLB Act version of the Bank Act did not prescribe specific capital requirements for the FHLBanks. However, the Finance Board, by regulation, has required the FHLBanks to comply with a leverage limit based on a ratio of each FHLBank's assets to its capital. This requirement generally provides that an FHLBank's total assets may not exceed 21 times its total capital. An FHLBank whose non-mortgage assets, after deducting deposits and capital, do not exceed 11% of its total assets is permitted to operate under a higher leverage limit such that its total assets may be up to 25 times its total capital. Each FHLBank computes the 11% limit on a monthly average basis. This leverage limit shall cease to apply to the FHLBank upon the Conversion Date of its Capital Plan, and the new GLB Act capital requirements shall apply to the FHLBank, provided that the FHLBank is, as of that date, in compliance with its minimum Regulatory Capital Requirements (as described below).

B. Post-GLB Act - New Capital Structure

1. *General*

The GLB Act amended the Bank Act and created statutory capital requirements for the FHLBanks. Under the GLB Act, the FHLBanks must satisfy two leverage-related capital requirements and a risk-based capital requirement. The Finance Board has issued regulations to apply uniform capital standards to the FHLBanks and to effectuate the new capital requirements. These new capital requirements, including any capital requirements imposed on an individual

FHLBank on a case-by-case basis by the Finance Board, are referred to herein as the "minimum Regulatory Capital Requirements" of the FHLBanks.

The GLB Act also provided for a more flexible and permanent capital structure for the FHLBanks by requiring each FHLBank to develop and implement a capital plan that, among other things, would replace the existing single-class capital stock with a new capital structure comprised of Class A stock, Class B stock or both. Class A stock is redeemable by members upon six months' prior written notice to the FHLBank. Class B stock is redeemable by members upon five years' prior written notice to the FHLBank. Both classes of stock may be issued, redeemed or Repurchased only at par value.

Under the GLB Act, the requirements regarding the purchase and retention of capital stock by a member of an FHLBank that were in effect on the day before the enactment of the GLB Act will generally remain in effect until an FHLBank implements a capital plan that has been approved by the Finance Board.

2. *Risk-Based Capital Requirement*

Under the risk-based capital requirement, an FHLBank must maintain permanent capital equal to the sum of its: (1) credit risk capital requirement; (2) market risk capital requirement; and (3) operations risk capital requirement. Permanent capital is defined as the FHLBank's retained earnings determined in accordance with GAAP, plus the amount paid-in for the FHLBank's Class B Common Stock. An FHLBank's credit risk capital requirement is determined by adding together the credit risk capital charges computed for assets, off-balance-sheet items and derivative contracts based on, among other things, the credit risk percentages assigned to such assets, items and contracts by the Finance Board. An FHLBank's market risk capital requirement is determined by adding together the market value of the FHLBank's portfolio at risk from movements in interest rates, foreign exchange rates, commodity prices and equity prices that could occur during times of market stress and the amount, if any, by which the FHLBank's current market value of total capital is less than 85% of the FHLBank's book value of total capital. Each FHLBank shall calculate the market value of its portfolio at risk and the current market value of its total capital by using either an internal market risk model or internal cash flow model approved by the Finance Board. The Finance Board approved the FHLBank's market risk model by letter dated April 21, 2003. An FHLBank's operations risk capital requirement is equal to 30% of the sum of its credit risk capital requirement and its market risk capital requirement, subject to a reduction with Finance Board approval to no less than 10% of the sum of its credit risk capital requirement and its market risk capital requirement.

For reasons of safety and soundness, the Finance Board may require an individual FHLBank to maintain a greater amount of permanent capital than is required by the risk-based capital requirement. The leverage-related and risk-based capital requirements are the FHLBank's minimum Regulatory Capital Requirements.

3. *Leverage-Related Capital Requirements*

An FHLBank must maintain total capital of at least 4% of the FHLBank's total assets, as determined in accordance with GAAP. Total capital is defined as an FHLBank's permanent capital, plus the amount paid in by the members for any Class A stock, any general allowance for losses, and the amount of any other instruments identified in an FHLBank's capital plan that the Finance Board has determined are available to absorb losses incurred by the FHLBank. Permanent capital is defined as the retained earnings of an FHLBank determined in accordance with GAAP, plus the amount paid in for an FHLBank's Class B stock. For reasons of safety and soundness, the Finance Board may require an individual FHLBank to maintain a greater amount of total capital than the 4% of total assets requirement.

An FHLBank must also maintain a weighted ratio of total capital to total assets of at least 5%. For purposes of determining this weighted ratio, leverage capital is computed by multiplying the FHLBank's permanent capital by 1.5 and adding to this product all other components of total capital.

IX. DESCRIPTION OF THE FHLBANK'S CAPITAL PLAN

A. Background

The GLB Act and Finance Board regulations require the FHLBanks to adopt capital plans that, when implemented, provide them with sufficient capital to meet their Minimum Regulatory Capital Requirements. Each capital plan must include, among other things, provisions relating to the minimum investment required of each member, the classes of stock to be offered by an FHLBank (Class A, Class B or both), the rights, terms, and preferences associated with each class of stock, the criteria for the Redemption, Repurchase and transfer of FHLBank stock, and the disposition of FHLBank stock held by institutions that withdraw from Membership.

The new minimum Regulatory Capital Requirements do not become effective with respect to an FHLBank until the effective date of its capital plan.

B. Development of the FHLBank's Capital Plan

Following the adoption of Finance Board regulations implementing the capital plan provisions of the GLB Act, management of the FHLBank analyzed various possible capital structures that would meet the new standards and the needs of its Members. The FHLBank conducted a broad communications program to ensure that Members were informed of the general timeline for adoption of the Capital Plan, of the specific Member stock purchase requirements and of how the new Capital Plan would likely impact each Member.

The FHLBank developed its original Capital Plan during 2001 and into 2002. The FHLBank's original Capital Plan was adopted by the FHLBank's Board of Directors on July 2, 2002, and approved by the Finance Board on July 10, 2002. In connection with the original Capital Plan, the FHLBank announced a conversion date of September 30, 2003, and issued an *Information Statement for Capital Conversion* dated May 12, 2003. However, because of issues encountered during the development of the capital stock software system and other related mission critical systems necessary for the implementation of the new Capital Plan, the FHLBank determined that it would not be possible to meet the September 30, 2003, conversion date and elected to delay the conversion date.

Subsequent to the delay of the conversion date, the FHLBank decided to amend its original Capital Plan in light of strategic changes made in the FHLBank's 2004 Strategic Business Plan. The FHLBank's Capital Plan was amended to closely align and support the FHLBank's long-term strategy of enhancing profitability through increasing the proportion of its balance sheet invested in residential mortgage assets. When the original Capital Plan was developed, it was based on the premise that each Member should capitalize the assets and risks it was responsible for putting on the FHLBank's balance sheet. This premise permeated every aspect of the original Capital Plan. While this approach provides significant comfort that the FHLBank will always maintain sufficient capital to meet its capital requirements, it is also a significant disincentive for some Members to do business with the FHLBank, especially in the MPF Program. A key for an FHLBank to enhance profitability is increasing the degree of concentration of an FHLBank's balance sheet in mortgage assets. Generally, the higher the concentration of mortgage assets on an FHLBank's books, the higher the FHLBank's return on average equity (ROE). Imposing a relatively high stock requirement on MPF Program assets as was contemplated in the self-capitalizing, cooperative premise of the original Capital Plan has a negative impact on the growth of these assets.

The most significant conceptual change in the amended Capital Plan is the reliance on Excess Capital Stock to capitalize long-term assets. This adds a risk dimension that arguably doesn't exist in the original version of the Capital Plan. If a disproportionate number of Members seek to redeem their Excess Capital Stock at the same time, the FHLBank will be unable to immediately repurchase those shares and will possibly not be able to redeem the shares even when the Redemption periods expire. To the extent that the capital is needed for the FHLBank to meet its Minimum Regulatory Capital Requirements, FHLBank will be prohibited from repurchasing or redeeming Capital Stock.

While there were other changes, the following were the more significant changes to the FHLBank's Capital Plan from the original to amended version:

- Asset-Based Stock Requirement: Allow the Asset-Based Stock Requirement (membership requirement) to offset the Activity-Based Stock Requirement. Increase the initial stock requirement for membership from 0.1 percent to 0.2 percent of assets and raise the initial cap on membership stock from $500,000 to $1 million. [See sections 7.a.1, 7.a.3 and 7.b. of the Capital Plan included as Appendix A.]
- Activity-Based Stock Requirement: Increase the initial stock requirement for advances from 4.5 percent to 5.0 percent. Reduce the initial stock requirement for Acquired Member Assets (AMA or MPF Program) from 5.0 percent to 2.0 percent, the initial stock requirement for letters of credit from 0.5 percent to zero percent and the initial stock requirement for exchange agreements from 2.0 percent to zero percent. Incorporate a cap on the Activity-Based Stock Requirement for AMA at 1.5 percent of a Member's total assets. [See sections 7.b.1, 7.b.2, 7.b.3 and 7.b.4 of the Capital Plan included as Appendix A.]
- Voluntary Exchanges: Allow exchanges from either Class A Common Stock to Class B Common Stock or from Class B Common Stock to Class A Common Stock at the request of a Member, subject to FHLBank discretion. [See sections 12.d. and 12.e. of the Capital Plan included as Appendix A.]
- Excess Stock on Conversion: Provide that all stock beyond what is required for Class A Common Stock and for Class B Common Stock be converted to Class B Common Stock rather than Class A Common Stock upon conversion to the new Capital Plan. [See section 14.b. of the Capital Plan included as Appendix A.]

The FHLBank made a number of presentations to Members on the original and amended Capital Plan in which the rights, terms and preferences of Class A Common Stock and Class B Common Stock were clearly explained. The presentations also addressed the design of the original and amended Capital Plan; the Minimum Stock Purchase Requirement; Redemption, Repurchase and Exchange of Stock; the timeline for implementation of the Capital Plan and the consequences of implementation of the Capital Plan.

Additionally, the FHLBank worked to inform Members of the Capital Plan through a multitude of activities including: individual briefings for the FHLBank's six largest borrowers; presentations at customer appreciation events in the four states comprising the Tenth District; and the publication of periodic articles on the Capital Plan in the FHLBank's publications for its Members.

On April 9, 2004, the FHLBank's Board of Directors adopted the Capital Plan. The Capital Plan was then submitted to the Finance Board and approved on April 14, 2004.

C. Conversion and Purchase of Capital Stock on the Conversion Date

The Conversion Date of the Capital Plan is September 30, 2004. At the close of business on September 30, 2004, each outstanding share of existing FHLBank stock held by Members that do not opt out of the conversion shall be converted, on a share-per-share basis, into Class A Common Stock up to the amount equal to the minimum Asset-Based Stock Purchase Requirement, calculated on the Conversion Date. Additional shares of existing stock that a Member holds beyond the Asset-Based Stock Purchase Requirement following conversion to Class A Common Stock shall be converted into Class B Common Stock on a share-per-share basis. A Member that was a Member of the FHLBank on or before November 12, 1999 ("Pre-1999 Member"), and needs to purchase additional shares of Capital Stock to comply with either the Asset-Based Stock Purchase Requirement or the Activity-Based Stock Purchase Requirement at the time of conversion will have 90 calendar days to purchase the additional required Capital Stock. Pre-1999 Members wishing to avail themselves of the 90-calendar-day period to purchase the additional Capital Stock must provide written notice to the FHLBank at least 30 days prior to the Conversion Date. A Pre-1999 Member, however, must purchase sufficient Capital Stock to meet its Minimum Stock Purchase Requirement prior to engaging, after the Conversion Date, in any Advances or AMA activity, both of which are subject to the Activity-Based Stock Purchase Requirement.

All Members that became Members after November 12, 1999 ("Post-1999 Members") and those Pre-1999 Members that fail to properly exercise the 90-day option must purchase all required Capital Stock on the Conversion Date. The FHLBank will make such required purchases on behalf of such Members by debiting each such Member's demand deposit account on the Conversion Date in an amount equal to the par value of the Capital Stock necessary to bring the Member into compliance with the Minimum Stock Purchase Requirement.

Under the Capital Plan, a Member that does not wish to convert its existing stock into Capital Stock must file a written notice of withdrawal from Membership to the Finance Board at Federal Housing Finance Board, 1777 F Street, N.W., Washington, D.C. 20006, or by facsimile transfer to the Finance Board at 202-408-2995 on or before August 31, 2004, the Opt Out Date. The notice of withdrawal must also be filed with the FHLBank no later than the date it is filed with the Finance Board.

The Membership of a Member that opts out of the conversion shall terminate on the earlier of the Conversion Date or six months from the date of notice of withdrawal (the "Termination Date"). At the Termination Date, the FHLBank shall cancel each currently outstanding share of existing stock held by the Member on the date the Membership terminates, and pay the Member cash equal to the par value of such cancelled shares provided that the FHLBank, after such cancellation, shall remain in full compliance with its minimum Regulatory Capital Requirement. The Capital Plan requires Members that continue to hold Advances after the Termination Date to continue to hold either Class A Common Stock or Class B Common Stock, at the discretion of the FHLBank, to capitalize such Advances. For a discussion of the Activity-Based Stock Purchase Requirement for former Members maintaining Advance activity, see "Termination of Membership" on page 30.

Any Member that fails to provide the Finance Board and the FHLBank with written notice on or before the Opt Out Date of its intent to withdraw from Membership shall have its existing stock converted under the terms of the Capital Plan. For any such Member that submits its written notice of withdrawal after the Opt Out Date, the applicable stock Redemption period shall commence on the date the Member first submitted its written notice of withdrawal to the Finance Board. The Member must retain sufficient Class A Common Stock to meet the minimum Asset-Based Stock Purchase Requirement for the duration of the six-month Redemption period and must retain sufficient Class A Common Stock or Class B Common Stock for the duration of any activity creating an Activity-Based Stock Purchase Requirement. The effective date of the withdrawal will be the date on which the applicable Stock Redemption period ends relative to that Member's Class A Common Stock.

After conversion of Members' existing stock to Capital Stock on the Conversion Date, the FHLBank shall cancel all shares of existing stock outstanding prior to the Conversion Date.

D. Minimum Stock Purchase Requirement

1. *General*

The Capital Plan is designed to provide the FHLBank with sufficient capital to meet its minimum Regulatory Capital Requirements. Toward this end, the Capital Plan requires that Members purchase and maintain a minimum amount of Capital Stock. On the Conversion Date, each Member shall acquire, by conversion or purchase, and subsequently maintain a certain minimum amount of Capital Stock based on the Asset-Based Stock Purchase Requirement and the Activity-Based Stock Purchase Requirement. The Capital Plan contains certain ranges, which are discussed more fully below, within which the FHLBank may alter the Asset-Based or Activity-Based Stock Purchase Requirements. The FHLBank may also change these requirements outside of these ranges by obtaining Finance Board approval of an amendment to the Capital Plan.

2. *Asset-Based Stock Purchase Requirement*

The Asset-Based Stock Purchase Requirement shall be satisfied by each Member for the duration of its Membership and is based on the most recent end-of-year regulatory reports filed by a Member with its primary regulator. Each Member shall acquire and maintain an amount of

Class A Common Stock having a cumulative par value equal to a specified percentage of the Member's total assets as of December 31 of the preceding calendar year subject to minimum and maximum dollar amounts. After the Conversion Date, the Board of Directors of the FHLBank has the right to adjust the specified percentage and the maximum Asset-Based Stock Purchase Requirement from time to time. The Asset-Based Stock Purchase Requirement may permissibly fall within a range of not less than one-tenth of one percent (0.1%) and not greater than four-tenths of one percent (0.4%) of the Member's total assets. The maximum Asset-Based Stock Purchase Requirement may permissibly fall within a range of not less than five hundred thousand dollars ($500,000) and not greater than two and one-half million dollars ($2,500,000).

At the Conversion Date, the specified percentage of the Member's total assets shall be two-tenths of one percent (0.2%), the minimum Asset-Based Stock Purchase Requirement shall be one thousand dollars ($1,000) and the maximum Asset-Based Stock Purchase Requirement shall be one million dollars ($1,000,000).

3. *Activity-Based Stock Purchase Requirement*

The Activity-Based Stock Purchase Requirement shall be acquired by each Member as a condition of doing business with the FHLBank and maintained as long as the Member's activity with the FHLBank imposes such Activity-Based Stock Purchase Requirement. Each Member shall acquire, by exchange or purchase, and maintain an amount of Class B Common Stock having a cumulative par value equal to an amount determined according to the level of engagement by the Member in activities that are subject to the requirement less the Member's Asset-Based Stock Purchase Requirement. After the Conversion Date, the Board of Directors of the FHLBank has the right to adjust the percentages set forth in the Capital Plan with respect to certain activities. Upon a Member's engagement in an activity requiring the acquisition of Class B Common Stock pursuant to the Capital Plan, the FHLBank will (1) exchange the Member's Excess Class A Common Stock, if any, into a like number of shares of Class B Common Stock sufficient to meet the Activity-Based Stock Purchase Requirement, and then (2) debit the Member's demand deposit account for any additional shares of Class B Common Stock sufficient to meet the Activity-Based Stock Purchase Requirement.

The following gives a summary of the initial requirements and permissible ranges for activities subject to the Activity-Based Stock Purchase Requirement:

(a) Advances.

The amount of Class A Common Stock or Class B Common Stock required to support Advance activity is determined each time the Member is issued a new Advance and must be satisfied when the Advance is made. The initial requirement for Advances is an amount equal to five percent (5.0%) of the principal amount of Advances outstanding to the Member. As provided in the Capital Plan and at the discretion of the FHLBank's Board of Directors, the amount of a Member's Activity-Based Stock Purchase Requirement based on the Member's Advance activity may permissibly be adjusted within a range of not less than four percent (4.0%) and not greater than six percent (6.0%) of the principal amount of Advances outstanding to the Member.

(b) Acquired Member Assets ("AMA").

The amount of Class A Common Stock or Class B Common Stock required to support AMA activity is determined at the time the AMA activity is funded by the FHLBank or purchased from the Member. The initial requirement for AMA, including loans from the MPF Program is an amount equal to two percent (2.0%) of the current outstanding principal balance of AMA originated by or through the Member and acquired by the FHLBank, subject to a maximum AMA requirement of one and one-half percent (1.5%) of the member's total assets as of December 31 of the prior calendar year. As provided in the Capital Plan and at the discretion of the FHLBank's Board of Directors, the amount of a Member's Activity-Based Stock Purchase Requirement based on AMA may permissibly be adjusted within a range from zero percent (0.0%) to not greater than six percent (6.0%) of the current outstanding principal balance of AMA originated by or through the Member and acquired by the FHLBank. The maximum AMA required may permissibly fall within a range from one percent (1.0%) to three percent (3.0%) of the member's total assets as of December 31 of the prior year.

(c) Letters of Credit.

The amount of Class A Common Stock or Class B Common Stock required to support letter of credit activity is determined each time a new letter of credit is issued and must be satisfied when the letter of credit is issued. The initial requirement is an amount equal to zero percent (0%) of the principal amount of letters of credit outstanding at the request of the Member. As provided in the Capital Plan and at the discretion of the FHLBank's Board of Directors, the amount of a Member's Activity-Based Stock Purchase Requirement based on letters of credit may permissibly be adjusted within a range from zero percent (0.0%) to not greater than one percent (1.0%) of the principal amount of letters of credit outstanding at the request of that Member.

(d) Interest Rate Exchange Agreements.

The amount of Class A Common Stock or Class B Common Stock required to support interest rate exchange agreements is determined each time the Member enters into a new interest rate exchange agreement or transaction and must be satisfied when the new interest rate exchange agreement or transaction is effective. The initial requirement is an amount equal to zero percent (0%) of the notional principal of the outstanding interest rate exchange agreements with the Member. As provided in the Capital Plan and at the discretion of the FHLBank's Board of Directors, the amount of a Member's Activity-Based Stock Purchase Requirement based on interest rate exchange agreements may permissibly be adjusted within a range from zero percent (0%) to not greater than two percent (2.0%) of the notional principal of the outstanding interest rate exchange agreements with that Member.

E. Excess Stock Investment

A Member may hold Capital Stock in excess of its Minimum Stock Purchase Requirement ("Excess Stock") to the extent it has the legal authority under applicable statutes and regulations, subject to the following:

1. *Repurchase*

The FHLBank, at its sole discretion may develop a Repurchase program as to Excess Stock held by its Members based on an objective formula and applied to all Members equally. Prior to repurchasing Excess Stock on its own initiative, the FHLBank will provide a Member not less than five business days' written notice of its intent to Repurchase Excess Stock. Upon the written Redemption request of a Member, the FHLBank may, at its sole discretion before the end of the applicable Redemption period, Repurchase from that Member shares of Class A Common Stock exceeding the Asset-Based Stock Purchase Requirement or shares of Class B Common Stock exceeding the Activity-Based Stock Purchase Requirement provided, in either case, that the FHLBank will continue to meet its minimum Regulatory Capital Requirements after the Repurchase. On each written Redemption request from a Member, the FHLBank will notify the Member within five (5) Business Days of the FHLBank's receipt of the written Redemption request if the FHLBank does not intend to Repurchase or cannot Repurchase the Class A Common Stock and/or Class B Common Stock that is the subject of the Redemption request. The date of such notification by the FHLBank will not affect the commencement of the Redemption periods, which begins on the date the written Redemption request is received by the FHLBank. Subject to a Member's outstanding written Redemption request that is not in connection with a notice of withdrawal and is not repurchased by the FHLBank within the first five business days of the receipt of a Member's written Redemption request, the FHLBank will provide a Member not less than one business day's written notice of its intent to make such Repurchase at any time prior to the end of the applicable Redemption period.

2. *Exchange*

The FHLBank, at its sole discretion, may elect to Exchange all or a portion of Excess Class B Common Stock held by Members for Class A Common Stock at any time the FHLBank determines that Members hold Excess Stock. Such an Exchange only may occur if the FHLBank's capital levels will equal or exceed its Regulatory Capital Requirements after such an Exchange. Prior to an Exchange other than under a regular exchange program (see below), the FHLBank will provide a Member not less than five business days' written notice. An Exchange may occur pursuant to a regular exchange program established by the FHLBank, at its sole discretion, with thirty calendar days' written notice to Members prior to the first scheduled Exchange. If the FHLBank will not Exchange all Excess Stock of a Member or changes the interval of a regular Exchange program the FHLBank shall provide not less than five business days written notice of such intent. A Member may direct the FHLBank to pay cash to the Member in lieu of Class A Common Stock in any such Exchange by giving the FHLBank written notice more than 30 calendar days prior to the Exchange. One such notice will serve to direct the FHLBank to pay cash in lieu of Class A Common Stock for all future Exchanges until the Member provides a written request to terminate the directive and the FHLBank, in its sole discretion, allows such directive to be terminated.

At the request of a Member through a written Exchange request submitted to the FHLBank, the FHLBank may, in its discretion, issue to a Member shares of Class B Common Stock in Exchange for shares of Class A Common Stock that exceed the Member's Asset-Based Stock Purchase Requirement, provided that the FHLBank will continue to meet its minimum Regulatory Capital Requirements after the Exchange. Likewise, at the request of a Member through a written Exchange request submitted to the FHLBank, the FHLBank may, in its discretion, issue to a Member shares of Class A Common Stock in Exchange for shares of Class B Common Stock that exceed the Member's Activity-Based Stock Purchase Requirement, provided that the FHLBank will continue to meet its minimum Regulatory Capital Requirements after the Exchange. The FHLBank will notify the Member within five (5) Business Days of the receipt of the written Exchange request if the FHLBank intends to deny the request. Any such Exchange request that is denied by the FHLBank becomes null and void, with the FHLBank under no obligation to warehouse such requests in the event that it should decide to accept and process Exchange requests at some time in the future. Absent FHLBank notification of its intent to deny the Member's written Exchange request within five (5) Business Days of the receipt of the written Exchange request, the FHLBank will exchange such stock subject to the written Exchange request.

Upon any Exchange of one Class of Capital Stock for the other Class of Capital Stock (Class A Common Stock for Class B Common Stock or vice versa), where a written Redemption request is outstanding for the Class of Capital Stock to be exchanged, the Redemption request is cancelled without a fee to the extent of the Exchange. In the case that the Exchange is only for a portion of the Class of Capital Stock subject to an outstanding written Redemption request, the Redemption request will continue for the remaining portion of Capital Stock not exchanged.

3. *Redemption*

A Member may, at its discretion, request a Redemption of Capital Stock by providing a letter or other business writing, signed by an officer of the Member, sent by certified mail, return receipt requested, to the FHLBank's Accounting department at, FHLBank of Topeka, One Security Benefit Place, Suite 100, Topeka, Kansas 66606-0176, or by facsimile transfer to the FHLBank's Accounting department at 785-234-1779. A Member may request Redemption of some or all of its Capital Stock in accordance with the redemption terms of the Capital Plan. A Member may not have pending more than one Redemption request for the same share of Capital Stock at any one time. The six-month or five-year Redemption periods commence upon the receipt of written notice that specifies the number of shares to be redeemed. On each written

Redemption request from a Member, the FHLBank will notify the Member within five (5) Business Days of the FHLBank's receipt of the written Redemption request if the FHLBank does not intend to Repurchase or cannot Repurchase the Class A Common Stock and/or Class B Common Stock that is the subject of the Redemption request. The date of such notification by the FHLBank will not affect the commencement of the Redemption periods, which begin on the date the written Redemption request is received by the FHLBank. Subject to a Member's outstanding written Redemption request that is not in connection with a notice of withdrawal and is not repurchased by the FHLBank within the first five business days of the receipt of a Member's written Redemption request, the FHLBank will provide a Member not less than one business days' written notice of its intent to make such Repurchase at any time prior to the end of the applicable Redemption period. The FHLBank may, in its sole discretion, elect to Repurchase any and all Excess Class A Common Stock and/or Excess Class B Common Stock that is the subject of the Redemption request. The FHLBank intends to Repurchase Excess Stock subject to a written Redemption request when it will meet the capitalization needs of the FHLBank. In the event that multiple Redemption requests are pending, the FHLBank may, in its sole discretion, elect to Repurchase Excess Stock on a prorated basis or according to the order in which the Redemption requests were received by the FHLBank, or according to another allocation method as necessary to maintain ongoing compliance with its minimum Regulatory Capital Requirements and the Finance Board's capital regulations. A written request by a Member (whose Membership has not been terminated) to redeem Capital Stock shall automatically be cancelled if the FHLBank is prevented from redeeming the Member's Capital Stock because such Redemption would cause the Member to fail to meet its Minimum Stock Purchase Requirement. The effective date of an automatic cancellation shall be five business days after the expiration of the applicable Redemption period.

On any day that the sum of all requested Redemptions maturing on that day equals or exceeds an amount that would cause the FHLBank to fall below its minimum Regulatory Capital Requirements, Redemptions will be suspended until either those requests can be honored in full or the Board establishes *pro rata R*edemption procedures.

4. *Cancellation of Redemption*

In the event a Member, having previously notified the FHLBank in writing of its intent to redeem some or all of its Capital Stock, wishes to cancel its Redemption request before the completion of the applicable Redemption period, it may elect to do so by providing written notice in the form of a letter or other business writing, signed by an officer of the Member, sent by certified mail, return receipt requested, to the FHLBank's Accounting department at FHLBank Topeka, One Security Benefit Place, Suite 100, Topeka, Kansas 66606-0176, or by facsimile transfer to the FHLBank's Accounting department at 785-234-1779, notifying the FHLBank of its intent to cancel its Redemption request. The FHLBank will impose a Redemption cancellation fee on any Member that either voluntarily or involuntarily cancels its Redemption request (provided, however, the FHLBank may waive the fee for a *bona fide* business purpose consistent with Section 7(j) of the Bank Act). The Redemption cancellation fee is 1% of the par value of Class A Common Stock plus an increasing percentage of the par value of Class B Common Stock equal to 1% if cancelled in the first year of the Redemption period, 2% if cancelled in the second year, 3% if cancelled in the third year, 4% if cancelled in the fourth year and 5% if cancelled in the fifth year. Following receipt of the Redemption cancellation notice, the FHLBank will notify the Member of the cancellation fee amount.

5. *Limitations on Redemption*

The FHLBank's ability to redeem Capital Stock is subject to a number of contingencies. Accordingly, there can be no assurance that a Member's shares of Capital Stock subject to a written Redemption request will, in fact, be redeemed at the expiration of the applicable stock Redemption period. The potential limitations on Redemption are as follows:

(a) In order to qualify for Redemption upon the expiration of the applicable stock Redemption period, the shares subject to the Redemption request must be shares that are held in excess of the Member's Minimum Stock Purchase Requirement at that time. If Redemption of such shares would be prevented for five business days following the expiration of the stock Redemption period because the Member would not meet its Minimum Stock Purchase Requirement following the Redemption, the stock Redemption request applicable to such shares shall be automatically cancelled and the Member will be subject to a Redemption cancellation fee.

(b) The FHLBank may not redeem shares if, following such a Redemption, it would not be in compliance with each of its minimum Regulatory Capital Requirements.

(c) Approval from the Finance Board for the Redemption of shares would be required if the Finance Board or the Board of Directors of the FHLBank determined that the FHLBank has incurred, or is likely to incur, losses that result in, or are likely to result in, charges against the capital of the FHLBank. Under such circumstances, there can be no assurance that the Finance Board would grant such approval or, if it did, upon what terms it might do so.

(d) The FHLBank may, subject to certain conditions, determine to suspend Redemption if it reasonably believes that such Redemption would cause the FHLBank to fail to meet any of its minimum Regulatory Capital Requirements, would prevent the FHLBank from maintaining adequate capital against potential risks that are not adequately reflected in its minimum Regulatory Capital Requirements or would otherwise prevent the FHLBank from operating in a safe and sound manner.

(e) The FHLBank may not redeem shares if the principal or interest due on any consolidated obligations issued through the Office of Finance, whether issued by the FHLBank or any of the 11 other FHLBanks, has not been paid in full.

(f) The FHLBank may not redeem shares if it fails to provide the Finance Board quarterly certification required by section 966.9(b)(1) of the Finance Board's rules prior to declaring or paying dividends for a quarter.

(g) The FHLBank may not redeem shares if it is unable to provide the required certification, projects that it will fail to comply with statutory or regulatory liquidity requirements or will be unable to timely and fully meet all of its obligations, actually fails to satisfy these requirements or obligations, or negotiates to enter or enters into an agreement with another FHLBank to obtain financial assistance to meet its current obligations.

6. *Limitations on Repurchase*

The FHLBank's ability to Repurchase Excess Stock is subject to a number of contingencies. Specifically, the FHLBank may not Repurchase Excess Stock if (1) following any such Repurchase, the FHLBank would not be in compliance with its minimum Regulatory Capital Requirements; (2) a determination has been made by the Finance Board or the Board of Directors of the FHLBank that the FHLBank has incurred, or is likely to incur, losses that result in, or are likely to result in, charges against the capital of the FHLBank, unless the FHLBank has obtained approval from the Finance Board for such Repurchase; (3) the FHLBank has suspended Redemption and the Finance Board has not approved the FHLBank's Repurchase of Excess Stock during the period such suspension is in effect; or (4) if the FHLBank becomes a non-complying FHLBank for failure to meet its regulatory requirements for Repurchases as provided for Redemptions in 5(e) through 5(g) above.

7. *Limitations on Exchange*

The FHLBank's ability to Exchange Excess Stock is subject to its continuing to satisfy all minimum regulatory capital requirements set forth in the Bank Act and Finance Board rules. The FHLBank retains full discretion as to whether it will honor any written Exchange request for Exchange of Excess stock received from a Member, and there can be no guarantee that such Exchange requests will be honored at any time.

F. Changes in Minimum Stock Purchase Requirements

In order to maintain prudent and ongoing compliance with Finance Board regulations and to ensure that the Capital Stock required to be acquired and maintained by Members is sufficient to allow the FHLBank to comply with its minimum Regulatory Capital Requirements, the Board of Directors of the FHLBank shall review the Capital Plan at least annually to determine whether adjustments are required.

Each Member is required to comply with any changes adopted in the FHLBank's Capital Plan, including any adjustments made by the FHLBank's Board of Directors that may lead to an increase in a Member's Minimum Stock Purchase Requirement. In order to effectuate the sale of additional Capital Stock required due to such changes in terms, the FHLBank is authorized to issue Capital Stock in the name of a Member and to withdraw appropriate payment from the Member's demand deposit account(s) with the FHLBank.

Upon notification of a change in the Asset-Based Stock Purchase Requirement and/or the Activity-Based Stock Purchase Requirement, a Member shall have 60 calendar days from the notification date to comply with the new Minimum Stock Purchase Requirement. A Member will not be allowed to engage in any new activity subject to an Activity-Based Stock Purchase Requirement above zero percent (0.0%) with the FHLBank during the 60-day period until it has complied with the new requirements. For each Member that is not in compliance with the new Minimum Stock Purchase Requirement at the end of the 60 day period, the FHLBank will (1) Exchange Excess Stock into a like number of shares of Class A Common Stock or Class B Common Stock to enable the Member to meet its new Minimum Stock Purchase Requirement, and (2) purchase such amount of Class A Common Stock and/or Class B Common Stock necessary to bring the Member into compliance by debiting the Member's demand deposit account(s) with the FHLBank.

G. Termination of Membership

The following terms pertain to the termination of Membership in the FHLBank.

1. *Voluntary Withdrawal*

After September 30, 2004, the following terms and conditions will apply to a Member that elects to withdraw from Membership. A Member may withdraw from Membership by providing the FHLBank a letter or other business writing, signed by an officer of the Member, sent by certified mail, return receipt requested, to the FHLBank's Accounting department at the FHLBank's home office. A Member that voluntarily withdraws from Membership may not rejoin an FHLBank for a period of five years from the date its Membership is terminated and it divests all shares of FHLBank stock. A Member may cancel its notice of withdrawal at any time prior to its effective date by providing the FHLBank similar written notice of such cancellation. The FHLBank will impose a fee on a Member that cancels a notice of withdrawal (provided, however, that the FHLBank may waive the fee for a *bona fide* business purpose consistent with Section 7(j) of the Bank Act). The withdrawal cancellation fee is the same fee that is in effect for Redemption request cancellations.

The receipt by the FHLBank of written notice of withdrawal commences upon the date of receipt of the Redemption period applicable to the Capital Stock held by the Member. The effective date of the withdrawal will be the date on which the applicable stock Redemption period ends relative to that Member's Class A Common Stock, unless the Member has cancelled its notice of withdrawal prior to that date. The Member shall continue to retain sufficient Class A Common Stock to meet its Asset-Based Stock Purchase Requirement until the six-month Redemption period has passed, at which time the FHLBank may, at its discretion, exchange such Class A Common Stock for Class B Common Stock in an amount sufficient to meet the former Member's Activity-Based Stock Purchase Requirement and/or, to the extent such Class A Common Stock is Excess Stock and not necessary to meet the former Member's Activity-Based Stock Purchase Requirement, redeem such Class A Common Stock at par and for cash by crediting the former Member's demand deposit account, in accordance with the terms of the Capital Plan and Finance Board regulations. Such withdrawing Member shall continue to retain sufficient Class A Common Stock or Class B Common Stock to meet its Activity-Based Stock Purchase Requirement in effect on the effective date of withdrawal for as long as any activity creating an Activity-Based Stock Purchase Requirement remains outstanding. Upon the completion of such activity, the FHLBank will, if the applicable Redemption period has expired, redeem such former Member's outstanding Excess Class B Common Stock at par and for cash by crediting the former Member's demand deposit account in accordance with the terms of the Capital Plan and Finance Board regulations, provided the FHLBank will continue to meet its Regulatory Capital Requirements after the Redemption. If the applicable Redemption period has not expired, the FHLBank may allow the Redemption period to proceed, or, at its discretion, Repurchase such former Member's outstanding Excess Stock at par and for cash by crediting the former Member's demand deposit account, provided that the FHLBank will continue to meet its Regulatory Capital Requirements after the Repurchase.

In the case of a Member whose Membership has been terminated as a result of a merger or other consolidation into a non-Member or a Member of another FHLBank, the Redemption period for any Capital Stock that is not already subject to a pending request for Redemption shall be deemed to commence on the date on which the charter of the former Member is cancelled.

No Member may withdraw from Membership unless, on the date the Membership is terminated, there is in effect a certification from the Finance Board that the withdrawal of a Member will not cause the FHLBank System to fail to satisfy its obligation to make payments to REFCORP. However, the Finance Board has established a "standing" certification, which will remain in effect until rescinded or superseded by the Finance Board, providing that a Member's withdrawal will not affect an FHLBank's REFCORP obligation.

2. *Involuntary Terminations*

The Board of Directors of the FHLBank has the right to terminate the Membership of any Member that: 1) fails to comply with any requirement of the Bank Act, Finance Board regulations, or the Capital Plan; 2) becomes insolvent or otherwise is subject to the appointment of a conservator, receiver or other legal custodian under federal or state law; or 3) acts in a manner that would jeopardize the safety and soundness of the FHLBank if it were to remain a Member. The Redemption period for all Capital Stock owned by the Member and not already subject to a pending request for Redemption shall commence on the date the FHLBank terminates the institution's Membership. During the applicable redemption period following involuntary termination, the FHLBank will not redeem Class A Common Stock or Class B Common Stock that the former Member is required to hold to fulfill the Activity-Based Stock Purchase Requirement and the former Member is entitled to receive dividends declared during the applicable period, but is not entitled to any other rights or privileges accorded to Members. A Member whose Membership is terminated may not rejoin an FHLBank for a period of five years from the date its Membership is terminated and it divests all shares of FHLBank stock.

H. Rights Upon Withdrawal, Liquidation, Consolidation or Merger of the Member

1. *Liquidation of Capital Stock*

Any former Member that has withdrawn from Membership on or before the Conversion Date, but continues to hold existing stock to support Advances the FHLBank has agreed to liquidate after the termination of Membership, shall have its shares of existing stock converted into Class B Common Stock on the Conversion Date, but thereafter, need only comply with the Activity-Based Stock Purchase Requirement for Advances. Any such former Member shall hold Class A Common Stock or Class B Common Stock, at the discretion of the FHLBank, sufficient to comply with the Activity-Based Stock Purchase Requirement during the period of liquidation.

2. *Liquidation of Indebtedness*

The FHLBank will liquidate any indebtedness of any former Member that has withdrawn from Membership prior to the Conversion Date according to the contractual agreement between the FHLBank and such former Member with respect to such indebtedness.

3. *Consolidation or Merger of the Member*

Upon a merger or consolidation of two Members operating under the charter of one of the merging and consolidating institutions, the surviving institution shall continue and the Membership of the disappearing institution shall terminate on the cancellation of its charter. In such an instance where two or more of the institutions are members of different FHLBanks, if more than eighty percent (80%) of the assets of the surviving institution are derived from the assets of the disappearing institution, then the surviving institution shall continue to be a member of the FHLBank where the disappearing institution was a member.

In the case of an institution terminating Membership upon the merger or consolidation into a non-member institution or into a member of another FHLBank, the applicable Redemption periods commence on the date on which the charter of the former Member is cancelled.

I. Amendments to the Capital Plan

Any modifications to the Capital Plan shall require an amendment to the Capital Plan by the Board of Directors of the FHLBank and approval from the Finance Board.

X. DESCRIPTION OF CAPITAL STOCK

A. Voting Rights - Election of Directors

Voting rights in regard to the election of directors are set forth in 12 C.F.R. Section 915. Each Member is eligible to vote for the number of open elected director seats in the state in which its principal place of business is located. Each Member shall be entitled to cast one vote for each share of Class A Common Stock that the Member was required to hold as of the record date and one vote for each share of Class B Common Stock that the Member was required to hold as of the record date; except that, the number of votes that each Member may cast for each directorship shall not exceed the average number of shares for Class A Common Stock and Class B Common Stock, calculated separately, that were required to be held by all Members located in that state on the record date. There are no voting preferences for any share of Capital Stock.

B. Par Value

The par value of Capital Stock is $100 per share. Capital Stock is issued, redeemed and repurchased at par value.

C. Ownership of Retained Earnings

The holders of Class B Common Stock have an ownership interest in the retained earnings, surplus, undivided profits and equity reserves, if any, of the FHLBank, but shall have no right to receive any portion of these items, except through the declaration of a dividend or capital distribution approved by the FHLBank's Board of Directors or through liquidation of the FHLBank. Such ownership interest shall not preclude the FHLBank from paying dividends to Class A Common Stock holders from retained earnings or adversely impact the right of Class A Common Stock holders to receive certain liquidating distributions.

D. Limitations

The FHLBank may issue Capital Stock only in accordance with its Capital Plan and the capital regulations adopted by the Finance Board. The FHLBank may issue Capital Stock only to Members, and generally only Members may hold Capital Stock.

E. Transfer of Stock

Stock may be traded only between the FHLBank and its Members. A Member may not transfer any Stock to any other person or entity, including another Member; provided, however, that in the event of a merger or consolidation of two or more Members the Stock of the disappearing Member or Members shall be transferred by the FHLBank to the surviving or consolidated Member.

F. Dividends

The FHLBank's Board of Directors may, at its discretion and in accordance with the Bank Act and applicable Finance Board regulations, declare and pay non-cumulative dividends expressed as a percentage rate per annum based upon the par value of Capital Stock on shares of Class A Common Stock outstanding and on shares of Class B Common Stock outstanding in either cash or stock. The Board of Directors cannot declare a dividend if: (1) the FHLBank's capital position is below its minimum Regulatory Capital Requirement; (2) the FHLBank's capital position will be below its minimum Regulatory Capital Requirements after paying the dividend; (3) the principal or interest due on any consolidated obligation has not been paid in full; 4) the FHLBank fails to provide the Finance Board quarterly certification prior to declaring or paying dividends for a quarter; or (5) the FHLBank fails to provide notification upon its inability to provide such certification or upon a projection that it will fail to comply with statutory or regulatory liquidity requirements or will be unable to timely and fully meet all of its current obligations.

There is no dividend preference between Class A Common Stockholders and Class B Common Stockholders up to the Dividend Parity Threshold. Dividend rates in excess of the Dividend Parity Threshold may be paid on Class A Common Stock or Class B Common Stock at the discretion of the Board of Directors of the FHLBank; provided, however, that the dividend rate paid per annum on the Class B Common Stock equals or exceeds the dividend rate per annum paid on the Class A Common Stock. For purposes of the establishment of dividend rates, the FHLBank may project for the dividend period the reference interest rate used in the Dividend Parity Threshold calculation, at the FHLBank's absolute discretion, and may declare and pay dividends at rates per annum based on such projection without regard to the actual reference interest rate subsequently published or calculated for the dividend period.

G. Rights in FHLBank Liquidation, Merger or Consolidation

In the event the FHLBank is liquidated, the Member shall be entitled to the rights and benefits granted to it by the Finance Board and/or Congress. In the event the FHLBank merges with or consolidates into another FHLBank, the Member shall be entitled to the rights and benefits set forth in the agreement of merger approved by the boards of directors of both FHLBanks and the Finance Board.

XI. COMPARISON OF TERMS OF EXISTING STOCK AND CAPITAL STOCK

Issue	Existing Stock	Capital Stock
Voting Rights in Regard to the Election of Directors	One vote for each share required to be held on the record date up to the state average.	Same as existing stock. The state average is calculated separately for Class A Common Stock and Class B Common Stock.
Dividends	At the sole discretion of the Board of Directors of the FHLBank.	Same as existing stock.
Redemption	The Member has no right to have its stock redeemed until it	Subject to certain regulatory and other limitations, the Member

Issue	Existing Stock	Capital Stock
	withdraws from Membership, which requires six-months' prior written notice. However, as a matter of practice, the FHLBank has regularly honored Member requests for Redemption of Excess Stock when it suited the capitalization needs of the FHLBank. Additionally, the FHLBank's Board of Director's policy provides that 15 days after the first business day of each month, the FHLBank may redeem, at its discretion, Excess Stock of any Stockholder.	has the right in cases other than the termination of Membership to have its Excess Class B Common Stock redeemed upon five-years' prior written notice, and the Member has the right to have its Excess Class A Common Stock redeemed upon six-months' prior written notice.
Repurchase	Pursuant to an Excess Stock repurchase policy approved by the FHLBank's Board of Directors, the FHLBank has repurchased the Excess Stock of individual Members when it suited the capitalization needs of the FHLBank.	Subject to certain limitations, the FHLBank may, at its sole discretion, Repurchase Excess Class A Common Stock or Excess Class B Common Stock of: (1) all Members based on an objective formula applied to all Members equally; or (2) an individual Member when the Member submits a written request to redeem such Excess Stock. Five business days' notice is required prior to any Repurchase at the FHLBank's initiative. On each written Redemption request from a Member, the FHLBank will notify the Member within 5 business days of the receipt if the FHLBank does not intend to Repurchase or cannot Repurchase the Class A Common Stock and/or Class B Common Stock. On Capital Stock subject to a Member's outstanding written Redemption request that is not in connection with a notice of withdrawal and is not repurchased by the FHLBank within the first five business days of the receipt of a Member's written Redemption request, the FHLBank will provide a Member not less than one business days' written notice of its intent to make such Repurchase at any time prior to the end of the applicable Redemption period.

Issue	Existing Stock	Capital Stock
Exchange	Single class of stock precludes exchange.	Subject to certain limitations, the FHLBank may elect to Exchange Excess shares of Class B Common Stock for shares of Class A Common Stock, or Excess Class A Common Stock for Class B Common Stock. Likewise, the FHLBank at its discretion may exchange excess shares of Class A Common Stock for shares of Class B Common Stock or excess shares of Class B Common Stock for shares of Class A Common Stock pursuant to a Member's written request provided that the FHLBank will continue to meet its Regulatory Capital Requirements after the Exchange. The FHLBank will notify the Member within five Business Days of the receipt of the written Exchange request if the FHLBank intends to deny the request. Any such Exchange request that is denied by the FHLBank becomes null and void with the FHLBank under no obligation to warehouse such requests in the event that it should decide to accept and process Exchange requests at some time in the future. Absent FHLBank notification of its intent to deny the Member's written Exchange request within five Business Days of the receipt of the written Exchange request, the FHLBank will exchange such stock subject to the written Exchange request.
Rights Upon the Liquidation of the FHLBank	The Finance Board may establish a Member's rights upon liquidation of the FHLBank by regulation or order, although the Finance Board has not adopted any regulation on this matter.	Any cash and property remaining after satisfaction of all FHLBank obligations shall be divided among the stockholders in proportion to the number of shares of each class of Stock outstanding subject to the Finance Board's authority under 12 U.S.C. 1446 to change such rights by regulation or order.
Transfer of Stock	Under current Finance Board regulations, transfers of stock may occur in connection with a	Stock may be traded only between the FHLBank and its Members. A Member may not

Issue	Existing Stock	Capital Stock
	Member's merger or consolidation with another institution. With the approval of the Finance Board, a Member may transfer stock to another Member or to an institution that has been approved for Membership and that has satisfied all conditions for becoming a Member other than the purchase of FHLBank stock. Any transfer shall be at par value and shall be recorded on the books of the FHLBank.	transfer any Stock to any other person or entity, including another Member, except in cases of a merger or consolidation under the terms of the Capital Plan.
Call for Additional Capital	The FHLBank does not have the right to increase the required minimum stock purchase requirements.	The FHLBank's Board of Directors has the right to increase the required Minimum Stock Purchase Requirement. Members are required to comply within 60 calendar days with any increase in the required Minimum Stock Purchase Requirement.
Rights to the Retained Earnings of the FHLBank	Congress has previously required the FHLBanks to contribute the retained earnings of the FHLBank, which has suggested that the Members have no rights in the retained earnings of the FHLBank.	Class B Common Stockholders have an ownership interest in retained earnings, but only have the right to receive any portion of retained earnings through declaration of a dividend, capital distribution or liquidation of the FHLBank, provided that such interest does not adversely impact the rights of Class A Common Stockholders to receive liquidating distributions pursuant to the Capital Plan.
Minimum Stock Purchase Requirement	The greater of: (1) $500, (2) one percent of the outstanding mortgage loan principal on a Member's balance sheet, and (3) 5% of advances from the FHLBank.	On the Conversion Date, Members must acquire, by conversion or purchase, and maintain the Asset-Based Stock Purchase Requirement as a condition of Membership with the FHLBank and the Activity-Based Stock Purchase Requirement as it relates to the activity in which the Member engages with the FHLBank. Class A Common Stock is used to meet the Asset-Based Stock Purchase

Issue	Existing Stock	Capital Stock
		Requirement. The amount of Class A Common Stock or Class B Common Stock required to meet the Activity-Based Requirement is the Activity-Based Requirement less the Member's Asset-Based Stock Requirement, but not less than zero.
Par Value	$100 per share	Same as existing stock.

XII. RISK FACTORS

A. Risks Relating to the New Capital Structure

1. *Member Minimum Stock Purchase Requirement May Increase*

Under the Capital Plan, the Board of Directors of the FHLBank may increase the Minimum Stock Purchase Requirement of Members within certain ranges specified in the Capital Plan. The Minimum Stock Purchase Requirement may also be increased pursuant to an amendment to the Capital Plan that must be approved by the Finance Board. Members are required to purchase additional Capital Stock in the FHLBank as necessary to comply with such new requirements within 60 days of notification of such new requirements. In order to facilitate the purchase by Members of any required additional Capital Stock upon the expiration of the 60-day period, the FHLBank shall (1) Exchange Excess Capital Stock held by each Member into a like number of shares of Class B Common Stock or Class A Common Stock sufficient to meet the new Minimum Stock Purchase Requirement and/or (2) debit the Member's demand deposit accounts at the FHLBank for the appropriate amount. Thus, Members are not required to take affirmative action to purchase additional Capital Stock in the FHLBank as a result of an increase in the Minimum Stock Purchase Requirement.

The GLB Act requires Members to "comply promptly" with any increase in the required Minimum Stock Purchase Requirement to ensure that the FHLBank continues to satisfy its minimum Regulatory Capital Requirements. However, in the preamble to its amendments to the final capital regulation published in the Federal Register on January 30, 2001 (at page 8304), the Finance Board stated that it does not believe this provision provides the FHLBanks with an unlimited call on the assets of their Members. According to the Finance Board, it is not clear whether the FHLBank or the Finance Board would have the legal authority to compel a Member to purchase additional amounts of Capital Stock in the FHLBank.

Thus, while the Capital Plan contemplates that Members would be required to purchase whatever amounts of Capital Stock are necessary to ensure that the FHLBank continues to satisfy its minimum Regulatory Capital Requirements, and while the FHLBank may seek to enforce this aspect of the Capital Plan which has been approved by the Finance Board, it is uncertain if the FHLBank ultimately could compel a Member to purchase additional Capital Stock in the FHLBank that the Member did not wish to purchase. Nevertheless, even if a Member could not be compelled to make additional Capital Stock purchases, the failure by a Member to comply with the Capital Stock purchase requirements of the Capital Plan could subject it to substantial penalties, including the possible termination of its Membership in the FHLBank.

2. *No Public Market for Capital Stock*

Class B Common Stock is subject to Redemption upon the expiration of a five-year Redemption period and Class A Common Stock is subject to Redemption upon the expiration of a six-month Redemption period. Only Capital Stock in excess of a Member's Minimum Stock Purchase Requirement, Capital Stock of a Member that has submitted a notice to withdraw from

Membership, or Capital Stock held by a Member whose Membership is otherwise terminated may be redeemed at the end of the applicable Redemption period. However, there is no guarantee that a Member will be able to redeem its Capital Stock even at the end of the applicable Redemption period. If the Redemption of Capital Stock, or the Repurchase of such Capital Stock by the FHLBank, would cause the FHLBank to fail to meet its minimum Regulatory Capital Requirements, then such Redemption or Repurchase would be prohibited. Likewise, the FHLBank would not honor a Redemption if such Redemption would cause the Member to fail to maintain its Minimum Stock Purchase Requirement. Moreover, only its Members may own Capital Stock, and the Capital Plan prohibits one Member from transferring stock to another Member.

The FHLBank also may determine to suspend the Redemption or Repurchase of Capital Stock if it reasonably believes that such Redemption or Repurchases would cause the FHLBank to fail to meet its minimum Regulatory Capital Requirements, would prevent the FHLBank from maintaining adequate capital against a potential risk, or would otherwise prevent the FHLBank from operating in a safe and sound manner. In addition, approval from the Finance Board for Redemption or Repurchases would be required if the Finance Board or the Board of Directors of the FHLBank determined that the FHLBank has incurred, or is likely to incur, losses that result in, or are likely to result in, charges against the capital of the FHLBank. Under such circumstances, there can be no assurance that the Finance Board would grant such approval or, if it did, upon what terms it might do so. As discussed elsewhere in this Information Statement, additional limitations on the FHLBank's ability to redeem Capital Stock also apply.

Accordingly, notwithstanding the expiration of the applicable stock Redemption period, there are a variety of circumstances that would preclude the FHLBank from redeeming or repurchasing the Capital Stock of a Member. Since there is no public market for the Capital Stock and transfer of Capital Stock between the FHLBank's Members is not permitted, there can be no assurance that a Member's purchase of Capital Stock would not effectively become an illiquid investment in the FHLBank.

3. *Restrictions on Redemption and Repurchase of Excess Stock*

The FHLBank may rely from time to time upon the Excess Stock of Members in addition to the amounts of Capital Stock Members are required to own, in order to satisfy its minimum Regulatory Capital Requirements. In such case, a Member that owns Excess Stock in the FHLBank would not be able to redeem such stock for cash, nor could the FHLBank repurchase such stock as long as the FHLBank needs such Excess Stock to satisfy its minimum Regulatory Capital Requirements. Under such circumstances, which may occur particularly in periods of growth in the FHLBank's assets that do not directly require matching stock purchases by Members, a Member's ownership of Excess Stock effectively would become a permanent investment in the FHLBank and would remain so unless and until the FHLBank were able to find another source of capital (which could occur, for example, through an increase in its Asset Based Stock Purchase Requirement and/or Activity-Based Stock Purchase Requirement) with which to satisfy its minimum Regulatory Capital Requirements.

As of the Conversion Date of the Capital Plan, the FHLBank intends to rely upon Excess Stock to satisfy its minimum Regulatory Capital Requirements on an ongoing basis as it relates to Member activity, primarily AMA activity where the initial Activity-Based Stock Purchase Requirement is set at 2.0% (two percent) with a cap of 1.5% (one and a half percent) of Member total assets. However, it is possible that the FHLBank might at some point in the future seek to rely more or less upon Excess Stock to satisfy such requirements by reducing or increasing, respectively, the Activity-Based Stock Purchase Requirement for AMA within the permissible ranges in the Capital Plan. To the extent that this is the case, and depending on the amount of Excess Stock that a Member holds and the extent to which the FHLBank relies on Excess Stock to satisfy its minimum Regulatory Capital Requirements, a Member that owns Excess Stock may be unable to redeem such stock at the end of the applicable Redemption period and the FHLBank may be prevented from repurchasing such stock from a Member.

4. *Risk-Weighting of Capital Stock*

It is possible that one or more of the regulatory agencies might seek to increase the risk weighting that would be applicable to Capital Stock held by Members for which such agency is the primary regulator. To the extent that this were to occur with respect to a particular category of Member institutions, such Members would be required to maintain a higher level of risk-based capital per share of Capital Stock than they currently are required to hold per share of existing stock. Depending on which regulatory agencies imposed increased risk weightings on Capital Stock, this might serve as a disincentive for some Members to hold Capital Stock, which could discourage Member transactions with the FHLBank and adversely affect the FHLBank's future earnings and financial condition.

Regulations or policies of the regulatory agencies also could limit the ability of Members to purchase or hold Excess Stock. Under Finance Board regulations, a Member may purchase Excess Stock as long as such purchase is approved by the FHLBank and is permissible under the applicable laws under which the Member operates. At least one bank regulatory agency has previously issued guidance on the extent to which its constituents could purchase Excess Stock in an FHLBank. In 1996, the Office of the Comptroller of the Currency issued an interpretive letter stating that a national bank could purchase Excess Stock only to the extent that such Excess Stock facilitates the national bank's plans to expand funding of residential housing finance assets and such plans are documented in the bank's business plans. It is possible that federal or state agencies that regulate the activities of Members could seek to further limit the ability of their constituents to purchase or hold Excess Stock. In such case, the bank may be unable to issue Excess Stock to certain Members, and this could adversely affect its ability to raise additional capital. Restrictions on the use of Excess Stock generally could also result in the imposition of higher Minimum Stock Purchase Requirement for Members.

5. *Limitations on Ability to Pay Dividends*

The FHLBank may pay dividends on its Capital Stock only out of previously retained earnings or current net earnings. However, an FHLBank may not pay dividends to Members if it is not in compliance with its minimum Regulatory Capital requirements, or it would not be in compliance with such minimum requirements after paying dividends. For further discussion of restrictions on the FHLBank's ability to pay dividends, see "Summary of Capital Stock – Restrictions" on page 6. While the FHLBank intends to declare and pay dividends on Capital Stock at the Board's discretion on a quarterly basis, there can be no assurance as to the level of FHLBank dividends or that the FHLBank will be able to pay dividends in the future.

6. *Capital Plan Amendments Subject to Finance Board Approval*

Under the Capital Plan, the Board of Directors of the FHLBank is authorized to amend the Capital Plan. The Finance Board must approve all amendments before they may become effective. However, under the Capital Plan, amendments to the Capital Plan are not subject to Member consent or approval. While amendments must be consistent with the Bank Act and Finance Board regulations, it is possible that they would result in changes to the Capital Plan that could adversely affect the rights and obligations of Members.

7. *Rights of Members in the Event of Liquidation or Merger*

Class B Common Stockholders have an ownership interest in the retained earnings, surplus, undivided profits, and equity reserves of the FHLBank. The FHLBank's Capital Plan provides, with respect to a liquidation, that Members' rights can be modified, restricted or eliminated by any rules, regulations or orders prescribed by the Finance Board. With respect to a merger or consolidation of the FHLBank, Members shall be entitled to the rights and benefits set forth in the agreement of merger approved by both the FHLBanks' boards of directors and the Finance Board. The FHLBank cannot predict how the Finance Board might exercise its authority with respect to liquidations or reorganizations, or whether any actions taken by the Finance Board in this regard would be inconsistent with the provisions of the FHLBank's Capital Plan or the rights of Stockholders in the retained earnings of the FHLBank.

B. Risks Relating to the FHLBank System

1. *Joint and Several Liability on Consolidated Obligations*

The FHLBank is jointly and severally liable with the other FHLBanks for the consolidated obligations issued by the FHLBanks through the Office of Finance. The FHLBank may not pay any dividends to Members nor may it Redeem or Repurchase any shares of Capital Stock unless the principal and interest due on all consolidated obligations has been paid in full. If another FHLBank were to default on its obligation to pay principal or interest on any consolidated obligations, the Finance Board may allocate the outstanding liability among one or more of the remaining FHLBanks on a *pro rata* basis or on any other basis the Finance Board may determine. Accordingly, the FHLBank's ability to pay dividends to its Members or to redeem or repurchase shares of its Capital Stock could be affected not only by its own financial condition, but also by the financial condition of one or more of the other FHLBanks.

2. *Changes in Statute or Regulations*

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

Regulations and policies of the Finance Board govern, among other things, the permissible investments and activities of the FHLBanks, risk management practices, capital requirements and management and supervisory issues. It is possible that new regulations or policies adopted by the Finance Board, or changes to existing regulations or policies, also could adversely affect the business, operations or financial condition of the FHLBank.

3. *Registration of FHLBank Stock Under the Securities Exchange Act of 1934*

On June 29, 2004, the Finance Board adopted a final rule, effective July 29, 2004, to enhance the financial disclosures of the FHLBanks by requiring them to register a class of their equity securities with the Securities and Exchange Commission ("SEC") under section 12(g) of the Securities and Exchange Act of 1934 ("1934 Act"). It requires each FHLBank to file its 1934 Act Registration Statement on Form 10 with the SEC no later than June 30, 2005, and to ensure that its 1934 Act registration becomes effective no later than August 29, 2005, subject to the Finance Board's right to extend the registration for one or more FHLBanks if it determines that good cause exists to do so. The rule will bring each FHLBank into the periodic disclosure regime as administered and interpreted by the SEC by requiring each FHLBank to comply with the periodic disclosure requirements of the 1934 Act after it registers.

See the following section regarding congressional action concerning registration. FHLBank management has had discussions with the SEC concerning registration and the accommodations necessary for the FHLBank because of its unique structure. In September 2003, the FHLBank expressed its unequivocal commitment to the highest standards of disclosure and regulation through the adoption of the following position statement:

> *FHLBank Topeka is committed to the highest standards of corporate governance and behavior. We believe that this commitment extends beyond our pursuit of best practices in our internal governance, management and operations, but includes our active support for a regulatory regime of the highest caliber for our public disclosures and our business practices. We*

believe that the highest caliber regulatory regime for public disclosures is one administered by the SEC. Therefore it is our intent to voluntarily register with the SEC once all outstanding disclosure questions are appropriately resolved. We pledge to work cooperatively with the SEC to resolve those questions.

With respect to safety and soundness regulation, we believe that the Federal Housing Finance Board is a competent regulator with the qualified staff, practices and systems appropriate to effectively regulate the Banks. However, we also believe that there may be alternative regulatory structures such as an independent government-sponsored enterprise (GSE) regulator that would better facilitate safety and soundness regulation of the Banks in the future. We pledge to work cooperatively with the Congress and the Administration in exploring alternative regulatory structures with the objective of identifying the structure that will best facilitate the future safety and soundness regulation of the Banks.

4. *Proposed Changes to GSE Regulation*

On April 1, 2004, a bill that would have created a new regulator for the Federal National Mortgage Association "Fannie Mae", the Federal Home Loan Mortgage Corporation "Freddie Mac" and the FHLBanks passed the Senate Banking Committee; however, the bill has not come up for a vote in the full Senate. The bill would combine the Office of Federal Housing Enterprise Oversight and the Finance Board into a new regulatory agency and would require the FHLBanks to register their stock with the SEC. It is impossible to predict what, if any, provisions relating to the Finance Board and the FHLBanks will be included in any such legislation, whether the House and Senate would approve such legislation, whether any such change in regulatory structure will be signed into law, when any such change would go into effect if enacted, or what effect the legislation would have on the Finance Board or the FHLBanks.

C. Risks Relating to the Business of the FHLBank

1. *Changes in Interest Rates*

Like many financial institutions, the FHLBank realizes income primarily from the spread between interest earned on its Advances and investments and the interest paid on its borrowings. It is expected that the FHLBank, from time to time, will experience "gaps" in the interest rate sensitivities of its assets and liabilities, meaning that either its interest-bearing liabilities will be more sensitive to changes in market interest rates than its interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to the FHLBank's position, the "gap" would adversely affect the FHLBank's earnings and the net present value of the FHLBank's interest-sensitive assets and liabilities.

2. *Reduction in Retained Earnings Due to SFAS 133 Adjustments*

In order to increase Member returns, management uses what it considers to be economically efficient derivative transactions to manage the FHLBank's exposure to interest rate risk. Certain of these transactions, while effective in managing the FHLBank's long-term risk exposure, can create considerable volatility in net income and retained earnings under the reporting requirements of SFAS 133 because SFAS 133 requires the FHLBank to recognize unrealized gains and losses on its derivative contracts. If the FHLBank were required to recognize large unrealized losses on derivative contracts in any period, the FHLBank's net income for that period could be significantly reduced or eliminated. Because Finance Board regulations restrict circumstances in which an FHLBank may rely on its GAAP retained earnings to pay a dividend, significant SFAS 133 unrealized losses could limit the FHLBank's ability to pay a dividend. The FHLBank's ability to use retained earnings to supplement current earnings in order to pay dividends is not unlimited.

3. *Convexity Risks in Mortgage Assets*

There are significant convexity risks associated with long-term fixed-rate mortgage loans purchased or funded under the MPF Program and held on the FHLBank's balance sheet. The FHLBank actively manages this risk through a variety of risk management tools. However, it is impossible to perfectly hedge convexity risk in mortgage loans, and therefore, the income of the FHLBank could be adversely affected by this risk. The same risk exists in the FHLBank's investment in mortgage-backed securities as well.

4. *Counterparty Credit Risk*

The FHLBank assumes some level of unsecured credit risk when entering into securities transactions, money market transactions and derivative transactions with counterparties. The FHLBank has a Risk Management Policy that limits the amount of unsecured credit risk it can assume with any counterparty. With regard to derivative transactions, the FHLBank uses master agreements containing provisions that allow the FHLBank to sum the exposure under all derivative transactions with the counterparty to a single net amount. The FHLBank manages its unsecured credit risk in derivative transactions by providing in its agreements (1) collateralization of unsecured credit exposure above certain limits, which limits decrease as the counterparty's ratings decline, and (2) in most cases, a right to terminate all transactions with the counterparty if the credit rating of the counterparty falls to a specified level. There is no guarantee that the FHLBank would be able to terminate the agreement or obtain collateral from a counterparty before the counterparty would become subject to an insolvency proceeding. The FHLBank actively monitors the financial status and credit ratings of all counterparties.

5. *Concentration of Advances*

As of December 31, 2003, $17.1 billion or 65.9 percent of the FHLBank's Advances were held by the 10 largest borrowers at the FHLBank. The weighted average remaining term to maturity of the Advances to these institutions is 3.3 years. If these Members were to repay the Advances as they became due and no other loans were made to replace them, the FHLBank's income could be adversely affected. The loss of large Members could have a material adverse impact on the FHLBank's dividend until appropriate adjustments are made to the FHLBank's investment, derivative and liability portfolios. The duration and magnitude of the adjustment period would depend on a number of factors, including: (a) the amount of any Capital Stock Redemptions or Repurchases; (b) the profitability of any Advances that were repaid; (c) the profitability of the FHLBank's investment portfolio; and (d) the remaining level of Advances.

6. *Concentration of Capital*

As of December 31 2003, more than $1.0 billion or 59.3 percent of the FHLBank's current stock was held by the 10 largest Member institutions. If these Members were to terminate their Memberships and the Advance balances necessitating the stock were repaid, the FHLBank's capital base would be reduced and the FHLBank's ability to generate earnings could be adversely affected. In addition, to the extent that the FHLBank may rely from time to time upon the Excess Stock of Members, the FHLBank may be required to increase the Minimum Stock Purchase Requirement of the remaining Members to remain in compliance with the FHLBank's minimum Regulatory Capital Requirements in the event of a substantial reduction in the FHLBank's capital base due to Membership withdrawals.

7. *Inability to Access the Capital Markets*

The business of the FHLBank is reliant on its ability to access the capital markets at competitive market rates. The FHLBank maintains a minimum amount of liquidity to meet five business days of funding needs both through investments in liquid assets and maintenance of available borrowing capacity. Although the FHLBank maintains lines of credit to repurchase agreements with broker/dealers and other money market counterparties, the FHLBank's income would be adversely affected if it were not able to access the capital markets at competitive rates for a long period of time.

8. *Competition in the Advance Business*

The primary business of the FHLBank is to make loans, referred to as Advances, to its Members. The Federal Reserve has recently considered entering into the short-term lending business with its Members. Fannie Mae and Freddie Mac have at times entered into reverse repurchase agreements with Members that are a source of competition for short- and medium-term Advances from the FHLBank. The capital markets are another source of competition for FHLBank Advances. Any of these sources of competition could adversely affect the income of the FHLBank.

9. *Advance Pricing*

The Board of Directors and management are of the opinion that Advances should be priced in order to meet the FHLBank's profitability and growth goals. Decisions to lower Advance spreads to gain volume could result in lower earnings, which could result in lower dividend yields.

10. *Lower AHP Subsidies*

Lower earnings will generally result in a lower level of AHP subsidies being available to the FHLBank's Members. The FHLBank contributes 10 percent of its net earnings, after satisfying its REFCORP obligation, to its AHP. Accessing the subsidies in the AHP can be a benefit to Members. If the FHLBank's earnings were to be adversely affected, the level of subsidies and, therefore, one of the benefits of Membership, would be reduced.

11. *Lower Dividends Resulting from Increased AHP Contribution*

The FHLBanks are required to contribute the greater of 10 percent of their annual net earnings after REFCORP or $100 million to the AHP. If the combined net earnings after REFCORP of the 12 FHLBanks were to fall below $1 billion, then each FHLBank would be required to contribute more than 10 percent of its net earnings after REFCORP to the AHP. Increasing the FHLBank's AHP contribution percentage would reduce earnings and potentially reduce the dividends paid to Members.

12. *Significant Capital and Operating Expenditures Allocated for Technology Improvement and Modernization Project*

In mid-2001, the FHLBank embarked upon a technology upgrade, including upgrading the operating system, revamping infrastructure and rewriting core operating systems. To assist in this project, the FHLBank engaged the services of outside technology consultants, and added staffing to its Information Technology department. Substantial funds were expended in 2002 and 2003 for the purchase of new hardware, consulting fees and salaries and benefits for added positions. The FHLBank has allocated $3.5 million in capital expenditures for technology upgrades in 2004. Included among these expenditures are funds to develop a software application system for the new capital structure. This application is dependent upon the successful implementation of other software applications being developed concurrently. If the FHLBank were to encounter unexpected difficulties in its internal software development processes, the Capital Stock software development project could be adversely affected and the Conversion Date could be postponed.

XIII. INDEX TO FINANCIAL STATEMENTS

Audited Financial Statements:

The following annual financial statements of the FHLBank and the accompanying "Notes to Financial Statements" are incorporated by reference to the FHLBank's 2003 Annual Report:

Interim Financial Statements (Unaudited):

Report of Independent Auditors

February 11, 2004

To the Board of Directors and Stockholders of the Federal Home Loan Bank of Topeka:

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

As discussed in Note 2, effective July 1, 2003, the FHLBank changed its method of amortizing/accreting concessions and premiums/discounts on consolidated obligation bonds.

PricewaterhouseCoopers LLP
Kansas City, Missouri

FEDERAL HOME LOAN BANK OF TOPEKA

STATEMENTS OF CONDITION

(In thousands, except par value)

	December 31,	
	2003	**2002**
ASSETS		
Cash and due from banks (Note 3)	$ 968	$ 422
Interest bearing deposits	2,396,551	2,228,354
Overnight federal funds sold	1,462,000	935,500
Term federal funds sold	335,000	910,000
Held-to-maturity securities – includes $199,503 and $211,305 pledged as collateral (Note 4)	7,628,449	6,841,022
Available-for-sale securities (Note 5)	216,188	0
Securities held at fair value – includes $49,685 and $50,665 pledged as collateral (Note 6)	597,024	514,297
Advances (Note 7)	26,886,625	25,926,127
Mortgage loans held for portfolio, net of allowance for credit losses on mortgage loans of $129 and $52 (Note 9)	683,748	199,980
Accrued interest receivable	121,031	121,010
Premises and equipment, net	9,890	10,239
Derivative assets	53,634	161,753
Other assets (Note 17)	125,877	117,204
TOTAL ASSETS	$ 40,516,985	$ 37,965,908
LIABILITIES AND CAPITAL		
Liabilities:		
Deposits (Note 10):		
Demand	$ 153,166	$ 140,797
Overnight	908,500	1,328,000
Term	53,210	26,050
Other	26,375	49,020
Total deposits	1,141,251	1,543,867
Consolidated obligations, net (Note 12):		
Bonds	26,174,334	24,820,297
Discount notes	9,957,427	8,539,621
Total consolidated obligations	36,131,761	33,359,918
Accrued interest payable	253,622	270,872
Affordable Housing Program (Note 8)	24,327	24,071
Payable to Resolution Funding Corp. (REFCORP) (Note 1)	7,515	4,903
Derivative liabilities	1,101,923	1,033,171
Other liabilities (Note 3, 17)	56,195	60,370
TOTAL LIABILITIES	38,716,594	36,297,172
Commitments and contingencies (Notes 1, 7, 8, 9, 12, 13, 14, 15 and 17)		
Capital (Note 13)**:**		
Capital stock outstanding ($100 par value; 17,400 and 16,310 shares issued and outstanding)	1,739,952	1,631,023
Retained earnings	68,220	37,798
Accumulated other comprehensive income:		
Net unrealized loss on available-for-sale securities	(7,744)	0
Net unrealized loss relating to hedging activities	(37)	(85)
	1,800,391	1,668,736
TOTAL LIABILITIES AND CAPITAL	$ 40,516,985	$ 37,965,908

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

FEDERAL HOME LOAN BANK OF TOPEKA
STATEMENTS OF INCOME

(In thousands)

	Year ended December 31,		
	2003	**2002**	**2001**
INTEREST INCOME:			
Interest bearing deposits	$ 28,151	$ 39,108	$ 67,582
Overnight federal funds sold	19,016	29,615	84,167
Term federal funds sold	4,510	5,137	19,602
Held-to-maturity securities (Note 4)	253,348	289,360	334,049
Available-for-sale securities (Note 5)	2,702	0	2,581
Securities held at fair value (Note 6)	28,597	20,785	10,746
Advances (Note 7)	424,927	552,136	869,216
Mortgage loans held for portfolio (Note 9)	21,638	8,392	3,330
Overnight loans to other Federal Home Loan Banks	117	181	706
Other	5,433	4,199	149
Total interest income	788,439	948,913	1,392,128
INTEREST EXPENSE:			
Deposits (Note 10)	15,245	26,417	63,651
Consolidated obligations (Note 12)	642,880	795,995	1,196,390
Overnight loans from other Federal Home Loan Banks	89	235	158
Securities sold under agreements to repurchase (Note 11)	0	150	62
Other borrowings	2,722	2,073	137
Total interest expense	660,936	824,870	1,260,398
NET INTEREST INCOME BEFORE MORTAGE LOAN LOSS PROVISION	127,503	124,043	131,730
Provision for credit losses on mortgage loans	77	40	19
NET INTEREST INCOME AFTER MORTGAGE LOAN LOSS PROVISION	127,426	124,003	131,711
OTHER INCOME:			
Prepayment fees (Note 7)	3,549	2,556	570
Service fees	1,297	1,289	1,286
Net realized gain on sale of held-to-maturity securities (Note 4)	1,208	0	427
Net gain (loss) on securities held at fair value (Note 6)	(12,070)	44,897	5,657
Realized gain on termination of derivative	0	0	402
Net realized and unrealized gain (loss) on derivatives and hedging activities (Note 2)	15,908	(80,979)	(9,244)
Other	3,154	2,499	1,648
Total other income	13,046	(29,738)	746
OTHER EXPENSES:			
Operating (Notes 14, 17)	18,087	17,734	16,062
Finance Board (Note 1)	897	943	849
Office of Finance (Note 1)	1,215	884	560
Other	11	9	0
Total other expenses	20,210	19,570	17,471
INCOME BEFORE ASSESSMENTS	120,262	74,695	114,986
Affordable Housing Program (Note 8)	9,817	6,098	9,749
REFCORP (Note 1)	22,089	13,719	21,934
Total assessments	31,906	19,817	31,683
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	88,356	54,878	83,303
Cumulative effect of change in accounting principle	0	0	4,435
NET INCOME	$ 88,356	$ 54,878	$ 87,738

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

FEDERAL HOME LOAN BANK OF TOPEKA
STATEMENTS OF CAPITAL FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(In thousands)

	Capital Stock		Retained	Accumulated Other Comprehensive	Total
	Shares	Par Value	Earnings	Income	Capital
BALANCE - DECEMBER 31, 2000	12,185	$ 1,218,475	$ 48,537	$ 0	$ 1,267,012
Proceeds from sale of capital stock	2,993	299,322			299,322
Redemption of capital stock	(1,219)	(121,873)			(121,873)
Comprehensive income:					
Net income			87,738		
Other comprehensive income:					
Net unrealized gain on available-for-sale (AFS) securities				640	
Net unrealized gain relating to hedging activities				831	
Reclassification adjustment for (gain) loss on AFS securities included in net income				(1,104)	
Reclassification adjustment for (gain) loss on hedging activities included in net income				354	
Cumulative effect of change in accounting principle				(697)	
Total comprehensive income					87,762
Dividends on capital stock (6.8%; Note 13):					
Cash payment			(85,563)		(85,563)
BALANCE - DECEMBER 31, 2001	13,959	1,395,924	50,712	24	1,446,660
Proceeds from sale of capital stock	4,058	405,793			405,793
Redemption of capital stock	(1,707)	(170,694)			(170,694)
Comprehensive income:					
Net income			54,878		
Other comprehensive income:					
Net unrealized gain relating to hedging activities				18	
Reclassification adjustment for (gain) loss on hedging activities included in net income				(127)	
Total comprehensive income					54,769
Dividends on capital stock (4.6%; Note 13):					
Cash payment			(67,792)		(67,792)
BALANCE - DECEMBER 31, 2002	16,310	1,631,023	37,798	(85)	1,668,736
Proceeds from sale of capital stock	1,781	178,132			178,132
Redemption of capital stock	(840)	(84,082)			(84,082)
Comprehensive income:					
Net income			88,356		
Other comprehensive income:					
Net unrealized loss on AFS securities				(7,744)	
Net unrealized loss relating to hedging activities				(185)	
Reclassification adjustment for (gain) loss on hedging activities included in net income				233	
Total comprehensive income					80,660
Dividends on capital stock (3.5%; Note 13):					
Cash payment			(43,055)		(43,055)
Stock issued	149	14,879	(14,879)		
BALANCE - DECEMBER 31, 2003	17,400	$ 1,739,952	$ 68,220	$ (7,781)	$ 1,800,391

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

FEDERAL HOME LOAN BANK OF TOPEKA
STATEMENTS OF CASH FLOWS (In thousands)

	Year ended December 31,		
	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 88,356	$ 54,878	$ 87,738
Cumulative effect of change in accounting principle	0	0	(4,435)
Income before cumulative effect of change in accounting principle	88,356	54,878	83,303
Adjustments to reconcile income before cumulative effect of change in accounting principle to net cash provided by (used in) operating activities:			
Depreciation and amortization:			
Premiums and discounts on consolidated obligations, net	(3,025)	(8,925)	(29,085)
Concessions on consolidated obligation bonds	23,884	17,397	19,099
Premiums and discounts on investments, net	16,116	(4,870)	(8,061)
Discounts on Housing and Community Development advances	(9)	(13)	(14)
Premiums, discounts and deferred loan costs on mortgage loans, net	713	10	(17)
Premiums on advances	4	0	0
Premises and equipment	776	482	185
Provision for credit losses on mortgage loans, net of charge-offs	70	33	19
Net realized gain on sale of held-to-maturity securities	(1,208)	0	(427)
Net realized loss on sale of premises and equipment	146	11	0
(Increase) decrease in securities held at fair value, net of transfers and transition adjustments	(82,727)	(344,026)	113,059
(Gain) loss due to change in net fair value adjustment on derivative and hedging activities	(63,056)	121,004	17,889
(Increase) decrease in:			
Accrued interest receivable	(21)	(10,922)	288,630
Derivative asset - net accrued interest	51,119	39,241	(107,681)
Other assets	3,482	(93,140)	195
Increase (decrease) in:			
Accrued interest payable	(17,250)	(24,594)	(131,743)
Derivative liability - net accrued interest	(39,626)	(5,825)	(30,829)
Affordable Housing Program liability	222	(2,689)	1,698
REFCORP liability	2,612	(1,131)	(655)
Other liabilities	(4,175)	46,590	5,228
Total adjustments	(111,953)	(271,367)	137,490
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(23,597)	(216,489)	220,793
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net increase in interest bearing deposits	(168,197)	(218,983)	(868,456)
Net (increase) decrease in overnight federal funds sold	(526,500)	245,500	313,000
Net (increase) decrease in term federal funds sold	575,000	(370,000)	(415,000)
Net (increase) decrease in short-term held-to-maturity securities	(90,705)	14,819	(27,240)
Proceeds from sales of long-term held-to-maturity securities	77,961	0	39,605
Proceeds from maturities of and principal repayments on long-term held-to-maturity securities	4,691,184	3,068,176	1,800,455
Purchases of long-term held-to-maturity securities	(5,478,640)	(3,973,105)	(2,141,821)
Proceeds from maturities of and principal repayments on available-for-sale securities	0	0	25,090
Purchases of available-for-sale securities	(226,067)	0	0

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

(In thousands)

	Year ended December 31,		
	2003	**2002**	**2001**
CASH FLOWS FROM INVESTING ACTIVITIES (continued):			
Principal collected on advances	$ 299,086,759	$ 274,836,819	$ 237,537,625
Advances made	(300,362,710)	(277,262,185)	(242,187,919)
Principal collected on mortgage loans held for portfolio	115,068	33,512	5,501
Mortgage loans held for portfolio originated or purchased	(600,026)	(133,547)	(100,131)
Recoveries on mortgage loans held for portfolio	7	0	0
Net additions to premises and equipment	(573)	(10,175)	(406)
NET CASH USED IN INVESTING ACTIVITIES	(2,907,439)	(3,769,169)	(6,019,697)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	(402,616)	177,751	294,832
Net proceeds from sale of consolidated obligation:			
Bonds	26,319,829	18,061,703	17,601,652
Discount notes	489,249,364	409,214,298	287,557,864
Payments for maturing and retired consolidated obligation:			
Bonds	(24,453,968)	(16,206,248)	(13,493,364)
Discount notes	(487,832,022)	(407,305,963)	(286,377,526)
Net increase (decrease) in overnight loans from other FHLBanks	0	(125,000)	125,000
Proceeds from issuance of capital stock	178,132	405,793	299,322
Payments for redemption of capital stock	(84,082)	(170,694)	(121,873)
Cash dividends paid	(43,055)	(67,792)	(85,563)
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,931,582	3,983,848	5,800,344
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	546	(1,810)	1,440
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	422	2,232	792
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 968	$ 422	$ 2,232
Supplemental disclosures:			
Interest paid	$ 695,657	$ 851,878	$ 1,299,093
Stock dividends issued	$ 14,879	$ 0	$ 0

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

BACKGROUND INFORMATION

The Federal Home Loan Bank of Topeka (FHLBank), a federally chartered corporation, is one of 12 district Federal Home Loan Banks (FHLBanks). The FHLBanks serve the public by enhancing the availability of residential mortgage and targeted community development credit and provide a readily available, low-cost source of funds to their member stockholders. The FHLBank is a cooperative whose member institutions own the capital stock of the FHLBank and receive dividends on their stock investment. Regulated financial depositories and insurance companies engaged in residential housing finance are eligible to apply for membership. All members are required to purchase stock in the FHLBank located in their district.

The Federal Housing Finance Board (Finance Board), which is an independent agency in the executive branch of the U.S. government, supervises and regulates the FHLBanks and the Office of Finance. The Finance Board ensures that the FHLBanks carry out their housing finance mission, remain adequately capitalized, are able to raise funds in the capital markets and operate in a safe and sound manner. Also, the Finance Board establishes policies and regulations concerning the operations of the FHLBanks. Each FHLBank is operated as a separate entity and has its own management, employees and board of directors. The FHLBanks do not have any special purpose entities or any other type of off-balance sheet conduits.

FHLBank debt instruments (consolidated obligations), which are the joint and several obligations of all FHLBanks, are the primary source of funds for the FHLBanks. Deposits, other borrowings and the issuance of capital stock provide other sources of funds for the FHLBanks. The FHLBank primarily uses these funds to provide advances to members and to purchase loans from members through the Mortgage Partnership Finance® (MPF®) Program. In addition to credit services, some FHLBanks also offer correspondent services such as item processing, collection and settlement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions as of the date of the financial statements in determining the reported amounts of assets, liabilities and estimated fair values and in determining the disclosure of any contingent assets or liabilities. Estimates and assumptions by management also affect the reported amounts of income and expense during the reporting period. Many of the estimates and assumptions, including those used in financial models, are based on financial market conditions as of the date of the financial statements. Because of the volatility of the financial markets, as well as other factors that affect management estimates, actual results may vary from these estimates.

Investments - The FHLBank carries at cost investments for which it has both the ability and intent to hold to maturity, adjusted for periodic principal repayments, amortization of premiums and accretion of discounts. Amortization of premiums and accretion of discounts are computed on the level-yield method.

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

The FHLBank classifies certain investments as securities held at fair value and carries them at fair value. The FHLBank records changes in the fair value of these investments through other income. Under Statement of Financial Accounting Standards (SFAS) No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*," these investments would be classified (described) as trading. Given that Finance Board regulations prohibit the FHLBank from trading investments, the FHLBank does not participate in trading activities. Therefore, the FHLBank classifies the investments as securities held at fair value because it believes the description is more appropriate.

Gains and losses on the sales of investment securities are computed using the specific identification method and are included in other income. Sales of investment securities under agreements to repurchase the same, or substantially the same, instruments are treated as borrowings.

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

Advances - The FHLBank presents advances net of unearned commitment fees and discounts on advances for the Affordable Housing Program (AHP) as discussed below. Interest on advances is credited to income as earned. In accordance with the Federal Home Loan Bank Act of 1932 (Act), as amended, and as more fully discussed in Note 7, the FHLBank obtains sufficient collateral on advances to protect it from losses. The Act limits collateral on advances to certain investment securities, residential mortgage loans, deposits with the FHLBank and other real estate-related assets. However, community financial institutions (FDIC-insured institutions with average assets of $538,000,000 or less during 2003) are able to utilize expanded statutory collateral rules for small business and agriculture loans. The FHLBank has not experienced any losses on advances since its inception. Because of the collateral pledged as security on the advances and prior repayment history, FHLBank management deems it unnecessary to establish an allowance for credit losses on advances.

Mortgage Loans Held in Portfolio - In May 2000, the FHLBank began participating in the MPF Program under which the FHLBank invests in mortgage loans that are funded by the FHLBank through, or purchased from, its participating stockholders. The FHLBank manages the liquidity, interest rate and options risk of the loans. Dependent upon the stockholder's product selection, the servicing rights can be retained or sold. The FHLBank and the stockholder share in the credit risk of the loans with the FHLBank assuming the first loss obligation limited by the First Loss Account (FLA), and the stockholder assuming mortgage loan losses in excess of the FLA up to the amount of the credit enhancement obligation as specified in the master agreement for each pool of mortgage loans purchased from the stockholder. Any losses in excess of the FLA and the credit enhancement obligation will be the responsibility of the FHLBank.

Credit Enhancement - The credit enhancement is an obligation on the part of the participating stockholder that ensures the retention of credit risk on loans it originates. The amount of the credit enhancement is determined so that the probability of any losses in excess of the enhancement are no greater than that associated with a "AA" level of credit risk. The participating stockholder receives from the FHLBank a credit enhancement fee for managing this portion of the inherent risk in the loans. These fees are paid monthly based upon the remaining unpaid principal balance. The required credit enhancement obligation amount may vary depending on the various product alternatives selected by the stockholder.

The FHLBank classifies loans as held for investment and, accordingly, reports them at their principal amount outstanding, net of deferred loan fees and premiums and discounts.

The FHLBank defers and amortizes mortgage loan origination fees (agent fees) and premiums/discounts paid to and received from FHLBank stockholders as interest income over the estimated life of the related mortgage loan. Actual prepayment experience and estimates of future principal prepayments are used in calculating the estimated lives of the mortgage loans. The FHLBank aggregates the mortgage loans by similar characteristics (type, maturity, note rate and acquisition date) in determining prepayment estimates.

The FHLBank records non-origination fees received from FHLBank stockholders, such as delivery commitment extension fees and pair-off fees, in other income when received. Credit enhancement fees paid to FHLBank stockholders are netted against interest income when paid.

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

The FHLBank bases the allowance for mortgage loan losses on management's estimate of potential credit losses inherent within the FHLBank's mortgage loan portfolio as of the balance sheet date. Actual losses greater than defined levels are offset by stockholders' credit enhancements up to each stockholder's respective limits. The FHLBank performs periodic reviews of its portfolio to identify the inherent losses within the portfolio and to determine the likelihood of collection of the portfolio. The overall allowance is determined by an analysis that includes consideration of various data observations such as past performance, current performance, loan portfolio characteristics, collateral valuations, industry data and prevailing economic conditions. As a result of this analysis, the FHLBank recorded an allowance for loan losses of $129,000 and $52,000 as of December 31, 2003 and 2002, respectively.

Housing and Community Development (HCD) Programs - As more fully discussed in Note 8, the FHLBank is required to establish, fund and administer an Affordable Housing Program (AHP). The required annual AHP funding is charged to earnings and an offsetting liability is established. The FHLBank makes qualifying AHP advances at interest rates below the customary interest rates for non-subsidized advances. In addition, direct subsidies are also provided under the FHLBank's AHP. When an AHP advance is made, the present value of the variation in the cash flow caused by the difference between the AHP advance rate and the FHLBank system's related estimated cost of funds rate for a comparable maturity is charged against the AHP liability. The offsetting entry is recorded as a discount on AHP advances, which is amortized on the level-yield method over the term of the related AHP advance.

FHLBank Topeka also offers Community Housing Program (CHP) advances, which are special advance programs authorized by the Finance Board's Community Investment Cash Advance regulations. These programs provide members with wholesale loans (advances) priced below the FHLBank's regular rates to help finance owner- and renter-occupied housing in their communities. CHP advances are priced at the FHLBank system's related estimated cost of funds rate for a comparable maturity, plus a reasonable allowance for administrative costs. CHP *Plus* advances are priced below the FHLBank system's related estimated cost of funds rate for a comparable maturity. When a CHP *Plus* advance is made, the present value of the variation in the cash flow caused by the difference between the CHP *Plus* advance rate and the FHLBank System's related estimated cost of funds rate for a comparable maturity is charged against expense. The offsetting entry is recorded as a discount on CHP *Plus* advances, which is amortized on the level-yield method over the term of the related CHP *Plus* advance.

Prepayment Fees - The FHLBank charges prepayment fees to its stockholders when certain advances are repaid before their original maturities. Such fees are credited to other income when received. The FHLBank nets gains and losses on interest rate exchange agreements associated with prepaid advances against prepayment fees in other income.

The FHLBank evaluates whether new advances meet the criteria to qualify as a modification of an existing advance or as a new advance. If the advance qualifies as a modification, the net prepayment fee received on the prepaid advance is deferred and included in the basis of the advance. The basis adjustment is amortized over the life of the modified advance to advance interest income. If the modified advance is hedged, the advance is marked to fair value inclusive of the basis adjustment. As the basis adjustment of the hedged advance is amortized over the remaining life of the advance, an offsetting amount to the fair value mark is recorded in "net realized and unrealized gain (loss) on derivatives and hedging activities" in other income. The offsetting amortization amounted to $1,400,000 in 2003 and $0 in both 2002 and 2001. The net prepayment fees are recorded in other income if it is determined the advance should be treated as a new advance.

Commitment Fees - Commitment fees for advances are deferred and amortized to interest income over the term of the related advance using a method that approximates the level-yield method. Commitment fees for letters of credit are recorded as deferred credits when received and amortized over the terms of the letters of credit.

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

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

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

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

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

Hedging Activities -
General - As a means of managing its exposure to changes in interest rates, the FHLBank may enter into interest rate swaps, swaptions, cap and floor agreements and futures and forward contracts (collectively called interest rate exchange agreements). To achieve the risk management objectives of the FHLBank's asset/liability program, the interest rate exchange agreements may be used to extend the maturity of short-term financial instruments or adjust the effective maturity, repricing frequency or option-related characteristics of certain long-term financial instruments. The FHLBank uses interest rate exchange agreements in three ways: by designating them as either a fair value or cash flow hedge of an underlying financial instrument or a forecasted transaction; by acting as an intermediary; or in asset/liability management (i.e., a non-SFAS 133 economic hedge). For example, the FHLBank uses interest rate exchange agreements in its overall interest rate risk management to adjust the interest rate sensitivity of consolidated obligations to approximate more closely the interest rate sensitivity of assets (both advances and investments) and/or to adjust the interest rate sensitivity of advances, investments or mortgage loans to approximate more closely the interest rate sensitivity of liabilities. In addition to using interest rate exchange agreements to manage mismatches of interest rates between assets and liabilities, the FHLBank also uses interest rate exchange agreements to manage embedded options in assets and liabilities, to hedge the market value of existing assets, liabilities and anticipated transactions, to hedge the duration risk of prepayable instruments and to reduce funding costs.

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

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

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

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

The FHLBank has not issued consolidated obligations denominated in currencies other than in U.S. dollars and, therefore, has no foreign currency derivatives.

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

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

Mortgage Loans - The FHLBank invests in mortgage assets. The prepayment options embedded in mortgage assets can result in extensions or contractions in the expected maturities of these investments, depending on changes in estimated prepayment speeds. The FHLBank may manage against prepayment and duration risk by funding some mortgage assets with consolidated obligations that have call features. In addition, the FHLBank may use interest rate exchange agreements to manage the prepayment and duration variability of mortgage assets. Net income could be reduced if the FHLBank replaces the mortgages with lower-yielding assets but does not correspondingly reduce its higher funding costs.

The FHLBank manages the interest rate and prepayment risk associated with mortgages through a combination of debt issuance and derivatives. The FHLBank issues both callable and non-callable debt to achieve cash flow patterns and liability durations similar to those expected on the mortgage loans. The FHLBank may use derivatives to match the expected prepayment characteristics of the mortgages. Interest rate swaps, to the extent the payments on the mortgages result in simultaneous reduction of the notional amount on the swaps, may receive fair-value hedge accounting under which changes in the fair value of the swaps and changes in the fair value of the mortgages that are attributable to the hedged risk are recorded in current-period earnings.

A combination of swaps and options, including futures, may be used as a portfolio of derivatives linked to a portfolio of mortgage loans. The portfolio of mortgage loans consists of one or more pools of similar assets as designated by factors such as product type and coupon. As the portfolio of loans changes due to new loans, liquidations and payments, the derivative portfolio is modified accordingly to hedge the interest rate and prepayment risks effectively. A new hedging relationship is created with each change to the loan portfolio.

Options may also be used to hedge prepayment risk on the mortgages, many of which are not identified to specific mortgages and, therefore, do not receive fair value or cash flow hedge accounting treatment. The options are marked-to-market through current earnings. The FHLBank may also purchase interest rate caps and floors, swaptions, callable swaps, calls and puts to manage the prepayment risk embedded in the mortgage loans. Although these derivatives are valid economic hedges against the prepayment risk of the loans, they are not specifically linked to individual loans and, therefore, do not receive either fair value or cash flow hedge accounting. The derivatives are marked-to-market through earnings.

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

Firm Commitment Strategies – Mandatory mortgage delivery commitments entered into after June 30, 2003, are considered derivatives. The FHLBank may hedge these commitments by selling mortgage-backed securities to be announced or other derivatives for forward settlement. Accordingly, both the commitment and the derivative used in the firm commitment hedging strategy are recorded as a derivative asset or derivative liability at fair value, with changes in fair value recognized in the current-period earnings. When the mortgage delivery commitment derivative settles, the current market value of the commitment is included with the basis of the mortgage loan and amortized accordingly.

The FHLBank may designate mandatory mortgage delivery commitment derivatives as a cash flow hedge of the anticipated purchase of mortgage loans. The change in value of the delivery commitment is recorded as a basis adjustment on the resulting loans with offsetting changes in accumulated other comprehensive income in the statement of condition. The basis adjustments on the resulting loans and the balance in accumulated other comprehensive income are then amortized into net interest income in offsetting amounts over the average lives of the resulting loans, resulting in no impact on earnings.

Investments - The FHLBank invests in U.S. Treasury securities, U.S. agency securities, mortgage-backed securities and the taxable portion of state or local housing finance agency securities. The interest rate and prepayment risk associated with these investment securities is managed through a combination of debt issuance and derivatives. The FHLBank may manage against prepayment and duration risk by funding investment securities with consolidated obligations that have call features. The FHLBank may also manage the risk arising from changing market prices and volatility of investment securities by matching the cash outflow on the interest rate exchange agreements with the cash inflow on the investment securities. The FHLBank's derivatives currently associated with investment securities are designated as economic hedges with the changes in fair values of the derivatives being recorded in current earnings. The hedged investment securities are classified as "securities held at fair value" (see the previous "Investments" section regarding accounting for securities held at fair value).

For available-for-sale securities that have been hedged with qualifying fair value hedges, the FHLBank records the portion of the change in value related to the risk being hedged in other income as "net realized and unrealized gain (loss) on derivatives and hedging activities" together with the related change in the fair value of the interest rate exchange agreement, and the remainder of the change in other comprehensive income as "net unrealized gain (loss) on available-for-sale securities." For available-for-sale securities that have been hedged with qualifying cash flow hedges, the FHLBank records the effective portion of the change in value of the derivative related to the risk being hedged in other comprehensive income as "net unrealized gain (loss) relating to hedging activities." The ineffective portion is recorded in other income as "net realized and unrealized gain (loss) on derivatives and hedging activities."

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

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

To meet the hedging needs of its stockholders, the FHLBank enters into offsetting interest rate exchange agreements, acting as an intermediary between stockholders and other non-stockholder counterparties. This intermediation allows smaller stockholders indirect access to the swap market. The derivatives used in intermediary activities do not receive SFAS 133 hedge accounting and are separately marked-to-market through earnings. The net result of the accounting for these derivatives does not significantly affect the operating results of the FHLBank.

The differentials between accruals of interest receivables and payables on interest rate exchange agreements designated as fair value or cash flow hedges are recognized as adjustments to the income or expense of the designated underlying investment securities, advances, consolidated obligations or other financial instruments. The differentials between accruals of interest receivables and payables on intermediated interest rate exchange agreements for stockholders and other economic hedges are recognized as other income.

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

Premises and Equipment - These assets are stated at cost, less accumulated depreciation and amortization of $1,352,000 and $628,000 as of December 31, 2003 and 2002, respectively. Depreciation is computed on the straight-line method over the estimated useful lives of the assets ranging from three to 20 years. Leasehold improvements are amortized using the straight-line method over the estimated useful life of the improvement or the remaining term of the lease (whichever is shorter). Improvements and major renewals are capitalized and ordinary maintenance and repairs are expensed as incurred. Depreciation and amortization expense was $771,000, $482,000 and $180,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Gains and losses on disposals are included in other income. The net realized loss on disposal of premises and equipment was $146,000, $11,000 and $0 in 2003, 2002 and 2001, respectively.

Concessions on Consolidated Obligations - The amounts paid to dealers in connection with sales of consolidated obligation bonds are deferred and amortized using a method that approximates the level-yield method over the terms or estimated lives of the bonds. Concession amounts are prorated to the FHLBank by the Office of Finance based on the percentage of each debt issue that is assumed by the FHLBank. Unamortized concessions were $28,859,000 and $16,703,000 at December 31, 2003 and 2002, respectively, and are included in other assets. Amortization of such concessions are included in consolidated obligation interest expense and totaled $23,884,000, $17,397,000 and $19,099,000 in 2003, 2002, and 2001, respectively. Concessions applicable to the sale of consolidated obligation discount notes are charged to expense as incurred because of the short-term maturities of these notes.

Discounts and Premiums on Consolidated Obligations - The discounts on consolidated obligation discount notes are accreted to expense on the straight-line method throughout the terms of the related notes because of their short-term nature. The discounts and premiums on consolidated obligation bonds are accreted or amortized to expense over the terms or estimated lives of the bond issues using a method that approximates the level-yield method.

Resolution Funding Corp. (REFCORP) Assessments - Although the FHLBank is exempt from all federal, state and local taxation except for real property taxes, it is required to make payments to REFCORP. Each FHLBank is required to pay 20 percent of net earnings after AHP to REFCORP. The FHLBanks will expense these amounts until the aggregate amounts actually paid by all 12 FHLBanks are equivalent to a $300,000,000 annual annuity whose final maturity date is April 15, 2030, at which point the required payment of each FHLBank to REFCORP will be fully satisfied. The Finance Board in consultation with the Secretary of the Treasury will select the appropriate discounting factors to be used in this annuity calculation. The cumulative amount to be paid to REFCORP by FHLBank Topeka cannot be determined at this time due to the interrelationships of all future FHLBanks' earnings. The FHLBanks' prior payments and those for 2003 defease all future benchmark payments after the 3rd quarter of 2020 as well as $21,456,000 of the $75,000,000 benchmark payment for the 3rd quarter of 2020.

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

Board of Directors' Compensation and Travel Expenses - In accordance with Finance Board regulations, the FHLBank has established formal directors' compensation and travel reimbursement policies. The directors' compensation policy includes fees for attending board and committee meetings. During 2003, the FHLBank compensated its directors a total of $271,000, which includes $89,000 that was deferred under a deferred compensation plan. In addition, the FHLBank paid $243,000 during 2003 for director travel and related expenses in connection with the performance of director duties.

Estimated Fair Values - Many of the FHLBank's financial instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. Therefore, the FHLBank has used significant estimations and present value calculations for the purpose of disclosing estimated fair values. Book values are assumed to approximate fair values for financial instruments with three months or less to repricing or maturity. The estimated fair values of the FHLBank's financial instruments and related assumptions are detailed in Note 16.

Cash Flows - For purposes of the statements of cash flows, the FHLBank considers cash on hand and due from banks as cash and cash equivalents.

Reclassifications - Certain amounts in the 2002 and 2001 financial statements have been reclassified to conform to the 2003 presentations. Such reclassifications have no impact on net income or capital.

For the years ended December 31, 2002 and 2001, the FHLBank reclassified realized gains and losses (e.g., net interest payments) on stand-alone derivative instruments used as economic hedges of its risks. Previously, net interest payments on stand-alone derivatives used as economic hedges were classified within "net interest income after mortgage loan loss provision," "service fees" and "other" while unrealized gains (losses) on these derivatives were recorded in "net realized and unrealized gain (loss) on derivatives and hedging activities" within "other income." These amounts have been reclassified and are both now included in "net realized and unrealized gain (loss) on derivatives and hedging activities" for the years ended December 31, 2002 and 2001. Such reclassifications have no impact on net income or capital. The following amounts in the 2002 and 2001 financial statements have been reclassified to conform to the 2003 presentations (amounts in thousands):

	2002		2001	
Classifications	**Original**	**As Reclassified**	**Original**	**As Reclassified**
Net interest income after mortgage loan loss provision	107,541	124,003	127,085	131,711
Service fees	1,515	1,289	1,389	1,286
Net realized and unrealized gain (loss) on derivatives and hedging activities	(64,842)	(80,979)	(4,820)	(9,244)
Other	2,598	2,499	1,747	1,648

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE AND RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

Adoption of SFAS 145: The FHLBank adopted SFAS No. 145, *Rescission of Financial Accounting Standards Board (FASB) Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* (herein referred to as "SFAS 145") on June 30, 2002. SFAS 145 rescinds both SFAS 4, *Reporting Gains and Losses from the Extinguishment of Debt* and the amendment to SFAS 4, SFAS 64, *Extinguishment of Debt made to Satisfy Sinking-Fund Requirements*, which is an amendment of SFAS 4. As a result, SFAS 145 eliminates the requirement that gains and losses from the extinguishment of debt (except for those considered unusual or infrequent in nature) be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. In accordance with the transition provisions of SFAS 145, previously reported gains and losses on early retirement of debt have been reclassified into other income under "other." The amounts reclassified were not material.

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

Adoption of SFAS 150: FASB issued SFAS No. 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"* (herein referred to as "SFAS 150") in May 2003. The FHLBank will adopt SFAS 150 as of the effective date and is currently in the process of assessing the impact of SFAS 150 on its financial statements.

Adoption of SFAS 132 (revised 2003): FASB issued SFAS No. 132 (revised 2003), "*Employers' Disclosures about Pensions and Other Postretirement Benefits"* (herein referred to as "SFAS 132 (revised 2003)") in December 2003. The FHLBank will adopt SFAS 132 (revised 2003) as of the effective date and is currently in the process of assessing the impact, if any, of SFAS 132 (revised 2003) on its related disclosures.

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

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

For a derivative designated as a fair value hedge, the transition adjustment for the derivative was reported as a cumulative effect adjustment of net income. Concurrently, any fair value gain or loss on the hedged item was recognized as an adjustment of the hedged item's carrying amount, but only to the extent of the offsetting transition adjustment of the derivative, and was also reported as a cumulative effect adjustment of net income. The transition provisions contained in SFAS 133 also provided that at the date of initial application, an entity could transfer any security classified as "held-to-maturity" to "available-for-sale" or "trading" (herein referred to as "securities held at fair value") and any security classified as "available-for-sale" to "trading" (herein referred to as "securities held at fair value").

On January 1, 2001, the FHLBank transferred held-to-maturity securities with an amortized cost of $56,649,000 and an estimated fair value of $57,113,000 into the available-for-sale category. The unrealized net gain as of the transfer date was $464,000 and was recognized in the accumulated other comprehensive income component of Capital as part of the cumulative effect of adopting the new accounting principle in 2001. In addition, the FHLBank transferred held-to-maturity securities with an amortized cost of $250,807,000 and an estimated fair value of $253,006,000 into the securities held at fair value category. The unrealized net gain as of the transfer date was $2,199,000 and has been shown as an increase to the FHLBank's results of operations in 2001 as a cumulative effect of a change in accounting principle.

The remaining cumulative effect of adjustments related to fair value hedges and derivative transactions either not designated as hedges under SFAS 133 or not meeting the requirements for fair value or cash flow hedges has been shown as a credit to the FHLBank's results of operations in 2001 as part of the cumulative effect of a change in accounting principle, which increased net income by $2,236,000. These factors combined resulted in a net gain at transition on January 1, 2001, totaling $4,435,000. In addition, the FHLBank recognized a loss of $1,161,000 related to cash flow hedges in accumulated other comprehensive income as part of the cumulative effect of a change in accounting principle at transition, which decreased capital.

In accordance with the transition provisions of SFAS 133, the FHLBank recorded the following cumulative effect adjustments in earnings as of January 1, 2001 (amounts in thousands):

Net adjustments related to fair value hedges and derivative transactions either not designated as hedges under SFAS 133 or not meeting the requirements for fair value or cash flow hedges	$	2,236
Unrealized net gains on investments transferred from "held-to-maturity" to "securities held at fair value"		2,199
TOTAL CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE ON EARNINGS	$	4,435

In addition, the FHLBank recorded the cumulative effect adjustments in other comprehensive income (OCI) as of January 1, 2001, and recorded changes in other comprehensive income for the years ended December 31, 2003, 2002 and 2001, as follows (amounts in thousands):

Net adjustments related to cash flow hedges as of January 1, 2001	$	(1,161)
Unrealized gains on investments transferred from "held-to-maturity" to "available-for-sale"		464
Total cumulative effect of change in accounting principle on OCI at January 1, 2001		(697)
Net amounts reclassified into earnings year-to-date, December 31, 2001		(750)
Net change associated with cash flow hedging activities year-to-date, December 31, 2001		1,471
Total cumulative effect of change in accounting principle on OCI on January 1, 2001, and net change related to hedging activities during the year ended December 31, 2001		24
Net amounts reclassified into earnings year-to-date, December 31, 2002		(127)
Net change associated with cash flow hedging activities year-to-date, December 31, 2002		18
Total cumulative effect of adoption on OCI on January 1, 2001, and net change related to hedging activities through December 31, 2002		(85)
Net amounts reclassified into earnings year-to-date, December 31, 2003		233
Net change associated with cash flow hedging activities year-to-date, December 31, 2003		(185)
ACCUMULATED OCI RELATED TO HEDGING ACTIVITIES AT DECEMBER 31, 2003	$	(37)

As a result of SFAS 133, for the years ended December 31, 2003, 2002 and 2001, the FHLBank recorded net gains (losses) on derivatives and hedging activities of $15,908,000, ($80,979,000) and ($9,244,000), respectively, in earnings, which are classified as "net realized and unrealized gain (loss) on derivatives and hedging activities" on the statements of income. All of the gains and losses from fair value and cash flow hedges represent the amount of the hedges' ineffectiveness. Additionally, there were no amounts for the years ended December 31, 2003, 2002 and 2001, that were reclassified into earnings as a result of the discontinuance of cash flow hedges because it became probable that the original forecasted transactions would not occur by the end of the originally specified time period or within a two-month period thereafter. As of December 31, 2003, the deferred net gains (losses) on derivative instruments accumulated in other comprehensive income expected to be reclassified to earnings during the next 12 months are not material. Net unrealized gains/losses (net of changes in the fair value of the hedged asset or liability) by type of derivative for the years ended December 31, 2003, 2002 and 2001, are included in the following table (amounts in thousands):

	2003	2002	2001
Fair value hedges	$ 16,319	$ 5,524	$ 7,912
Cash flow hedges	41	205	(89)
Economic derivatives	(452)	(86,708)	(17,067)
TOTALS	$ 15,908	$ (80,979)	$ (9,244)

Change in Accounting Principle: Effective July 1, 2003, the FHLBank changed its method of amortizing/accreting concessions (amounts paid to dealers in connection with sales of consolidated obligation bonds) and premiums/discounts on consolidated obligation bonds. Prior to July 1, 2003, these amounts were amortized/accreted over the weighted-average lives (WAL) of the consolidated obligation bonds. Currently, these amounts are amortized/accreted to the maturity date of the consolidated obligation bonds. Both methods are acceptable under generally accepted accounting principles. The FHLBank elected to change to maturity date because it believed that, within the restrictions of its current accounting systems, this methodology was a more precise application of generally accepted accounting principles than using WAL. The cumulative effect of this accounting change for years prior to 2003 is not reasonably determinable, nor are the pro forma effects of retroactive application to prior years. The estimated effect of the change in 2003 for consolidated obligation bonds outstanding on the date of the change was to increase net income by $3.8 million.

NOTE 3 - CASH AND DUE FROM BANKS

Pass-through Deposit Reserves: The FHLBank acts as a pass-through correspondent for stockholders required to deposit reserves with the Federal Reserve Banks. The amount shown as cash and due from banks includes $561,000 and $652,000 of reserve deposits with the Federal Reserve Banks as of December 31, 2003 and 2002, respectively. Stockholder reserve balances are included in other liabilities.

NOTE 4 - HELD-TO-MATURITY SECURITIES

Major Security Types: Held-to-maturity securities as of December 31, 2003, are summarized in the following table (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Values
FHLBank obligations	$ 20,000	$ 63	$ 0	$ 20,063
Other U.S. agency obligations	911,280	17,941	27	929,194
State or local housing agency obligations	531,601	7,549	8,396	530,754
Commercial paper	998,849	0	0	998,849
Subtotal	2,461,730	25,553	8,423	2,478,860
Mortgage-backed securities	5,166,719	48,823	26,354	5,189,188
TOTAL	$ 7,628,449	$ 74,376	$ 34,777	$ 7,668,048

Held-to-maturity securities as of December 31, 2002, are summarized in the following table (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Values
U.S. agency obligations other than FHLBank	$ 698,587	$ 26,475	$ 0	$ 725,062
State or local housing agency obligations	688,947	14,644	6,212	697,379
Commercial paper	908,145	0	0	908,145
Subtotal	2,295,679	41,119	6,212	2,330,586
Mortgage-backed securities	4,545,343	56,913	29,709	4,572,547
TOTAL	$ 6,841,022	$ 98,032	$ 35,921	$ 6,903,133

The amortized cost of the FHLBank's mortgage-backed securities included net discounts of $2,109,000 as of December 31, 2003, and net premiums of $2,915,000 as of December 31, 2002. Other investments included net premiums of $3,280,000 as of December 31, 2003, and net discounts of $1,427,000 as of December 31, 2002.

Redemption Terms: The amortized cost and estimated fair values of held-to-maturity securities by contractual maturity as of December 31, 2003 and 2002, are shown in the following table (in thousands). Expected maturities of certain securities and mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

	2003		2002	
	Amortized Cost	Estimated Fair Values	Amortized Cost	Estimated Fair Values
Due in one year or less	$ 1,201,568	$ 1,201,818	$ 1,209,506	$ 1,214,404
Due after one year through five years	675,070	693,096	411,141	433,620
Due after five years through 10 years	130,557	134,985	88,821	96,256
Due after 10 years	454,535	448,961	586,211	586,306
Subtotal	2,461,730	2,478,860	2,295,679	2,330,586
Mortgage-backed securities	5,166,719	5,189,188	4,545,343	4,572,547
TOTAL	$ 7,628,449	$ 7,668,048	$ 6,841,022	$ 6,903,133

Interest Rate Payment Terms: The following table details interest rate payment terms for held-to-maturity securities as of December 31, 2003 and 2002 (in thousands):

	2003	2002
Amortized cost of held-to-maturity securities other than mortgage-backed securities:		
Fixed rate	$ 2,327,265	$ 2,173,659
Variable rate	134,465	122,020
	2,461,730	2,295,679
Amortized cost of held-to-maturity mortgage-backed securities:		
Pass-through securities:		
Fixed rate	71,667	181,326
Variable rate	50,534	41,267
Collateralized mortgage obligations:		
Fixed rate	3,875,417	3,080,747
Variable rate	1,169,101	1,242,003
	5,166,719	4,545,343
TOTAL	$ 7,628,449	$ 6,841,022

Gains and Losses: Net gains were realized on the sale of securities during the years ended December 31, 2003 and 2001, and are included in other income. In both years, held-to-maturity securities, for which a substantial portion of the principal outstanding at acquisition had been collected because of prepayments on the debt securities, were sold. There were no sales of securities during 2002. Following are details of the 2003 and 2001 sale (in thousands):

	2003	2001
Total proceeds	$ 77,961	$ 39,605
Gross gains	$ 1,268	$ 453
Gross losses	(60)	(26)
NET GAIN	$ 1,208	$ 427

The following table summarizes the held-to-maturity securities with unrealized losses as of December 31, 2003. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous loss position.

	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Values	Unrealized Losses	Estimated Fair Values	Unrealized Losses	Estimated Fair Values	Unrealized Losses
U.S. agency obligations other than FHLBank	$ 59,015	$ 27	$ 0	$ 0	$ 59,015	$ 27
State or local housing agency obligations	102,800	7,830	6,389	566	109,189	8,396
Mortgage-backed securities	1,945,075	26,104	61,669	250	2,006,744	26,354
Total temporarily impaired securities	$ 2,106,890	$ 33,961	$ 68,058	$ 816	$ 2,174,948	$ 34,777

The FHLBank concluded that, based on the creditworthiness of the issuers and/or any underlying collateral, the loss on each security in the above table represents a temporary impairment and does not require adjustment to the carrying amount of any of the individual securities.

NOTE 5 - AVAILABLE-FOR-SALE SECURITIES

Major Security Types: Available-for-sale securities as of December 31, 2003, are summarized in the following table (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Values
U.S. Treasury obligations	$ 223,932	$ 0	$ 7,744	$ 216,188

Redemption Terms: The amortized cost and estimated fair values of available-for-sale securities by contractual maturity as of December 31, 2003, are shown in the following table (in thousands). Expected maturities of certain securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

	Amortized Cost	Estimated Fair Values
Due in one year or less	$ 0	$ 0
Due after one year through five years	104,243	101,438
Due after five years through 10 years	119,689	114,750
Due after 10 years	0	0
TOTAL	$ 223,932	$ 216,188

Interest Rate Payment Terms: The following table details interest rate payment terms for available-for-sale securities as of December 31, 2003 (in thousands):

Amortized cost of available-for-sale securities:	
Fixed rate	$ 223,932

The following table summarizes the available-for-sale securities with unrealized losses as of December 31, 2003. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous loss position.

	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Values	Unrealized Losses	Estimated Fair Values	Unrealized Losses	Estimated Fair Values	Unrealized Losses
U.S. Treasury obligations	$ 216,188	$ 7,744	$ 0	$ 0	$ 216,188	$ 7,744
Total temporarily impaired securities	$ 216,188	$ 7,744	$ 0	$ 0	$ 216,188	$ 7,744

The FHLBank concluded that, based on the creditworthiness of the issuer, the loss on each security in the above table represents a temporary impairment and does not require adjustment to the carrying amount of any of the individual securities.

There were no available-for-sale securities held as of December 31, 2002 or 2001. As previously stated in Note 2, the FHLBank transferred held-to-maturity securities with an amortized cost of $56,649,000 and an estimated fair value of $57,113,000 into the available-for-sale category on January 1, 2001 (the initial adoption date of SFAS 133, as amended). The unrealized net gain as of the transfer date was $464,000 and was recognized in the accumulated other comprehensive income component of Capital, as part of the cumulative effect of adopting the new accounting principle in 2001.

During November 2001, the cash flow hedges designated to these securities were redesignated by the FHLBank. Concurrently, the FHLBank transferred the remaining balance of available-for-sale securities with an amortized cost of $29,550,000 and unrealized gains of $1,104,000 into the securities held at fair value category. These unrealized gains previously included in other comprehensive income on the statements of condition were then included in the separate line on the statements of income titled "net gain on securities held at fair value."

Unrealized gains and losses on the cash flow hedges designated to these securities were included in other comprehensive income on the statements of condition during 2001. The accumulated net loss as of the date of transfer for these hedges is being amortized to income over the terms or estimated lives of the transferred securities. As of December 31, 2001, the unamortized net loss included in other comprehensive income for these redesignated hedges was $355,000.

NOTE 6 - SECURITIES HELD AT FAIR VALUE

Major Security Types: Securities held at fair value as of December 31, 2003 and 2002, are summarized in the following table (in thousands):

	Estimated Fair Values	
	2003	2002
FHLBank obligations	$ 16,356	$ 16,765
Other U.S. agency obligations	570,476	479,700
Subtotal	586,832	496,465
Mortgage-backed securities	10,192	17,832
TOTAL	$ 597,024	$ 514,297

Redemption Terms: The estimated fair values of securities held at fair value by contractual maturity as of December 31, 2003 and 2002, are shown in the following table (in thousands). Expected maturities of certain securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

	2003	2002
Due in one year or less	$ 101,687	$ 0
Due after one year through five years	104,598	108,340
Due after five years through 10 years	380,547	388,125
Due after 10 years	0	0
Subtotal	586,832	496,465
Mortgage-backed securities	10,192	17,832
TOTAL	$ 597,024	$ 514,297

Net gains on securities held at fair value during the years ended December 31, 2003 and 2002, included a change in net unrealized holding gain of ($9,098,000) and $44,380,000 for securities held on December 31, 2003 and 2002.

NOTE 7 - ADVANCES

Redemption Terms: As of December 31, 2003 and 2002, the FHLBank had advances outstanding at interest rates ranging from zero percent (AHP advances, see Note 8) to 8.64 percent at both year-ends as summarized in the following table (in thousands):

	December 31, 2003		December 31, 2002	
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2003			$ 9,384,919	1.69 %
2004	$ 10,410,443	1.29 %	1,226,127	2.85
2005	1,500,282	2.69	1,357,533	3.96
2006	1,254,582	3.16	1,036,985	3.47
2007	1,424,150	2.66	1,351,005	2.71
2008	1,156,295	3.89	775,940	4.90
Thereafter	10,180,944	4.86	9,518,226	5.16
Total par value	25,926,696	3.05 %	24,650,735	3.44 %
Unamortized commitment fees	(243)		(13)	
Unaccreted discount on HCD advances	(28)		(62)	
Advance premium	224		0	
SFAS 133 fair value adjustments	959,976		1,275,467	
TOTAL	$ 26,886,625		$ 25,926,127	

In general, a borrower is charged a prepayment fee when an advance is repaid before its stated maturity. Prepayment fees are calculated using methods that make the FHLBank financially indifferent to the advance prepayments. The FHLBank's advances outstanding include advances that contain call options that may be exercised without prepayment fees at the borrower's discretion on specific dates (call dates) before the stated advance maturities (callable advances). The borrowers normally exercise their call options on these advances when interest rates decline (fixed-rate advances) or spreads change (variable-rate advances). The FHLBank's advances as of December 31, 2003 and 2002, include callable advances totaling $779,206,000 and $1,359,593,000, respectively. Of these callable advances, there were $755,100,000 and $1,331,022,000 of variable-rate advances as of December 31, 2003 and 2002, respectively. The table below summarizes the FHLBank's advances by year of maturity or by the next call date for callable advances (in thousands):

Year of Maturity or Next Call Date	2003	2002
2003		$ 9,721,738
2004	$ 11,063,307	1,231,547
2005	1,483,553	1,358,152
2006	1,247,987	1,035,938
2007	1,424,609	1,351,503
2008	945,021	661,896
Thereafter	9,762,219	9,289,961
TOTAL PAR VALUE	$ 25,926,696	$ 24,650,735

The FHLBank's advances outstanding also include advances that contain conversion options that may be exercised at the FHLBank's discretion on specific dates (conversion dates) before the stated advance maturities (convertible advances). With convertible advances, the FHLBank effectively purchases put options from the borrowers that allow the FHLBank to convert the fixed-rate advances to floating-rate advances. In exchange for the options, borrowers are charged interest rates that are below those for fixed-rate advances with comparable maturities. The FHLBank normally exercises its conversion options on these advances when interest rates increase. The FHLBank's advances as of December 31, 2003 and 2002, included convertible advances totaling $8,820,508,000 and $10,311,433,000, respectively. The following table summarizes the FHLBank's advances by year of maturity or by the next conversion date for convertible advances (in thousands):

Year of Maturity or Next Conversion Date	2003	2002
2003		$ 16,670,353
2004	$ 16,484,396	2,894,896
2005	2,041,857	1,493,283
2006	1,520,867	978,270
2007	897,452	815,307
2008	977,870	260,890
Thereafter	4,004,254	1,537,736
TOTAL PAR VALUE	$ 25,926,696	$ 24,650,735

Security Terms: The FHLBank lends to stockholders and approved housing associates involved in housing finance within the Tenth District, which comprises the states of Colorado, Kansas, Nebraska and Oklahoma. Advances are made in accordance with federal statutes, including the Act as amended. The FHLBank is required by statute to obtain sufficient collateral on advances to protect against losses and to accept as collateral on such advances only U.S. government or government agency securities, residential mortgage loans, deposits in the FHLBank and other qualified real estate-related assets. However, "Community Financial Institutions" (CFIs) can avail themselves of the expanded statutory collateral provisions dealing with small business or agriculture loans. As provided in the Act, a borrowing stockholder's investment in the capital stock of the FHLBank is pledged as additional collateral on the stockholder's advances. The Act also requires that the aggregate advances made to a stockholder not exceed 20 times the borrowing stockholder's investment in the capital stock of the FHLBank. As of December 31, 2003 and 2002, the FHLBank had rights to collateral with an estimated value in excess of outstanding advances.

All advances outstanding as of December 31, 2003 and 2002, were collateralized by the above types of collateral pursuant to written security agreements. Based on the financial condition of a stockholder that has advances outstanding, the FHLBank allows two options: (a) stockholders can physically retain collateral assigned to the FHLBank provided they execute written security agreements and agree to hold such collateral for the benefit of the FHLBank; or (b) stockholders can specifically assign or physically place such collateral with the FHLBank or its safekeeping agent.

Beyond these provisions, Section 10(e) of the Act affords any security interest granted by a stockholder to the FHLBank priority over the claims or rights of any other party. The two exceptions are claims of bona fide purchasers for value and actual secured parties holding perfected security interests, provided that those claims would be entitled to priority under otherwise applicable law.

Credit Risk: While the FHLBank has never experienced a credit loss on an advance to a stockholder, the expanded eligible collateral for CFIs and non-stockholder housing associates provides the potential for additional credit risk for the FHLBank. FHLBank management has policies and procedures in place to appropriately manage this credit risk. Accordingly, the FHLBank has not established an allowance for credit losses on advances.

The FHLBank's potential credit risk from advances is concentrated in commercial banks and savings institutions. As of December 31, 2003, the FHLBank had outstanding advances of $11,742,500,000 to three stockholders representing 45.29 percent of total outstanding advances. The income from advances to these stockholders during 2003 totaled $389,728,000. The FHLBank had rights to collateral with an estimated value in excess of book value of these advances and, therefore, does not expect to incur any credit losses on these advances.

Interest Rate Payment Terms: The following table details additional interest rate payment terms for advances as of December 31, 2003 and 2002 (in thousands):

	2003	2002
Par amount of advances:		
Fixed rate	$ 20,882,171	$ 19,410,457
Variable rate	5,044,525	5,240,278
TOTAL	$ 25,926,696	$ 24,650,735

Information about the estimated fair value of the advances is included in Note 16.

NOTE 8 - AFFORDABLE HOUSING PROGRAM (AHP)

The Act, as amended by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, requires each FHLBank to establish an AHP. As a part of its AHP, the FHLBank provides subsidies in the form of direct grants or below-market interest rate advances to stockholders that use the funds to assist in the purchase, construction or rehabilitation of housing for very low-, low- and moderate-income households. To fund the AHP, the 12 district FHLBanks as a group must annually set aside the greater of $100,000,000 or 10 percent of the current year's income before charges for AHP but after the assessment to REFCORP (see Note 1). The amount set aside is charged to income and recognized as a liability. As subsidies are provided, the AHP liability is reduced accordingly.

If the result of the aggregate 10 percent calculation described above is less than the $100,000,000 minimum, the shortfall is allocated among the FHLBanks based on the ratio of each FHLBank's income before AHP and REFCORP to the sum of the income before AHP and REFCORP of the 12 district FHLBanks. There was no shortfall in either 2003 or 2002.

As of December 31, 2003, the FHLBank's AHP accrual on its statements of condition consisted of $11,842,000 for the 2004 AHP (uncommitted, including amounts recaptured and reallocated from prior years) and $12,485,000 for prior years' AHP (committed but undisbursed).

The FHLBank had outstanding principal in AHP-related advances of $54,000 and $225,000 at December 31, 2003 and 2002, respectively.

NOTE 9 - MORTGAGE LOANS HELD FOR PORTFOLIO

The Mortgage Partnership Finance (MPF) Program involves the FHLBank investing in mortgage loans, which are either funded by the FHLBank through or purchased from its participating stockholders. The total loans represent held-for-investment loans under the MPF Program whereby participating FHLBank stockholders originate and credit enhance home mortgage loans that are owned by the FHLBank. Dependent upon a stockholder's product selection, however, the servicing rights can be retained or sold by the participating stockholder. The following table presents information as of December 31, 2003 and 2002, on mortgage loans held for portfolio (in thousands):

	2003	2002
Real Estate:		
Fixed rate, medium-term, single-family mortgages	$ 299,867	$ 70,623
Fixed rate, long-term, single-family mortgages	379,336	128,741
Unamortized net premiums/(discounts)	4,524	592
Deferred loan costs, net	550	76
SFAS 133 fair value adjustments	(400)	0
Total Before Allowance For Mortgage Loan Losses	$ 683,877	$ 200,032

The par value of mortgage loans held for portfolio outstanding at December 31, 2003 and 2002, was comprised of government insured loans totaling $40,273,000 and $17,660,000, respectively, and conventional loans totaling $638,930,000 and $181,704,000, respectively.

The allowance for mortgage loan losses as of December 31, 2003 and 2002, respectively was as follows (in thousands):

	2003	2002
Balance, beginning of year	$ 52	$ 19
Provision for mortgage loan losses	77	40
Charge-offs	(7)	(7)
Recoveries	7	0
Balance, end of year	$ 129	$ 52

At December 31, 2003 and 2002, the FHLBank had $66,000 and $140,000, respectively, of nonaccrual loans.

The estimated fair value of the mortgage loans held for portfolio as of December 31, 2003 and 2002, is reported in Note 16.

Mortgage loans, other than those included in large groups of smaller-balance homogeneous loans, are considered impaired when, based on current information and events, it is probable that the FHLBank will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage loan agreement. At December 31, 2003 and 2002, the FHLBank had no recorded investments in impaired mortgage loans.

NOTE 10 - DEPOSITS

The FHLBank offers demand and overnight deposit programs to its stockholders and to other qualifying non-stockholders. In addition, the FHLBank offers short-term deposit programs to its stockholders.

NOTE 11 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The FHLBank has entered into sales of securities under agreements to repurchase with a limited number of securities dealers, all of which the Federal Reserve Bank of New York has designated as "primary dealers." The amounts received under these agreements represent short-term borrowings and are reflected as liabilities in the statements of condition. The securities sold under agreements to repurchase are delivered to the primary dealers. If during the terms of the agreements the market values of the underlying securities increase above or decrease below the market value required as collateral, adjustments will be made to the principal amounts of the repurchase agreements or to the amount of securities delivered to the primary dealer. There were no securities sold under agreements to repurchase as of December 31, 2003 or 2002, or at any time during 2003. Repurchase liabilities averaged $16,479,000 and $1,346,000 during 2002 and 2001, respectively. The maximum amount outstanding at any time during 2002 and 2001 was $200,500,000 and $70,183,000, respectively.

NOTE 12 - CONSOLIDATED OBLIGATIONS

Consolidated obligations are the joint and several obligations of the FHLBanks and consist of bonds and discount notes. The FHLBanks issue consolidated obligations through the Office of Finance as their agent. Consolidated obligation bonds are issued primarily to raise intermediate- and long-term funds for the FHLBanks and are not subject to any statutory or regulatory limits as to maturities. Consolidated obligation discount notes, which are issued to raise short-term funds, are issued at less than their face amounts and redeemed at par when they mature.

The par value of outstanding consolidated obligations of all FHLBanks, including consolidated obligations held by other FHLBanks, was approximately $759,510,000,000 and $680,695,000,000 as of December 31, 2003 and 2002, respectively. Regulations require the 12 FHLBanks to maintain, in aggregate, unpledged qualifying assets in an amount equal to the outstanding consolidated obligations. Qualifying assets are defined as cash; secured advances; assets with an assessment or rating at least equivalent to the current assessment or rating of the FHLBank consolidated obligations; obligations, participations, mortgages or other securities of, or issued by, the United States or an agency of the United States; and securities such as fiduciary and trust funds invested in under the laws of the state in which the FHLBank is located.

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

To provide the holders of consolidated obligations issued before January 29, 1993, (prior bondholders) protection equivalent to that provided under the FHLBanks' previous leverage limit of 12 times its capital stock, prior bondholders have a singular claim on a certain amount of the qualifying assets (Special Asset Account or SAA) if the FHLBanks' capital stock is less than 8.33 percent of consolidated obligations. As of December 31, 2003 and 2002, respectively, the FHLBanks' combined capital stock was 4.96 and 5.17 percent of the par value of consolidated obligations outstanding, and the required minimum SAA balance was approximately $24,000,000 and $24,000,000. If an FHLBank's capital-to-asset ratio falls below 2 percent, that FHLBank is required to transfer qualifying assets in the amount of its allocated share of the FHLBanks' combined SAA to a trust for the benefit of prior bondholders.

General Terms: Consolidated obligation bonds are issued with either fixed-rate coupon or variable-rate coupon payment terms. Variable-rate coupon bonds use a variety of indices for interest rate resets including the London Interbank Offered Rate (LIBOR), Constant Maturity Treasuries (CMT), Eleventh District Cost of Funds Index (COFI) and others. In addition, to meet the specific needs of certain investors in consolidated obligation bonds, fixed-rate and variable-rate bonds may contain certain features that may result in complex coupon payment terms and call features. When the FHLBank issues such structured bonds that present interest rate or other risks that are unacceptable to the FHLBank, it will simultaneously enter into interest rate exchange agreements containing offsetting features that effectively alter the terms of the bonds to the equivalent of simple fixed-rate coupon bonds or variable-rate coupon bonds tied to indices such as those detailed above.

Consolidated obligation bonds, in addition to having fixed-rate or simple variable-rate coupon payment terms, may also have the following broad terms regarding either the principal repayment or coupon payment:

⇒ Indexed principal redemption bonds (index amortizing notes) that repay principal according to predetermined amortization schedules that are linked to the level of a certain interest rate index. As of December 31, 2003 and 2002, all of the index amortizing notes had fixed-rate coupon payment terms. In general, as market interest rates rise (fall), the maturities of the index amortizing notes extend (contract);

⇒ Optional principal redemption bonds (callable bonds) that may be redeemed in whole or in part at the discretion of the FHLBank on predetermined call dates in accordance with terms of bond offerings;

⇒ Comparative index bonds that have coupons that are determined by the difference between two or more specified market indices such as LIBOR and CMT. Multipliers of more than or less than one are included in the coupon determinations for some of these bonds;

⇒ Conversion bonds that have coupons that may be converted from fixed to variable or variable to fixed at the discretion of the FHLBank;

⇒ Inverse variable-rate bonds that have coupons that increase as the specified index declines and decrease as the specified index rises. Multipliers are included in the coupon determinations for some of these bonds;

⇒ Range bonds that have coupons at variable rates provided the specified interest rate index or other specified index (stock market indices, foreign currency exchange rates, etc.) is within an established range. The computation of the variable interest rate differs for each bond issue but generally pays zero percent or a minimal interest rate if the specified index is outside the established range;

⇒ Step bonds that have coupons at fixed or variable rates for specified intervals over the lives of the bonds. At the end of each specified interval, the coupon rate or variable-rate spread increases (decreases) or steps up (steps down). These bond issues generally contain call provisions enabling the bonds to be called at the FHLBank's option on the step dates; and

⇒ Zero coupon bonds that are long-term, discounted instruments earning fixed yields to maturity or to the optional principal redemption date. All principal and interest payments are made at bond maturity or the optional principal redemption date, if exercised by the FHLBank before bond maturity. Normally, the FHLBank enters into interest rate swap agreements in conjunction with these bonds. The interest rate swap agreements accrue principal receivables equal to the discounts accreted on the bonds. The principal receivables settle at bond maturities or the optional principal redemption dates if exercised by the FHLBank before bond maturities. The payable sides of the interest rate swap agreements settle at regular intervals depending on the variable-rate index.

The Act authorizes the Secretary of the Treasury, at his or her discretion, to purchase FHLBank consolidated obligations aggregating not more than $4,000,000,000. The terms, conditions and interest rates are to be determined by the Secretary of the Treasury. There were no purchases by the Department of the Treasury during the two-year period ending December 31, 2003.

Redemption Terms: Following is a summary of the FHLBank's participation in consolidated obligation bonds outstanding as of December 31, 2003 and 2002 (in thousands):

	December 31, 2003		December 31, 2002	
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2003			$ 4,618,770	3.10 %
2004	$ 2,392,670	3.66 %	2,577,970	3.72
2005	2,407,378	3.58	2,465,473	4.45
2006	3,213,394	3.86	2,869,491	4.93
2007	2,386,140	4.29	3,111,190	4.81
2008	3,647,360	3.58	1,591,000	5.16
Thereafter	12,310,850	5.43	7,199,940	6.12
Index amortizing notes	27,417	5.68	49,194	5.62
Total par value	26,385,209	4.55 %	24,483,028	4.76 %
Premiums	24,017		23,978	
Discounts	(19,276)		(15,465)	
SFAS 133 fair value adjustments	(215,616)		328,756	
TOTAL	$ 26,174,334		$ 24,820,297	

The FHLBank's participation in consolidated obligation bonds outstanding as of December 31, 2003 and 2002, includes callable bonds totaling $16,611,281,000 and $12,947,504,000, respectively. The FHLBank uses the unswapped callable bonds for financing its callable advances (Note 7), mortgage-backed securities (Notes 4 and 6) and MPF mortgage loans (Note 9). Contemporaneous with a majority of its callable bond issues, the FHLBank will also enter into interest rate swap agreements (in which the FHLBank generally pays variable and receives fixed) with call features that mirror the option in the callable bonds (a sold callable swap). The combined sold callable swap and callable debt allows the FHLBank to obtain attractively priced variable-rate financing.

The following table summarizes the FHLBank's participation in consolidated obligation bonds outstanding by year of maturity or by the next call date for callable bonds (in thousands):

Year of Maturity or Next Call Date	2003	2002
2003		$ 15,297,660
2004	$ 18,376,480	3,791,470
2005	2,415,078	1,734,473
2006	2,138,394	1,529,251
2007	776,890	694,190
2008	1,099,480	529,420
Thereafter	1,551,470	857,370
Index amortizing notes	27,417	49,194
TOTAL	$ 26,385,209	$ 24,483,028

Interest Rate Payment Terms: The following table summarizes interest rate payment terms for consolidated obligations as of December 31, 2003 and 2002 (in thousands):

	2003	2002
Par value of consolidated obligations:		
Bonds:		
Fixed rate	$ 14,127,115	$ 17,312,595
Step ups	7,153,260	3,396,240
Comparative index, including range bonds	3,315,350	1,607,150
Fixed, convertible to variable	1,175,400	541,000
Simple variable rate	325,000	1,330,000
Zero coupon	269,084	276,043
Variable, convertible to fixed	20,000	20,000
Total bonds	26,385,209	24,483,028
Discount notes	9,966,984	8,548,278
TOTAL	$ 36,352,193	$ 33,031,306

Information about the estimated fair value of the consolidated obligations is included in Note 16.

Discount Notes: The following table summarizes the FHLBank's participation in consolidated discount notes, all of which are due within one year (in thousands):

	Book Value	Par Value	Weighted Average Interest Rates
December 31, 2003	$ 9,957,427	$ 9,966,984	0.98%
December 31, 2002	$ 8,539,621	$ 8,548,278	1.27%

NOTE 13 - CAPITAL

The Gramm-Leach-Bliley Act (GLB Act) has lead to a number of changes in the capital structure of the FHLBanks. The Finance Board published its final capital rules implementing a new capital structure for the FHLBanks on January 30, 2001. The final rules required each FHLBank to submit a capital structure plan to the Finance Board by October 29, 2001, in accordance with the provisions of the GLB Act and final capital rule. The Finance Board approved FHLBank Topeka's capital plan on July 10, 2002. The GLB Act provides a transition period to the new capital structure of up to three years from the effective date of each FHLBank's capital structure plan. The FHLBank initially established September 30, 2003, as an implementation date for the new plan. However, in August 2003, the FHLBank postponed the implementation date until 2004. FHLBank Topeka's board of directors approved an amended capital plan on December 19, 2003. The amended capital plan was submitted to the Finance Board on December 23, 2003, for approval. Pending Finance Board approval of the FHLBank's amended capital plan, FHLBank Topeka anticipates that it will implement its new capital plan, as amended, as of the close of business on or before December 31, 2004. Until such time as the FHLBank fully implements its new capital plan, the current capital rules remain in effect. In particular, the Federal Home Loan Bank Act of 1932, as amended, requires members to purchase capital stock equal to the greater of 1 percent of their mortgage-related assets or 5 percent of outstanding FHLBank advances. However, the GLB Act removed the provision that required a non-thrift member to purchase additional stock to borrow from the FHLBank if the non-thrift member's mortgage-related assets were less than 65 percent of total assets. Members may, at the FHLBank's discretion, redeem at par value any capital stock greater than their statutory requirement or sell it to other FHLBank members at par value.

When the capital structure plan has been implemented, the FHLBank will be subject to risk-based capital rules. Under the GLB Act and the Finance Board's final capital rule, each FHLBank may offer two classes of stock. Members can redeem Class A stock by giving six months' notice, and members can redeem Class B stock by giving five years' notice. Only "permanent" capital, defined as retained earnings and Class B stock, can satisfy the risk-based capital requirement. In addition, the GLB Act specifies a 5 percent minimum leverage ratio based on total capital and a 4 percent minimum capital ratio that does not include a 1.5 weighting factor applicable to the permanent capital, which is used in determining compliance with the 5 percent minimum leverage ratio.

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

The FHLBank's board of directors may declare and pay dividends in either cash or capital stock out of previously retained earnings and current net earnings.

NOTE 14 - EMPLOYEE RETIREMENT PLANS

The FHLBank participates in the Financial Institutions Retirement Fund (FIRF), a defined benefit plan. Substantially all officers and employees of the FHLBank are covered by the plan. The FHLBank's contributions to FIRF through June 30, 1987, represented the normal cost of the plan. The plan reached the full-funding limitation, as defined by the Employee Retirement Income Security Act, for the plan year beginning July 1, 1987, because of favorable investment and other actuarial experience during previous years. As a result, FIRF suspended employer contributions for all plan years ending after June 30, 1987, through June 30, 2000. Contributions to the plan resumed on July 1, 2000. Funding and administrative costs of FIRF charged to other operating expenses were approximately $1,219,000, $1,009,000 and $718,000 in 2003, 2002 and 2001, respectively. The FIRF is a multiemployer plan and does not segregate its assets, liabilities or costs by participating employer. As a result, disclosure of the accumulated benefit obligations, plan assets and the components of annual pension expense attributable to the FHLBank cannot be made.

The FHLBank also participates in the Financial Institutions Thrift Plan (FITP), a defined contribution plan. The FHLBank contributes a matching amount equal to a percentage of voluntary employee contributions, subject to certain limitations. The FHLBank's contributions of approximately $361,000, $329,000 and $318,000 to the FITP in 2003, 2002 and 2001, respectively, were charged to other operating expenses.

In addition, the FHLBank maintains a deferred compensation plan covering certain senior officers that is, in substance, an unfunded supplemental retirement plan. The cost of this plan charged to other operating expenses was $508,000, $522,000 and $459,000 in 2003, 2002 and 2001, respectively. The related pension liability recorded by the FHLBank consists of the accumulated compensation deferrals and accrued interest on the deferrals. The FHLBank's minimum obligation for this plan was $3,080,000 and $3,010,000 as of December 31, 2003 and 2002, respectively. Operating expense includes deferred compensation and accrued earnings of $94,000, $101,000 and $129,000 in 2003, 2002 and 2001, respectively.

NOTE 15 - INTEREST RATE EXCHANGE AGREEMENTS

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

At December 31, 2003 and 2002, the FHLBank's maximum credit risk, as defined above, was approximately $53,634,000 and $161,753,000, respectively. These totals include $17,321,000 and $68,440,000, respectively, of net accrued interest receivable. In determining maximum credit risk, the FHLBank considers accrued interest receivables and payables and the legal right to offset assets and liabilities by counterparty. The FHLBank held $26,375,000 and $49,020,000 as collateral as of December 31, 2003 and 2002, respectively. Additionally, collateral with respect to interest rate exchange agreements with member institutions includes collateral assigned to the FHLBank, as evidenced by a written security agreement and held by the member institution for the benefit of the FHLBank. The maximum credit risk reflected above applicable to a single counterparty was $32,733,000 and $45,243,000 as of December 31, 2003 and 2002, respectively. The single counterparty was the same each year. Counterparty credit exposure by rating (lower of Moody's Investors Service or Standard & Poor's) as of December 31, 2003, is indicated in the following table (in thousands):

	AAA	AA	A	Member[1]	Total
Total net exposure at fair value	$ 41,334	$ 1,679	$ 5,557	$ 5,064	$ 53,634
Collateral held	23,600	0	2,775	5,064	31,439
Net exposure after collateral	$ 17,734	$ 1,679	$ 2,782	$ 0	$ 22,195
Notional amount	1,840,897	13,761,194	15,774,307	466,699	31,843,097

Counterparty credit exposure by rating (lower of Moody's Investors Service or Standard & Poor's) as of December 31, 2002, is indicated in the following table (in thousands):

	AAA	AA	A	Member[1]	Total
Total net exposure at fair value	$ 67,526	$ 34,207	$ 53,676	$ 6,344	$ 161,753
Collateral held	23,600	2,300	23,120	6,344	55,364
Net exposure after collateral	$ 43,926	$ 31,907	$ 30,556	$ 0	$ 106,389
Notional amount	2,045,897	15,112,974	12,411,058	457,320	30,027,249

[1] Collateral held with respect to interest rate exchange agreements with member institutions represents either collateral physically held by or on behalf of the FHLBank or collateral assigned to the FHLBank as evidenced by a written security agreement and held by the member institution for the benefit of the FHLBank.

The FHLBank transacts a significant portion of its interest rate exchange agreements with major banks and primary broker/dealers. Some of these banks and broker/dealers or their affiliates buy, sell and distribute consolidated obligations. No single entity dominates the FHLBank's interest rate exchange agreement business. Assets pledged as collateral by the FHLBank to these counterparties are discussed more fully in Note 17.

Intermediated Interest Rate Exchange Agreements: Interest rate exchange agreements in which the FHLBank is an intermediary may arise when the FHLBank enters into offsetting interest rate exchange agreements with stockholders and other counterparties to meet the needs of its stockholders.

Below is a summary as of December 31, 2003 and 2002, of the notional principal of interest rate exchange agreements in which the FHLBank is an intermediary (in thousands):

	2003	2002
Interest rate swaps	$ 452,277	$ 514,639
Interest rate caps purchased	10,000	0
Interest rate caps sold	10,000	0
TOTAL	$ 472,277	$ 514,639

NOTE 16 - ESTIMATED FAIR VALUES

The following estimated fair value amounts have been determined by the FHLBank using available market information and the FHLBank's best judgment of appropriate valuation methodologies. These estimates are based on pertinent information available to the FHLBank as of December 31, 2003 and 2002. Although the FHLBank uses its 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 the FHLBank's financial instruments, in certain cases, fair values are not subject to precise quantification or verification and may change as economic and market factors and evaluation of those factors change. Therefore, these estimated fair values are not necessarily indicative of the amounts that would be realized in current market transactions. The Fair Value Summary Tables do not represent an estimate of the overall market value of the FHLBank as a going concern, which would take into account future business opportunities.

Cash and Due From Banks - The estimated fair values approximate the recorded book balances.

Interest Bearing Deposits - For instruments with more than three months to maturity, the estimated fair values are determined by calculating the present values of the expected future cash flows. The discount rates used in these calculations are the market rates for deposits with similar terms.

Overnight Federal Funds Sold - The estimated fair values approximate the recorded book balances.

Term Federal Funds Sold - For instruments with more than three months to maturity, the estimated fair values have been determined by calculating the present values of the expected future cash flows. The discount rates used in these calculations are the market rates for term federal funds with similar terms.

Investment Securities - The estimated fair values of investments are determined based on quoted prices, excluding accrued interest, as of the last business day of each year. Certain investments for which quoted prices are not readily available are valued by third parties or by using internal pricing models deemed appropriate by management.

Advances - For advances with fixed rates and more than three months to maturity and advances with complex variable rates, estimated fair values are determined by calculating the present values of the expected future cash flows from the advances. The calculated present values are reduced by the accrued interest receivable. The discount rates used in these calculations were the replacement advance rates for advances with similar terms. Per Finance Board advance regulations, advances with maturities or repricing periods greater than six months require a fee sufficient to make the FHLBank financially indifferent to the borrower's decision to prepay the advance. Therefore, the estimated fair value of advances does not assume prepayment risk. For advances with variable or fixed rates and less than three months to repricing or maturity, the estimated fair values approximate the recorded book balances.

Mortgage Loans Held for Portfolio - Estimated fair values are determined based on quoted market prices of similar mortgage loans. These prices, however, can change rapidly based upon market conditions and are highly dependent upon the underlying prepayment assumptions.

Commitments - The estimated fair values of the FHLBank's commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers any difference between current levels of interest rates as of December 31, 2002, and the committed rates. In accordance with SFAS 149, such mortgage loan purchase commitments entered into after June 30, 2003, are recorded as derivatives at their fair value.

Accrued Interest Receivable - The estimated fair values approximate the recorded book balances.

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

Deposits - For deposits with fixed rates and more than three months to maturity, estimated fair values are determined by calculating the present values of the expected future cash flows from the deposits. The calculated present values are reduced by the accrued interest payable. The discount rates used in these calculations were the cost of deposits with similar terms. For deposits with variable or fixed rates and less than three months to repricing or maturity, the estimated fair values approximate the recorded book balances.

Consolidated Obligations - The estimated fair values for consolidated obligation bonds and discount notes are determined based on the cost of raising comparable debt. The estimated cost of issuing debt is determined daily based on the secondary market for debt of government sponsored enterprises and other indications from dealers. The estimated cost of issuing debt includes non-interest selling costs. For consolidated obligations with variable or fixed rates and less than three months to repricing or maturity, the estimated fair values approximate the recorded book balances.

Overnight Loans From Other FHLBanks - The estimated fair values approximate the recorded book balances.

Accrued Interest Payable - The estimated fair values approximate the recorded book balances.

Standby Letters of Credit - The estimated fair values of standby letters of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with stockholders as of December 31, 2002. With the adoption of the initial recognition provisions of FIN 45 on January 1, 2003, the value of these guarantees are recognized and recorded in other liabilities.

Standby Bond Purchase Agreements - The estimated fair values of the standby bond purchase agreements are estimated using the present value of the future fees to be collected on existing agreements with fees determined using rates currently charged for similar agreements.

The carrying value, net unrealized gains/(losses) and estimated fair values of the FHLBank's financial instruments as of December 31, 2003, are summarized in the following table (in thousands):

	Carrying Value	Net Unrealized Gains (Losses)	Estimated Fair Values
Assets:			
Cash and due from banks	$ 968	$ 0	$ 968
Interest bearing deposits	2,396,551	0	2,396,551
Overnight federal funds sold	1,462,000	0	1,462,000
Term federal funds sold	335,000	0	335,000
Held-to-maturity securities	7,628,449	39,599	7,668,048
Available-for-sale securities	216,188	0	216,188
Securities held at fair value	597,024	0	597,024
Advances	26,886,868	121,782	27,008,650
Commitments to extend credit for advances	(243)	(235)	(478)
Advances, net	26,886,625	121,547	27,008,172
Mortgage loans held for portfolio, net of allowance	683,748	2,982	686,730
Accrued interest receivable	121,031	0	121,031
Derivative assets	53,634	0	53,634

	Carrying Value	Net Unrealized Gains (Losses)	Estimated Fair Values
Liabilities:			
Deposits	$ 1,141,251	$ 2	$ 1,141,249
Consolidated obligation bonds	26,174,334	(314,347)	26,488,681
Consolidated obligation discount notes	9,957,427	(141)	9,957,568
Accrued interest payable	253,622	0	253,622
Derivative liabilities	1,101,923	0	1,101,923
Other [Asset (Liability)]:			
Standby bond purchase agreements	(54)	830	776

The amortized cost, net unrealized gains/(losses) and estimated fair values of the FHLBank's financial instruments as of December 31, 2002, are summarized below (in thousands):

	Carrying Value	Net Unrealized Gains (Losses)	Estimated Fair Values
Assets:			
Cash and due from banks	$ 422	$ 0	$ 422
Interest bearing deposits	2,228,354	0	2,228,354
Overnight federal funds sold	935,500	0	935,500
Term federal funds sold	910,000	0	910,000
Held-to-maturity securities	6,841,022	62,111	6,903,133
Securities held at fair value	514,297	0	514,297
Advances	25,926,140	181,845	26,107,985
Commitments to extend credit for advances	(13)	158	145
Advances, net	25,926,127	182,003	26,108,130
Mortgage loans held for portfolio, net of allowance	199,980	7,047	207,027
Commitments to extend credit for mortgage loans held for portfolio	0	541	541
Mortgage loans held for portfolio, net	199,980	7,588	207,568
Accrued interest receivable	121,010	0	121,010
Derivative assets	161,753	0	161,753
Liabilities:			
Deposits	1,543,867	0	1,543,867
Consolidated obligation bonds	24,820,297	(385,248)	25,205,545
Consolidated obligation discount notes	8,539,621	(203)	8,539,824
Accrued interest payable	270,872	0	270,872
Derivative liabilities	1,033,171	0	1,033,171

	Carrying Value	Net Unrealized Gains (Losses)	Estimated Fair Values
Other [Asset (Liability)]:			
Standby letters of credit	$ (140)	$ 0	$ (140)
Standby bond purchase agreements	(57)	783	726

NOTE 17 - COMMITMENTS AND CONTINGENCIES

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

Commitments that legally bind and unconditionally obligate the FHLBank for additional advances to stockholders totaled $81,620,000 and $10,300,000 as of December 31, 2003 and 2002, respectively. Commitments are generally for periods not to exceed 180 days. Standby letters of credit are executed for members for a fee. A standby letter of credit is a short-term financing arrangement between the FHLBank and its member stockholder. If the FHLBank is required to make payment for a beneficiary's draw, these amounts are converted into a collateralized advance to the stockholder. Outstanding standby letters of credit totaled $1,942,030,000 and $1,785,256,000 as of December 31, 2003 and 2002, respectively. Unearned fees on standby letters of credit recorded in other liabilities at December 31, 2002, were $140,000. Unearned fees for transactions prior to 2003 as well as the value of the guarantees related to standby letters of credit entered into after 2002 are recorded in other liabilities and amounted to $763,000 at December 31, 2003. The commitments, when drawn as advances, and letters of credit are fully collateralized pursuant to the same written security agreement as that for advances to stockholders (see Note 7). Based upon management's credit analysis and collateral requirements, the FHLBank does not expect to incur any credit losses on the commitments or letters of credit. The estimated fair value of commitments as of December 31, 2003 and 2002, and letters of credit as of December 31, 2002, are reported in Note 16.

Commitments that unconditionally obligate the FHLBank to fund/purchase mortgage loans totaled $30,560,000 and $33,330,000 at December 31, 2003 and 2002, respectively. Commitments are generally for periods not to exceed 60 calendar days. The estimated fair value of commitments as of December 31, 2002, is reported in Note 16. In accordance with SFAS 149, such commitments entered into after June 30, 2003, are recorded as derivatives at their fair value.

The FHLBank has entered into standby bond purchase agreements with state housing authorities within its four-state district whereby the FHLBank, for a fee, agrees to purchase and hold the authorities' bonds until the designated marketing agent can find a suitable investor or the housing authority repurchases the bond according to a schedule established by the standby agreement. Each standby agreement dictates the specific terms that would require the FHLBank to purchase the bond. The bond purchase commitments entered into by the FHLBank expire after five years, no later than 2008, though some are renewable at the option of the FHLBank. Total commitments for bond purchases with two state housing authorities were $640,378,000 and $590,256,000 at December 31, 2003 and 2002, respectively. The FHLBank was not required to purchase any bonds under these agreements during 2003 or 2002. The estimated fair value of standby bond purchase agreements as of December 31, 2003 and 2002, are reported in Note 16.

The FHLBank generally executes interest rate exchange agreements with counterparties having ratings of single-A or better by either Standard & Poor's or Moody's. These agreements are generally covered under bilateral collateral agreements between the FHLBank and the counterparties. As of December 31, 2003 and 2002, the FHLBank had delivered cash and securities with a book value of $700,932,000 and $702,001,000, respectively, as collateral to broker/dealers that have market-risk exposure to the FHLBank. Held-to-maturity securities and securities held at fair value delivered as collateral that can be sold or repledged are identified on the statements of condition. As of December 31, 2003 and 2002, cash that has been pledged in the amount of $321,549,000 and $297,900,000, respectively, is classified as interest bearing deposits on the statements of condition. As of December 31, 2003 and 2002, held-to-maturity securities and securities held at fair value delivered as collateral that cannot be sold or repledged, and thus are not identified on the statements of condition, had a book value of $130,195,000 and $142,131,000, respectively.

As of December 31, 2003, the FHLBank committed to enter into the following financial transactions with January 2004 settlement dates (in thousands):

Description	Par or Notional Amount
Consolidated obligation bonds	$ 287,000
Interest rate exchange agreements	277,000

Net rental costs under operating leases of approximately $224,000, $406,000 and $400,000 in 2003, 2002 and 2001, respectively, for premises and equipment have been charged to other operating expenses. Future minimum net rentals are summarized in the following table (in thousands):

Year	Premises	Equipment	Total
2004	$ 36	$ 49	$ 85
2005	3	31	34
2006	0	27	27
2007	0	6	6
2008	0	0	0
Thereafter	0	0	0
TOTAL	$ 39	$ 113	$ 152

During 2002, the FHLBank entered into a 20-year direct financing lease with a stockholder for a building complex and property. In conjunction with this lease transaction, the FHLBank acquired $50,000,000 in industrial revenue bonds (IRBs) from the City of Topeka, which are collateralized by the building complex and property. The IRBs are recorded in other assets. The FHLBank is leasing the building complex and property from the City of Topeka for a period of 10 years. The IRBs have a maturity of 10 years with interest, principal amounts and payment dates that correspond to the FHLBank's lease with the City of Topeka. All rental payments flow from the FHLBank through a trustee, and FHLBank receives payments on the IRBs. The present value of the net minimum lease payments under this capital lease with the City of Topeka is recorded in other liabilities. The FHLBank is leasing the portion of the property and building occupied by the stockholder back to the stockholder under a 20-year direct financing lease. Either party has the option to terminate this lease after 15 years. The net investment in the direct financing lease with the stockholder is recorded in other assets. The FHLBank's $7,896,000 up-front payment for its portion of the building complex is recorded in premises and equipment.

The following table shows the future minimum lease receivable under the direct financing lease with the stockholder and future minimum lease payment obligation under the capital lease with the City of Topeka as of December 31, 2003 (in thousands):

Year		Lease Receivable		Lease Obligation
2004	$	3,825	$	7,444
2005		3,825		7,156
2006		3,825		6,869
2007		3,825		6,581
2008		3,825		6,294
Thereafter		51,638		22,300
Net minimum lease payments		70,763		56,644
Less amount representing interest		(30,337)		(11,644)
PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS	$	40,426	$	45,000

Unearned income on the direct financing lease is recognized in such a manner as to produce a constant periodic rate of return on the net investment in the direct financing lease.

The FHLBank acts as a securities safekeeping custodian on behalf of participating stockholders. Actual securities are held by a Federal Reserve Bank and a third-party custodian acting as agent for the FHLBank. As of December 31, 2003, the total original par value of customer securities held by the FHLBank under this arrangement was $22,069,055,000.

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

Other commitments and contingencies are discussed in Notes 1, 7, 8, 9, 12, 13, 14 and 15.

FEDERAL HOME LOAN BANK OF TOPEKA
STATEMENTS OF CONDITION

(In thousands, except par value)
(Unaudited)

	March 31, 2004	December 31, 2003	March 31, 2003
ASSETS			
Cash and due from banks	$ 6,378	$ 968	$ 535
Interest bearing deposits	2,003,868	2,396,551	2,981,917
Overnight federal funds sold	1,574,500	1,462,000	513,000
Term federal funds sold	620,000	335,000	542,000
Held-to-maturity securities – includes $199,574, $199,503, and $211,328 pledged as collateral	7,515,262	7,628,449	7,445,865
Available-for-sale securities	110,609	216,188	0
Securities held at fair value – includes $51,043, $49,685 and $51,001 pledged as collateral	606,300	597,024	514,341
Advances	25,725,323	26,886,625	26,499,711
Mortgage loans held for portfolio, net of allowance for credit losses on mortgage loans of $134, $129 and $70	1,258,873	683,748	267,837
Overnight loans to other FHLBanks	200,000	0	0
Accrued interest receivable	106,061	121,031	110,000
Premises and equipment, net	9,844	9,890	10,444
Derivative assets	87,491	53,634	124,902
Other assets	120,380	125,877	112,904
TOTAL ASSETS	$ 39,944,889	$ 40,516,985	$ 39,123,456
LIABILITIES AND CAPITAL			
Liabilities:			
Deposits:			
Demand	$ 166,425	$ 153,166	$ 145,916
Overnight	1,026,300	908,500	1,713,800
Term	132,800	53,210	19,000
Other	45,160	26,375	40,885
Total deposits	1,370,685	1,141,251	1,919,601
Consolidated obligations, net:			
Bonds	28,167,924	26,174,334	24,809,745
Discount notes	7,051,645	9,957,427	9,248,459
Total consolidated obligations	35,219,569	36,131,761	34,058,204
Overnight loans from other FHLBanks	0	0	65,000
Accrued interest payable	253,837	253,622	239,907
Affordable Housing Program	23,370	24,327	23,215
Payable to Resolution Funding Corp. (REFCORP)	1,586	7,515	4,300
Derivative liabilities	1,115,349	1,101,923	1,078,772
Other liabilities	106,183	56,195	55,077
TOTAL LIABILITIES	38,090,579	38,716,594	37,444,076
Capital:			
Capital stock outstanding ($100 par value; 17,969, 17,400 and 16,382 shares issued and outstanding)	1,796,923	1,739,952	1,638,220
Retained earnings	59,259	68,220	41,269
Accumulated other comprehensive income:			
Net unrealized loss on available-for-sale securities	(1,436)	(7,744)	0
Net unrealized loss relating to hedging activities	(436)	(37)	(109)
TOTAL CAPITAL	1,854,310	1,800,391	1,679,380
TOTAL LIABILITIES AND CAPITAL	$ 39,944,889	$ 40,516,985	$ 39,123,456

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

FEDERAL HOME LOAN BANK OF TOPEKA
STATEMENTS OF INCOME

(In thousands)
(Unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
INTEREST INCOME:		
Interest bearing deposits	$ 6,145	$ 7,741
Overnight federal funds sold	5,326	5,337
Term federal funds sold	1,124	1,958
Held-to-maturity securities	65,521	65,816
Available-for-sale securities	1,150	0
Securities held at fair value	7,447	6,767
Advances	98,026	114,850
Mortgage loans held for portfolio	11,485	3,117
Overnight loans to other FHLBanks	23	14
Other	1,306	1,407
Total interest income	197,553	207,007
INTEREST EXPENSE:		
Deposits	2,879	4,421
Consolidated obligations	158,548	171,912
Overnight loans from other FHLBanks	13	29
Other borrowings	631	733
Total interest expense	162,071	177,095
NET INTEREST INCOME BEFORE MORTAGE LOAN LOSS PROVISION	35,482	29,912
Provision for credit losses on mortgage loans	5	18
NET INTEREST INCOME AFTER MORTGAGE LOAN LOSS PROVISION	35,477	29,894
OTHER INCOME:		
Prepayment fees	225	63
Service fees	320	315
Net realized loss on sale of held-to-maturity securities	(2)	0
Net realized loss on sale of available-for-sale securities	(793)	0
Net gain on securities held at fair value	10,699	2,643
Net realized and unrealized loss on derivatives and hedging activities	(32,456)	(4,781)
Other	793	771
Total other income	(21,214)	(989)
OTHER EXPENSES:		
Operating	4,934	4,552
Finance Board	342	294
Office of Finance	296	264
Other	58	3
Total other expenses	5,630	5,113
INCOME BEFORE ASSESSMENTS	8,633	23,792
Affordable Housing Program	705	1,942
REFCORP	1,586	4,370
Total assessments	2,291	6,312
NET INCOME	$ 6,342	$ 17,480

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

FEDERAL HOME LOAN BANK OF TOPEKA
STATEMENTS OF CAPITAL FOR THE THREE MONTHS ENDED MARCH 31, 2004

(In thousands)
(Unaudited)

	Capital Stock		Retained Earnings	Accumulated Other Comprehensive Income	Total Capital
	Shares	Par Value			
BALANCE - DECEMBER 31, 2003	17,400	$ 1,739,952	$ 68,220	$ (7,781)	$ 1,800,391
Proceeds from sale of capital stock	426	42,568			42,568
Redemption of capital stock	(9)	(858)			(858)
Comprehensive income:					
Net income			6,342		
Other comprehensive income:					
Net unrealized gain on available-for-sale securities				4,146	
Net unrealized loss relating to hedging activities				(405)	
Reclassification adjustment for (gain) loss on available-for-sale securities included in net income				2,162	
Reclassification adjustment for (gain) loss on hedging activities included in net income				6	
Total comprehensive income					12,251
Dividends on capital stock (3.5%):					
Cash payment			(42)		(42)
Stock issued	152	15,261	(15,261)		
BALANCE - MARCH 31, 2004	17,969	$ 1,796,923	$ 59,259	$ (1,872)	$ 1,854,310

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

FEDERAL HOME LOAN BANK OF TOPEKA
STATEMENTS OF CASH FLOWS (In thousands)
(Unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,342	$ 17,480
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization:		
Premiums and discounts on consolidated obligations, net	(818)	1,373
Concessions on consolidated obligation bonds	6,787	8,722
Premiums and discounts on investments, net	3,963	113
Discounts on Housing and Community Development advances	(1)	(3)
Premiums, discounts and deferred loan costs on mortgage loans, net	500	34
Premiums on advances	9	0
Premises and equipment	195	191
Provision for credit losses on mortgage loans, net of charge-offs	5	18
Net realized loss on sale of held-to-maturity securities	2	0
Net realized loss on sale of available-for-sale securities	793	0
Net realized loss on sale of premises and equipment	0	5
Net realized loss on early extinguishment of debt	75	0
Increase in securities held at fair value, net of transfers and transition adjustments	(9,275)	(44)
(Gain) loss due to change in net fair value adjustment on derivative and hedging activities	27,078	(6,906)
(Increase) decrease in:		
Accrued interest receivable	14,970	11,010
Derivative asset - net accrued interest	(14,891)	16,106
Other assets	(1,123)	4,926
Increase (decrease) in:		
Accrued interest payable	215	(30,966)
Derivative liability - net accrued interest	(4,869)	(1,957)
Affordable Housing Program liability	(957)	(855)
REFCORP liability	(5,929)	(603)
Other liabilities	(12)	(5,293)
Total adjustments	16,717	(4,129)
NET CASH PROVIDED BY OPERATING ACTIVITIES	23,059	13,351
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (increase) decrease in interest bearing deposits	442,683	(753,563)
Net (increase) decrease in overnight federal funds sold	(112,500)	422,500
Net (increase) decrease in term federal funds sold	(285,000)	368,000
Net increase in short-term held-to-maturity securities	(49,936)	(176,457)
Proceeds from maturities of and principal repayments on long-term held-to-maturity securities	771,870	1,085,091
Purchases of long-term held-to-maturity securities	(606,783)	(1,513,591)
Proceeds from sales of long-term available-for-sale securities	110,164	0
Net increase in overnight loans to other FHLBanks	(200,000)	0
Principal collected on advances	78,373,498	69,185,257
Advances made	(77,015,102)	(69,755,648)
Principal collected on mortgage loans held for portfolio	15,365	22,025
Mortgage loans held for portfolio originated or purchased	(590,298)	(89,934)
Net additions to premises and equipment	(148)	(402)
Other	5,280	0
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	859,093	(1,206,722)

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

FEDERAL HOME LOAN BANK OF TOPEKA
STATEMENTS OF CASH FLOWS (continued)

(In thousands)
(Unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	$ 229,434	$ 375,734
Net proceeds from sale of consolidated obligation:		
Bonds	6,273,557	8,327,030
Discount notes	115,460,954	123,693,018
Payments for maturing and retired consolidated obligation:		
Bonds	(4,511,416)	(8,275,271)
Discount notes	(118,365,939)	(122,985,217)
Net increase in overnight loans from other FHLBanks	0	65,000
Other	(5,000)	0
Proceeds from issuance of capital stock	42,568	39,446
Payments for redemption of capital stock	(858)	(32,248)
Cash dividends paid	(42)	(14,008)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(876,742)	1,193,484
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,410	113
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	968	422
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 6,378	$ 535
Supplemental disclosures:		
Interest paid	$ 167,993	$ 223,193
Stock dividends issued	$ 15,261	$ 0

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

1. This report should be read in conjunction with the FHLBank's 2003 audited financial statements and related notes.

2. As of March 31, 2004, the FHLBank had the following commitments and contingent amounts:
   - Standby letters of credit to stockholders, $1.9 billion.
   - Standby bond purchase agreements, $633.9 million.
   - Commitments to purchase mortgage loans, $67.4 million.

3. **SFAS 133 effect on the statements of condition and net income**. On January 1, 2001, the FHLBank adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS 137*, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133,* by SFAS 138*, Accounting for Certain Derivative Instruments and Certain Hedging Activities* and by SFAS 149*, Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (herein collectively referred to as SFAS 133). SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income (OCI), depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The gains and losses on derivative instruments that are reported in OCI will be reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. The ineffective portions of all hedges are recognized in current period earnings.

   The FHLBank recorded the following cumulative-effect adjustments in OCI year-to-date March 31, 2004 (amounts in thousands):

	Net Unrealized Gains/(Losses)
Total cumulative effect of adoption on OCI as of December 31, 2003	$ (37)
Net change associated with cash flow hedging activities year-to-date, March 31, 2004	(405)
Net amounts reclassified into earnings year-to-date, March 31, 2004	6
Total cumulative effect of adoption on OCI as of March 31, 2004	$ (436)

   Changes in the fair value of a derivative that is effective as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, are recorded in current-period earnings. Changes in the fair value of a derivative that is effective as a cash flow hedge, to the extent that the hedge is effective, are recorded in OCI, until earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of a variable-rate asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings. Changes in the fair value of a stand-alone, or economic, derivative are recorded in current-period earnings. The notional amounts and fair values by type of derivative held by the FHLBank as of March 31, 2004, are included in the following table (amounts in thousands):

Type	Notional Outstanding as of 3/31/2004	Fair Value as of 3/31/2004 (including net accrued interest)
Fair value hedges	30,794,442	$ (947,947)
Cash flow hedges	0	0
Economic derivatives	2,886,215	(79,911)
Totals	33,680,657	$ (1,027,858)

   Net unrealized gain/loss recorded in income (net of changes in the fair value of the hedged asset or liability) by type of derivative for the three months ended March 31, 2004, are included in the following table (amounts in thousands):

Type	Year-to-date Net Unrealized Gain (Loss)
Fair value hedges	$ (2,831)
Cash flow hedges	0
Economic derivatives*	(29,625)
Totals	$ (32,456)

   * - Includes derivatives hedging securities held at fair value. Net gain on securities held at fair value for the three months ended March 31, 2004,was $10,699,000.

For additional details regarding accounting for derivatives and hedging activities and descriptions of the different types of derivatives, please see the footnotes to the *Federal Home Loan Bank System Quarterly Financial Report for the Three Months Ended March 31, 2004* (available at www.fhlb-of.com).

4. The FHLBank's primary credit exposure on derivatives is that a counterparty might default on payments due, which could result in the FHLBank having to replace the derivative with a different counterparty at a higher cost. The maximum credit exposure is the estimated cost of replacing favorable interest rate swaps, forward agreements, and purchased caps and floors if the counterparty defaults and the related collateral, if any, is of no value to the FHLBank. The FHLBank's maximum credit exposure, as defined above (taking into account master settlement agreements that allow for netting of payments and excluding collateral received), was $87.5 million at March 31, 2004. All of this exposure was to stockholders or to counterparties rated A-/A3 or higher. The FHLBank held $45.1 million of collateral from counterparties and had claim to $7.9 million of collateral of stockholders for these derivatives. This collateral has not been sold or repledged. The FHLBank's exposure, net of collateral, was $34.5 million.

5. Effective July 1, 2003, the FHLBank changed its method of amortizing/accreting concessions (amounts paid to dealers in connection with sales of consolidated obligation bonds) and premiums/discounts on consolidated obligation bonds. Prior to July 1, 2003, these amounts were amortized/accreted over the weighted-average life (WAL) of the consolidated obligation bond. Currently, these amounts are amortized/accreted to the maturity date of the consolidated obligation bond. Both methods are acceptable under generally accepted accounting principles. The FHLBank elected to change to maturity date because it believed that, within the restrictions of its current accounting systems, this methodology was a more precise application of generally accepted accounting principles than using WAL. The cumulative effect of this accounting change for years prior to 2003 is not reasonably determinable, nor are the pro forma effects of retroactive application to prior years. The estimated effect of the change in 2003 for consolidated obligation bonds outstanding on the date of the change was to increase net income by $3.8 million.

6. Certain amounts in the 2003 financial statements have been reclassified to conform to the 2004 presentation. For the quarter ended March 31, 2003, the FHLBank reclassified realized gains and losses (e.g., net interest payments) on stand-alone derivative instruments used as economic hedges of its risks. Prior to the quarter ended December 31, 2003, net interest payments on stand-alone derivatives used as economic hedges were classified within "net interest income after mortgage loan loss provision," "service fees" and "other" while unrealized gains (losses) on these derivatives were recorded in "net realized and unrealized gain (loss) on derivatives and hedging activities" within "other income." These amounts have been reclassified and are both now included in "net realized and unrealized gain (loss) on derivatives and hedging activities" for the quarter ended March 31, 2003. Such reclassifications have no impact on net income or capital.

XIV. MANAGEMENT'S DISCUSSION AND ANALYSIS

Management Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING INFORMATION

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

These forward-looking statements involve risks and uncertainties including, but not limited to, the following:

- Economic and market conditions;
- Demand for FHLBank advances resulting from changes in FHLBank stockholders' deposit flows and/or credit demands;
- Volatility of market prices, rates and indices that could affect the value of investments or collateral held by the FHLBank as security for the obligations of FHLBank stockholders and counterparties to interest rate exchange agreements and similar agreements;
- Political events, including legislative, regulatory, judicial, or other developments that affect the FHLBank, its stockholders, counterparties, and/or investors in the consolidated obligations of the 12 Federal Home Loan Banks (FHLBanks);
- Competitive forces including, without limitation, other sources of funding available to FHLBank stockholders, other entities borrowing funds in the capital markets, and the ability to attract and retain skilled individuals;
- The pace of technological change and the ability to develop and support technology and information systems, including the Internet, sufficient to manage the risks of the FHLBank's business effectively;
- Changes in investor demand for consolidated obligations of the 12 FHLBanks and/or the terms of interest rate exchange agreements and similar agreements including, without limitation, changes in the relative attractiveness of consolidated obligations as compared to other investment opportunities;
- Timing and volume of market activity;
- Ability to introduce new FHLBank products and services, and successfully manage the risks associated with those products and services, including new types of collateral used to secure advances;
- Risks related to the operations of the other 11 FHLBanks that could trigger our joint and several liability for debt issued by the other 11 FHLBanks;
- Risk of loss arising from litigation filed against the FHLBank; and
- Inflation/deflation.

We do not intend to update any forward-looking statement in this document or any statements we may make from time to time.

BUSINESS

General

One of 12 FHLBanks, the FHLBank is a federally chartered corporation organized under the authority of the Federal Home Loan Bank Act of 1932, as amended (Bank Act), and meets the federal statutory definition of a government-sponsored enterprise (GSE). The FHLBank is a cooperative owned by its members and, with certain exceptions, is limited to only providing products and services to those members. Each FHLBank operates as a separate entity with its own management, employees and board of directors. The FHLBank is exempt from federal, state and local taxation except real property taxes. The FHLBank does not have any wholly- or partially-owned subsidiaries, and the FHLBank does not have an equity position in any partnerships, corporations or off-balance sheet special purpose entities.

The FHLBank is supervised and regulated by the Federal Housing Finance Board (Finance Board), an independent agency in the executive branch of the United States government. The Finance Board is responsible for ensuring that the FHLBank carries out its housing finance mission, remains adequately capitalized and able to raise funds in the capital markets and operates in a safe and sound manner. The Finance Board establishes regulations governing the operations of the FHLBank.

All federally insured depository institutions and insurance companies whose principal place of business is located in Colorado, Kansas, Nebraska or Oklahoma are eligible to become members. Except for community financial institutions (CFIs), applicants for membership must meet certain tests that demonstrate they are engaged in residential housing finance. For 2003, CFIs are defined as FDIC-insured depository institutions with average total assets over the preceding three-year period of $538 million or less. Members are required to purchase capital stock in the FHLBank as a condition of membership and only members are permitted to purchase capital stock.

The FHLBank's primary business activity is providing collateralized loans, known as advances, to its members and certain qualifying non-members (housing associates). Collateral allowed to secure advances is specified in the Bank Act and the regulations of the Finance Board. Since May 2000, the FHLBank has participated in the Mortgage Partnership Finance® (MPF®) Program through which the FHLBank acquires conventional conforming and government-guaranteed, fixed rate, residential mortgage loans from or through its members and housing associates. The FHLBank also provides members and housing associates with certain correspondent services, such as safekeeping, wire transfers and cash management, as well as technical expertise. The FHLBank's mission is to promote housing, jobs and general prosperity by offering products and services that help members provide affordable credit in their communities. By enhancing the ability of members to more effectively meet the need for affordable credit in their markets, the FHLBank serves its public purpose.

The FHLBank's primary funding source is consolidated obligations issued through the FHLBanks' Office of Finance. Consolidated obligations are debt instruments that constitute the joint and several obligations of all FHLBanks. The Office of Finance is a joint office of the FHLBanks established by the Finance Board to facilitate the issuance and servicing of the consolidated obligations. Additional funds are provided by deposits, other borrowings and the issuance of capital stock. Deposits are received from both member and non-member financial institutions and federal instrumentalities. The FHLBank is currently rated AAA by both Moody's Investors Service (Moody's) and Standard & Poor's (S&P) based in part on the FHLBank's relationship with the United States government. However, consolidated obligations, deposits or other indebtedness of the FHLBank are not obligations of, nor guaranteed by, the United States government.

Business Segments

The FHLBank currently does not segregate its operations by segments but expects to begin doing so within the next year given current growth trends in the MPF Program.

Advances

The FHLBank makes collateralized loans (advances) to members and housing associates on the security of home mortgages and other collateral pledged by members and housing associates. While the FHLBank does not restrict the purpose for which advances may be used (other than indirectly through limitations on eligible collateral), members and housing associates generally utilize advances for the following purposes:

- Providing funding for single-family mortgages and multifamily mortgages held in portfolio, including both conforming and nonconforming mortgages;
- Providing temporary funding during the origination, packaging and sale of mortgages into the secondary market;
- Providing funding for commercial loans, and especially with respect to CFIs, funding for small business, small farm and small agri-business loans, held in portfolio;
- Assisting with asset/liability management by matching the maturity and prepayment characteristics of mortgage loans or adjusting the sensitivity to interest rate changes of the member's balance sheet;
- Providing a cost-effective alternative to holding short-term investments to meet contingent liquidity needs; and
- Providing a competitively priced alternative source of funds, especially with respect to smaller members with less diverse funding sources.

The FHLBank also offers a variety of specialized advance programs to address housing and community development needs. The programs include advances priced at the FHLBank's cost of funds plus reasonable administrative expenses, as well as advances priced below the FHLBank's cost of funds. The programs address needs for low-cost funding to create affordable rental and homeownership opportunities, and for commercial and economic development activities, including those that benefit low- and moderate-income neighborhoods.

In addition to members, the FHLBank is permitted under the Bank Act to make advances to non-members (housing associates) that are approved mortgagees under Title II of the National Housing Act. Eligible housing associates must be chartered under law and have succession, be subject to inspection and supervision by a governmental agency, and lend their own funds as their principal activity in the mortgage field. Housing associates are not subject to certain provisions of the Bank Act that are applicable to members, such as the capital stock purchase requirements, but the same regulatory lending requirements generally apply to them as apply to members. Restrictive collateral provisions apply if the housing associate does not qualify as a state housing finance authority.

The FHLBank is required to obtain and maintain a security interest in eligible collateral at the time it originates or renews an advance. Eligible collateral includes whole first mortgages on improved residential property, or securities representing a whole interest in such mortgages; securities issued, insured or guaranteed by the U.S. government or any of its agencies, including, without limitation, mortgage backed securities (MBS) issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae; cash or deposits in the FHLBank; and other real estate-related collateral acceptable to the FHLBank provided that such collateral has a readily ascertainable value and the FHLBank can perfect a security interest in such property. Additionally, CFIs are subject to expanded statutory collateral provisions dealing with loans to small businesses, small farms and small agri-businesses. As additional security for a member’s indebtedness, the FHLBank has a statutory lien on each member’s capital stock in the FHLBank.

The Bank Act affords any security interest granted to the FHLBank by any member of the FHLBank, or any affiliate of any such member, priority over the claims and rights of any party, including any receiver, conservator, trustee, or similar party having rights of a lien creditor. The only exceptions are claims and rights held by actual bona fide purchasers for value or by parties that are secured by actual perfected security interests, provided that such claims and rights would otherwise be entitled to priority under applicable law. In addition, the claims of the FHLBank are given certain preferences pursuant to the receivership provisions in the Federal Deposit Insurance Act. Most borrowers provide the FHLBank a blanket lien covering substantially all of the borrower’s assets and consent for the FHLBank to file a financing statement evidencing the blanket lien. Based on the blanket lien, the financing statement and the statutory preferences, the FHLBank does not take control of collateral, other than securities collateral, pledged by blanket lien borrowers. With respect to non-blanket lien borrowers (typically insurance companies and housing associates), the FHLBank takes control of all collateral. The FHLBank takes control of all security collateral through delivery of the securities to the FHLBank or its custodian. In the event that the financial condition of a blanket lien member warrants, the FHLBank will take control of sufficient eligible collateral to fully collateralize the borrower’s indebtedness to the FHLBank.

Mortgage Loans Held for Portfolio

In May 2000, the FHLBank began participating in the MPF Program under which the FHLBank invests in qualifying five- to 30-year conventional conforming and government-guaranteed fixed rate mortgage loans on one-to-four unit residential properties. These loans are funded by the FHLBank through, or purchased from, its participating members. The FHLBank manages the liquidity, interest rate and options risk of the loans. Dependent upon the member’s program selection, the servicing rights can be retained or sold. The FHLBank and the member share in the credit risk of the loans with the FHLBank assuming the first loss obligation limited by the first loss account (FLA), and the member assuming mortgage loan losses in excess of the FLA up to the amount of the credit enhancement obligation (CE obligation) as specified in the master agreement for each pool of mortgage loans purchased from the member. Any losses in excess of the FLA and the CE obligation will be the responsibility of the FHLBank.

Participating members, referred to as participating financial institutions (PFIs), provide a measure of credit-loss protection to the FHLBank on loans generated through the program. In return, they receive a credit enhancement fee (CE fee). The credit risks of the mortgage loans are managed by distributing potential credit losses into certain layers and allocating their risk between the FHLBank and the PFI.

Under the MPF Program, the first credit loss is absorbed by the equity of the borrower in the real estate securing the loan. As is customary for conventional mortgage loans, private mortgage insurance (PMI) is required for MPF loans with down payments of less than 20 percent of the property value in order to raise the effective equity level to at least 20 percent. Losses beyond the equity layer are absorbed by the FHLBank up to the FLA predefined limit. If losses beyond this layer are incurred, they are absorbed through credit enhancement provided by the PFI that sold the mortgage loan to the FHLBank. The credit enhancement provided by a PFI ensures that the PFI retains a credit stake in the loans it sells to the FHLBank. For managing this risk, a PFI receives monthly CE fees from the FHLBank. The size of each PFI's credit enhancement is calculated so that the likelihood of losses in excess of the second layer are the same as an investor in a AA-rated MBS.

PFIs can take advantage of the MPF Program by selling previously closed loans to the FHLBank or on a flow basis (table funding). A variety of MPF products have been developed to meet the differing needs of the FHLBank's members, but they are all premised on the same risk-sharing concept.

The FHLBank currently has loan commitments under the Original MPF, MPF 100 and MPF 125 products, which are described below:

- Under Original MPF (closed loans), the FHLBank provides the first layer of losses (following any PMI coverage) to the FLA in the amount of 4 basis points per year. The member then provides a second loss credit enhancement, referred to as a CE obligation, up to a AA rating equivalent. The member is paid a fixed CE fee for providing the CE obligation. Loan losses beyond the first two layers are absorbed by the FHLBank;
- Under MPF 100 (table funded loans), the FHLBank provides the first layer of losses (following any PMI coverage) to the FLA in the amount of 100 basis points up front at loan funding. The member then provides a second loss CE obligation up to a AA rating equivalent. The member is paid a performance-based CE fee for providing the CE obligation. Loan losses beyond the first two layers are absorbed by the FHLBank; and
- Under MPF 125 (closed loans), the FHLBank provides the first layer of losses (following any PMI coverage) to the FLA in the amount of 100 basis points up front at loan sale. The member then provides a second loss CE obligation up to a AA rating equivalent. The member is paid a performance-based CE fee for providing the CE obligation. Loan losses beyond the first two layers are absorbed by the FHLBank.

Investments

The FHLBank maintains a portfolio of investments for liquidity purposes and to fully invest its capital. Increased investment income enhances the FHLBank's commitment to affordable housing and community investment, covers operating expenses and contributes to meeting the Resolution Funding Corporation (REFCORP) assessment, as discussed in more detail in the "Business – Tax Status" section. To ensure the availability of funds to meet advance demand and MPF mortgage loan purchases, the FHLBank maintains a portfolio of short-term loans and investments made to highly rated institutions, including overnight Federal funds, term Federal funds, interest-bearing certificates of deposit (CDs) and commercial paper. The FHLBank maintains a longer-term investment portfolio, which includes securities issued by the United States government, U.S. government agencies and MBS that are issued by mortgage GSEs or privately issued securities that carry the highest ratings from Moody's or S&P. The long-term investment portfolio provides the FHLBank with higher returns than those available in the short-term money markets.

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

- Instruments, such as common stock, that represent an ownership in an entity, other than stock in small business investment companies or certain investments targeted to low-income persons or communities;
- Instruments issued by non-United States entities other than those issued by United States branches and agency offices of foreign commercial banks;
- Non-investment-grade debt instruments other than certain investments targeted to low-income persons or communities, and instruments that were downgraded after purchase by the FHLBank;
- Whole mortgages or other whole loans other than 1) those acquired under the FHLBank's mortgage purchase program; 2) certain investments targeted to low-income persons or communities; 3) certain marketable direct obligations of State, local, or tribal government units or agencies, having at least the second highest credit rating from a nationally-recognized statistical rating organization; 4) MBS or asset-backed securities backed by manufactured housing loans or home equity loans; and 5) certain foreign housing loans authorized under section 12(b) of the Bank Act; and
- Non-U.S. dollar denominated securities.

The Finance Board's Financial Management Policy (FMP), which has been partially but not fully superseded by Finance Board regulations, further limits the FHLBank's investment in MBS and asset-backed securities. This provision requires that the total book value of MBS owned by the FHLBank not exceed 300 percent of the

FHLBank's previous month-end capital on the day it purchases the securities. In addition, the FHLBank is prohibited under the FMP from purchasing:

- Interest-only or principal-only stripped MBS;
- Residual-interest or interest-accrual classes of collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs); and
- Fixed rate MBS or floating rate MBS that on the trade date are at rates equal to their contractual cap and that have average lives that vary by more than six years under an assumed instantaneous interest rate change of 300 basis points.

Debt Financing – Consolidated Obligations

The primary source of funds for the FHLBank is the sale of joint and several FHLBank debt securities, known as consolidated obligations, in the capital markets. The capital markets have traditionally considered the FHLBanks' obligations as "Federal agency" debt. Consequently, although the United States government does not guarantee the FHLBanks' debt, the FHLBanks have had ready access to funding at relatively favorable rates. The FHLBank's ability to access the capital markets through the sale of consolidated obligations, across the entire maturity spectrum and through a variety of debt structures, allows the FHLBank to manage its balance sheet effectively and efficiently. Consolidated obligations are the joint and several obligations of the FHLBanks, backed only by the financial resources of the 12 FHLBanks. Consolidated obligations are not obligations of the United States government, and the United States government does not guarantee them. Moody's currently rates consolidated obligations Aaa/P-1, and S&P currently rates them AAA/A-1+. These ratings measure the likelihood of timely payment of principal and interest on consolidated obligations and also consider the relationship of the FHLBank with the United States government.

Although the FHLBank is primarily liable for its portion of consolidated obligations, i.e. those issued on its behalf, the FHLBank is also jointly and severally liable with the other 11 FHLBanks for the payment of principal and interest on the consolidated obligations of all 12 FHLBanks. If the principal or interest on any consolidated obligation issued on behalf of the FHLBank is not paid in full when due, the FHLBank may not pay dividends to, or redeem or repurchase shares of stock from, any member of the FHLBank. The Finance Board, at its discretion, may require any FHLBank to make principal or interest payments due on any consolidated obligations, regardless of whether that FHLBank received any of the proceeds of those consolidated obligations.

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

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

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

- Cash;
- Obligations of, or fully guaranteed by, the United States;
- Secured advances;
- Mortgages, which have any guaranty, insurance or commitment from the United States or any agency of the United States;
- Investments described in Section 16(a) of the Bank Act, which, among other items, includes securities that a fiduciary or trust fund may purchase under the laws of the state in which the FHLBank is located; and
- Other securities that are assigned a rating or assessment by a Nationally Recognized Statistical Rating Organization (NRSRO) that is equivalent or higher than the rating on consolidated obligations.

The Office of Finance has responsibility for facilitating and executing the issuance of the consolidated obligations on behalf of the 12 FHLBanks. It also services all outstanding debt, provides the FHLBanks with credit information for counterparties for which they have unsecured credit exposure, serves as a source of information for the FHLBanks on capital market developments, administers REFCORP and the Financing Corporation, and manages the FHLBanks' relationship with the rating agencies. The Office of Finance has determined to cease providing credit information on counterparties to the FHLBanks sometime during 2004, and FHLBank Topeka is therefore making preparations to obtain such credit information directly from the rating agencies.

Consolidated Bonds. Consolidated bonds satisfy the FHLBank's term funding needs. Typically, the maturities of these bonds range from one year to 10 years, but the maturities are not subject to any statutory or regulatory limit. Consolidated bonds can be issued and distributed through negotiated or competitively bid transactions with approved underwriters or selling group members.

The FHLBanks also have the TAP Issue Program for fixed rate, non-callable (bullet) bonds. This competitive auction program uses specific maturities that may be reopened daily during a three-month period through competitive auctions. The goal of the TAP Issue Program is to aggregate frequent smaller issues into a larger bond issue that may have greater market liquidity.

Consolidated bonds are generally issued with either fixed or floating rate payment terms that use a variety of indices for interest rate resets including the London Interbank Offered Rate (LIBOR), Constant Maturity Treasury (CMT), 11^{th} District Cost of Funds Index (COFI), and others. In addition, to meet the specific needs of certain investors in consolidated obligations, both fixed rate bonds and variable rate bonds may also contain certain embedded features, which may result in complex coupon payment terms and call features. When such consolidated bonds are issued, an FHLBank concurrently enters into interest rate exchange agreements containing offsetting features to synthetically alter the terms of the bond to a simple variable rate bond tied to an index.

Consolidated Discount Notes. The Office of Finance also sells consolidated discount notes to meet short-term funding needs. These securities have maturities up to 360 days, and are offered daily through a 16-member consolidated discount-note selling group. In addition to the daily offerings of discount notes, the FHLBanks auction four-, nine-, 13- and 26-week discount notes through competitive auctions held twice a week. The amount of discount notes sold through the bi-weekly auctions varies based upon the needs of the FHLBanks. Discount notes are sold at a discount and mature at par.

Deposits

The Bank Act allows the FHLBank to accept deposits from its members, from any institution for which it is providing correspondent services, from other FHLBanks or from other government instrumentalities. The FHLBank offers several types of deposit programs to its members including demand, overnight and term deposits.

Liquidity Requirements. To support deposits, the Bank Act requires the FHLBank to have an amount equal to the current deposits invested in obligations of the United States, deposits in eligible banks or trust companies, or advances with a maturity not exceeding five years. In addition, the liquidity guidelines in the Finance Board's FMP require the FHLBank to maintain an average daily liquidity level each month in an amount not less than the sum of:

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

Assets eligible for meeting these liquidity requirements include:

- Overnight funds and overnight deposits placed with eligible financial institutions;
- Overnight and term resale agreements with eligible counterparties, which mature in 31 days or less, using for collateral securities that are eligible investments under the investment guidelines, and FHA-insured and VA-guaranteed mortgages;
- Negotiable CDs placed with eligible financial institutions, bankers' acceptances drawn on and accepted by eligible financial institutions, and commercial paper issued in U.S. financial markets and rated P-1 by Moody's or A-1 by S&P, all having a remaining term to maturity of not more than 271 days;
- Marketable direct obligations of the United States that mature in 36 months or less;

- Marketable direct obligations of U.S. government-sponsored agencies and instrumentalities that mature in 36 months or less for which the credit of such institution is pledged for repayment of both principal and interest; and
- Cash and collected balances held at a Federal Reserve Bank and other eligible financial institutions, net of member pass-throughs.

A security pledged under a repurchase agreement cannot be used to satisfy liquidity requirements.

<u>Capital, Capital Rules and Dividends</u>

The FHLBank's capital stock and retained earnings also provide funding. During 2003, approximately 4 percent of the FHLBank's assets were funded by capital stock and retained earnings.

Existing Capital Structure. On January 30, 2001, the Finance Board published a final rule implementing a new capital structure for the FHLBanks, as required by the Gramm-Leach-Bliley Act (GLB Act). Until the FHLBank implements its new capital plan, the pre-GLB Act capital rules will remain in effect. In particular, the Bank Act requires members to purchase capital stock equal to the greater of 1 percent of their mortgage-related assets or 5 percent of outstanding advances from the FHLBank. However, the GLB Act removed the provision that required a non-thrift member to purchase additional stock to permit it to borrow from the FHLBank if the non-thrift member's mortgage-related assets were less than 65 percent of its total assets. Stockholders could, at the FHLBank's discretion, redeem at par value any capital stock greater than their statutory requirement or sell it to other FHLBank members at par value. Capital stock outstanding under the pre-GLB Act capital rules is redeemable at the option of a member on six months' notice, but only if the member chooses to withdraw from membership and the capital stock is not necessary to support advances outstanding at the time the six-month notification of withdrawal from membership becomes effective. The existing capital structure of the FHLBank will remain in place until its capital plan is implemented.

New Capital Structure. The Finance Board's final rule implementing a new capital structure for the FHLBanks established risk-based and leverage capital requirements for the FHLBanks, addressed different classes of stock that the FHLBanks may issue and the rights and preferences that may be associated with each class of stock. It also required each FHLBank to submit a capital plan to the Finance Board for approval by October 29, 2001. On July 10, 2002, the Finance Board approved FHLBank Topeka's initial capital plan under the provisions of the GLB Act. At its September 2002 meeting, the board of directors of FHLBank Topeka established September 30, 2003, as the conversion date for the new plan. However, in August 2003, the FHLBank announced that implementation of the new capital plan would be postponed until at least mid-2004. The capital plan was contingent on the development of software systems that will replace the FHLBank's existing member products transaction software and will handle the new capital structure. While development of both systems was progressing, the process was not far enough along to allow for the extensive testing required before the new systems could be put into production. At its December 19, 2003 meeting, the board of directors approved an amended capital plan, which was submitted to the Finance Board for approval on December 22, 2003. After Finance Board approval of the amended plan, the FHLBank's board of directors will establish a conversion date for the capital plan. As provided in the FHLBank's amended capital plan, the conversion date is to be no later than December 31, 2004. The board of directors will establish such conversion date within 90 calendar days after Finance Board approval of the plan as amended, and the FHLBank shall notify all members of the conversion date within 10 business days after it has been established.

Capital Adequacy and Form Rules. The GLB Act allows for the FHLBanks to have two classes of stock, and each class may have sub-classes. Class A stock is conditionally redeemable on six months' written notice from the member, and Class B stock is conditionally redeemable on five years' written notice from the member, subject in each case to certain conditions and limitations that may limit the ability of the FHLBanks to effect such redemptions. The capital rule provides a transition period that allows each FHLBank up to three years from the effective date of its capital plan to implement its new capital structure. The GLB Act made membership voluntary for all members. Members that withdraw from membership may not reapply for membership for five years.

The GLB Act and implementing final rules define total capital for regulatory capital adequacy purposes as the sum of an FHLBank's permanent capital, plus the amounts paid in by its stockholders for Class A stock; any general loss allowance, if consistent with generally accepted accounting principles (GAAP) in the United States of America and not established for specific assets; and other amounts from sources determined by the Finance

Board as available to absorb losses. The GLB Act defines permanent capital for the FHLBanks as the amount paid in for the Class B stock plus the amount of an FHLBank's retained earnings, as determined in accordance with GAAP.

Under the GLB Act and the implementing final rules, the FHLBank is subject to risk-based capital rules when its new capital structure plan is fully implemented. Only permanent capital, as previously defined, can satisfy the risk-based capital requirement. In addition, the GLB Act specifies a 5 percent minimum leverage ratio based on total capital, which includes a 1.5 weighting factor applicable to permanent capital, and a 4 percent minimum capital ratio that does not include the 1.5 weighting factor applicable to the permanent capital. The FHLBank may not redeem or repurchase any of its capital stock without Finance Board approval if the Finance Board or the FHLBank's board of directors determines that the FHLBank has incurred, or is likely to incur, losses that result in, or are likely to result in, charges against the capital of the FHLBank, even if the FHLBank is in compliance with its minimum capital requirements. Therefore, a stockholder's right to redeem its excess shares of capital stock is conditional on the FHLBank maintaining its risk-based, total and leverage capital requirements.

See the "Financial Review – Capital" section for additional information regarding the FHLBank's capital plan.

Dividends. The FHLBank may pay dividends from retained earnings and current income. The FHLBank's board of directors may declare and pay dividends in either cash or capital stock. 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 its target level of retained earnings if its current level of retained earnings is less.

Other Mission-related Activities

In addition to supporting residential mortgage lending, one of the core missions of the FHLBank is to support related community development. The FHLBank administers and funds a number of targeted programs designed to fulfill that mission. These programs have provided homeownership opportunities for thousands of low- to moderate-income families and strengthened communities primarily in Colorado, Kansas, Nebraska and Oklahoma.

Affordable Housing Program (AHP). AHP provides cash grants or subsidizes the interest rate on FHLBank advances to members, creating a pool of lower-cost funds to finance the purchase, construction or rehabilitation of low- to moderate-income owner occupied or rental housing. Customized programs under the FHLBank's AHP include:

- *Rural First-time Homebuyer Program (RFHP)* – RFHP provides down payment and closing cost assistance to first-time homebuyers in rural areas; and
- *Targeted Ownership Program (TOP)* – TOP provides down payment and closing cost grant assistance in rural and urban areas to disabled first-time homebuyers or first-time homebuyer households with a disabled family member.

Community Investment Cash Advance (CICA) Program. CICA loans specifically target underserved markets in both rural and urban areas, including those areas where normal lending activity has yet to have the desired effect on housing and community economic development. Customized programs under the FHLBank's CICA include:

- *Community Housing Program (CHP)* – CHP makes loans available to members for financing the construction, acquisition and rehabilitation of owner- and renter-occupied housing for households whose incomes do not exceed 115 percent of the area's median income level. The FHLBank provides advances for CHP-based loans to members at cost plus a mark up for administrative costs;
- *Community Housing Program Plus (CHP Plus)* – CHP *Plus* will make $25 million in loans available to members in 2004 to help finance the construction, acquisition or rehabilitation of renter-occupied housing for households whose incomes do not exceed 80 percent of the area's median income level. The FHLBank provides below-cost advances for CHP *Plus*-based loans to members;
- *Community Development Program (CDP)* – CDP provides advances to members to finance commercial and economic development activities in targeted low- and moderate-income areas. The FHLBank provides advances for CDP-based loans to members at cost plus a mark up for administrative costs; and

- *Housing and Community Development Emergency Loan Program (HELP)* – HELP will provide $25 million in advances in 2004 for members to finance recovery efforts in federally declared disaster areas. The FHLBank provides below-cost advances for HELP-based loans to members.

Other Housing and Community Economic Development Programs. In early 2004, the FHLBank established a number of other voluntary housing and community economic development programs specifically developed for members. These programs are funded separate from AHP and include the following:

- *Joint Opportunities for Building Success (JOBS)* – JOBS will provide $500,000 in funding annually to assist members in promoting employment growth in their communities. A recoverable grant program, funds will be allocated annually and combined with recovered monies to support projects. The following are elements of JOBS: (1) funds made available only through FHLBank members; (2) $25,000 maximum funding per member ($25,000 per project) annually; (3) members and project participants agree to participate in publicity highlighting their role as well as that of the FHLBank's contribution to the project and community/region; (4) projects that appear to be "bail outs" are not eligible; and (5) members cannot use JOBS funds for their own direct benefit (e.g., infrastructure improvements to facilitate a new branch location);
- *Regional Needs Initiative* – The Regional Needs Initiative is a flexible grant program created to address housing and community development needs within the district that are not fully addressed by the FHLBank's other programs. The FHLBank will work cooperatively with Congressional offices to identify those needs. In order to provide the maximum flexibility in identifying and addressing housing and community development needs, the program will not have prescribed criteria. Funding available for the Regional Needs Initiative for 2004 is $100,000; and
- *Rural Homebuyer Education Program* – The FHLBank will provide $100,000 to support rural homeownership counseling while actively encouraging participating organizations to seek supplemental funding from other sources. Goals for 2004 are to support rural counseling in all four states in the district, especially in those areas with RFHP-participating stockholders.

Use of Interest Rate Exchange Agreements

The Finance Board's FMP and the FHLBank's Risk Management Policy (RMP) establish guidelines for interest rate exchange agreements. The FHLBank can use interest rate swaps, swaptions, interest rate cap and floor agreements, calls, puts, futures and forward contracts as part of its interest rate risk management and funding strategies. These policies, along with Finance Board regulations 12 CFR part 956.5 and 956.6, prohibit trading in or the speculative use of these instruments and limit credit risk arising from these instruments. The FHLBank may use derivatives only to manage its interest rate risk positions, mortgage prepayment risk positions, unsecured credit risk positions and foreign currency risk positions.

In general, the FHLBank uses interest rate exchange agreements in three ways: (1) either by designating them as a fair-value or cash-flow hedge of an underlying financial instrument, firm commitment or a forecasted transaction; (2) by acting as an intermediary between stockholders and the capital markets; or (3) in asset/liability management. For example, the FHLBank uses interest rate exchange agreements in its overall interest rate risk management to adjust the interest rate sensitivity of consolidated obligations to approximate more closely the interest rate sensitivity of assets, including advances, investments and mortgage loans, and/or to adjust the interest rate sensitivity of advances, investments and mortgage loans to approximate more closely the interest rate sensitivity of liabilities. In addition to using interest rate exchange agreements to manage mismatches of interest rate terms between assets and liabilities, the FHLBank also uses interest rate exchange agreements to manage embedded options in assets and liabilities, to hedge the market value of existing assets, liabilities and anticipated transactions, to hedge the duration risk of prepayable instruments and to reduce funding costs.

To reduce funding costs, the FHLBank may enter into interest rate exchange agreements concurrently with the issuance of consolidated obligations. This allows the FHLBank to create synthetic floating rate debt at a cost that is lower than the cost of a comparable floating rate cash instrument issued directly by the FHLBank. This strategy of issuing bonds while simultaneously entering into interest rate exchange agreements enables the FHLBank to offer a wider range of attractively priced advances to its members. The continued attractiveness of such debt depends on price relationships in both the bond market and interest rate exchange markets. If conditions in these markets change, the FHLBank may alter the types or terms of the bonds issued.

The most common ways in which the FHLBank uses derivatives are:

- To reduce funding costs by combining a derivative and a consolidated obligation bond. The combined funding structure can be lower in cost than a comparable consolidated obligation bond;
- To preserve a favorable interest rate spread between the yield of an asset (e.g., an advance) and the cost of the supporting liability (e.g., the consolidated obligation bond used to fund the advance). Without the use of derivatives, this interest rate spread could be reduced or eliminated if there are non-parallel changes in the interest rate on the advance and/or the interest rate on the bond, or if the rates change at different times;
- To mitigate the adverse earnings effects of the contraction or extension of certain assets (e.g., advances or mortgage assets) and liabilities; and
- To protect the value of existing asset or liability positions or of anticipated transactions.

See the “Financial Review – Derivatives” and “Risk Management” sections for further information on derivatives.

Competition

Demand for the FHLBank’s advances is affected by, among other things, the cost of other available sources of liquidity for its members, including deposits from member customers. The FHLBank individually competes with other suppliers of wholesale funding, both secured and unsecured. Such other suppliers may include investment banking concerns, commercial banks and, in certain circumstances, other FHLBanks. Small members may have access to alternative funding sources through brokered deposits and the sale of securities under agreements to repurchase, while larger members typically have access to a broader range of funding alternatives. Large members may also have independent access to the national and global credit markets. The availability of alternative funding sources to members can significantly influence the demand for the FHLBank’s advances and can vary as a result of a variety of factors including, among others, market conditions, members’ creditworthiness and availability of collateral.

The FHLBank competes for the purchase of mortgage loans held for portfolio. For single-family products, the FHLBank competes primarily with Fannie Mae and Freddie Mac. To a lesser extent, the FHLBank also competes with regional and national financial institutions that buy mortgage loans. The FHLBank competes primarily on the basis of price, products, structures and services offered.

The FHLBank also competes with the U.S. government, Fannie Mae, Freddie Mac and other GSEs as well as corporate, sovereign and supranational entities for funds raised through the issuance of unsecured debt in the national and global debt markets. Collectively, Fannie Mae, Freddie Mac and the FHLBanks are generally referred to as the housing GSEs, and the cost of the debt of each can be positively or negatively impacted by political, financial or other news affecting any of the three housing GSEs. Increases in the supply of competing debt products may, in the absence of increases in debt market demand, result in higher debt costs. In addition, the availability and cost of funds raised through the issuance of certain types of unsecured debt may be adversely affected by regulatory initiatives that tend to reduce investments by certain depository institutions in unsecured debt with greater price volatility or interest rate sensitivity than similar maturity fixed rate, non-callable instruments of the same issuer. The FHLBank experienced a record volume of debt issuance in 2003. Although the available supply of funds has kept pace with the funding needs of the FHLBank’s members as expressed through FHLBank debt issuance, there can be no assurance that this will continue to be the case indefinitely.

In addition, the sale of callable debt and the simultaneous execution of callable interest rate exchange agreements that mirror the debt has been an important source of competitive funding for the FHLBank. As such, the depth of the markets for callable debt and interest rate exchange agreements may be an important determinant of the FHLBank’s relative cost of funds. There is considerable competition among high-credit-quality issuers, especially among the three housing GSEs for callable debt, in the markets for callable debt and for interest rate exchange agreements. There can be no assurance that the current breadth and depth of these markets will be sustained.

Regulatory Oversight, Audits and Examinations

The FHLBank is supervised and regulated by the Finance Board, which is an independent agency in the executive branch of the United States government. The Finance Board is responsible for ensuring that the FHLBank carries out its housing finance mission, remains adequately capitalized and able to raise funds in the capital markets, and operates in a safe and sound manner. Also, the Finance Board establishes regulations governing the operations of the FHLBank. The Finance Board is comprised of a five-member board. Four board members are appointed by the President, with the advice and consent of the Senate, to serve seven-year terms. The fifth member of the board is the Secretary of the Department of Housing and Urban Development, or the Secretary's designee. The Finance Board is supported by assessments from the 12 FHLBanks; no tax dollars or other appropriations support the operations of the Finance Board or the FHLBanks. To assess the safety and soundness of the FHLBank, the Finance Board conducts annual, on-site examinations of the FHLBank, as well as periodic off-site reviews. In 2002, the Finance Board launched a new program to enhance the supervision of the FHLBanks by conducting a series of targeted "horizontal reviews" of all 12 FHLBanks. Additionally, the FHLBank is required to submit monthly financial information on the condition and results of operations of the FHLBank to the Finance Board. This information is available to all FHLBanks.

The Government Corporation Control Act provides that, before a government corporation issues and offers obligations to the public, the Secretary of the Treasury shall prescribe the form, denomination, maturity, interest rate, and conditions of the obligations; the way and time issued; and the selling price. The Bank Act also authorizes the Secretary of the Treasury, at his or her discretion, to purchase consolidated obligations up to an aggregate principal amount of $4 billion. No borrowings under this authority have been outstanding since 1977. The U.S. Department of the Treasury receives the Finance Board's annual report to the Congress, monthly reports reflecting securities transactions of the FHLBanks, and other reports reflecting the operations of the FHLBanks.

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

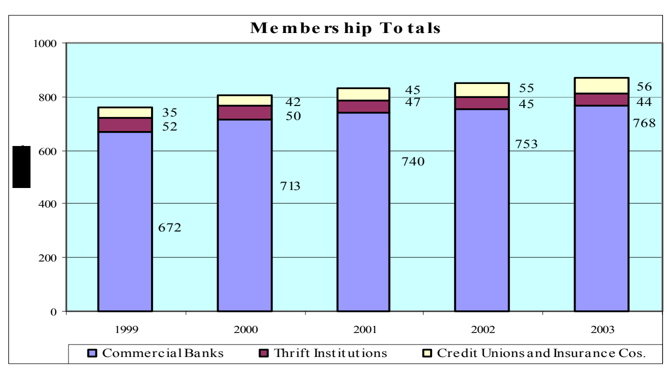
The Comptroller General has authority under the Bank Act to audit or examine the Finance Board and the FHLBank and to decide the extent to which they fairly and effectively fulfill the purposes of the Bank Act. Furthermore, the Government Corporation Control Act provides that the Comptroller General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

Tax Status

Although the FHLBank is exempt from all federal, state and local taxation except for real property taxes, the FHLBank is obligated to make payments to REFCORP in the amount of 20 percent of net earnings after operating expenses and AHP expenses. In addition, the 12 FHLBanks must set aside annually the greater of an aggregate of $100 million or 10 percent of their current year's income before charges for AHP (but after expenses for REFCORP). Currently, combined assessments for REFCORP and AHP are the equivalent of a 26.5 percent effective income tax rate for the FHLBank. The REFCORP assessments and AHP expenses were $31.9 million, $19.8 million and $31.7 million for the years ended December 31, 2003, 2002 and 2001, respectively. Because of the FHLBank's tax-exempt status, cash dividends paid to members do not qualify for the corporate dividends received deduction.

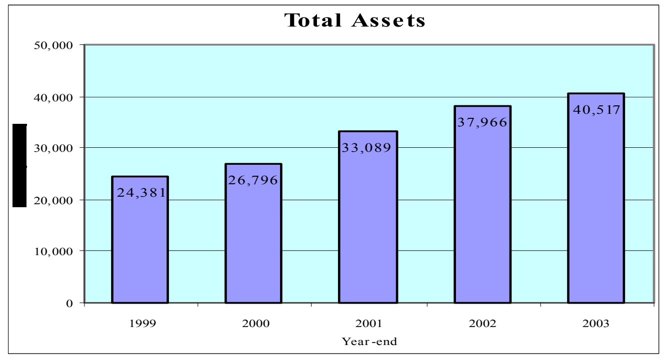
FINANCIAL REVIEW

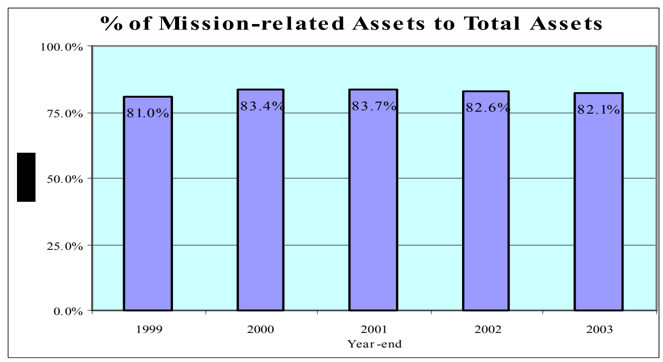
Overview



The FHLBank experienced strong growth in membership, advances and mortgages acquired through the MPF Program in 2003. As evident in the chart at right, the increase in FHLBank membership over the past five years is primarily attributable to a rise in the number of commercial bank members. The FHLBank continues to strive for growth in membership, advances and mortgage loans. The FHLBank's 2003 financial performance was impacted by pressure on its net interest spreads caused by the acceleration of prepayments in the MBS portfolio for much of the year. Prepayments in the MBS portfolio exceeded the FHLBank's ability to restructure its liabilities and consequently reduced the net spread on this portfolio for 2003. During most of the year, the FHLBank also experienced an overall increase in its cost of funds on a relative LIBOR basis arising from the historically high issuance volume in the U.S. agency debt market and adverse publicity affecting the three housing GSEs including the FHLBanks. The effect of this increase in the cost of funds was to narrow the spread between the return on assets and the cost of the liabilities. A reduction in pay downs in the MBS and mortgage portfolios was realized in the fourth quarter 2003, and the FHLBank was able to exercise more calls on existing liabilities funding these portfolios during the quarter as well. The direct impact was an improvement in the FHLBank's fourth quarter net interest income.

Balance Sheet Analysis

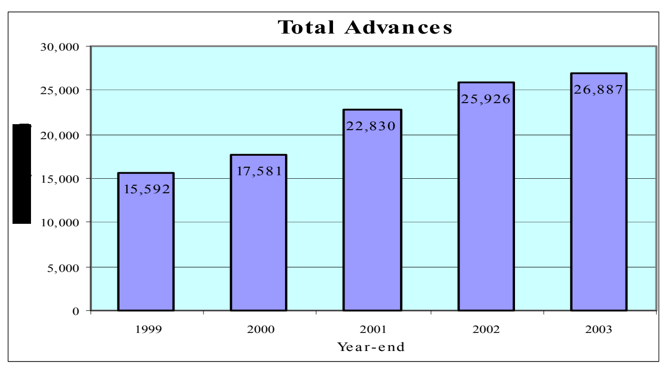




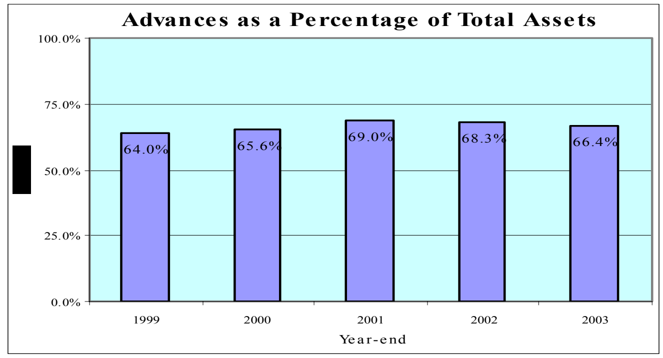
At December 31, 2003, the FHLBank's assets totaled $40.5 billion, up $2.6 billion from year-end 2002 and up $7.4 billion from year-end 2001. A great deal of this increase was in advances and in investments. We expect total assets to continue to grow as our mission-related assets increase. As reflected in the chart at right, the percentage of mission-related assets to total assets has remained steady since 1999, exceeding 80 percent for each of the past five years. Mission-related assets, as defined by the FHLBank, consist of advances, MBS, state or local housing finance agency investments and mortgage loans purchased under the MPF Program. We anticipate a significant increase in mortgage loan balances over the next year as this becomes an area of focus for 2004. This anticipated increase will have a direct impact on our total assets and the percentage of mission-related assets to total assets. In addition to purchasing mortgage loans from its members during 2004, the FHLBank began working with other FHLBanks to participate in a portion of the mortgage loan sales into MPF by some of the other FHLBanks' members. Such participations will increase the growth of FHLBank Topeka's mortgage loan balances during 2004 and beyond. On January 1, 2001, the FHLBank adopted Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (hereafter referred to as "SFAS 133"). In accordance with SFAS 133, all derivatives are marked to fair value, netted by counterparty with any associated accrued interest and included on the statements of condition as an asset when there is a net fair value gain or as a liability when there is a net fair value loss. As a result, certain amounts that had previously been included in accrued interest receivable and accrued interest payable were reclassified with their associated derivatives. In discussing changes in the balance sheet for 2003 compared to 2002, and 2002 compared to 2001, the SFAS 133 fair value adjustment information for advances, mortgage loans and consolidated obligations has been included. The following table presents SFAS 133 fair value adjustment information for advances, mortgage loans and consolidated obligations as of December 31, 2003, 2002 and 2001 (in thousands):

		2003		2002		2001
Advances at pre-SFAS 133 value	$	25,926,649	$	24,650,660	$	22,225,281
SFAS 133 basis adjustments		959,976		1,275,467		604,702
Advances at carrying value	$	26,886,625	$	25,926,127	$	22,829,983
Mortgage loans held for portfolio at pre-SFAS 133 value	$	684,148	$	199,980	$	99,988
SFAS 133 basis adjustments		(400)		0		0
Mortgage loans held for portfolio at carrying value	$	683,748	$	199,980	$	99,988
Consolidated obligations at pre-SFAS 133 value	$	36,347,377	$	33,031,162	$	29,257,393
SFAS 133 basis adjustments		(215,616)		328,756		72,789
Consolidated obligations at carrying value	$	36,131,761	$	33,359,918	$	29,330,182

Total deposits decreased to $1.1 billion at year-end 2003 from $1.5 billion at year-end 2002 after increasing the prior three years. While deposits remain fairly high on a historical basis, the steepening yield curve and the pervasive opinion that the Federal Open Market Committee (FOMC) is on hold for "a considerable period" seemed to be enticing members to invest in higher yielding investments out the curve during 2003. FHLBank deposit levels are difficult to predict as they are dependent on member demand. As long as interest rates remain low, deposit levels should remain stable or show moderate increases because the expanding economy and low interest rates may make many members hesitant to purchase new investments to replace called and matured investment securities. As interest rates rise, deposits could decline as members begin to reinvest these funds in higher yielding assets such as loans. Consolidated obligations used to fund our assets increased accordingly with total assets. As part of a restructuring of the FHLBank's balance sheet first implemented in 1998, mandatory stock redemptions were continued through the first quarter of 2003 in order to reduce the amount of excess statutory stock held by members. As noted in more detail in the "Capital" section, statutes require each FHLBank member to acquire a minimum amount of stock based on the amount of its mortgage assets or outstanding FHLBank advances. The growing number of members and the amount of advances outstanding have resulted in an increase in capital stock, but the redemption plan moderated the associated capital growth up until the first quarter of 2003. At this time, the FHLBank does not plan to undertake any additional mandatory capital stock redemptions. This growth should continue as advance balances increase. Also discussed in more detail in the "Capital" section, the FHLBank's new capital plan should be scheduled for implementation in 2004.



Advances – Outstanding advances increased from $22.8 billion at year-end 2001 to $25.9 billion at year-end 2002 to $26.9 billion at the end of 2003. This 17.8 percent increase in advance balances since the end of 2001 was primarily in adjustable rate, convertible and short-term fixed rate advances but also included $355.3 million applicable to SFAS 133 hedging adjustments. Although we anticipate continued growth in our advance portfolio, we expect the growth to be moderate during 2004 as members utilize excess liquidity to fund any increased loan demand before turning to the FHLBank for wholesale borrowings in the form of advances. Also, until such time as the current economic expansion results in significant loan demand for FHLBank's members, advance growth at the FHLBank may even decrease. Besides members' loan demand, other factors impacting advance demand include the availability of customer deposits, which over the past several years have reversed a trend of annual decreases. Over the past five years, the largest increase, in terms of absolute dollars, occurred in the convertible advance portfolio. Convertible advances include one or more put option(s) sold by the member to the FHLBank that allows the FHLBank to convert the advance from fixed rate to floating rate. A convertible advance carries a fixed interest rate lower than a comparable-maturity advance that does not have the conversion feature. The largest increase, in terms of percentage growth, occurred in the regular adjustable putable advance portfolio. This type of advance is preferred by the FHLBank's large borrowers and allows members to obtain an advance with a short-term repricing period while at the same time reducing the administrative expenses associated with FHLBank borrowings. As interest rates have declined, the FHLBank's larger members have shortened the maturity on their advances resulting in an increased portfolio of short-term lower yielding advances, including convertible advances which are effectively short-term assets because the swap used to create the structure pays the FHLBank three-month LIBOR (synthetically creating a three-month advance). Although the FHLBank experienced increased membership during the past few years, the growth in advance balances primarily reflects increases in advances outstanding to existing borrowers. The number of borrowers with outstanding advances as of year end grew from 581 as of December 31, 2001, to 641 as of December 31, 2002, and to 666 as of December 31, 2003.



Total advances as a percentage of total assets decreased slightly to 66.4 percent at year-end 2003 from 68.3 percent at the end of 2002 and from 69.0 percent at the end of 2001. The FHLBank has made significant strides in increasing its mortgage loan portfolio (see the following section), which resulted in a decrease in total advances as a percentage of total assets. If anticipated increases occur in that portfolio during 2004 and beyond, the percentage of total advances to total assets will continue to decline. The average yield on advances, adjusted for the impact of interest rate exchange agreements, was 1.58 percent during 2003 compared to 2.18 percent during 2002 and 4.33 percent during 2001. The decrease in the average yield is primarily attributable to the declining interest rates during 2001, 2002 and 2003. The decrease in the FHLBank's average advance yield was compounded by the overall short maturity of the advance portfolio. As of the end of 2003, line of credit advances (which reprice daily) and short-term, fixed rate advances (maturities of three months or less) represented 32.7 percent of outstanding advances. Adjustable rate advances (repricing daily to every three months) represented 14.2 percent, and convertible advances (swapped three-month LIBOR synthetically creating three-month advances) represented 40.6 percent. As a result, 87.5 percent of the FHLBank's advance portfolio as of the end of 2003 reprices at least every three months. The FHLBank's advance portfolio exhibited similar short-term repricing characteristics in 2001 and 2002. Because of the relative short nature of the FHLBank's advance portfolio, the average yield has declined significantly in tandem with falling interest rates. This trend will most likely continue as long as interest rates remain low, but will be less dramatic during 2004 unless short-term interest rates fall from their current levels. The level of short-term interest rates is primarily impacted by FOMC decisions but is also influenced by the expectations of capital market participants. See the Spread and Yield Analysis and the Rate and Volume Analysis in the "Financial Review – Results of Operations" section for further information.

The FHLBank develops its advance programs, as authorized in the Bank Act and in regulations established by the Finance Board, to meet the particular needs of its members. As a wholesale provider of funds, the FHLBank competes with brokered CDs and repurchase agreements for short- and mid-term maturities. The FHLBank strives to price its advances to be competitive with these markets. While there is less competition in the long-term maturities, member advance demand in these maturities is not as strong as it is in the short-term maturities. Nonetheless, long-term advances are priced at relatively low spreads to the FHLBank's cost of funds.

Prepayment Fees. The FHLBank prices advances based on the FHLBank's marginal cost of raising matched-maturity funding and related administrative and operating costs. Advances with a maturity or repricing period greater than six months generally incorporate a fee sufficient to make the FHLBank financially indifferent should the borrower decide to prepay the advance.

Collateral. On June 29, 2000, the Finance Board adopted a final rule that implemented the collateral provisions of the GLB Act. The Bank Act, as amended by the GLB Act, requires each FHLBank, at the time it originates or renews an advance, to obtain and maintain a security interest in collateral eligible in one or more of the following categories:

- Fully disbursed, whole first mortgages on improved residential property (not more than 90 days delinquent) or securities representing a whole interest in such mortgages;
- Securities issued, insured or guaranteed by the U.S. government or any of its agencies (including, without limitation, MBS issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae);
- Cash or deposits in an FHLBank;
- Other real estate-related collateral acceptable to the FHLBank, provided such collateral has a readily ascertainable value and the FHLBank can perfect a security interest in such property; or

- In the case of any CFI, which is an FDIC-insured institution with assets of $538 million or less for the preceding three-year period starting with 2003, secured loans for small business, agriculture or securities representing a whole interest in such secured loans.

The FHLBank retains the right to require additional collateral at any time (whether or not such additional collateral would be eligible to originate an advance) or substitutions of collateral by the borrower. As additional security for a member's indebtedness, the FHLBank has a statutory lien upon that member's FHLBank stock.

The Bank Act affords any security interest granted to the FHLBank by any member of the FHLBank, or any affiliate of any such member, priority over the claims and rights of any party, including any receiver, conservator, trustee, or similar party having rights of a lien creditor. The only exceptions are claims and rights held by actual bona fide purchasers for value or by parties that are secured by actual perfected security interests, provided that such claims and rights would otherwise be entitled to priority under applicable law. In addition, the claims of the FHLBank are given certain preferences pursuant to the receivership provisions in the Federal Deposit Insurance Act. Most borrowers provide the FHLBank a blanket lien covering substantially all of the borrower's assets and consent for the FHLBank to file a financing statement evidencing the blanket lien. Based on the blanket lien, the financing statement and the statutory preferences, the FHLBank does not take control of collateral, other than securities collateral, pledged by blanket lien borrowers. With respect to non-blanket lien borrowers (typically insurance companies and housing associates), the FHLBank takes control of all collateral. The FHLBank takes control of all securities collateral through delivery of the securities to the FHLBank or its custodian. In the event that the financial condition of a blanket lien member warrants, the FHLBank will take control of sufficient eligible collateral to fully collateralize the borrower's indebtedness to the FHLBank.

The FHLBank's potential credit risk from advances is concentrated in commercial banks and thrift institutions, but also includes credit risk exposure to a limited number of credit unions, housing associates and insurance companies. The following table presents information on the 10 largest borrowers at the FHLBank as of December 31, 2003 (in thousands). The FHLBank had rights to collateral with an estimated value in excess of the book value of these advances and, therefore, does not expect to incur any credit losses on these advances. Of these borrowers, no officer or director currently serves on the FHLBank's board of directors.

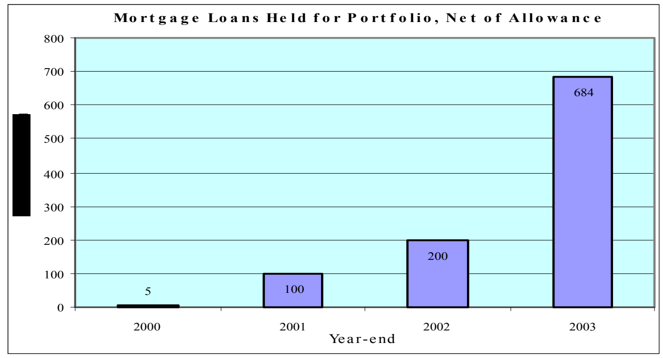
Borrower Name	City	State	Par Value	Percent of Total
Commercial Federal Bank, FSB	Omaha	NE	$ 4,513,000	17.4 %
MidFirst Bank	Oklahoma City	OK	4,029,500	15.5
Capitol Federal Savings Bank	Topeka	KS	3,200,000	12.3
Security Life of Denver Ins. Co.	Denver	CO	1,459,000	5.6
Security Benefit Life Ins. Co.	Topeka	KS	844,329	3.3
U.S. Central Credit Union	Lenexa	KS	800,000	3.1
TierOne Bank	Lincoln	NE	641,749	2.5
Local Oklahoma Bank*	Oklahoma City	OK	637,220	2.5
Fidelity Bank	Wichita	KS	517,600	2.0
Bank of Oklahoma, NA	Tulsa	OK	434,135	1.7
TOTAL			$ 17,076,533	65.9 %

* In February 2004, Local Oklahoma Bank informed the FHLBank that it will be acquired by the International Bank of Commerce, Laredo, Texas, which is a member of the Federal Home Loan Bank of Dallas, in mid-2004.

The FHLBank has never experienced a credit loss on an advance. Because of the collateral pledged as security on the advances and prior repayment history, management deems it unnecessary to establish an allowance for losses on advances. Management believes it has the policies and procedures in place to appropriately manage the credit risk associated with advances.

Letters of Credit. The FHLBank also issues letters of credit for members. Members must collateralize letters of credit.

Housing Associates. The FHLBank is permitted under the Bank Act to make advances to non-members (housing associates) that are approved mortgagees under Title II of the National Housing Act. Eligible housing associates must be chartered under law and have succession, be subject to inspection and supervision by some governmental agency, and lend their own funds as their principal activity in the mortgage field. Housing associates are not subject to certain provisions of the Bank Act that are applicable to members, such as the capital stock purchase requirements, but the same regulatory lending requirements generally apply to them as apply to members. Expanded collateral provisions apply if the housing associate qualifies as a state housing finance authority.



MPF Program – The FHLBank began participating in the MPF Program in May 2000. Under this program, stockholders either sell fixed rate, size-conforming, single-family mortgage loans to the FHLBank or originate these same loans on behalf of the FHLBank. The MPF Program provides an alternative outlet for stockholders that originate fixed rate, single-family mortgage products. Despite lower interest rates leading to homeowners refinancing their mortgage loans, new loan purchases far outpaced the high level of prepayments. Outstanding mortgage loans, net of the allowance for mortgage loan losses, have grown from $100.0 million at year-end 2001 to $200.0 million at year-end 2002 to $683.7 million at the end of 2003. The growth in mortgage loans reflects the continued expansion of available mortgage loan products and remittance options, and the number of PFIs. As of the end of 2001, agreements were in place with eight PFIs. The number of PFIs increased to 33 at the end of 2002 and to 103 at the end of 2003. The number of PFIs that delivered and sold loans also increased from six during 2001 to 26 during 2002 to 74 during 2003. We anticipate that the number of PFIs delivering and selling loans to the FHLBank will continue to increase during 2004 and beyond. The FHLBank has devoted resources in 2004 to increase the volume of mortgage loans both acquired from our in-district PFIs and acquired through agreements to participate in a percentage of out-of-district mortgage loans originated by members of other FHLBanks. To increase in-district PFIs, our district account managers are focusing on members that are active mortgage underwriters. To increase the out-of-district loans purchased, the FHLBank has entered into an agreement with another FHLBank to participate in the loan production of one of its large members. However, volume growth for mortgage loans will depend on a number of factors, including the number of new PFIs; the size of new PFIs; the amount of mortgage activity all the PFIs expect to do in 2004; the expected refinancing rate; the general level of interest rates; and the willingness of other FHLBanks to participate a percentage of mortgage loans that their PFIs are selling into the MPF Program.

The average yield on mortgage loans was 4.82 percent during 2003 compared to 6.22 percent during 2002 and 6.67 percent during 2001. The decrease in the average yield is primarily attributable to the declining interest rate environment during 2001, 2002 and 2003. The decrease in the FHLBank's average mortgage loan yield was compounded by the acceleration of prepayments in the mortgage loan portfolio for much of 2002 and 2003. As a result of the FHLBank's efforts to increase its mortgage loan balances mentioned previously, the average yield on mortgage loans will continue to decrease during 2004 unless market interest rates on mortgage loans increase during 2004. See the Spread and Yield Analysis and the Rate and Volume Analysis in the "Financial Review – Results of Operations" section for further information.

The FHLBank classifies conventional real estate mortgage loans as "nonperforming" when they are contractually past due 90 days or more and interest is no longer accrued. Interest continues to accrue on government-insured real estate mortgage loans (e.g., FHA and VA loans) that are contractually past due 90 days or more. The unpaid principal for conventional and government-insured mortgage loans as of December 31, 2003, 2002 and 2001, is as follows (in thousands):

	2003	2002	2001
Conventional mortgage loans	$ 638,930	$ 181,704	$ 92,487
Government-insured mortgage loans	40,273	17,660	7,636
Total outstanding mortgage loans	$ 679,203	$ 199,364	$ 100,123

Unpaid principal for performing mortgage loans, nonperforming mortgage loans and mortgage loans 90 days or more past due and accruing for the years ended December 31, 2003, 2002 and 2001 is as follows (in thousands):

	2003	2002	2001
Performing mortgage loans	$ 679,049	$ 199,165	$ 100,123
Nonperforming mortgage loans	66	140	0
Mortgage loans 90 days or more past due and accruing	88	59	0
Total outstanding mortgage loans	$ 679,203	$ 199,364	$ 100,123

Information regarding the interest income shortfall on the nonperforming loans during the year ended December 31, 2003, is included in the following table (in thousands):

	2003
Interest contractually due during the year on nonperforming mortgage loans	$ 4
Interest income received during the year on nonperforming mortgage loans	3
Shortfall	$ 1

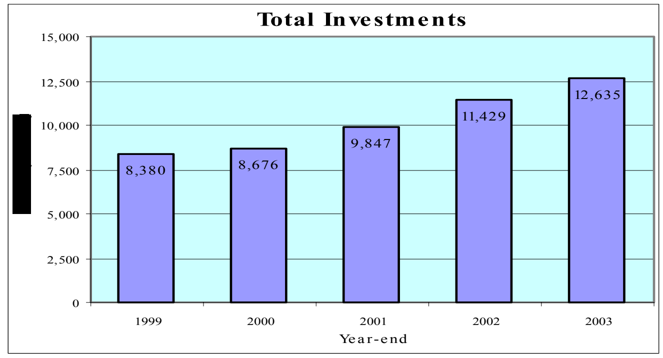
MPF Allowance for Credit Losses on Mortgage Loans. At December 31, 2003, 2002 and 2001, the FHLBank had recorded a provision for credit losses of $129,000, $52,000 and $19,000, respectively. The FHLBank bases its allowance on management's estimate of probable credit losses inherent in the FHLBank's mortgage loan portfolio as of the balance sheet date. The estimate is based on an analysis of industry statistics for similar mortgage loan portfolios. The credit risks of MPF loans are managed by structuring potential credit losses into certain layers. As is customary for conventional mortgage loans, PMI is required for MPF loans with down payments of less than 20 percent of the original purchase price. Losses beyond the PMI layer are absorbed by an FLA established by the FHLBank. If second losses beyond this layer are incurred, they are absorbed through a credit enhancement provided by the participating member. The credit enhancement held by the participating member ensures that the lender retains a credit stake in the loan it originates. For managing this risk, participating members receive monthly CE fees from the FHLBank. The size of each member's credit enhancement is calculated so that the likelihood of losses in excess of the second layer is consistent with those of a AA-rated MBS. All losses in excess of the credit enhancement are then absorbed by the FHLBank. Management believes that policies and procedures are in place to manage the MPF credit risk effectively.

FHLBank Topeka's mortgage loans held for portfolio are dispersed across 39 states. As of December 31, 2003, more than 77 percent of the loans were concentrated in Kansas and Nebraska, but no single zip code represented more than 5 percent of total mortgage loans. The median size of a mortgage loan was approximately $61,000 at December 31, 2003. The following is a summary of geographic concentration by region as of December 31, 2003, 2002 and 2001:

	2003	2002	2001
Midwest	58.3 %	85.7 %	97.9 %
Northeast	2.0	0.0	0.0
Southeast	0.7	0.1	0.0
Southwest	36.9	14.0	2.1
West	2.1	0.2	0.0
TOTAL	100.0 %	100.0 %	100.0 %

Percentages are calculated based on the unpaid principal balance at the end of each year.
Midwest includes: IA, IL, IN, MI, MN, ND, NE, OH, SD and WI
Northeast includes: CT, DE, MA, ME, NH, NJ, NY, PA, RI and VT
Southeast includes: AL, FL, GA, KY, MD, MS, NC, SC, TN, VA and WV
Southwest includes: AR, AZ, CO, KS, LA, MO, NM, OK, TX and UT
West includes: AK, CA, HI, ID, MT, NV, OR, WA and WY

Investments – Investment balances grew compared to prior year totals. As of December 31, 2003, investments totaled $12.6 billion, compared with $11.4 billion at December 31, 2002, and $9.8 billion at December 31, 2001.



The average yield on investments was 2.75 percent during 2003 compared to 3.47 percent during 2002 and 5.03 percent during 2001. Yields on investments decreased in part because of an increase in the FHLBank's capital during 2003 (see the "Financial Review - Balance Sheet Analysis" section for comments regarding the growth in capital) that resulted in the use of additional lower yielding non-mortgage assets to maintain the FHLBank's leverage ratio. However, the predominant influence was the declining interest rates during 2001, 2002 and 2003. We foresee this trend continuing through most of 2004 unless the overall level of interest rates increases significantly during 2004. See the Spread and Yield Analysis and the Rate and Volume Analysis in the "Financial Review - Results of Operations" section for further information. Short-term investments used for liquidity purposes consisted primarily of deposits in banks, overnight and term Federal funds, and commercial paper. These investments increased gradually from $4.7 billion at the end of 2001 to $5.0 billion at the end of 2002 and to $5.2 billion at the end of 2003. The FHLBank's long-term investment portfolio, consisting of U.S. Treasury obligations, U.S. agency securities, MBS and state or local housing finance agency securities, increased from $5.2 billion at the end of 2001 to $6.4 billion at the end of 2002 and to $7.4 billion at the end of 2003. This increase was primarily in U.S. agency securities and MBS. The agency instruments provide attractive returns, serve as excellent collateral (repos and net derivatives exposure) and qualify for regulatory liquidity. All of the FHLBank's agency instruments are fixed rate bonds and some are swapped from fixed to adjustable rates. All swapped agency instruments are classified as securities held at fair value so that the change in fair value of the securities flows through "net gain (loss) on securities held at fair value" at the same time as the change in fair value on the interest rate swaps flows through "net realized and unrealized gain (loss) on derivatives and hedging activities" in the income statements. Net interest payments on these swaps also flow through "net realized and unrealized gain (loss) on derivatives and hedging activities" since the swaps do not qualify for hedge accounting treatment under SFAS 133 management (i.e., a non-SFAS 133 economic hedge; see "Financial Review – Derivatives" section for further information). As the FHLBank increases its investment in whole mortgage loans through the MPF Program, the short-term investment portfolio is expected to decrease.

The FHLBank's RMP restricts the acquisition of investments to high-quality, short-term money market instruments and highly rated long-term securities. The FHLBank uses the short-term portfolio to sustain the liquidity necessary to meet member credit needs, to provide a reasonable return on customers' deposits and to maximize the FHLBank's leverage ratio. Long-term securities are used to provide a reliable income flow and to achieve a desired maturity structure. The majority of these long-term securities are MBS, which provide an alternative means to promote liquidity in the mortgage finance markets while providing attractive returns. The reduction in pay downs in the fourth quarter of 2003 and the increase in the FHLBank's capital, which allowed for additional purchases of MBS under Finance Board limitations, contributed to the increase in MBS. The FHLBank continues to increase mission-related investments, but has reduced its participation in the taxable state housing finance agency market outside of its four-state area. However, the FHLBank remains an active supporter of the state housing finance agency market within the Tenth District. The FHLBank decreased its investment in taxable state or local housing finance agency securities by $228.9 million or 30.1 percent from the amount held as of December 31, 2001, because of the reduced acquisition of out-of-district housing finance agency securities and the accelerated principal prepayments on the existing portfolio. State or local housing finance agencies provide funds for low-income housing and other similar initiatives. By purchasing state or local housing finance agency securities in the primary market, the FHLBank not only receives competitive returns but also provides necessary liquidity to traditionally underserved segments of the housing market. In 2000, the FHLBank initiated a new line of business by executing Standby Bond Purchase Agreements (SBPA) with two state housing finance authorities within the Tenth District. For a predetermined fee, the FHLBank has a standby obligation to purchase the authorities' bonds if the remarketing agent is unable to resell the bonds to suitable investors and to hold the bonds until the designated marketing agent can find a suitable investor or the housing finance authority repurchases the bonds according to a schedule established by the standby agreement. The bond purchase commitments executed by the FHLBank expire after five years (no later than 2008), though some are renewable at the option of the FHLBank. Total commitments for bond purchases under the SBPAs were $640 million, $590 million and $255 million as of December 31, 2003, 2002 and 2001, respectively. The FHLBank was not required to purchase any bonds under these agreements during 2003, 2002 or 2001.

Major Security Types. Finance Board regulation prohibits the FHLBank from trading investments, and the FHLBank does not operate trading accounts. All securities are held for investment. Certain investments are classified as securities held at fair value in order for the change in fair value to offset the change in fair value of any designated derivative instrument. The carrying value of held-to-maturity securities, available-for-sale securities and securities held at fair value as of December 31, 2003, 2002 and 2001, are summarized by security type in the following table (in thousands):

	2003	2002	2001
U.S. Treasury obligations	$ 216,188	$ 0	$ 0
FHLBank obligations	36,356	16,765	44,944
Other U.S. agency obligations	1,481,756	1,178,287	395,982
State or local housing agency obligations	531,601	688,947	760,550
Commercial paper	998,849	908,145	922,964
Subtotal	3,264,750	2,792,144	2,124,440
MBS	5,176,911	4,563,175	3,991,873
TOTAL	$ 8,441,661	$ 7,355,319	$ 6,116,313

The FHLBank's MBS investment portfolio consists of the following categories of securities as of December 31, 2003:

	Carrying Value	Percent of Total
Private issue residential MBS	$ 3,700,514	71.5 %
U.S. agency residential MBS	1,298,119	25.1
Private issue commercial MBS	103,344	2.0
Home equity loans	71,077	1.3
Manufactured housing	3,857	0.1
TOTAL	$ 5,176,911	100.0 %

Redemption Terms. The carrying value of non-MBS classified as held-to-maturity securities, available-for-sale securities and securities held at fair value by contractual maturity as of December 31, 2003, are shown in the following table (in thousands). Expected maturities of certain securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

	Held-to-maturity Securities	Available-for-sale Securities	Securities Held at Fair Value	Total
Due in one year or less	$ 1,201,568	$ 0	$ 101,687	$ 1,303,255
Due after one year through five years	675,070	101,438	104,598	881,106
Due after five years through 10 years	130,557	114,750	380,547	625,854
Due after 10 years	454,535	0	0	454,535
TOTAL	$ 2,461,730	$ 216,188	$ 586,832	$ 3,264,750

The carrying value of MBS classified as held-to-maturity securities, available-for-sale securities and securities held at fair value by contractual maturity as of December 31, 2003, are shown in the following table (in thousands). Expected maturities of certain MBS will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

	Held-to-maturity Securities	Available-for-sale Securities	Securities Held at Fair Value	Total
Due in one year or less	$ 0	$ 0	$ 0	$ 0
Due after one year through five years	25,743	0	0	25,743
Due after five years through 10 years	47,344	0	0	47,344
Due after 10 years	5,093,632	0	10,192	5,103,824
TOTAL	$ 5,166,719	$ 0	$ 10,192	$ 5,176,911

Yield Characteristics. As of December 31, 2003, non-MBS classified as held-to-maturity securities, available-for-sale securities and securities held at fair value had the following yield characteristics:

	Held-to-maturity Securities	Available-for-sale Securities	Securities Held at Fair Value
Due in one year or less	1.15 %	- %	3.25 %
Due after one year through five years	3.01 %	1.94 %	6.74 %
Due after five years through 10 years	4.22 %	2.62 %	5.68 %
Due after 10 years	5.51 %	- %	- %

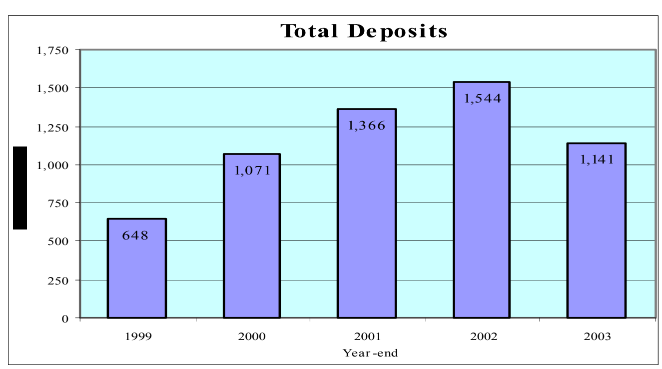
As of December 31, 2003, MBS classified as held-to-maturity securities, available-for-sale securities and securities held at fair value had the following yield characteristics:

	Held-to-maturity Securities	Available-for-sale Securities	Securities Held at Fair Value
Due in one year or less	- %	- %	- %
Due after one year through five years	2.40 %	- %	- %
Due after five years through 10 years	3.79 %	- %	- %
Due after 10 years	3.96 %	- %	6.00 %

Securities Ratings. As of December 31, 2003, the ratings on investments classified as held-to-maturity, available-for-sale or securities held at fair value were as follows:

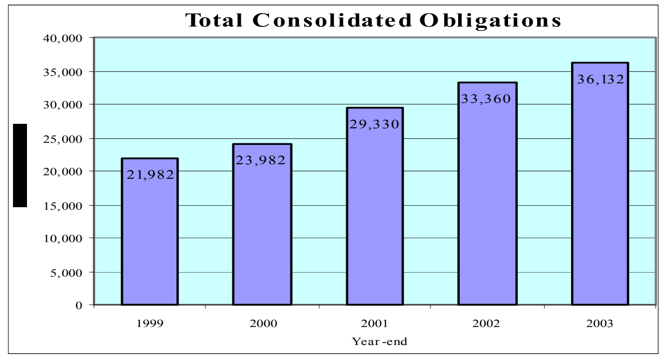
Investment Rating	Percent of Total
Long-term rating:	
AAA	86.7 %
AA	1.5
Short-term rating:	
A-1 or higher/P-1	11.8
TOTAL	100.0 %

This table does not reflect changes in any rating, outlook or watch status after December 31, 2003. The ratings were obtained from S&P, Moody's and/or Fitch.



Deposits – The FHLBank offers deposit programs for the benefit of its members and to other qualifying non-members. Deposit products offered include demand and overnight deposits and short-term CDs. The average rate paid on deposits has decreased from 3.69 percent during 2001 to 1.53 percent during 2002 and to 0.97 percent during 2003. The decrease in the average rate paid was attributable to the declining interest rates during 2001, 2002 and 2003. We expect this trend will continue as long as interest rates remain low, but will be less dramatic during 2004 unless short-term interest rates fall from their current levels. The level of short-term interest rates is primarily impacted by FOMC decisions, but is also influenced by the expectations of capital market participants. Most deposits are very short-term, and the FHLBank, as a matter of prudence, holds short-term assets with maturities similar to the deposits (see Liquidity Requirements in the "Business – Deposits" section). The majority of the deposits are in overnight or demand accounts that reprice daily based upon a market index such as overnight Federal funds. Member demand and the liquidity situation of members drive the level of deposits. Factors that generally influence deposit levels include turnover in member investment and loan portfolios, changes in member demand for liquidity and the FHLBank's deposit pricing as compared to other short-term market rates. Total deposits at the end of 2003 were $1.1 billion, down 26.1 percent from year-end 2002 and down 16.5 percent from year-end 2001.

Consolidated Obligations – Consolidated obligations are the joint and several debt obligations of the 12 FHLBanks and consist of bonds and discount notes. Consolidated obligations represent the primary source of liabilities used by the FHLBank to fund advances and investments. As noted in the "Risk Management" section, the FHLBank uses debt with a variety of maturities and option characteristics to manage its duration of equity. The FHLBank makes extensive use of interest rate swap transactions, executed in conjunction with specific consolidated obligation debt issues, to synthetically reconfigure funding terms and costs.



As of December 31, 2003, consolidated obligations totaled $36.1 billion, compared with $33.4 billion at December 31, 2002 and $29.3 billion at December 31, 2001. The year-end balances include ($215.6) million, $328.8 million and $72.8 million, respectively, of fair value adjustments [(debit) credit adjustment] related to SFAS 133. The average effective rate paid on consolidated obligations, adjusted for the impact of interest rate exchange agreements, was 1.83 percent during 2003 compared to 2.44 percent during 2002 and 4.42 percent during 2001. The average effective rate paid on consolidated obligations decreased because of the declining interest rates experienced during 2001, 2002 and 2003. Although the cost of the FHLBank's liabilities decreased significantly, net interest spreads declined because the yields on investments and advances decreased more rapidly than the yields on the liabilities funding these assets (i.e., an asset/liability mismatch as longer-term liabilities were used to fund shorter-term assets, or longer-term assets were prepaying faster than the FHLBank was able to call or retire longer-term, fixed rate debt). Spreads began to widen in the fourth quarter of 2003 and are expected to improve further in 2004. The improvement in spreads in the fourth quarter of 2003 was the result of major changes in the liability portfolio and a slowdown in MBS prepayments. In 2003, a significant amount of high-cost debt matured or was called and replaced with lower-costing liabilities. From 2001 to 2003, the average rate on consolidated obligations declined by 2.59 percent compared to the 2.75 percent decline in the average rate on advances discussed previously. We anticipate that this trend will continue until the FOMC moves to raise its interest rate target for Federal funds. See the Spread and Yield Analysis and the Rate and Volume Analysis in the "Financial Review – Results of Operations" section for further information.

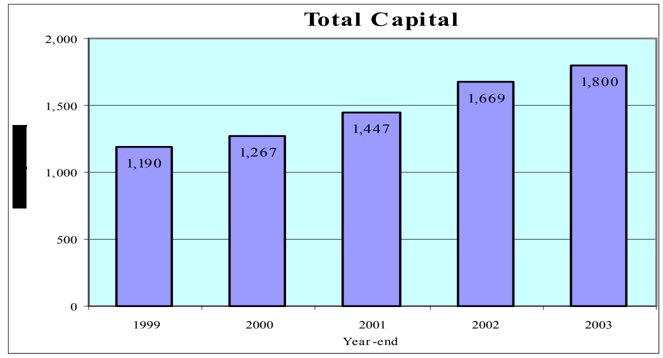
Derivatives – The FHLBank recorded derivative assets of $53.6 million, $161.8 million and $176.4 million and derivative liabilities of $1,101.9 million, $1,033.2 million and $478.5 million at December 31, 2003, 2002 and 2001, respectively. The FHLBank uses derivatives in three ways: either by designating them as a fair value or cash flow hedge of an underlying financial instrument or a forecasted transaction; by acting as an intermediary; or in asset/liability management (i.e., a non-SFAS 133 economic hedge). Non-SFAS 133 economic hedges (economic hedge) are defined as interest rate exchange agreements hedging specific or non-specific underlying assets, liabilities or firm commitments that do not qualify for hedge accounting under the rules of SFAS 133, but are acceptable hedging strategies under the FHLBank's RMP. To meet the hedging needs of its members, the FHLBank enters into offsetting interest rate exchange agreements, acting as an intermediary between members and other counterparties. This intermediation allows smaller stockholders indirect access to the swap market. The derivatives used in intermediary activities do not receive SFAS 133 hedge accounting and are separately marked-to-market through earnings (classified as economic hedges). The notional amounts and fair values by type of derivative held as of December 31, 2003, 2002 and 2001, are included in the following table (amounts in thousands):

	Notional Outstanding			Fair Value (including net accrued interest)		
	2003	2002	2001	2003	2002	2001
Fair value hedges	$ 29,086,677	$ 27,107,852	$ 25,390,725	$ (984,865)	$ (778,258)	$ (285,828)
Cash flow hedges	0	50,000	50,000	0	340	366
Economic derivatives	2,756,420	2,869,397	2,811,653	(63,424)	(93,500)	(16,629)
TOTALS	$ 31,843,097	$ 30,027,249	$ 28,252,378	$ (1,048,289)	$ (871,418)	$ (302,091)

At December 31, 2003, the FHLBank had $31.8 billion total notional amount of interest rate exchange agreements outstanding compared with $30.0 billion at December 31, 2002, and $28.3 billion at December 31, 2001. The notional amount serves as a factor in determining periodic interest payments or cash flows received and paid, and does not represent actual amounts exchanged or exposure to credit and market risk. The amount potentially subject to credit loss is much less. Notional values are not meaningful measures of the risks associated with derivatives. The risks of derivatives can only be measured meaningfully on a portfolio basis, taking into account the derivatives, the item being hedged and any offsets between them. The following table categorizes the estimated fair value of derivative financial instruments, excluding accrued interest, by product and type of accounting treatment. The "Fair Value" and "Cash Flow" categories represent hedges qualifying for preferable hedge accounting treatment. The "Economic" category represents hedge strategies not qualifying for preferable hedge accounting treatment. Amounts at December 31, 2003, 2002 and 2001, are as follows (in thousands):

	2003		2002		2001	
	Notional	Estimated Fair Value	Notional	Estimated Fair Value	Notional	Estimated Fair Value
Advances						
Fair value	$ 10,730,358	$ (955,182)	$ 10,801,433	$ (1,275,177)	$ 9,970,495	$ (604,017)
Economic	200,000	0	200,000	0	200,000	0
Subtotal	10,930,358	(955,182)	11,001,433	(1,275,177)	10,170,495	(604,017)
Investments						
Economic	1,203,583	(32,541)	834,758	(54,913)	536,311	(5,042)
Subtotal	1,203,583	(32,541)	834,758	(54,913)	536,311	(5,042)
Mortgage loans						
Stand-alone delivery commitments	30,560	147	0	0	0	0
Subtotal	30,560	147	0	0	0	0
Consolidated obligations						
Fair value	18,356,319	(132,450)	16,306,419	382,793	15,420,230	176,017
Cash flow	0	0	50,000	185	50,000	167
Economic	850,000	(22,687)	920,000	(30,271)	866,000	(8,345)
Subtotal	19,206,319	(155,137)	17,276,419	352,707	16,336,230	167,839
Balance sheet						
Economic	0	0	400,000	0	800,000	0
Subtotal	0	0	400,000	0	800,000	0
Intermediary						
Economic	472,277	823	514,639	871	409,342	619
Subtotal	472,277	823	514,639	871	409,342	619
TOTAL	$ 31,843,097	$ (1,141,890)	$ 30,027,249	$ (976,512)	$ 28,252,378	$ (440,601)
Total derivative fair value excluding accrued interest		$ (1,141,890)		$ (976,512)		$ (440,601)
Accrued interest		93,601		105,094		138,510
NET DERIVATIVE FAIR VALUE		$ (1,048,289)		(871,418)		$ (302,091)
Net derivative assets balance		$ 53,634		$ 161,753		$ 176,444
Net derivative liabilities balance		(1,101,923)		(1,033,171)		(478,535)
NET DERIVATIVE FAIR VALUE		$ (1,048,289)		$ (871,418)		$ (302,091)

Capital – Total capital consists of capital stock, accumulated other comprehensive income and retained earnings. As of December 31, 2003, total capital was $1.8 billion, compared with $1.7 billion at December 31, 2002 and $1.4 billion at December 31, 2001. As noted previously, the majority of the increase in capital stock was a result of advance growth. Capital stock also grew because of an increase in the number of stockholders. As member advance activity increases, stock held by members to support this activity will likewise increase. We noted previously that past stock growth was moderated because of a mandatory stock redemption plan. The FHLBank discontinued this mandatory redemption plan during the first quarter of 2003 and, at this time, does not plan any additional mandatory capital stock redemptions. As a result, capital stock growth should more closely parallel asset growth in future periods.



The FHLBank's capital stock is not publicly traded. Stockholders may, at the FHLBank's discretion, redeem any capital stock in excess of the statutory minimum stock requirements (see the "Capital, Capital Rules and Dividends" section) at its par value of $100 per share. The following table presents information on the 10 largest stockholders at the FHLBank as of December 31, 2003 (in thousands). Of these stockholders, no officer or director currently serves on the FHLBank's board of directors.

Stockholder Name	City	State	Par Value	Percent of Total
MidFirst Bank	Oklahoma City	OK	$ 321,639	18.5 %
Commercial Federal Bank, FSB	Omaha	NE	243,064	14.0
Capitol Federal Savings Bank	Topeka	KS	170,768	9.8
Security Life of Denver Ins. Co.	Denver	CO	73,575	4.2
U.S. Central Credit Union	Lenexa	KS	50,635	2.9
Security Benefit Life Ins. Co.	Topeka	KS	42,565	2.5
TierOne Bank	Lincoln	NE	37,143	2.1
Local Oklahoma Bank*	Oklahoma City	OK	35,949	2.1
Fidelity Bank	Wichita	KS	28,559	1.6
Bank of Oklahoma, NA	Tulsa	OK	27,899	1.6
TOTAL			$ 1,031,796	59.3 %

* In February 2004, Local Oklahoma Bank informed the FHLBank that it will be acquired by the International Bank of Commerce, Laredo, Texas, which is a member of the Federal Home Loan Bank of Dallas, in mid-2004.

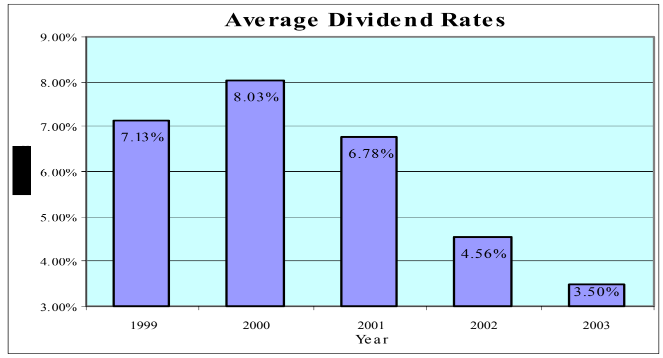
As noted previously in the "Capital, Capital Rules and Dividends" section, in August 2003 the FHLBank announced that implementation of the new capital plan would be postponed. At its December 19, 2003 meeting, the board of directors approved an amended capital plan, which was submitted to the Finance Board for approval on December 22, 2003. After Finance Board approval of the amended plan, the FHLBank's board of directors will establish a conversion date for the capital plan. As provided in the FHLBank's amended capital plan, the conversion date is to be no later than December 31, 2004. The board of directors will establish such conversion date within 90 calendar days after Finance Board approval of the plan as amended, and the FHLBank shall notify all members of the conversion date within 10 business days after it has been established. The actual conversion of the capitalization of the FHLBank remains subject to certain operational contingencies, including the Finance Board's approval of the FHLBank's amended plan. Following are highlights of FHLBank Topeka's specific capital plan, as amended and submitted to the Finance Board for approval:

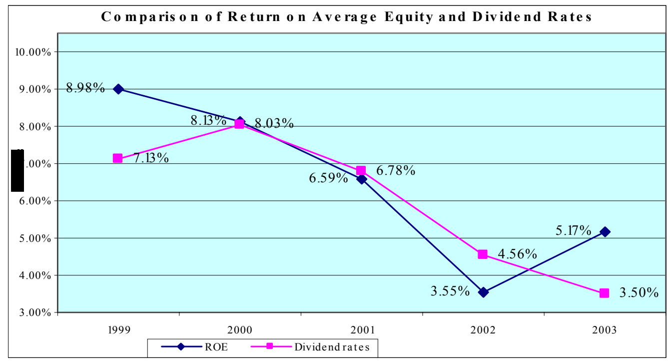
- Two classes of authorized stock – Class A and Class B;
- Both have $100 par value and both are defined as common stock;
- Class A stock will be required for membership. The initial membership requirement is 0.2 percent of total assets at the end of the prior calendar year with a cap of $1.0 million or 10,000 shares and a minimum of $1,000 or 10 shares. The membership, or asset-based, stock requirement will be calculated once a year except in the case of mergers. Class A stock, up to a member's asset-based stock requirement, can be used to support a member's activity-based stock requirement;

- To the extent that a member's Class A asset-based requirement is insufficient to support its calculated activity-based requirement, Class B stock is required to support a member's activities with the FHLBank. The activity-based requirements listed below are the initial requirements and are subject to change by the FHLBank's board of directors within ranges specified in the capital plan. The activity-based stock requirement is the sum of the stock requirements for each activity less the Class A asset-based stock requirement and will be calculated whenever a member enters into a transaction as follows:
  - √ Advances – 5.0 percent of outstanding advances (range = 4.0 to 6.0 percent);
  - √ Letters of credit – 0.0 percent of outstanding letters of credit (range = 0.0 to 1.0 percent);
  - √ MPF – 2.0 percent of principal amount of member's MPF loans held by the FHLBank (range = 0.0 to 6.0 percent), limited to a maximum of 1.5 percent of the member's total assets at the end of the prior calendar year (range = 1.0 to 3.0 percent); and
  - √ Interest rate exchange agreements (swaps, caps, floors and equity options) – 0.0 percent of the total notional amount (range = 0.0 to 2.0 percent);
- Excess stock will be calculated periodically. The FHLBank may exchange excess Class B stock for Class A stock, or excess Class A stock for Class B stock, only if the FHLBank remains in compliance with its regulatory capital requirements after the exchange;
- A member may hold excess Class A or Class B stock, subject to the FHLBank's rights to repurchase excess stock or to exchange excess Class B stock for Class A stock, or may ask to redeem all or part of its excess Class A or Class B stock. A member may also ask to exchange all or part of its excess Class A or Class B stock for Class B or Class A stock, respectively, but all such exchanges are subject to the FHLBank's discretion;
- As a member increases its activities with the FHLBank above the amount of activity supported by its asset-based requirement, excess Class A stock will first be exchanged for Class B stock to meet the activity requirement prior to purchasing additional Class B stock by debiting the member's demand deposit account;
- The board of directors will establish a dividend parity threshold expressed as a positive or negative spread relative to a published reference interest rate index (e.g., LIBOR, Federal funds, etc.) or an internally calculated reference interest rate based upon any of the FHLBank's assets or liabilities (average yield on advances, average cost of consolidated obligations, etc.);
- Class A stock and Class B stock share in dividends equally up to the dividend parity threshold, then the dividend rate for Class B can exceed the rate for Class A;
- Members will be notified of the reference interest rate and spread that defines the dividend parity threshold prior to implementation of the plan and at least 90 days prior to any change thereof;
- A member may submit a redemption request to the FHLBank for any or all of its Class A or Class B stock;
- Within five business days of receipt of a redemption request for Class A stock, the FHLBank may notify the member that it declines to repurchase the excess Class A stock, at which time the six-month waiting period will apply. Otherwise, the FHLBank will repurchase any excess Class A stock within five business days;
- Within five business days of receipt of a redemption request for Class B stock, the FHLBank may notify the member that it declines to repurchase the excess Class B stock, at which time the five-year waiting period will apply. Otherwise, the FHLBank will repurchase any excess Class B stock within five business days; and
- Each required share of Class A stock and Class B stock is entitled to one vote up to the statutorily imposed voting caps.

On June 2, 2000, the Finance Board adopted a final rule amending the 12 FHLBanks' leverage limit requirements. Effective July 1, 2000, each FHLBank's leverage limit is based on a ratio of assets to capital, rather than a ratio of liabilities to capital. The Finance Board's former regulations prohibited the issuance of consolidated obligations if such issuance would bring the 12 FHLBanks' outstanding consolidated obligations and other senior liabilities above 20 times the 12 FHLBanks' total capital. The Finance Board's FMP also applied this limit on an FHLBank-by-FHLBank basis. The final rule deleted the FHLBank-wide leverage limit from the regulations, but limits each FHLBank's assets generally to no more than 21 times its capital. Nevertheless, an FHLBank whose non-mortgage assets, after deducting deposits and capital, do not exceed a monthly average of 11 percent of its total assets, may have total assets in an amount greater than 21 times its capital but not greater than 25 times its capital. FHLBank Topeka's percentage of non-mortgage assets to total assets was 10.6 percent, and its ratio of total assets to total capital was 22.4 as of December 31, 2003. For compliance purposes, leverage ratios are computed on a monthly average basis and reported to the Finance Board each month. The FHLBank was in compliance for all 12 months during 2003.

As described in the "Business – Tax Status" section, each of the 12 FHLBanks is required to pay a portion of its earnings to REFCORP. The amount of each FHLBank's payment was determined under a complex statutory formula based on each FHLBank's net income. This formula was modified, effective January 1, 2000, by the GLB Act. For years through 1999, the 12 FHLBanks charged the $300 million annual payment to REFCORP directly to retained earnings as a capital distribution. The GLB Act requires quarterly payments of 20 percent of net earnings after AHP for each FHLBank. Beginning in 2000, the 12 FHLBanks started expensing these amounts through their statements of income and will continue to do so until the aggregate amount actually paid by all 12 FHLBanks since 2000 is equivalent to a $300 million annual annuity whose final maturity date is April 15, 2030, at which point the required payment of the 12 FHLBanks to REFCORP will be fully satisfied. The Finance Board, in consultation with the Secretary of the Treasury, will select the appropriate discounting factors to be used in each annuity calculation. The cumulative amount to be paid to REFCORP by FHLBank Topeka cannot be determined at this time because of the interrelationships of all future FHLBanks' earnings and other ratios included in the formula. The 12 FHLBanks' prior payments and those for 2003 defease all future benchmark payments after the third quarter of 2020 as well as $21.5 million of the $75.0 million benchmark payment for the third quarter of 2020. FHLBank Topeka's retained earnings were charged $13.0 million for REFCORP interest assessments in 1999. It expensed $22.1 million, $13.7 million and $21.9 million in 2003, 2002 and 2001, respectively, for REFCORP interest assessments through its statements of income.





Capital Distributions – Prior to June 22, 2000, the FHLBank was required to retain in restricted retained earnings the portion of income from prepayment fees that, if allocated on a pro rata basis over the maturities of the advances prepaid, would be allocated to future dividend periods. At management's discretion, certain other gains and losses related to financial instrument transactions or early retirements of consolidated obligations could also be similarly treated. On June 22, 2000, the Finance Board rescinded its dividend policy applicable to the FHLBanks. This action has the effect of no longer requiring an FHLBank to hold as restricted retained earnings that portion of prepayment fee income that, if prorated over the maturity of the advances prepaid, would be allocated to future dividends. FHLBank Topeka has chosen not to have any restricted retained earnings.

Dividends may be paid in cash or capital stock as authorized by the FHLBank's board of directors. Quarterly dividends can be paid out of current and previously retained earnings, subject to Finance Board regulation. Dividends were paid at an annualized rate of 3.50 percent, 4.56 percent and 6.78 percent in 2003, 2002 and 2001, respectively. During 2003, dividends were paid on capital stock consisting of stock dividends of $14.9 million and cash dividends of $43.1 million. Cash dividends were paid on capital stock consisting of $67.8 million during 2002 and $85.6 million during 2001. The FHLBank expects to continue to pay dividends that are comparable to a reasonable spread over the effective Federal funds rate. The dividend for the fourth quarter of 2003 was paid in capital stock, and the FHLBank expects to continue this practice in future quarters.

Capital Adequacy – Under the existing capital rules, the Bank Act prescribes minimum member capital stock requirements. In addition, an individual FHLBank, at the discretion of its board of directors and/or management, may institute a higher capital requirement in order to meet internally established thresholds or to address supervisory matters. At December 31, 2003, the FHLBank was in compliance with its statutory minimum capital requirements. It did not have any internally established thresholds and was not subject to any supervisory limitations.

At December 31, 2003, 96.6 percent of the FHLBank's capital was capital stock, and 3.4 percent was retained earnings and accumulated other comprehensive income. At December 31, 2003, the FHLBank had a capital-to-asset ratio of 4.44 percent. This compares with a capital-to-asset ratio of 4.40 percent at December 31, 2002. The FHLBank expects to maintain a capital-to-asset ratio greater than the regulatory minimum of 4.0 percent.

Liquidity – To meet its mission of serving as an economical short-term and long-term funding source for its stockholders, the FHLBank must maintain high levels of liquidity. The FHLBank is required to maintain liquidity in accordance with certain Finance Board regulations (see the Liquidity Requirements in the "Business – Deposits" section) and with policies established by management and the board of directors. The FHLBank also needs liquidity to repay maturing consolidated obligations, to meet other financial obligations and to repurchase excess capital stock at its discretion upon the request of a member. A primary source of the FHLBank's liquidity is the issuance of consolidated obligations. The capital markets traditionally have treated FHLBank obligations as "Federal agency" debt. As a result, even though the U.S. government does not guarantee FHLBank debt, the FHLBank has ready access to funding at relatively favorable spreads to U.S. Treasury rates.

The FHLBank's other primary sources of liquidity include deposit inflows, repayments of advances or mortgage loans, maturing investments and interest income. Primary uses of liquidity include issuing advances, funding or purchasing mortgage loans, purchasing investments, deposit withdrawals, maturing consolidated obligations and interest expense.

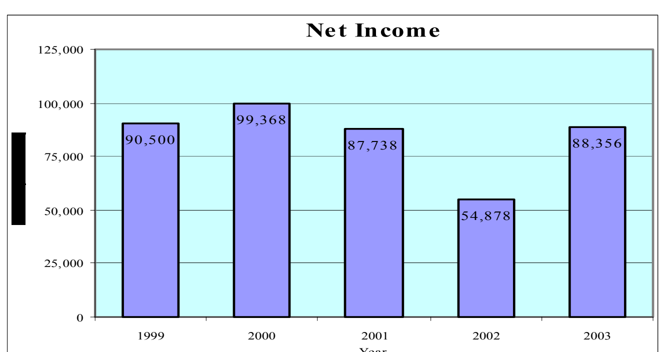
The cash and short-term investment portfolio, including commercial paper, totaled $5.2 billion, $5.0 billion and $4.7 billion at December 31, 2003, 2002 and 2001, respectively. The maturities of these short-term investments are structured to provide periodic cash flows to support the FHLBank's ongoing liquidity needs. The FHLBank also maintains a portfolio of U.S. agency debentures that can be pledged as collateral for financing in the repurchase agreement market. U.S. agency investments totaled $1.5 billion, $1.2 billion and $0.4 billion at December 31, 2003, 2002 and 2001, respectively. The FHLBank expects to maintain a sufficient level of liquidity for the foreseeable future.

Contractual Obligations – The following table represents the payments due or expiration terms under the specified contractual obligation type by period (in thousands). Long-term debt does not include discount notes and is based on contractual maturities. Actual distribution could be influenced by factors affecting redemptions.

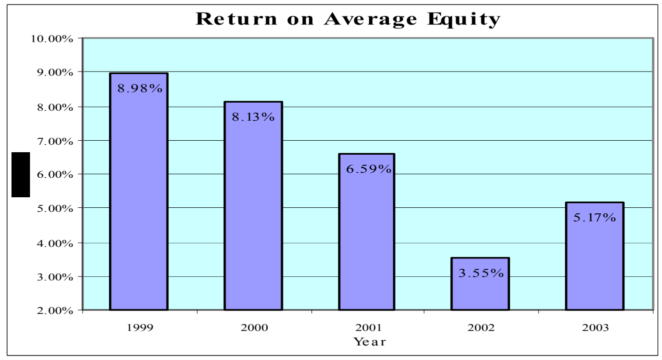
	1 Year or Less	After 1 Through 3 Years	After 3 Through 5 Years	After 5 Years	Total
Long-term debt	$ 2,412,496	$ 5,620,772	$ 6,033,500	$ 12,318,441	$ 26,385,209
Capital lease obligations	7,444	14,025	12,875	22,300	56,644
Operating leases	85	61	6	0	152
Commitments for additional advances	81,620	0	0	0	81,620
Standby letters of credit	1,744,720	164,247	33,063	0	1,942,030
Standby bond purchase agreements	52,532	191,428	396,418	0	640,378
Commitments to fund mortgage loans	30,560	0	0	0	30,560
Long-term debt traded not settled	0	25,000	100,000	162,000	287,000
TOTAL	$ 4,329,457	$ 6,015,533	$ 6,575,862	$ 12,502,741	$ 29,423,593

<u>Results of Operations</u>

The primary source of FHLBank earnings is net interest income, which is the interest earned on advances, mortgages and investments less interest paid on consolidated obligations, deposits and other borrowings. As a result of lower earnings on invested capital and continued pressure on its net interest spreads, the FHLBank's net income decreased by 37.5 percent from 2001 to 2002. This resulted in a significant decrease in



return on average equity (ROE) from 6.59 percent for 2001 to 3.55 percent for 2002. Although the FHLBank experienced continued pressure on its net interest spreads in 2003, improvement was noted in the fourth quarter because of the reduction in pay downs in the FHLBank's MBS and mortgage loan portfolios. Net interest income before mortgage loan loss provision, which had been decreasing over the previous two years, increased from the prior year even though yields on all interest-earning assets declined significantly from 2002. This increase was primarily attributable to an increase in balances of the FHLBank's higher margin MBS and mortgage loan portfolios as a percent of interest-earning assets. The FHLBank was also able to exercise calls on existing liabilities funding these portfolios and replacing them with lower-costing liabilities. See the Spread and Yield Analysis and the Rate and Volume Analysis in the "Financial Review – Results of Operations" section for further information.

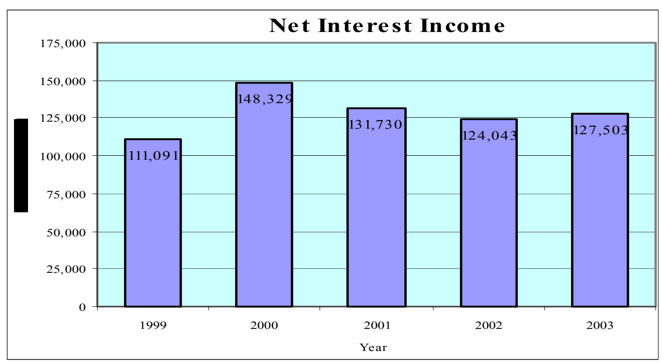


Much of the increase in net income was a result of an increase in other income during 2003. The increase in other income was predominantly attributable to hedging adjustments related to SFAS 133. The 2003 increase in net income resulted in an increase in ROE from 3.55 percent during 2002 to 5.17 percent during 2003. As explained in more detail in the "Risk Management" section, the FHLBank's duration of equity is very short. The short duration is the result of the FHLBank having the majority of its assets with short maturities or interest rate reset periods. Accordingly, net income is interest rate sensitive. As interest rates declined in 2001, 2002 and 2003, so did the FHLBank's ROE. This trend will continue as long as interest rates stay at the current levels or decrease further from the current levels.

Certain amounts in the 2002 and 2001 financial statements have been reclassified to conform to the 2003 presentation. For the years ended December 31, 2002 and 2001, the FHLBank reclassified realized gains and losses (e.g., net interest payments) on stand-alone derivative instruments used as economic hedges of its risks. Previously, net interest payments on stand-alone derivatives used as economic hedges were classified within "net interest income after mortgage loan loss provision," "service fees" and "other" while unrealized gains (losses) on these derivatives were recorded in "net realized and unrealized gain (loss) on derivatives and hedging activities" within "other income." These amounts have been reclassified and are both now included in "net realized and unrealized gain (loss) on derivatives and hedging activities" for the years ended December 31, 2002 and 2001. Such reclassifications have no impact on net income or capital. See Note 1 in the Notes to Financial Statements for additional information.

Earnings Analysis – The following table presents changes in the major components of the FHLBank's earnings for the past three years (in thousands):

	Increase (Decrease) In Earnings Components			
	Dollar Change		Percent Change	
	2003 vs. 2002	2002 vs. 2001	2003 vs. 2002	2002 vs. 2001
Total interest income	$ (160,474)	$ (443,215)	(16.9) %	(31.8) %
Total interest expense	(163,934)	(435,528)	(19.9)	(34.6)
Net interest income before mortgage loan loss provision	3,460	(7,687)	2.8	(5.8)
Provision for credit losses on mortgage loans	37	21	92.5	110.5
Net interest income after mortgage loan loss provision	3,423	(7,708)	2.8	(5.9)
Net gain (loss) on securities held at fair value	(56,967)	39,240	(126.9)	693.7
Net realized and unrealized gain (loss) on derivatives and hedging activities	96,887	(71,735)	119.6	(776.0)
Other non-interest income	2,864	2,011	45.1	46.4
Total non-interest income	42,784	(30,484)	143.9	(4,086.3)
Operating expenses	353	1,672	2.0	10.4
Other non-interest expense	287	427	15.6	30.3
Total other expense	640	2,099	3.3	12.0
AHP assessments	3,719	(3,651)	61.0	(37.5)
REFCORP assessments	8,370	(8,215)	61.0	(37.5)
Total assessments	12,089	(11,866)	61.0	(37.5)
Cumulative effect of change in accounting principle	0	(4,435)	0.0	(100.0)
Net income	$ 33,478	$ (32,860)	61.0 %	(37.5) %



Net Interest Income – Despite increased interest-earning asset levels, interest income decreased by 31.8 percent from 2001 to 2002 and 16.9 percent from 2002 to 2003. The decrease in interest income is primarily attributable to the unprecedented decrease in the absolute level of interest rates experienced in 2001, during which the FOMC lowered the Federal funds target rate from 6.50 percent to 1.75 percent. The FOMC decreased the Federal funds rate by an additional 0.50 percent in the latter part of 2002 and another 0.25 percent in mid-2003. While interest expense declined as well because of the absolute level of interest rates experienced over the last three years, the declines were not parallel with the declines in interest income for 2001, 2002 and much of 2003. The FHLBank's average net interest spread decreased from 29 basis points in 2000 to 19 basis points in 2001, 2002 and 2003. This spread compression was primarily attributable to a greater decrease in the average yield received on advances and investments than the decrease in the average effective rate paid on consolidated obligations. Additionally, the implementation of SFAS 133 has had a significant impact on the FHLBank's net interest spread. SFAS 133 requires that the assets and liabilities hedged with derivative instruments designated under fair value hedging relationships be adjusted for changes in fair value even as other assets and liabilities continue to be carried on a historical cost basis. As noted in the basis adjustments table included in the "Financial Review – Balance Sheet Analysis" section, the basis adjustments to advances (assets) are significantly higher than the basis adjustments to consolidated obligations (liabilities). Since the amount of non-earning basis adjustments for assets exceeds the non-costing basis adjustments for liabilities, the average net interest spread is negatively impacted by the basis adjustments included in the asset and liability balances and is not truly comparable between years. The erosion in the FHLBank's spreads on advances, however, is attributable to the deterioration in its funding costs and not the result of increased pressure on advance rates. A significant portion of the advance and liability portfolios is priced off of LIBOR. Historically high issuance volumes in the U.S. Agency debt market and adverse publicity affecting the three housing GSEs, including the FHLBanks, have resulted in the deterioration of the FHLBank's sub-LIBOR funding costs and the compression of spreads in the advance portfolio. The FHLBank experienced the deterioration of its sub-LIBOR funding costs during each year from 2001 through 2003. While steps have been taken to alleviate this deterioration in funding costs, the FHLBank is uncertain whether this trend will continue, stabilize or reverse itself during 2004 and beyond.

The following table presents average balances and yields of major earning asset categories and the sources funding those earning assets (in thousands):

	2003			2002			2001		
	Average Balance	Interest Income/ Expense	Yield	Average Balance	Interest Income/ Expense	Yield	Average Balance	Interest Income/ Expense	Yield
Interest-earning assets:									
Interest-bearing deposits	$ 2,358,667	$ 28,151	1.19 %	$ 2,159,322	$ 39,108	1.81 %	$ 1,740,924	$ 67,582	3.88 %
Federal funds sold	2,036,731	23,526	1.16	2,040,556	34,752	1.70	2,559,311	103,769	4.05
Investments	7,852,011	284,647	3.63	6,869,697	310,145	4.51	6,014,375	347,376	5.78
Advances[1]	26,872,914	424,927	1.58	25,326,120	552,136	2.18	20,072,645	869,216	4.33
Mortgage loans held for portfolio[1]	448,506	21,638	4.82	134,952	8,392	6.22	49,957	3,330	6.67
Other interest-earning assets	96,830	5,550	5.73	77,762	4,380	5.63	19,648	855	4.35
Total earning assets	39,665,659	788,439	1.99	36,608,409	948,913	2.59	30,456,860	1,392,128	4.57
Other non interest-earning assets	235,512			264,816			340,776		
Total assets	$ 39,901,171			$ 36,873,225			$ 30,797,636		
Interest-bearing liabilities:									
Deposits	1,565,862	15,245	0.97	1,727,683	26,417	1.53	1,722,972	63,651	3.69
Consolidated obligations[1]	35,115,564	642,880	1.83	32,566,302	795,995	2.44	27,044,853	1,196,390	4.42
Other borrowings	56,342	2,811	4.99	67,636	2,458	3.63	9,398	357	3.80
Total interest-bearing liabilities	36,737,768	660,936	1.80	34,361,621	824,870	2.40	28,777,223	1,260,398	4.38
Capital and other non-interest-bearing funds	3,163,403			2,511,604			2,020,413		
Total funding	$ 39,901,171			$ 36,873,225			$ 30,797,636		
Net interest income and net interest spread[2]		$ 127,503	0.19 %		$ 124,043	0.19 %		$ 131,730	0.19 %
Net interest margin[3]			0.32%			0.34%			0.43 %

1 – Interest income/expense and average rates include the effect of associated interest rate exchange agreements.
2 – Net interest spread is the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
3 – Net interest margin is net interest income as a percentage of average interest-earning assets.

Changes in both volume and interest rates influence changes in net interest income, net interest spread and net interest margin. The following table summarizes changes in interest income and interest expense between 2003 and 2002 and between 2002 and 2001 (in thousands):

	2003 vs. 2002 Increase (Decrease) Due to			2002 vs. 2001 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Interest-bearing deposits	$ 3,610	$ (14,567)	$ (10,957)	$ 16,242	$ (44,716)	$ (28,474)
Federal funds sold	(65)	(11,161)	(11,226)	(21,033)	(47,984)	(69,017)
Investments	44,348	(69,846)	(25,498)	49,401	(86,632)	(37,231)
Advances	33,722	(160,931)	(127,209)	227,494	(544,574)	(317,080)
Mortgage loans held for portfolio	19,498	(6,252)	13,246	5,666	(604)	5,062
Other assets	1,074	96	1,170	2,529	996	3,525
Total earning assets	102,187	(262,661)	(160,474)	280,299	(723,514)	(443,215)
Interest Expense:						
Deposits	(2,474)	(8,698)	(11,172)	174	(37,408)	(37,234)
Consolidated obligations	62,310	(215,425)	(153,115)	244,254	(644,649)	(400,395)
Other borrowings	(410)	763	353	2,212	(111)	2,101
Total interest-bearing liabilities	59,426	(223,360)	(163,934)	246,640	(682,168)	(435,528)
Change in net interest income	$ 42,761	$ (39,301)	$ 3,460	$ 33,659	$ (41,346)	$ (7,687)

Other Non-interest Income and Expense - The volatility in other income is predominately impacted by hedging adjustments related to SFAS 133. The application of SFAS 133 resulted in a net loss on securities held at fair value of $12.1 million during 2003 and net gains on securities held at fair value of $44.9 million and $5.7 million during 2002 and 2001, respectively. It also resulted in a net realized and unrealized gain on derivatives and hedging activities of $15.9 million and net realized and unrealized losses on derivatives and hedging activities of $81.0 million and $9.2 million in 2002 and 2001, respectively. The adoption of SFAS 133 also resulted in a $4.4 million increase in net income as a positive cumulative effect of change in accounting principle in 2001. The following table categorizes the 2003 earnings impact by product for hedging activities (in thousands):

	Advances	Investments	Mortgage Loans	Consolidated Obligations	Balance Sheet	Intermediary Positions	Total
Amortization/accretion of hedging activities in net margin	$ 0	$ (38)	$ 0	$ (964)	$ 0	$ 0	$ (1,002)
Net realized and unrealized gain (loss) on derivatives and hedging activities	9,381	(6,580)	(288)	13,237	(80)	238	15,908
Net gain (loss) on securities held at fair value	0	(12,070)	0	0	0	0	(12,070)
TOTALS	$ 9,381	$ (18,688)	$ (288)	$ 12,273	$ (80)	$ 238	$ 2,836

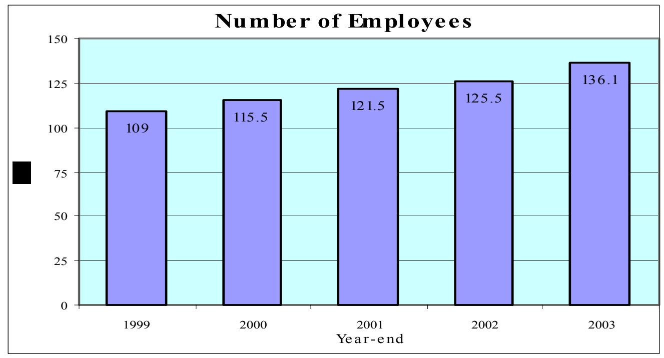
The following table categorizes the 2002 earnings impact by product for hedging activities (in thousands):

	Advances	Investments	Mortgage Loans	Consolidated Obligations	Balance Sheet	Intermediary Positions	Total
Amortization/accretion of hedging activities in net margin	$ 0	$ (279)	$ 0	$ 195	$ 0	$ 0	$ (84)
Net realized and unrealized gain (loss) on derivatives and hedging activities	2,404	(61,781)	0	(21,740)	(340)	478	(80,979)
Net gain (loss) on securities held at fair value	0	44,897	0	0	0	0	44,897
TOTALS	$ 2,404	$ (17,163)	$ 0	$ (21,545)	$ (340)	$ 478	$ (36,166)

The following table categorizes the 2001 earnings impact by product for hedging activities (in thousands):

	Advances	Investments	Mortgage Loans	Consolidated Obligations	Balance Sheet	Intermediary Positions	Total
Amortization/accretion of hedging activities in net margin	$ 0	$ 840	$ 0	$ 0	$ 0	$ 0	$ 840
Net realized and unrealized gain (loss) on derivatives and hedging activities	1,541	(10,019)	0	(881)	(427)	542	(9,244)
Net gain (loss) on securities held at fair value	0	5,657	0	0	0	0	5,657
TOTALS	$ 1,541	$ (3,522)	$ 0	$ (881)	$ (427)	$ 542	$ (2,747)

Operating Expenses – Operating expenses increased slightly to $18.1 million for the year ended December 31, 2003, as compared to $17.7 million for the year ended December 31, 2002, and to $16.1 million for the year ended December 31, 2001. As noted in the following table, a significant portion of the FHLBank's operating expenses consists of salary and benefit expense. Amounts paid for salaries and benefits increased slightly in 2001, 2002 and 2003. With the projected expansion of the MPF Program at FHLBank Topeka, increasing regulatory requirements, including costs related to registering the FHLBank's capital stock with the Securities and Exchange Commission (SEC) and compliance with the Sarbanes-Oxley Act of 2002, and escalating technology/programming needs, we anticipate an increase in the number of employees and a corresponding increase in salary and benefit expenses for 2004 and beyond. The FHLBank's occupancy costs increased significantly from 2001 to 2002 and from 2002 to 2003 as a result of its move to a new facility in May 2002. The FHLBank expects that the percentage increase in its occupancy costs will moderate for 2004 and beyond. The following table presents operating expenses for the last three years (in thousands):



	For the Year Ended December 31,			Percent Increase (Decrease)	
	2003	2002	2001	2003/2002	2002/2001
Salaries and employee benefits	$ 11,746	$ 11,617	$ 10,709	1.1 %	8.5 %
Occupancy cost	899	810	558	11.0	45.2
Other operating expense	5,442	5,307	4,795	2.5	10.7
Total operating expenses	$ 18,087	$ 17,734	16,062	2.0 %	10.4 %

Assessments – REFCORP and affordable housing expenses are based on a percentage of net income and fluctuate accordingly. As noted in the "Financial Review – Capital" section, each of the 12 FHLBanks is required to pay a portion of its earnings to REFCORP. Additionally, each FHLBank is required to establish, fund and administer an AHP. As part of its AHP, FHLBank Topeka provides subsidies in the form of direct grants or below-market interest rate advances to members that use the funds to assist in the purchase, construction or rehabilitation of housing for very low-, low- and moderate-income households (see the "Background – Other Mission-related Activities" section for the specific programs funded through the AHP). To fund the AHP, the 12 FHLBanks as a group must annually set aside the greater of $100 million or 10 percent of the current year's income before charges for AHP but after the assessment to REFCORP. The required annual AHP funding is charged to earnings and an offsetting liability is established. AHP assessments for FHLBank Topeka totaled $9.8 million, $6.1 million and $9.7 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Pre-SFAS 133 Results – Management believes that financial results presented on a pre-SFAS 133 basis are beneficial in understanding and analyzing the FHLBank's financial performance, because SFAS 133 tends to artificially increase the volatility of earnings through recognition of temporary gains and losses that are not reflective of the core financial performance of the FHLBank. Management believes that pre-SFAS 133 financial results provide a better indication of actual financial performance of the FHLBank and are more indicative of future financial results. Pre-SFAS 133 results are calculated by excluding net realized and unrealized gains/losses on derivatives and hedging activities and net gains/losses on securities held at fair value, all of which are shown as separate line items in the accompanying statements of income. To further promote comparability, an adjustment is made for the amortization of the time value of purchased options, such as caps and floors, and the amortization of basis adjustments on hedged items, in deriving pre-SFAS 133 results. Likewise, adjustments are made for net interest payments on stand-alone derivatives used as economic hedges, since, unlike unrealized gains/losses on derivatives, these amounts represent actual interest income and expense incurred and will not net to zero through derivative gains/losses over the lives of the hedges. Pre-SFAS 133 results for the years ended December 31, 2003, 2002 and 2001, are included in the following table (in thousands):

	2003	2002	2001
Net income as reported under GAAP	$ 88,356	$ 54,878	$ 87,738
SFAS 133-related adjustments:			
Transition gain	0	0	(4,435)
Net realized and unrealized (gain) loss on derivatives and hedging activities	(15,908)	80,979	9,244
Net (gain) loss on securities held at fair value	12,070	(44,897)	(5,657)
Net interest receipts (payments) on economic hedges	(21,790)	(16,137)	(4,424)
Amortization of basis adjustments on hedged items	1,365	0	0
Amortization of option derivative costs/premiums on held-to-maturity securities	(2,608)	(910)	(990)
SFAS 133-related adjustments	(26,871)	19,035	(6,262)
AHP/REFCORP adjustment	7,129	(5,050)	1,661
SFAS 133-related adjustments, net of AHP/REFCORP	(19,742)	13,985	(4,601)
Pre-SFAS 133 net income	$ 68,614	$ 68,863	$ 83,137
ROE, based upon GAAP net income	5.174%	3.548%	6.590%
ROE, based upon pre-SFAS 133 net income	4.018%	4.452%	6.245%

Critical Accounting Policies and Estimates

Accounting for Derivatives. The FHLBank adopted SFAS 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 Financial Accounting Standards Board (FASB) Statement No. 133*, and as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* on January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the statement of condition at their fair values. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Applicable accounting treatment is also dependent upon whether the hedge between the derivative instrument and the hedged item is considered to be perfectly correlated (no ineffectiveness), which is measured by the change in fair value of the derivative instrument being perfectly offset by the change in fair value of the hedged item. The gains and losses on derivative instruments that are designated as cash flow hedges and reported in other comprehensive income are reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. Changes in the fair value of a derivative instrument designated as a fair-value hedge, along with the changes in the fair value of the hedged item, are recorded in current period earnings. Changes in the fair value of a non-SFAS 133 hedge of an asset or liability (economic hedge) for asset/liability management are recorded in current period earnings. Changes in the fair value of a foreign currency derivative are recorded in either current-period earnings or other comprehensive income, depending on whether the hedging relationship satisfies the criteria for a fair-value or cash-flow hedge. The ineffective portion of all hedges is recognized in current period earnings. As discussed in more detail below and reflected in the previous table, SFAS 133 has led to more volatility in the statement of income because of changes in market prices and interest rates.

The adoption of SFAS 133 resulted in the FHLBank recording an increase in net income of $4.4 million and an unrealized net loss of $1.2 million in the other comprehensive income component of capital at January 1, 2001, as a cumulative effect of change in accounting principle. The transition provisions of SFAS 133 also provided that at the date of initial application an entity could transfer any security classified as "held-to-maturity" to "available-for-sale" or "trading" (herein referred to as securities held at fair value), and any security classified as "available-for-sale" to "trading" (securities held at fair value). The effect of the security transfers made on January 1, 2001, is included in the cumulative effect amounts for the adoption of SFAS 133 (see Note 2 in the Notes to Financial Statements for additional information).

The FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (herein referred to as "SFAS 149") in April 2003, which amends and clarifies financial accounting and reporting for derivative instruments and for hedging activities under 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. In most cases, all provisions of SFAS 149 were required to be applied prospectively. The FHLBank adopted SFAS 149 as of the effective date, and the adoption did not have a material impact on its financial statements.

As noted in the "Business – Use of Interest Rate Exchange Agreements" section, by regulation, derivative instruments are only permitted to be used by the FHLBank in order to mitigate identifiable risks. All of the FHLBank's derivatives are positioned to offset some or all of the risk exposure inherent in its lending, investing and funding activities. Under SFAS 133, the FHLBank is required to recognize unrealized gains/losses on derivative positions regardless of whether offsetting gains/losses on the underlying assets or liabilities being hedged are permitted to be recognized in a symmetrical manner. Therefore, the accounting framework imposed by SFAS 133 introduces the potential for a considerable mismatch between the timing of income and expense recognition from assets or liabilities and the income effects of hedge instruments positioned to mitigate market risk and cash-flow variability. Hence, during periods of significant changes in interest rates, the FHLBank's reported GAAP earnings may exhibit considerably greater variability than had been reported prior to the implementation of SFAS 133. The FHLBank has generally continued its practice of utilizing the most cost-efficient hedging and funding techniques available – viewing the resulting accounting consequences to be an important but secondary consideration. The FHLBank anticipates that this approach will result in enhanced long-term performance, while recognizing the potential for increased variability in quarterly earnings as reported under the requirements of SFAS 133. In managing derivative positions with primary emphasis on economic cost-effectiveness as opposed to stability of accounting results, SFAS 133 has led to more volatility in the reported earnings for the FHLBank because of changes in market prices and interest rates.

Fair Values. At December 31, 2003, certain of the FHLBank's assets and liabilities including investments classified as available-for-sale and securities held at fair value, and all derivatives were presented in the combined statement of condition at fair value. Under GAAP, the fair value of an asset or liability is the amount at which that asset could be bought or sold or the amount at which that liability could be incurred or settled in a current transaction between willing parties, other than in liquidation. Fair values play an important role in the valuation of certain of the FHLBank's assets, liabilities and derivative transactions. Management also estimates the fair value of collateral that borrowers pledge against advance borrowings to confirm that the FHLBank has sufficient collateral to meet regulatory requirements and to protect itself from a loss. Fair values are based on market prices when they are available. If market quotes are not available, fair values are based on discounted cash flows using market estimates of interest rates and volatility or on dealer prices and prices of similar instruments. Pricing models and their underlying assumptions are based on management's best estimates for discount rates, prepayments, market volatility and other factors. These assumptions may have a significant effect on the reported fair values of assets and liabilities, including derivatives, and the related income and expense. The use of different assumptions as well as changes in market conditions could result in materially different net income and retained earnings.

Consolidated Obligations. The FHLBank only records a liability for consolidated obligations on its statement of condition for the proceeds it receives from the issuance of those consolidated obligations. As noted in the "Business – Debt Financing-Consolidated Obligations" section, each FHLBank is jointly and severally obligated for the payment of all consolidated obligations of all 12 FHLBanks. Accordingly, should one or more of the FHLBanks be unable to repay its participation in the consolidated obligations, each of the other FHLBanks could be called upon to repay all or part of such obligations, as determined or approved by the Finance Board. The possibility that an FHLBank would be unable to repay its participation in consolidated obligations is considered remote because of the high credit quality of each of the 12 FHLBanks. Therefore, no liability is recorded for FHLBank Topeka's joint and several obligation related to the other 11 FHLBanks' share of the consolidated obligations. Under current Finance Board regulation, all 12 FHLBanks are required to maintain not less than a AA rating.

During 2003, S&P announced several adverse rating actions (described below) regarding individual FHLBanks, but none of those actions affected the AAA/A-1+ ratings on consolidated obligations of the FHLBanks or the rating of FHLBank Topeka. While there were no adverse ratings actions regarding FHLBank Topeka by either S&P or Moody's during 2003, adverse ratings actions relating to the other 11 FHLBanks impact FHLBank Topeka to the extent such rating actions potentially increase the cost of consolidated obligations for all FHLBanks.

- *Rating Agency Action Relating to the FHLBank of New York* - On September 26, 2003, S&P affirmed the FHLBank of New York's A-1+ short-term counterparty rating, but lowered the FHLBank of New York's long-term counterparty rating from AAA to AA+ while raising its outlook to stable from negative. This followed an earlier action taken on August 8, 2003, when it affirmed the New York bank's ratings but lowered its outlook from stable to negative. Each time, S&P said its AAA/A-1+ ratings on the FHLBanks' consolidated obligations were not affected by these actions, as those ratings are based on GSE status. On September 26, 2003, Moody's affirmed its Aaa bank deposit and Prime-1 short-term deposit ratings of the FHLBank of New York.
- *Rating Agency Action Relating to the FHLBanks of Atlanta and Pittsburgh* - On October 8, 2003, S&P announced that it affirmed its AAA long-term counterparty credit rating and A-1+ short-term counterparty credit rating on the FHLBanks of Atlanta and Pittsburgh but changed its outlook on each of these FHLBanks from stable to negative. At the same time, S&P announced that its AAA/A-1+ ratings on the FHLBanks' consolidated obligations were not affected by this action, as that rating is based on GSE status. On October 14, 2003, Moody's announced that it affirmed its Aaa bank deposit and its Prime-1 short-term deposit ratings of the FHLBanks of Atlanta and Pittsburgh and affirmed its stable outlook on each of those FHLBanks.
- *Rating Agency Action Relating to the FHLBanks of Chicago, Indianapolis and Seattle* - On November 18, 2003, S&P announced that it affirmed its AAA long-term counterparty credit rating and A-1+ short-term counterparty credit rating on the FHLBanks of Chicago, Indianapolis and Seattle but changed its outlook on each of these FHLBanks from stable to negative. At the same time, S&P announced that its AAA/A-1+ ratings on the FHLBanks' consolidated obligations were not affected by this action, as that rating is based on GSE status. On January 20, 2004, Moody's announced that it affirmed its Aaa bank deposit and Prime-1 short-term deposit ratings of the FHLBanks of Chicago, Indianapolis and Seattle and affirmed its stable outlook on each of those FHLBanks.

Provision for Credit Losses.

- *Advances*. Advances are fully collateralized by high quality collateral. In addition, the FHLBank benefits from certain statutory preferences that, combined with conservative collateral practices, make the likelihood of credit losses negligible. At December 31, 2003, 2002 and 2001, respectively, the FHLBank had rights to collateral, either loans or securities, on a borrower-by-borrower basis, with an estimated fair value in excess of outstanding advances. The FHLBank has never experienced a credit loss on advances since its inception, and management does not anticipate any credit losses on advances in the future. Based on the foregoing, management has determined that it is appropriate to not create any provision for credit losses based on advances.
- *Mortgage Loans*. The FHLBank maintains an allowance for credit losses on mortgage loans acquired under the MPF Program at levels management believes to be adequate to absorb estimated losses inherent in the total mortgage portfolio. Setting the level of reserves requires significant judgment and regular evaluation by management. Many factors, including past performance, loan portfolio characteristics, collateral valuations, industry data and current economic conditions are important assumptions in estimating mortgage losses. The use of different estimates or assumptions as well as changes in external factors could produce materially different allowance levels.

  The allowance is increased through periodic provisions charged to expense and decreased by charge-offs, net of recoveries. The allowance is included in the statements of condition under "mortgage loans held for portfolio, net of allowance for credit losses on mortgage loans." The allowance as of December 31, 2003, 2002 and 2001, was as follows (in thousands):

	2003	2002	2001
Balance, beginning of year	$ 52	$ 19	0
Provision for mortgage loan losses	77	40	19
Charge-offs	(7)	(7)	0
Recoveries	7	0	0
Balance, end of year	$ 129	$ 52	19

REFCORP Payments. The financial statements do not include a liability for the statutorily mandated payments from the FHLBank to REFCORP. No liability is recorded because the FHLBank must pay 20 percent of net earnings (after its AHP obligation) to REFCORP to support the payment of part of the interest on the bonds issued by REFCORP. The future payments of each of the 12 FHLBanks are contingent upon future earnings and not estimable under SFAS No. 5, *Accounting for Contingencies*. Accordingly, the REFCORP payments are disclosed as a long-term statutory payment requirement and are treated for accounting purposes similar to a tax.

RISK MANAGEMENT

Proper identification, assessment and management of risks enables stakeholders to have confidence in the FHLBank's ability to serve its members, earn a profit, compete in the industry and prosper over the long term. Active risk management continues to be an essential part of the FHLBank's operations and a key determinant of its ability to maintain earnings to return a reasonable dividend to its stockholders. The FHLBank maintains comprehensive risk management processes to facilitate, control and monitor risk taking. Periodic reviews by internal auditors, Finance Board examiners and independent accountants subject the FHLBank's practices to additional scrutiny, further strengthening the process.

Three years ago, the FHLBank implemented an enterprise-wide risk management program in an effort to enhance its risk management practices. In 2001, the FHLBank began performing annual risk assessments designed to identify and evaluate all material risks that could adversely affect the achievement of the FHLBank's performance objectives and compliance requirements. The FHLBank implemented this enterprise-wide risk management program to ensure the identification of all significant risks to the organization and the prompt and effective management of any major exposures. Enterprise risk management (ERM) is defined as a structured and disciplined approach that aligns strategy, processes, people, technology and knowledge with the purpose of identifying, evaluating and managing the risks an enterprise faces as it creates value. The FHLBank's ERM process is a continuous one, attempting to identify, prioritize, assess and ultimately manage risks inherent to the FHLBank's key processes before they become realized risk events.

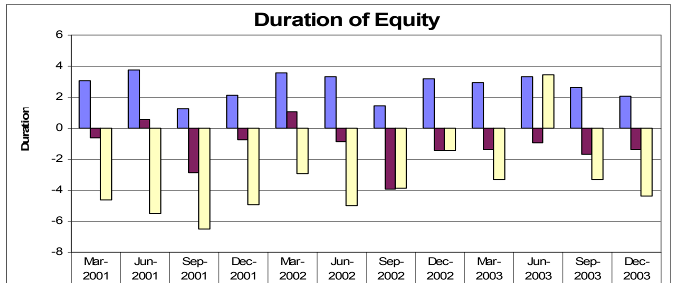
As part of ERM, the FHLBank's senior management team periodically participates in business risk assessment workshops that identify and prioritize the universe of risks within the FHLBank. These identified risks are evaluated as to their significance (potential impact on the FHLBank), likelihood (potential occurrence absent discretionary controls) and management's effectiveness in managing the risks. Risk assessment workshops have also been conducted at the business unit level, focusing on the key processes within each area and the risks inherent to those processes. These risk assessment workshops have resulted in the development of risk management strategies and action plans in an effort to enhance the risk management practices throughout the organization. The results of these activities are summarized in an annual risk assessment report, which is reviewed by senior management and the board of directors.

In an effort to continuously improve its ERM process and observe best practices in risk management, the FHLBank began implementing additional ERM enhancements toward the end of 2002. The FHLBank customized its risk assessment approach in order to ensure: (1) risk assessments were completed on an annual basis for all of the FHLBank's business units; (2) effective internal controls and strategies were in place for managing the identified risks within the key processes throughout the FHLBank; and (3) risk management or internal control weaknesses were properly identified with necessary corrective actions being taken. As a result of the FHLBank's efforts, 24 business unit risk assessments are now completed annually addressing 120 key processes throughout the organization. The number of business unit risk assessments and the number of key processes change over time as part of the FHLBank's ongoing risk assessment and continuous improvement processes. All risk assessments are reviewed by senior management and presented to the Audit committee of the board of directors on a quarterly basis as they are completed in order to keep the board apprised of any weaknesses in the current risk management system of each business unit and the steps undertaken by management to address the identified weaknesses.

Business unit risk assessments contain: (a) a report on the business unit's mission and vision, business unit objectives and goals, critical success factors, highly assessed risks, key internal controls, any required corrective actions and an overall assessment of its risk management capabilities; (b) a narrative overview of the business unit, including certain elements of its key processes and responsibilities; and (c) risk assessment and control activity worksheets for each of the business unit's key processes.

Effective risk management programs include not only conformance to risk management best practices by management but also incorporate board of director oversight. The FHLBank's board of directors plays an active role in the ERM process by regularly reviewing risk management policies and reports on controls. In addition to the annual and business unit risk assessment reports, the board of directors reviews the RMP on at least an annual basis. Various management committees, including the asset/liability committee, oversee the risk management process. The following discussion highlights the FHLBank's various strategies to diversify and manage these risks.

Interest Rate Risk Management



	Mar-2001	Jun-2001	Sep-2001	Dec-2001	Mar-2002	Jun-2002	Sep-2002	Dec-2002	Mar-2003	Jun-2003	Sep-2003	Dec-2003
Up 200	3.1	3.8	1.2	2.1	3.5	3.3	1.4	3.2	2.9	3.3	2.6	2.0
Base	-0.6	0.6	-2.9	-0.8	1.1	-0.9	-3.9	-1.4	-1.4	-1.0	-1.7	-1.4
Dn 200	-4.6	-5.5	-6.5	-4.9	-2.9	-5.0	-3.9	-1.4	-3.3	3.4	-3.3	-4.3

The FHLBank measures interest rate risk exposure by various methods, including the calculation of duration of equity and the market value of equity. Duration of equity aggregates the estimated sensitivity of market value for each of the FHLBank's financial assets and liabilities to changes in interest rates. In essence, duration of equity shows the sensitivity of theoretical market value of equity to changes in interest rates. However, market value of equity should not be considered indicative of the market value of the FHLBank as a going concern or the value of the FHLBank in a liquidation scenario. A positive duration of equity results when the duration of assets and designated interest rate exchange agreements is greater than the duration of liabilities and designated interest rate exchange agreements. A positive duration generally indicates that the FHLBank has a degree of interest rate risk exposure in a rising interest rate environment, and a negative duration indicates a degree of interest rate risk exposure in a declining interest rate environment. Higher duration numbers, whether positive or negative, indicate greater volatility of market value of equity in response to changing interest rates.

Under the RMP approved by its board of directors and the Finance Board's FMP, the FHLBank's duration of equity must stay within a range of +5.0 to -5.0 assuming current interest rates. FHLBank's duration of equity must also stay within a range of +7.0 to -7.0 assuming an instantaneous parallel increase or decrease in interest rates of 200 basis points. The FHLBank maintains duration of equity within the above ranges through management of the durations of its assets, liabilities and interest rate exchange agreements. Significant resources in terms of staffing, software and equipment are continuously devoted to assuring that the level of interest rate risk existing in the FHLBank's balance sheet is properly measured and limited to prudent and reasonable levels. The duration of equity FHLBank considers prudent and reasonable is somewhat lower than the policy limits mentioned above and can change depending upon market conditions and other factors.

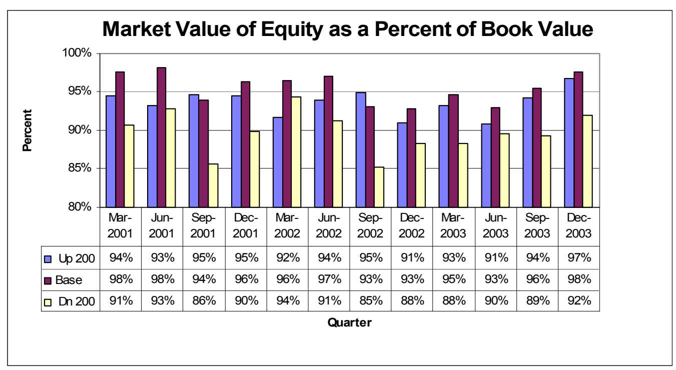
The FHLBank calculates its duration each month and reports the results of its duration of equity calculations to the Finance Board as of the end of each quarter. It is important to note that the 200-basis-point down shock has resulted in some rates being floored at zero percent at each quarter end beginning December 31, 2001. This restriction, applied in accordance with guidance from the Finance Board, is required to prevent the application of negative interest rates and has produced some distortion in the reported market value and duration in the down shocks shown in the accompanying charts. Beginning with the December 31, 2003 calculation of duration of equity, the Finance Board changed its definitions with respect to duration limits under downward-shocked interest rates. The shock in rates at which the downward duration of equity must be measured is now that amount which will leave the lowest rate used in the FHLBank's model (usually the three-month Treasury rate) at a level no lower than 0.35 percent. Duration of equity under this scenario may not fall outside a range from -5.0 minus the absolute rate shift expressed as a percentage to +5.0 plus the absolute rate shift. As of December 31, 2003, the defined rate shift was -.6 percent, and the FHLBank's duration of equity at this shock was -2.4, compared to the computed Finance Board limit of -5.6.

In calculating duration of equity, the FHLBank also calculates its duration gap, which is the difference between the duration of its assets and the duration of its liabilities. The FHLBank's base duration gap at December 31, 2003, was -0.8 months and at December 31, 2002, was -1.0 months.

Matching the duration of assets with the duration of liabilities funding those assets is accomplished through the use of different debt maturities and embedded option characteristics, as well as the use of interest rate exchange agreements (also referred to as derivatives or derivative transactions), primarily interest rate swaps, caps, floors and swaptions. Interest rate swaps increase the flexibility of the FHLBank's funding alternatives by providing desirable cash flows or characteristics that might not be as readily available or cost-effective if obtained in the standard debt market. Finance Board regulation prohibits the speculative use of derivatives, and the FHLBank does not engage in derivatives trading for short-term profit. The primary risk posed by derivative transactions is credit risk in that a counterparty may fail to meet its contractual obligations on a transaction and thereby force the FHLBank to replace the derivative at market prices (additional information regarding credit risk management is provided in the next section).

Another element of interest rate risk management is the funding of mortgage and prepayable assets with liabilities that have similar duration or average cash flow patterns over time. To achieve the desired liability durations, the FHLBank issues debt across a broad spectrum of final maturities. Because the durations of mortgage and prepayable assets change as interest rates change, callable debt with similar duration characteristics is frequently issued. The duration of callable debt shortens when interest rates decrease and lengthens when interest rates increase, allowing the duration of the debt to better match the duration of mortgage and other prepayable assets as interest rates change. FHLBank also uses interest rate caps, floors and swaptions to manage the duration of its assets and liabilities. For example, in rising interest rate environments, out-of-the-money caps are purchased to help manage the extension of mortgage assets, especially variable rate MBS with periodic and lifetime caps. The FHLBank also purchases receive-fixed or pay-fixed swaptions to manage its overall duration of equity in falling or rising interest rate environments, respectively. During times of falling interest rates, when mortgage assets are prepaying quickly and shortening in duration, the FHLBank may synthetically convert fixed rate debt to variable rate using interest rates swaps in order to shorten the duration of its liabilities to more closely match the shortening duration of its mortgage assets. As the FHLBank needs to lengthen its liability duration, it terminates the interest rate swap to effectively extend the duration of the previously swapped debt.

Market value of equity is the net value of the FHLBank's assets and liabilities. Estimating sensitivity of the FHLBank's market value of equity to changes in interest rates is another measure of interest rate risk. However, market value of equity should not be considered indicative of the market value of the FHLBank as a going concern or the value of the FHLBank in a liquidation scenario. The FHLBank maintains a market value of equity within limits specified by the board of directors in the RMP, which specifies that the market value of equity under a ±200-basis-point instantaneous shock in interest rates shall not decline by more than 15 percent from the market value of equity measured in the unchanged rate scenario. The chart to the right expresses the market value of equity as a percent of book value of equity for the base case and for +/-200-basis-point instantaneous interest rate shock scenarios. In all cases, the market value as a percent of book value exceeds 85 percent. The FHLBank was in compliance with its RMP limitation at the end of each quarter shown. Portfolio net interest income is projected both with specific rising and falling interest rate paths. The FHLBank evaluates the effects on earnings of alternate interest rate scenarios. Unchanged and shock scenarios in 50-basis-point increments up to ±200 basis points are used to model the FHLBank's interest rate sensitivity.



	Mar-2001	Jun-2001	Sep-2001	Dec-2001	Mar-2002	Jun-2002	Sep-2002	Dec-2002	Mar-2003	Jun-2003	Sep-2003	Dec-2003
Up 200	94%	93%	95%	95%	92%	94%	95%	91%	93%	91%	94%	97%
Base	98%	98%	94%	96%	96%	97%	93%	93%	95%	93%	96%	98%
Dn 200	91%	93%	86%	90%	94%	91%	85%	88%	88%	90%	89%	92%

Credit Risk Management

Credit risk is defined as the risk that counterparties to the FHLBank's transactions will not meet their contractual obligations. The FHLBank manages credit risk by following established policies, evaluating the creditworthiness of its counterparties and utilizing collateral agreements and settlement netting for derivative transactions. The most important step in the management of credit risk is the initial decision to extend credit. Continuous monitoring of counterparties is completed for all areas where the FHLBank is exposed to credit risk, whether that is through lending, investing or derivative activities.

Credit risk arises as a result of the FHLBank's lending activities. The FHLBank manages its exposure to credit risk on advances through a combined approach that provides ongoing review of the financial condition of its borrowers coupled with prudent collateralization. The FHLBank is required by statute to obtain sufficient collateral on advances to protect against losses and to accept as collateral on such advances only U.S. government or government agency securities, GSE securities, AAA-rated private-issue MBS, residential mortgage loans, deposits in the FHLBank and limited amounts of other qualified assets. As provided in the Bank Act, a borrowing member's investment in the capital stock of the FHLBank is pledged as additional collateral for the member's advances. In addition, the FHLBank can call for additional collateral or substitute collateral during the life of an advance to protect its security interest.

The Bank Act affords any security interest granted to the FHLBank by any member of the FHLBank, or any affiliate of any such member, priority over the claims and rights of any party, including any receiver, conservator, trustee, or similar party having rights of a lien creditor. The only exceptions are claims and rights held by actual bona fide purchasers for value or by parties that are secured by actual perfected security interests, and provided that such claims and rights would otherwise be entitled to priority under applicable law. In addition, the claims of the FHLBank are given certain preferences pursuant to the receivership provisions in the Federal Deposit Insurance Act. Most borrowers provide the FHLBank a blanket lien covering substantially all of the borrower's assets and consent for the FHLBank to file a financing statement evidencing the blanket lien. Based on the blanket lien, the financing statement and the statutory preferences, the FHLBank does not take control of collateral, other than securities collateral, pledged by blanket lien borrowers. With respect to non-blanket lien borrowers (typically insurance companies and housing associates), the FHLBank takes control of all collateral. The FHLBank takes control of all securities collateral through delivery of the securities to the FHLBank or its custodian. In the event that the financial condition of a blanket lien member warrants, the FHLBank will take control of sufficient eligible collateral to fully collateralize the borrower's indebtedness to the FHLBank.

Credit risk also arises from investing and derivative activities. As noted previously, the RMP restricts the acquisition of investments to high-quality, short-term money market instruments and highly rated long-term securities. The short-term investment portfolio represents unsecured credit. Therefore, counterparty ratings, performance and capital adequacy are monitored on a daily basis in an effort to mitigate unsecured credit risk on the short-term investments. MBS represent the majority of the FHLBank's long-term investments. The FHLBank holds MBS issued by GSEs, CMOs securitized by GSEs, and AAA-rated private-issue MBS and CMOs securitized by whole loans. Other long-term investments include unsecured GSE and collateralized state and local housing finance agency securities. All of the FHLBank's state or local housing finance agency securities are rated AA or higher.

The FHLBank has never experienced a loss on a derivative transaction because of credit default by a counterparty. In derivative transactions, credit risk arises when counterparties to transactions, such as interest rate swaps, are obligated to pay the FHLBank the positive fair value or receivable resulting from the transaction terms. The FHLBank manages this risk by executing derivative transactions with experienced counterparties with high credit quality (rated A or better); requiring netting of individual swap transactions with the same counterparty; diversifying its derivatives across many counterparties; and executing transactions under master agreements that require counterparties to post collateral if the FHLBank is exposed to a potential credit loss on the related derivatives exceeding an agreed-upon threshold. Each member institution's credit risk exposure from derivative transactions is fully collateralized under the FHLBank's Advance Pledge and Security Agreement. The FHLBank regularly monitors the exposures on its derivative transactions by determining the market value of positions using internal pricing models. The market values generated by the pricing model are compared to dealer model results on a monthly basis to ensure that the FHLBank's pricing model is calibrated to actual market pricing methodologies utilized by the dealers.

The degree of counterparty risk on derivative transactions depends on the extent to which netting procedures are used to mitigate the risk. The FHLBank manages counterparty credit risk through credit analysis, collateral management and other credit enhancements. The FHLBank requires collateral agreements on interest rate exchange agreements and maximum net unsecured credit exposure amounts that may exist before collateral requirements are triggered based upon each counterparty's credit rating. For example, a counterparty must deliver collateral if the total market value of the FHLBank's exposure to that counterparty rises above a specific trigger point (see "Liquidity Risk Management" section). As a result of these risk mitigation initiatives, management does not anticipate any credit losses on its interest rate exchange agreements.

The contractual or notional amount of interest rate exchange agreements reflects the FHLBank's involvement in the various classes of financial instruments. The notional amount of interest rate exchange agreements does not measure the FHLBank's credit-risk exposure. The maximum credit exposure is much less than the notional amount. The maximum credit risk is the estimated cost of replacing favorable interest rate swaps, forward agreements, and purchased caps and floors if the counterparty defaults, net of the value of related collateral.

At December 31, 2003, the FHLBank's maximum credit risk to derivative counterparties, before considering collateral, was approximately $53.6 million. This compares with a December 31, 2002, maximum credit risk, before considering collateral, of $161.8 million. In determining maximum credit risk, the FHLBank considers accrued interest receivables and payables as well as the legal right to net swap transactions by counterparty. The FHLBank held $26.4 million and $49.0 million as collateral as of December 31, 2003 and 2002, respectively. Additionally, collateral with respect to interest rate exchange agreements with member institutions includes collateral assigned to the FHLBank, as evidenced by a written security agreement and held by the member institution for the benefit of the FHLBank. The FHLBank's net exposure after collateral was approximately $22.2 million at December 31, 2003, compared to $106.4 million at December 31, 2002. Derivative counterparty credit exposure by rating (lower of Moody's or S&P) as of December 31, 2003, is indicated in the following table (in thousands):

	AAA	AA	A	Member[1]	Total
Total net exposure at fair value	$ 41,334	$ 1,679	$ 5,557	$ 5,064	$ 53,634
Collateral held	23,600	0	2,775	5,064	31,439
Net exposure after collateral	$ 17,734	$ 1,679	$ 2,782	$ 0	$ 22,195
Notional amount	1,840,897	13,761,194	15,774,307	466,699	31,843,097

Derivative counterparty credit exposure by rating as of December 31, 2002, is indicated in the following table (in thousands):

	AAA	AA	A	Member[1]	Total
Total net exposure at fair value	$ 67,526	$ 34,207	$ 53,676	$ 6,344	$ 161,753
Collateral held	23,600	2,300	23,120	6,344	55,364
Net exposure after collateral	$ 43,926	$ 31,907	$ 30,556	$ 0	$ 106,389
Notional amount	2,045,897	15,112,974	12,411,058	457,320	30,027,249

[1] Collateral held with respect to interest rate exchange agreements with member institutions represents either collateral physically held by or on behalf of the FHLBank or collateral assigned to the FHLBank as evidenced by a written security agreement and held by the member institution for the benefit of the FHLBank.

Additional information on interest rate exchange agreements is presented in the Notes to Financial Statements.

Liquidity Risk Management

Maintaining the ability to meet obligations as they come due or meet the credit needs of the FHLBank's members and housing associates in a timely and cost-efficient manner is the primary objective of managing liquidity risk. The FHLBank seeks to be in a position to meet its customers' credit and liquidity needs without maintaining excessive holdings of low-yielding liquid investments or being forced to incur unnecessarily high borrowing costs. Operational liquidity is defined as sources of cash from both the FHLBank's ongoing access to the capital markets and its holding of liquid assets to meet operational requirements in the normal course of business. The FHLBank manages its exposure to operational liquidity risk by maintaining appropriate daily average liquidity levels above the thresholds established by the RMP and by the Finance Board within its regulations and FMP. The FHLBank is also required to manage its contingent liquidity needs by maintaining a daily liquidity level above certain thresholds also outlined in the RMP and by the Finance Board. Contingent liquidity is defined as sources the FHLBank may use to meet its operational requirements when its access to the capital markets is impeded. In addition, the FHLBank is limited with regard to the type of investments that are permitted under the RMP for both operational and contingent liquidity needs.

The RMP provides that the FHLBank shall maintain a daily average liquidity level each month in an amount not less than:
- 20 percent of the sum of its daily average balance of demand and overnight deposits and other overnight borrowings during the month; plus
- 10 percent of the sum of its daily average term deposits, consolidated obligations and other borrowings that mature within one year.

As set forth in FHLBank's RMP, the following investments, to the extent permitted under Finance Board regulations and its FMP, are eligible for compliance with operational liquidity requirements, with the limitation that a security pledged under a repurchase agreement cannot be used to satisfy liquidity requirements:
- Overnight funds and overnight deposits;
- Resale agreements that mature in 31 days or less;
- Negotiable certificates of deposit, bankers' acceptances, commercial paper, bank notes and thrift notes which mature in nine months or less;
- Marketable obligations of the United States that mature in 36 months or less;
- Marketable direct obligations of U.S. government agencies and GSEs that mature in 36 months or less;
- Cash and collected balances held at the Federal Reserve Banks and eligible financial institutions, net of member pass-throughs; and
- Assets that are generally accepted as collateral in the repurchase agreement market.

In addition to meeting statutory, regulatory and operational liquidity requirements, the FHLBank shall maintain, in the form of eligible transactions as defined below, a daily liquidity level in an amount not less than:
- 20 percent of deposits; plus
- 100 percent of Federal funds purchased that mature within one week; plus
- 100 percent of consolidated obligations and other borrowings that mature within one week (less consolidated obligations settling within one week); plus
- 100 percent of consolidated obligations expected to be called within one week; plus
- 100 percent of consolidated obligation amortization payments expected within one week.

For contingency liquidity purposes under its RMP, the FHLBank is authorized to hold the following investments, with the limitation that a security pledged under a repurchase agreement cannot be used to satisfy liquidity requirements:
- Marketable assets with a maturity of one year or less;
- Self-liquidating assets with a maturity of seven days or less;
- Assets that are generally accepted as collateral in the repurchase agreement market; and
- Irrevocable lines of credit from financial institutions rated not lower than the second highest credit rating category by a NRSRO.

An entity is vulnerable to any rating, event, performance or ratio trigger (collectively called triggers) that would lead to the termination of the entity's credit availability or the acceleration of repayment of credit obligations owed by the entity. The FHLBank has reviewed the appropriate documents concerning its vulnerability to transactions that contain triggers and fully understands the manner in which risks can arise from such triggers. Triggers adverse to the FHLBank currently exist in agreements for derivatives and SBPAs. The FHLBank's staff monitors triggers in order to properly manage any type of potential risks from triggers.

With advances, letters of credit and member interest rate swaps, the FHLBank is the beneficiary of certain triggers based on the member's financial performance and as defined in detail in the FHLBank's policies. See Notes 1 and 7 in the Notes to Financial Statements for collateral requirements designed for the FHLBank's credit products.

All of the derivative transactions currently in effect, including interest rate swaps, swaptions, caps and floors, have two-way bilateral triggers based on the ratings of the FHLBank or the counterparties, as applicable to the situation (i.e., which party is at risk). These transactions also have two-way ratings triggers that provide for early termination, at the option of the FHLBank or the counterparty, if the other party's rating falls to or below the rating trigger level. Early termination by a counterparty may result in losses to the FHLBank. The FHLBank's agreements incorporate termination triggers at ratings of BBB+ and Ba1 or lower. The triggers are incorporated in a master interest rate exchange agreement credit support annex or bilateral security agreement. Collateral-related triggers are designed to reduce the amount of unsecured credit risk exposure that the FHLBank or a counterparty is willing to accept for a given rating level determined by the NRSROs. The maximum threshold amount of unsecured credit risk exposure for each rating level is defined in the following table:

S&P Ratings	Moody's Ratings	Exposure Threshold
AAA	Aaa	$50 million
AA	Aa	$15 million
A+, A	A1, A2	$3 million
A-	A3	$1 million
Below A-	Below A3	$0

If the FHLBank's or a counterparty's exposure to the other ever exceeds the threshold based on the other's NRSRO rating, an immediate margin call is issued requiring the party to collateralize the amount of credit risk exposure in excess of the exposure threshold. The agreement with one AAA/Aaa-rated special purpose vehicle also includes one ratings trigger event that would result in termination of any outstanding transactions at a mid-market level. The collateral posted by the FHLBank's counterparties at December 31, 2002, and December 31, 2003, was in the form of cash. For additional information regarding the FHLBank's credit exposure relating to derivative contracts, see Note 15 in the Notes to Financial Statements.

The FHLBank has executed SBPAs with two in-district state housing finance authorities. All of the SBPAs contain rating triggers beneficial to the FHLBank providing that, if the bonds are rated below investment grade (BBB/Baa), the FHLBank would not be obligated to purchase the housing finance authority bonds even though the FHLBank was otherwise required to do so under the SBPAs. The SBPAs also generally provide that the FHLBank can be replaced as the liquidity provider in these transactions should its rating by a specified NRSRO ever fall below AAA. As of December 31, 2003, the FHLBank had 14 SBPAs that covered $640.4 million in outstanding principal plus interest.

Business Risk Management

Business risk is the risk of an adverse impact on the FHLBank's profitability resulting from external factors that may occur in both the short and long term. The FHLBank manages business risk, in part, by having in place at all times a disaster recovery plan, the purpose of which is to provide contingency plans for situations in which operations cannot be carried out in their normal manner. The FHLBank maintains contingency plans that deal with business interruptions lasting from two hours to six months or longer. The FHLBank also maintains an off-site recovery operations center that is an important component of its overall disaster recovery planning effort. The recovery center is maintained on a different power grid and is serviced by another telephone central office than the FHLBank's main headquarters. An on-site portable power generator supports the site in case of total power failure. The off-site recovery center is also used to store back-up tapes, supplies and other resources deliberately acquired for disaster recovery purposes. Comprehensive testing is conducted at the off-site recovery location at least once each year with limited tests conducted on a quarterly basis. In addition, the employee contact list for the disaster recovery plan is reviewed and updated quarterly.

In December 2002, the FHLBank was approved for sponsorship in the Government Emergency Telecommunications Service (GETS) program. GETS supports federal, state, and local government, industry and nonprofit organization personnel by providing emergency access and priority processing of local and long-distance telecommunications service. The program is intended for use in an emergency or crisis situation during which the probability of completing a call through normal or other alternative telecommunications is significantly reduced. The ability to complete telephone calls through the GETS program is tested on a quarterly basis by designated FHLBank personnel.

The FHLBank also manages business risks by having in effect at all times a long-term strategic business plan that describes how the business activities will achieve the mission of the FHLBank and also details the operating goals and strategic objectives for each major business activity. Development of a long-term strategic business plan is an intensive annual process that includes regular review of the FHLBank's mission, vision and overall philosophies, and appropriate research and analysis, including modeling of balance sheet composition and income under various economic scenarios. The board of directors plays a key role in the development of the strategic business plan and regularly monitors progress in the achievement of business objectives.

To manage business concentration risk, ROE simulations are conducted annually with estimated best- and worst-case assumptions, including the effects on the FHLBank if one or more of its larger customers significantly reduced its advance levels or was no longer a member. The total advance growth and distribution for the FHLBank's top five borrowers is monitored on a monthly basis by the asset/liability committee. Advance concentration to the FHLBank's top five borrowers has steadily declined in recent years.

Operations Risk Management

Operations risk is the risk of unexpected losses attributable to human error, systems malfunctions, fraud, unenforceability of legal contracts or circumvention or failure of internal controls and procedures. Mitigating this risk are systems and procedures to monitor transactions and positions, documentation of transactions, annual comprehensive risk assessments conducted at the business unit level, Finance Board compliance reviews and periodic reviews by the FHLBank's Internal Audit department. The FHLBank has also established and maintains an effective internal control system that addresses the efficiency and effectiveness of FHLBank activities, the safeguarding of FHLBank assets, and the reliability, completeness and timely reporting of financial and management information to the board of directors and the Finance Board. Reconciliation procedures are also in place to ensure that systems capture critical data. The FHLBank's Internal Audit department, which reports directly to the Audit committee of the board of directors, regularly monitors the FHLBank's compliance with established policies and procedures. The FHLBank also maintains an Internal Control Policy (most recently reviewed and approved by the board of directors in March 2003) that outlines the objectives and principles for the FHLBank's internal controls, establishes and delineates business unit managers' responsibilities for implementing internal controls, and establishes the Internal Audit department as the FHLBank business unit responsible for reviewing the adequacy of the FHLBank's internal controls.

LEGISLATION AND REGULATORY DEVELOPMENTS

Capital Plan Implementation Status

On July 10, 2002, the Finance Board approved the FHLBank's initial capital plan under the provisions of the GLB Act. At its September 2002 meeting, the board of directors established September 30, 2003, as an implementation date for the new plan. However, in August 2003, the FHLBank announced that implementation of the new capital plan would be postponed until at least mid-2004. The capital plan was contingent on the development of software systems that would replace the FHLBank's existing member products transaction software and would handle the new capital structure. While development of both systems was progressing, the process was not far enough along to allow for the extensive testing required before the new systems could be put into production. At its December 19, 2003 meeting, the board of directors approved an amended capital plan, which was submitted to the Finance Board for approval on December 22, 2003. Ninety days after Finance Board approval of the amended plan, the FHLBank's board of directors will establish a conversion date for the capital plan, but the plan provides that the conversion date will be no later than December 31, 2004. Members will be notified of the conversion date within 10 business days after it has been established. The FHLBank will distribute an information statement to members prior to conversion that explains in detail the provisions of the amended capital plan and how it differs from the current capital structure. Members have the option of withdrawing from membership prior to the conversion date. The actual conversion remains subject to certain operational contingencies, but management expects that the conversion will take place during 2004.

Proposed Rule on Registration Under the Securities Exchange Act of 1934

On September 10, 2003, the Finance Board adopted a proposed rule to enhance the financial disclosures of the FHLBanks through voluntary registration with the SEC under section 12(g) of the Securities Exchange Act of 1934 (1934 Act). Under section 12(g) of the 1934 Act, each FHLBank would register a class of its equity with the SEC, bringing each FHLBank into the periodic disclosure regime as administered and interpreted by the SEC. The proposed rule provided for a 120-day comment period that ended on January 12, 2004. The Finance Board has taken no further action as of April 26, 2004.

Corporate Governance Review

Early in 2004, the Finance Board held two public hearings to gather information about corporate governance practices and to receive recommendations to strengthen corporate governance at the FHLBanks. Information from the hearings could be used by the Finance Board to determine whether regulatory changes or potential amendments to the Bank Act are warranted. It is impossible to predict what, if any, changes will be made and what effect the changes would have on the FHLBank.

Proposed Change in Federal Reserve Bank Policy Statement on Payments System Risk

The Federal Reserve Board in February 2004 announced that it intends, beginning in July 2006, to require Federal Reserve Banks to release interest and redemption payments on securities issued by GSEs and international organizations only when the issuer's Federal Reserve account contains sufficient funds to cover these payments. The Reserve Banks have been processing and posting these payments to an issuer's Federal Reserve account by 9:15 a.m. Eastern Time, which is the same posting time as the U.S. Treasury securities' interest and redemption payments, even if the issuer has not fully funded its payments. The Federal Reserve Board requested comment by April 16, 2004, on how best to promote a smooth market adjustment while implementing this change in its Policy Statement on Payments System Risk. The FHLBank is evaluating the impact of this proposed change on its operations as it relates to the debt issuance and servicing functions handled by the FHLBanks' Office of Finance. It is impossible to predict what, if any, changes will be made and what effect the changes would have on the FHLBank or any of the FHLBanks.

Proposed Changes to GSE Regulation

Several bills have been introduced in Congress that are designed to strengthen the regulation of Fannie Mae, Freddie Mac and the FHLBanks. Hearings on legislation have been held in the House and Senate. It is impossible to predict what, if any, provisions relating to the Finance Board and the FHLBanks will be included in any such legislation, whether the House and Senate will approve such legislation, whether any such change in regulatory structure will be signed into law, when any such change would go into effect if enacted, or what effect the legislation would have on the Finance Board or the FHLBanks.

Following is a final rule and other significant actions taken by the Finance Board and published in the *Federal Register* in 2003:

- Proposed rule, 12 CFR Parts 900, 932, 955, *Acquired Member Assets*, Tuesday, July 1, 2003, Vol. 68, No. 126;
- Withdrawal of proposed rule that would have amended *Acquired Member Assets* regulation, 12 CFR Parts 900, 932, 955, Wednesday, September 17, 2003, Vol. 68, No. 180;
- Proposed rule, 12 CFR Parts 900 and 998, *Registration by Each Federal Home Loan Bank of a Class of its Securities Under the Securities Exchange Act of 1934*, Wednesday, September 17, 2003, Vol. 68, No. 180;
- Final Rule, 12 CFR Parts 910 and 913, *Amendments to the Privacy Act and Freedom of Information Act; Implementation*, Wednesday, October 15, 2003, Vol. 68, No. 199.

SUPPLEMENTAL DATA

The financial statements, together with the notes thereto and the report of PricewaterhouseCoopers LLP, dated February 11, 2004, thereon, appear on pages 45 through 81.

The following tables present supplementary quarterly financial information for each full quarter for the years ended December 31, 2003 and 2002 (in thousands):

	2003			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 195,124	$ 185,850	$ 200,458	$ 207,007
Interest expense	158,821	154,373	170,647	177,095
Net interest income before mortgage loan loss provision	36,303	31,477	29,811	29,912
Provision for credit losses on mortgage loans	0	33	26	18
Net interest income after mortgage loan loss provision	36,303	31,444	29,785	29,894
Other non-interest income	9,911	15,275	(11,151)	(989)
Other non-interest expense	5,298	4,946	4,853	5,113
Assessments	10,855	11,083	3,656	6,312
NET INCOME	$ 30,061	$ 30,690	$ 10,125	$ 17,480

	2002			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 230,242	$ 245,072	$ 242,758	$ 230,841
Interest expense	199,499	210,917	211,301	203,153
Net interest income before mortgage loan loss provision	30,743	34,155	31,457	27,688
Provision for credit losses on mortgage loans	6	12	12	10
Net interest income after mortgage loan loss provision	30,737	34,143	31,445	27,678
Other non-interest income	225	(25,046)	(12,872)	7,955
Other non-interest expense	5,192	4,926	4,734	4,718
Assessments	6,837	1,107	3,671	8,202
NET INCOME	$ 18,933	$ 3,064	$ 10,168	$ 22,713

XV. GOVERNMENT REGULATION

A. General

The FHLBanks are entities created under the Bank Act whose purpose is to fulfill government objectives related to increasing the flow of credit to home mortgage markets and for community development purposes. The FHLBanks are regulated by the Finance Board, an independent agency in the executive branch of the federal government. A five-Member board of directors manages the Finance Board. The Secretary of the Department of Housing and Urban Development serves or appoints a designee as a director of the Finance Board. The President appoints the other four directors with the advice and consent of the Senate. Appointed directors hold office for terms of seven years and serve on a full-time basis. The President designates one of the four appointed directors to serve as the chairperson of the Finance Board.

The Finance Board's primary purpose is to ensure the safety and soundness of the 12 FHLBanks. In addition, the Bank Act directs the Finance Board to ensure that the FHLBanks carry out their housing finance mission. Toward this end, the Finance Board has issued regulations and policies that govern, among other things, the permissible activities, powers and investments of the FHLBanks, risk management practices, capital requirements and the authorities and duties of FHLBank directors and senior management. Certain of these regulations and policies are referred to below or elsewhere in this document.

The Finance Board is responsible for ensuring that the FHLBanks remain adequately capitalized and able to raise funds in the capital markets. The capital plans adopted by the FHLBanks pursuant to the GLB Act, and any amendments to those plans, must be reviewed and approved by the Finance Board. The Finance Board also has broad enforcement authority over the FHLBanks. It may suspend or remove for cause a director, officer, employee or agent of any FHLBank and may bring enforcement proceedings, such as cease-and-desist orders and the imposition of civil money penalties, against an FHLBank, or any of its executive officers or directors, for engaging in unsafe or unsound practices or violations of laws, rules, regulations or orders of the Finance Board. The Bank Act requires the Finance Board to conduct annual examinations of the FHLBanks.

The references to laws, regulations and policies which are applicable to the FHLBank set forth below and elsewhere herein are brief summaries, which do not purport to be complete and which are qualified in their entirety by reference to such laws, regulations and policies.

B. Advances

1. *General*

The FHLBank makes Advances to Members and non-member housing associates on the security of mortgages and other collateral pledged by Members and non-Member housing associates. The FHLBank develops its own advance programs to meet the particular needs of its Members. Finance Board regulations authorize the FHLBank to make Advances for up to ten years, but permit loans with longer maturities consistent with the safe and sound operation of the FHLBank. The FHLBank generally may make loans with maturities of greater than five years only for the purpose of enabling any Member to purchase or fund new or existing residential housing finance assets and, in the case of Members that qualify as "community financial institutions," small-business and agriculture-related loans. A community financial institution is an FDIC-insured institution whose average total assets over the last three years (ending December 31, 2003), are less than $548 million.

2. *Advances to Non-Member Housing Associates*

The FHLBank is authorized to make Advances to non-member "housing associates" located in its four-state region. Housing associates are approved mortgagees under Title 11 of the National Housing Act. Eligible housing associates must also be chartered under law and have succession, be subject to inspection and supervision by some governmental agency, and lend their own funds as their principal activity in the mortgage field. Housing associates are not required to purchase Capital Stock in the FHLBank and are not subject to many provisions of the Bank Act that apply to Members. However, the same regulatory lending requirements apply to non-member housing associates as apply to Members.

3. *Pricing*

The FHLBank is generally prohibited from pricing Advances to Members below the marginal cost to the FHLBank of raising matching term and maturity funds and related administrative and operation costs. In pricing its Advances, the FHLBank may distinguish among its Members based on, among other things, its assessment of the credit and other risks of lending to a particular Member. Advances with a maturity or repricing period greater than six months generally require a prepayment fee sufficient to make the FHLBank financially indifferent should the borrower decide to prepay the loan. With the exception of line of credit Advances, which may be prepaid at any time, Advances with a maturity or repricing period less than six months are generally non-prepayable.

4. *Collateral*

The FHLBank is required, at the time it originates or renews an Advance, to obtain and maintain a security interest in eligible collateral of a Member, a non-member housing associate, or an affiliate of a Member. Collateral eligible to secure Advances includes assets in the following categories:

(a) fully disbursed, whole first mortgages on improved residential property (not more than 90 days delinquent) or securities representing an interest in such mortgages;

(b) securities issued, insured, or guaranteed by the U.S. government or any of its agencies including, without limitation, mortgage backed securities issued or guaranteed by Freddie Mac, Fannie Mae, or Ginnie Mae;

(c) cash or deposits in the FHLBank;

(d) other real estate-related collateral (including, but not limited to, home equity loans, commercial real estate loans and mortgage loan participations), provided that such collateral has a readily ascertainable value and the FHLBank can perfect a security interest in such property; or

(e) in the case of a Member that qualifies as a community financial institution, secured small-business and agriculture-related loans, or securities representing a whole interest in such loans, provided that such collateral has a readily ascertainable value and the FHLBank can perfect a security interest in such property.

The FHLBank has the right to take such steps as it deems necessary to protect its secured position on outstanding Advances, including requiring additional collateral, whether or not such additional collateral would otherwise be eligible to secure a new or renewal Advance. As additional security for a Member's indebtedness, the FHLBank also has a statutory lien upon that Member's Capital Stock.

The Bank Act affords any security interest granted by any Member of the FHLBank, or any affiliate of any such Member, priority over the claims and rights of any party, including any receiver, conservator, trustee, or similar party having rights of a lien creditor provided that such security interest shall not be entitled to priority over claims and rights that (1) would be entitled to priority under otherwise applicable law or (2) are held by an actual *bona fide* purchaser for value or by parties that are secured by actual perfected security interests.

5. *Capital Stock Requirements*

With the passage of the GLB Act, the prior statutory limit stating that the aggregate amount of outstanding Advances made by the FHLBank to a Member may not exceed 20 times the amount paid in by such Member for existing stock in the FHLBank is eliminated upon implementation of the Capital Plan. Until that time, the FHLBank remains subject to the limitation under the Finance Board's regulations. Upon the Conversion Date, FHLBank Members shall no longer be subject to this limit, but will be subject to the Activity-Based Stock Purchase Requirement for Advances contained in the FHLBank's Capital Plan. The initial Activity-Based Stock Purchase Requirement for Advances is set at 5.0% (five percent). See "Description of the FHLBank's Capital Plan - Minimum Stock Purchase Requirement - Activity-Based Stock Purchase Requirement" starting on page 25.

C. Standby Letters of Credit

The FHLBank is authorized to issue or confirm on behalf of Members standby letters of credit (including direct pay) to (1) assist Members in facilitating residential housing finance, (2) assist Members in facilitating community lending, (3) assist Members with asset/liability management and (4) provide Members with liquidity or other funding. At the time the FHLBank issues or confirms a standby letter of credit, it must obtain and maintain a security interest in collateral that is sufficient to fully secure a

Member's obligation to reimburse the FHLBank for value given by the FHLBank to the beneficiary under the terms of the standby letter of credit.

There is no capital stock purchase requirement for standby letters of credit under the existing capital stock requirements. Upon the Conversion Date, FHLBank Members will be subject to the Activity-Based Stock Purchase Requirement for letters of credit contained in the FHLBank's Capital Plan. The initial Activity-Based Stock Purchase Requirement for letters of credit is set a 0.0% (zero percent). See "Description of the FHLBank's Capital Plan - Minimum Stock Purchase Requirement - Activity-Based Stock Purchase Requirement" starting on page 25.

D. Acquired Member Assets

The FHLBank holds certain assets acquired from or through its Members or non-member housing associates. These assets may include whole loans eligible to secure Advances from the FHLBank (excluding mortgages above the conforming loan limit), whole loans secured by manufactured housing, or state or local housing finance agency bonds. Regulations require Members and non-member housing associates to provide credit enhancement for Acquired Member Assets such that the FHLBank's exposure to credit risk is no greater than that of an asset rated in the fourth highest credit rating category by a credit rating agency regarded as a Nationally Recognized Statistical Rating Organization ("NRSRO") by the Securities and Exchange Commission, or such higher rating as the FHLBank may require. The portion of the credit enhancement that is an obligation of the Member or non-member housing associate must be fully secured. A portion of the credit enhancement may also be covered by insurance, subject to limitations specified in the AMA regulation.

The FHLBank, like each of the FHLBanks, has established a Member mortgage asset program, which involves the investment by the FHLBank in home mortgage loans originated "by or through" Members or non-Member housing associates. The FHLBank acquires mortgage assets from or through Members or non-Member housing associates, and the Members or non-member housing associates continue to bear a significant portion of the credit risk through credit enhancement they provide with respect to such assets. The programs provide Members with an alternative to retaining mortgages in portfolio or selling them in the traditional secondary market. The FHLBank currently acquires mortgages through the MPF Program, which is administered by the FHLBank of Chicago.

There is no capital stock purchase requirement for Acquired Member Assets under the existing capital stock requirements. Upon the Conversion Date, FHLBank Members will be subject to the Activity-Based Stock Purchase Requirement for Acquired Member Assets contained in the FHLBank's Capital Plan. The initial Activity-Based Stock Purchase Requirement for Acquired Member Assets is set at 2.0% (two percent), with the initial cap set at 1.5% (one and one half percent) of a Member's total assets. See "Description of the FHLBank's Capital Plan - Minimum Stock Purchase Requirement - Activity-Based Stock Purchase Requirement" starting on page 25.

E. Interest Rate Exchange Agreements

To meet the asset/liability management needs of its Members, the FHLBank enters into interest rate exchange agreements with its Members, acting as an intermediary between Members and other counterparties. This intermediation allows smaller members indirect access to the swap market.

There is no capital stock purchase requirement for interest rate exchange agreements under the existing capital stock requirements. Upon the Conversion Date, FHLBank Members will be subject to the Activity-Based Stock Purchase Requirement for interest rate exchange agreements contained in the FHLBank's Capital Plan. The initial Activity-Based Stock Purchase Requirements for interest rate exchange agreements is set at 0.0% (zero percent). See "Description of the FHLBank's Capital Plan - Minimum Stock Purchase Requirement - Activity-Based Stock Purchase Requirement" starting on page 25.

F. Permissible Investments

1. *Statutory Authority*

Subject to such regulations, restrictions and limitations as the Finance Board may impose, the Bank Act authorizes the FHLBank to invest surplus funds and certain reserve accounts in certain specified securities, instruments and obligations. The Finance Board initially established the parameters of this authority through its Financial Management Policy ("FMP"), which included a list of specific investments the FHLBank was permitted to hold in its portfolios. The investments on this list generally were viewed by the Finance Board as narrower than that which could be deemed permissible under the statute.

2. *The Finance Board Investment Regulation*

On July 17, 2000, the Finance Board adopted a regulation which, in part, superseded the FMP (the "Investment Regulation"). For the most part, and subject to certain limitations, the Investment Regulation tracks the investment authority set forth in the Bank Act. Under the Investment Regulation, the FHLBank may invest in (1) obligations of the United States; (2) deposits in banks and trust companies; (3) obligations, participations, or other instruments of or issued by Fannie Mae or Ginnie Mae; (4) mortgages, obligations, or other securities that are, or ever have been, sold by Freddie Mac pursuant to 12 U.S.C. Sections 1454 or 1455; (5) stock, obligations, or other securities of any small-business investment company formed pursuant to 15 U.S.C. Section 681 (when made for the purpose of aiding FHLBank Members); and (6) such instruments as fiduciary and trust funds may be invested in under the laws of the state in which the FHLBank is located.

3. *Investment Limitations*

The Investment Regulation sets forth several specific limitations on the investment authority of the FHLBank. These limitations generally prohibit the FHLBank from investing in:

(a) instruments, such as common stock, that represent an ownership interest in an entity, other than stock in small business investment corporations, or certain investments targeted to low-income persons or communities;

(b) instruments issued by non-United States entities, other than those issued by United States branches and agency offices of foreign commercial banks;

(c) non-investment-grade debt instruments, other than certain investments targeted to low-income persons or communities and instruments that were downgraded after purchase by the FHLBank;

(d) whole mortgages or other whole loans, or interests in mortgages or loans, other than: those acquired under the MPF Program, certain investments targeted to low-income persons or communities; certain marketable direct obligations of state, local, or tribal government; units or agencies, having at least the second highest credit rating from a nationally recognized statistical rating organization; mortgage-backed securities; asset-backed securities backed by manufactured housing loans or home equity loans; and certain foreign housing loans authorized under Section 12(b) of the Bank Act.

Moreover, under the Investment Regulation, the limitations and restrictions on certain authorized investments set forth in the FMP remain in effect. The Finance Board's resolution approving the FHLBank's Capital Plan also provides for the continued applicability of FMP investment limitations on mortgage-backed securities. Under these continuing limitations, the FHLBank's investment in mortgage-backed securities ("MBS"), collateralized mortgage obligations ("CMOs") and real estate mortgage investment conduits ("REMICs") and in asset-backed securities secured by manufactured housing or home equity loans is limited to a total amount equal to 300% of the FHLBank's capital on the trade date of the purchase. The FHLBank is also prohibited under provisions of the FMP from purchasing: (1) interest-only or principal-only stripped MBS, (2) residual interest or interest-accrual classes of CMOs or REMICs; (3) fixed-rate or floating-rate MBS with average lives that vary by more than six years under an instantaneous 300-basis-point interest rate change scenario; and (4) non-U.S. dollar denominated securities.

4. *Derivatives Contracts and Other Activities*

The Investment Regulation also authorizes the FHLBank to execute derivative transactions (which are generally defined to mean a financial contract, the value of which is derived from the values of one or more underlying assets, reference rates or indices of asset value or credit-related events). The Investment Regulation provides that derivatives instruments that do not qualify as hedging instruments pursuant to GAAP may be used only if a non-speculative use is documented by the FHLBank. The Investment Regulation also authorizes the FHLBank to enter into standby letters of credit, forward asset purchases and sales, commitments to make Advances and commitments to make or purchase other loans.

5. *Standby Bond Purchase Agreements*

In addition, the Investment Regulation, supplemented by Finance Board Regulatory Interpretation 99-17 (Oct. 26, 1999), authorizes the FHLBank to enter into standby bond purchase agreements ("SBPA") with state housing finance agencies ("HFA"). An SBPA is a liquidity facility in which the FHLBank agrees, in consideration for a periodic fee, to purchase at par certain HFA variable rate bonds in the event of a failed remarketing or mandatory tender of the bonds. The bonds are secured by mortgages, securities and/or cash pledged to a trustee for the benefit of the bondholders, and must be rated at least "Aa" by Moody's Investors Service, Inc. or "AA" by Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies, Inc., when the SBPA is executed. In most cases, the bonds have been rated "Aaa" and "AAA." Moreover, the FHLBank is not obligated to purchase the bonds unless they are rated at least investment grade at the time of purchase.

To date, all SBPAs have been for five-year terms. If the FHLBank purchases any HFA bonds under an SPBA, the interest rate is converted to a premium floating rate, and the HFA is obligated to repurchase them at par as soon as they can be remarketed. If the bonds cannot be remarketed within 91 days after the bond purchase, the HFA must repurchase the bonds in no more than ten equal semi-annual installments. The obligation to repurchase the bonds prior to their stated maturity is an unsecured general obligation of the HFA, however, the bonds remain secured by the collateral supporting them. Under the FHLBank's Risk Management Policy, SBPAs to any one state may not exceed 30 percent of the FHLBank's capital. SBPAs are also subject to Finance Board regulatory limits on unsecured extensions of credit if they do not satisfy the criteria of Finance Board Regulatory Interpretation 2002-RI-05 (May 21, 2002). The FHLBank believes that all of its SBPAs satisfy such criteria.

G. New Business Activities

The FHLBank generally must provide notice to the Finance Board at least 60 days prior to engaging in any new business activity ("Notice Period"). A "new business activity" means any business activity conducted or engaged in by the FHLBank that it has not previously conducted or engaged in or that it previously conducted or engaged in under materially different terms which (1) involves the acceptance of certain types of collateral for loans, (2) entails risks not previously and regularly managed by the FHLBank, its Members or both or (3) involves operations not previously undertaken by the FHLBank.

During the Notice Period, the Finance Board may among other things, (1) disapprove a proposed new business activity, (2) instruct the FHLBank not to commence the activity pending further consideration by the Finance Board or (3) request additional information from the FHLBank. The Finance Board may require the FHLBank to comply with certain conditions, to be determined by the Finance Board in its discretion, in order to commence a new business activity. The FHLBank did not submit any notices of new business activities to the Finance Board in 2002 or 2003, or thus far in 2004.

H. Liquidity Requirements

The FHLBank is required to maintain liquidity in accordance with the FMP, certain Finance Board regulations, and policies established by its Board of Directors. The FHLBank needs liquidity to satisfy Member demand for short-term and long-term funds, purchase mortgage loans from Members, repay maturing consolidated obligations and meet other obligations. The specific liquidity requirements applicable to the FHLBank are described briefly below.

1. *Deposit Liquidity Requirement*

The FHLBank is required to invest in (1) obligations of the United States, (2) deposits in banks or trust companies or (3) Member Advances with a maturity not to exceed five years, in an amount at least equal to the amount of current deposits received from its Members. In addition to accepting deposits from its Members, the FHLBank may accept deposits from any institution for which it is providing correspondent services, from any other FHLBank or from other government instrumentalities.

2. *Contingency Liquidity Requirement*

The FHLBank is also required to hold "contingency liquidity" in an amount sufficient to enable it to meet its liquidity needs, assuming its access to the consolidated obligation debt markets is impeded for a period of time. Contingency liquidity means the sources of cash the FHLBank may use to meet its operational requirements when its access to the capital markets is impeded and includes (1) marketable assets with a maturity of one year or less, (2) self liquidating assets with a maturity of seven days or less, (3) assets that are generally acceptable as collateral in the repurchase agreement market and (4) irrevocable lines of credit from financial institutions rated not lower than the second highest credit rating category by a NRSRO.

3. *Risk Management Policy*

The FHLBank sets standards in its Risk Management Policy for day-to-day operational liquidity and contingency liquidity needs that enumerate the specific types of investments to be held by the FHLBank to satisfy such liquidity needs. These standards also establish the methodology to be used by the FHLBank for determining its operational and contingency liquidity needs.

I. Unsecured Credit Limits

Finance Board regulations restrict the amount of unsecured credit that the FHLBank can extend to a particular counterparty. The regulations require the FHLBank to base its credit limit for a counterparty on a formula generally based on the long-term credit rating of the counterparty, which is then applied to the lesser of the FHLBank's total capital or a specified measure of the counterparty's capital. The regulation also sets the amount of unsecured credit that can be extended to a GSE established to serve public purposes, but whose obligations are not obligations of the United States or guaranteed by the United States.

J. Certain Responsibilities of the FHLBank's Board of Directors and Senior Management

1. *Risk Management Policy*

The FHLBank's Board of Directors is required to have in effect a Risk Management Policy that addresses the FHLBank's exposure to credit risk, market risk, liquidity risk, business risk and operation risk. The FHLBank's Board of Directors is required to review the Risk Management Policy at least annually and to amend the policy as appropriate. Following approval of the FHLBank's Capital Plan by the Finance Board, but prior to the Capital Plan taking effect, the FHLBank must amend its Risk Management Policy to describe the steps that it will take to comply with its Capital Plan and to include specific target ratios of total capital and permanent capital to total assets. On March 21, 2003, the FHLBank amended its Risk Management Policy to incorporate provisions pertaining to its Capital Plan. The amended policy provides that the FHLBank intends to maintain an operating total capital ratio of not greater than 5.00 percent and not less than 4.08 percent, and an operating leverage capital ratio of not less than 5.00 percent.

2. *Strategic Business Plan*

The FHLBank's Board of Directors is required to have in effect a strategic business plan that describes how the business activities of the FHLBank will achieve the FHLBank's mission consistent with the Finance Board's core mission activity regulation. This regulation identifies the following activities as core mission activities of the FHLBank: (1) Advances, (2) Acquired Member Assets, (3) standby letters of credit, (4) intermediary derivative contracts, (5) debt or equity investments that primarily benefit households having a targeted income level or areas targeted for redevelopment, and which serve housing and community development objectives, and (6) other debt or equity investments involving SBICs or which are issued or guaranteed under certain federal government programs. The FHLBank's Board of Directors reviews the strategic business plan on an annual basis, including corporate goals and objectives and operating expense and capital expenditure budgets to assist in implementation of the strategic business plan. The FHLBank's Board of Directors readopts the entire strategic business plan not less than every three years, reviewing established long-term objectives and the overall strategic direction of the FHLBank including its mission.

3. *Internal Controls*

The FHLBank is required to establish and maintain an effective internal control system. The internal control system must address the efficiency and effectiveness of the FHLBank's activities; the safeguarding of FHLBank assets; the reliability, completeness and timely reporting of financial and management information; and compliance with applicable laws, regulations, policies and supervisory directives of the FHLBank's Board of Directors and senior management.

4. *Audit Committee*

The Board of Directors of the FHLBank is required to establish an audit committee. The audit committee has the duty, among other things, to (1) direct senior management to maintain the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the FHLBank, (2) review the basis for the FHLBank's financial statements, and the independent auditors' opinion rendered with respect to such financial statements (including the nature and extent of any significant changes in accounting principles or the application therein), (3) provide reasonable assurance that policies are in place; that are reasonably designed to achieve disclosure and transparency regarding the FHLBank's true financial performance and governance practices and (4) oversee the internal and external audit functions.

5. *Internal Market Risk Model and Risk Assessment Procedures*

Before the FHLBank's Capital Plan may take effect, the FHLBank must obtain the Finance Board's approval for the internal market risk model used to calculate the market risk capital component of its risk-based capital requirement and for the risk assessment procedures and controls to be used to manage its credit, market and operation risks. The FHLBank adopted an internal market risk model, which was approved by the Finance Board on April 21, 2003. The Finance Board approved the FHLBank's risk assessment procedures and controls on May 28, 2003.

6. *Governance*

An active and informed Board of Directors is the cornerstone of good corporate governance. The Board of Directors of the FHLBank fully embraces its responsibility with regard to establishing and following solid corporate governance principles in order to protect the interests of the Members and other constituents of the FHLBank.

The FHLBank's Board of Directors adopts numerous policies applicable both to the Board of Directors and to senior officers, managers and employees of the FHLBank, and provides for regular reports concerning adherence to these policies as well as a regular review of all applicable policies. Included among these are: risk tolerance levels for the five primary risks (credit, business, market, liquidity and operations); Board of Directors Code of Conduct and Conflict of Interest; Officers and Employees Code of Conduct and Conflict of Interest; Corporate Bylaws; Board of Director's Operating Guidelines; Reporting Requirements; CEO Succession Plan; Mutual Respect; and Sexual Harassment, among other policies. In addition, the Board of Directors established a Governance and Public Outreach Board Committee that assists in ensuring the existence of corporate governance principles and policies.

K. Additional Oversight

Like each FHLBank and the Office of Finance, the FHLBank has an internal audit department and audit committee. An independent public accounting firm audits the annual financial statements of each FHLBank and the annual combined financial statements as prepared by the Office of Finance. The independent accountant conducts these audits following auditing standards generally accepted in the United States and Government Auditing Standards issued by the Comptroller General. The FHLBanks, the Finance Board, and Congress receive the audit reports. Each FHLBank must submit annual management reports to Congress, the President, the Office of Management and Budget, and the Comptroller General. These reports include statements of condition, statements of income, statements of capital, statements of cash flows, a statement of internal accounting and administrative control systems, and the report of the independent auditors on the financial statements.

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

L. Tax Status

The FHLBanks are exempt from all federal, state, and local taxation except for real property taxes; however, the FHLBanks are required to set aside a portion of their earnings to satisfy certain public policy objectives. In particular, they are obligated to make payments to REFCORP in the amount of 20% of net earnings after operating expenses and AHP expense. In addition, annually the FHLBanks must set aside for their AHPs the greater of an aggregate of $100 million or 10% of their current year's net earnings before charges for AHP (but after expenses for REFCORP).

M. Accounting Treatment

Based upon advice from the FHLBank's independent auditors, the FHLBank anticipates that Members should account for the Capital Conversion at their respective recorded amount for their current investment in FHLBank stock (i.e., a gain or loss should not be recognized on the exchange). The reasoning behind this proposed accounting treatment includes the application of Accounting Principles Board Opinion No. 29, *Accounting for Non-monetary Transactions*, to the Capital Conversion which assumes (1) the fair value of existing stock and the fair value of Capital Stock are not determinable within reasonable limits, and (2) the conversion is not the culmination of an earning process. The ultimate responsibility for the decision on the appropriate application of GAAP rests with each Member. Members are strongly urged to consult their accounting advisors as to the appropriate accounting treatment of their respective exchange of existing stock for Capital Stock pursuant to the conversion.

XVI. FEDERAL INCOME TAX IMPLICATIONS

A. General

The following is a summary of the U.S. federal income tax implications of the Capital Conversion and certain other transactions to the Members. This summary does not address all of the U.S. federal income tax implications or any of the state or local income tax implications that may be relevant to Members in light of their particular circumstances.

This summary is based upon the Internal Revenue Code of 1986, as amended, regulations, rulings and decisions in effect as of the date hereof, all of which are subject to change, possibly with retroactive effect. No ruling has been or will be sought from the Internal Revenue Service ("IRS") as to the U.S. federal income tax implications of the Capital Conversion. This summary is not binding on the IRS or the courts, and no assurance can be given that the IRS will not successfully challenge certain of the conclusions set forth below. This discussion does not address tax consequences of the purchase, ownership, or disposition of Capital Stock by anyone other than the Members which acquire their Capital Stock pursuant to the Capital Conversion.

THIS SUMMARY DOES NOT CONSTITUTE, AND SHOULD NOT BE CONSIDERED AS, LEGAL OR TAX ADVICE TO THE MEMBERS. THE TAX IMPLICATIONS FOR EACH MEMBER OF THE CAPITAL CONVERSION AND CERTAIN OTHER TRANSACTIONS DISCUSSED HEREIN WILL DEPEND ON THE PARTICULAR FACTS AND CIRCUMSTANCES OF EACH SUCH MEMBER. THE MEMBERS ARE STRONGLY URGED TO CONSULT THEIR TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE CAPITAL CONVERSION, INCLUDING THE APPLICATION OF FEDERAL, STATE AND LOCAL AND OTHER TAX LAWS BASED ON EACH MEMBER'S PARTICULAR FACTS AND CIRCUMSTANCES.

B. Taxation of the Capital Conversion

The Capital Plan provides for an exchange of each Member's shares of existing capital stock of the FHLBank for an equal number of shares of newly issued Class A Common Stock and, where applicable, Class B Common Stock. The FHLBank believes that the U.S. federal income taxation implications of the Capital Conversion are as follows: the Members will not recognize gain or loss on the receipt of Class A Common Stock and/or Class B Common Stock in exchange for their shares of existing capital stock of the FHLBank. Each Member's adjusted basis in its shares of existing capital stock of the FHLBank will carry over and become the Member's adjusted basis in the Class A Common Stock and /or Class B Common Stock. Each Member's adjusted basis in its shares of existing capital stock of the FHLBank will generally be the purchase price paid for such shares. However, if a Member received stock dividends on its shares of capital stock prior to the Capital Conversion, then the adjusted basis in its shares of capital stock immediately before such stock dividends are allocated between the old and new shares of capital stock in proportion to the fair market value of each on the date of the stock dividend. Each Member's holding period for the Class A Common Stock and/or Class B Common Stock received in the Conversion of Shares will include the holding period of the shares of existing capital stock in the FHLBank exchanged thereof.

The foregoing analysis would be different if the Class A Common Stock or the Class B Common Stock was preferred stock. However, the FHLBank believes that both the Class A Common Stock and the Class B Common Stock will be treated as common stock for U.S. federal income tax purposes. There are no preferences on dividends up to the Dividend Parity Threshold or on any liquidating distributions with respect to the Class A Common Stock and Class B Common Stock. Although the dividends payable on the Class A Common Stock will be limited by the Dividend Parity Threshold, liquidating distributions with respect to the Class A Common Stock are equal to the liquidating distributions with respect to the Class B Common Stock. Therefore, the FHLBank believes that neither the Class A Common Stock nor the Class B Common Stock is preferred stock.

Each Member that purchases additional Capital Stock will have an adjusted basis in such additional Capital Stock equal to par value and a holding period beginning on the day after the date of purchase.

The FHLBank will redeem all of the shares of the existing capital stock of the FHLBank from Members which opt out of the Conversion of Shares. The Redemption price will be the par value of a Member's shares of existing capital stock of the FHLBank. A Member which opts out will recognize gain and be subject to tax if such Member's adjusted basis in its shares of existing capital stock of the FHLBank is less than par value.

C. Taxation of Stock Redemptions and Repurchases

Under the Capital Plan, each Member is required to maintain a minimum investment in Capital Stock, as a condition of both becoming and remaining a Member of the FHLBank. The FHLBank's Board of Directors will monitor and, as necessary, adjust the Minimum Stock Purchase Requirement to provide for Capital Stock purchases and maintenance of Capital Stock investments by all Members sufficient to allow the FHLBank to comply promptly with its minimum Regulatory Capital Requirements. Under the terms of the Capital Plan, the shares of Capital Stock held by Members at any time in excess of the Minimum Stock Purchase Requirement may be repurchased by the FHLBank or redeemed for cash or exchanged for the other class of Capital Stock at the request of the Member (subject to certain limiting provisions).

The Redemption or Repurchase of a Member's Capital Stock will be treated as a sale of the stock, unless it is neither "substantially disproportionate" nor "not essentially equivalent to a dividend." If a Redemption and Repurchase do not satisfy these requirements, then the Redemption and Repurchase will be treated as a dividend.

A Redemption or Repurchase of a Member's Capital Stock will be "substantially disproportionate" if as a result of the Redemption or Repurchase, the Member owns less than 50% of the Capital Stock of the FHLBank, and the ratio determined by dividing the number of shares of Capital Stock owned by the Member immediately after the exchange by the total number of shares of stock outstanding immediately after the exchange is less than 80% of the same ratio calculated immediately before the exchange. In making this determination, a Member may be considered to own the stock owned (and in some cases, constructively owned) by certain related entities. In addition, related Redemptions or repurchases may be considered as a part of a single transaction.

Whether the Redemption and Repurchase are "not essentially equivalent to a dividend" is to be determined based upon the particular facts and circumstances of the exchange. The Redemption and Repurchase must result in a "meaningful reduction" in the Member's proportionate equity interest in order to be "not essentially equivalent to a dividend." The unique aspects of the FHLBank System may, however, substantiate a position that any Redemption and Repurchase is "not essentially equivalent to a dividend." Facts supporting such a conclusion include (1) the long-term industry practice, (2) the regulatory oversight of the capital sufficiency of the FHLBank, (3) the fact that Redemptions and Repurchases are mandated at par (the original amount of the purchase price for the shares) and (4) the FHLBank's periodic Redemptions and Repurchases of a Member's Capital Stock are required to balance the cost of the capital structure of the FHLBank. The IRS may, however, take a contrary view. No ruling has been requested from the IRS on this issue. Members are urged to consult with their own tax advisors as to the tax treatment of Redemptions and Repurchases.

D. Future Distributions

Following the recapitalization, the FHLBank may pay dividends on the Capital Stock in the form of cash or additional Capital Stock.

1. *Cash Distributions*

A cash dividend is first treated as ordinary dividend income to the extent of the FHLBank's accumulated or current earnings and profits. The amount of the distribution received in excess of such earnings and profits will be treated next as a nontaxable return of capital to the extent of the Member's basis in its Capital Stock and, thereafter, as a capital gain to the extent it exceeds the Member's basis.

The FHLBank anticipates that cash distributions by the FHLBank will be taxed in full as ordinary dividend income. Cash dividends are not eligible for the dividends received deduction.

2. *Stock Dividends*

A Capital Stock dividend is not generally taxable to the Member. However, a Capital Stock dividend by the FHLBank is taxable if, at the "election" of any of the Members, the dividend is payable either in Capital Stock or in cash. A pattern of granting Member requests to have Excess Stock redeemed does not constitute such an "election."

If a Capital Stock dividend is not taxable, then the basis in the Capital Stock with respect to which the new Capital Stock is issued is allocated between the old and new Capital Stock in proportion to the fair market value of each on the date of the stock dividend, and the holding period of the new Capital Stock includes the period for which the Member held the old Capital Stock. If the stock dividend is taxable, then the fair market value of the new Capital Stock is an ordinary dividend, taxable as described above, and the new Capital Stock received in the dividend has a fair market value basis, and a new holding period will begin as of the date following the day the Member receives the new Capital Stock.

THE PRECEDING DISCUSSION DOES NOT CONSTITUTE, AND SHOULD NOT BE CONSIDERED AS, LEGAL OR TAX ADVICE TO MEMBERS. THE PRECEDING DISCUSSION IS GENERAL IN NATURE AND DOES NOT CONSIDER ANY PARTICULAR MEMBER'S INDIVIDUAL FACTS AND CIRCUMSTANCES. SINCE THE TAX CONSEQUENCES OF THE CAPITAL CONVERSION AND CERTAIN OTHER TRANSACTIONS DISCUSSED HEREIN TO MEMBERS WILL DEPEND ON THEIR PARTICULAR FACTS AND CIRCUMSTANCES, MEMBERS ARE STRONGLY URGED TO CONSULT THEIR TAX ADVISORS AS TO THE TAX IMPLICATIONS TO THEM OF THE SHARE CONVERSION AND OTHER TRANSACTIONS DISCUSSED HEREIN.

XVII. DIRECTORS AND SENIOR OFFICERS

A. FHLBank Topeka Board of Directors

Chairman, Ronald K. Wente
President and CEO, Golden Belt Bank, FSA, Hays, Kansas
Elected 1995

Mr. Wente joined Golden Belt Bank in 1973 after graduating from Fort Hays State University, Fort Hays, Kansas. He began serving as president and chief executive officer in 1974. He is past chairman of the Heartland Community Bankers Association and serves on the board of directors of the Ellis County Economic Development Corp.

Vice Chairman, J. Michael Davis
President, The Gathering Place, Greenwood, Colorado
Appointed 2002

Mr. Davis served as executive vice president and chief operating officer of the Farm Credit Council from 1990 until his retirement in 1997. He is currently a member of the governing board and president of The Gathering Place, a daytime shelter for women and children experiencing poverty or homelessness. Mr. Davis is also an active volunteer with The Children's Hospital in Denver. He was formerly CEO of Farm Bank Services and was vice president and chief credit officer of the Federal Intermediate Credit Bank of Houston. He began his career in financial services as a loan officer for the Richmond (Texas) Production Credit Association. Mr. Davis is a 1962 graduate of Rice University, Houston, Texas.

Harley D. Bergmeyer
Chairman, Saline State Bank, Wilber, Nebraska
Elected 2002

Mr. Bergmeyer has been with Saline State Bank since 1977. He is active in the American Bankers Association and currently is a member of the ABA's government relations council and credit union task force. He is the past Nebraska State chairman of the ABA and a past president of the Nebraska Bankers Association. He is a member of the University of Nebraska President's Advisory Council and is chairman of the UNL Foundation Administrative Committee.

Michael M. Berryhill
President and CEO, Morgan Federal Bank, Fort Morgan, Colorado
Elected 2002

Mr. Berryhill graduated from Arizona State University in 1977 with a degree in accounting, and worked for nine years as a CPA with an international public accounting firm. He joined Morgan Federal Bank, Fort Morgan, Colorado, in 1986, and is currently its president, chief executive officer and board chairman. Mr. Berryhill is treasurer and past president of the Morgan Community College Foundation, treasurer of the Heartland Community Bankers Association and fundraising chairman for the Fort Morgan Community Hospital Association. He is also a member and past president of the Sunrise Optimist Club of Fort Morgan.

Robert E. Caldwell II
General Counsel, Linweld, Inc., Lincoln, Nebraska
Appointed 2004

Mr. Caldwell serves as general counsel for Linweld, Inc., a large independent manufacturer and distributor of industrial/medical gases and welding supplies. He graduated from the University of Nebraska at Kearney with a bachelor of science in business administration. He also has an MBA and JD from the University of Nebraska. He currently chairs the Nebraska Bar Association Corporate Counsel Section and the Government Affairs committee of the National Gases and Welding Supply Association. He serves on the boards of the Nebraska State Fair Park Foundation and Lincoln Ducks Unlimited.

G. Bridger Cox
President and CEO, Citizens Bank & Trust Co., Ardmore, Oklahoma
Elected 1997

Mr. Cox is president and chief executive officer of Citizens Bank & Trust Company, Ardmore, Oklahoma. He is a graduate of the University of Oklahoma and the Stonier Graduate School of Banking at Rutgers University, New Brunswick, New Jersey. Mr. Cox is a former national bank examiner with the Office of the Comptroller of the Currency. He serves on numerous boards including the Oklahoma Industrial Finance Authority, the Southern Oklahoma Memorial Foundation, Oklahoma Foundation for Excellence and Hewitt Mineral Corporation. He also serves as the board chairman of the Greater Ardmore Scholarship Foundation.

Duane L. Fager
President and CEO, Commerce Bank and Trust, Topeka, Kansas
Elected 1996

Mr. Fager is a graduate of the University of Kansas, Lawrence, and the Graduate School of Banking at the University of Wisconsin, Madison. He is a past president of the Kansas Bankers Association. He serves on the community bank advisory council for Deluxe Check Printers and is a member of the board of directors for Mid America Payments Exchange, a regional automated clearinghouse association. He serves on the boards of the Topeka Community Foundation and Countryside United Methodist Church.

Steven D. Hogan
President, First MainStreet, Fort Collins, Fort Collins, Colorado
Elected 2003

Mr. Hogan graduated from the University of Texas at Arlington with a bachelor of business administration degree in finance. He also has an MBA from Southern Methodist University, Dallas, Texas, and a graduate banking degree from University of Colorado, Boulder. He has more than 22 years of banking experience, including seven years with the FHLBank system in Topeka, Kansas, and Dallas, Texas. He currently serves as board president of the Fort Collins Symphony Orchestra and sits on the board of Northern Colorado Junior Achievement.

Ada Diaz Kirby
President and CEO, CommTech International, Inc., Denver, Colorado
Appointed 2003

Ms. Diaz Kirby is the founder and president of CommTech International, Inc., a full-service training company specializing in customized interactive multimedia programs delivered on CD-ROM and corporate intranets. She has also worked as a consultant to the Colorado Republican Party where she served as the Director of the New Majority Council. She developed programs that attract more non-traditional groups to the party with a focus on the largest growing segment of the U.S. population, Hispanics. She was born in Cienfuegos, Cuba. She graduated with a degree in business administration from Regis University where she later served as a regent. She is strongly committed to community service, and for over 30 years has served on numerous national and local boards and community and political organizations.

Jane C. Knight
Vice President of Site-based Strategies, Kansas Big Brothers Big Sisters, Wichita, Kansas
Appointed 2004

Ms. Knight is the vice president of site-based strategies for Kansas Big Brothers Big Sisters, where she oversees the Retired Senior Volunteer Programs and develops site-based mentoring programs. From 1995-2002, she directed the Wichita office for Kansas Governor Bill Graves and was in charge of addressing constituent concerns, including housing issues. From 1992-95, she served as state ADA Coordinator, ensuring state agency compliance with the Americans with Disabilities Act. She graduated with a bachelor's degree from Kansas State University. She serves on the board of the Fundamental Learning Center and The Lord’s Diner and is the vice-president of HopeNet, Inc. She also serves on the advisory board of Dress for Success and the Wichita Indochinese Center.

Thomas H. Olson
President, Lisco State Bank, Lisco, Nebraska
Elected 2002

Mr. Olson graduated from the University of Nebraska, Lincoln, with a bachelor of business administration degree. He also is a graduate of the Colorado School of Banking at the University of Colorado, Boulder. Besides serving as chairman of Lisco State Bank, Mr. Olson is chairman of the board of First National Bank of Sidney, Nebraska; First National Bank of Torrington, Wyoming; Fullerton National Bank, Fullerton, Nebraska; First National Bank of Julesburg, Colorado; First National Bank of Estes Park, Colorado; and American National Bank, Kimball, Nebraska. He also is owner and manager of Olson Insurance Agency. Mr. Olson is currently a colonel in the U.S. Air Force Retired Reserve and fulfills several civic and industry responsibilities, including membership in many banking associations such as the Nebraska Bankers Association, Nebraska Bankers and Insurance Services Board of Directors, Independent Bankers Association of America and the American Bankers Association.

Lindel E. Pettigrew
President and CEO, Chickasha Bank & Trust Co., Chickasha, Oklahoma
Elected 2002

Mr. Pettigrew graduated from Oklahoma City University, Oklahoma City, Oklahoma, with a bachelor of business administration degree. He also attended Southwestern Graduate School of Banking at Southern Methodist University, Dallas, Texas. Besides serving as president of Chickasha Bank & Trust, Mr. Pettigrew is president of Chickasha Bancshares and Washita Mortgage, Inc. He serves on the board of the Oklahoma Bankers Association and the Oklahoma Baptist Foundation Southwest Advisory Board. Mr. Pettigrew is active in many civic organizations. He is past president and director of the Chickasha Rotary Club, the Chickasha Chamber of Commerce and the Chickasha Community Concert. He also has served on the board of the Jane Brooks School for the Deaf and the Chickasha Board of Education.

William R. Robbins
President, Farmers Bank and Trust, NA, Great Bend, Kansas
Elected 1997

Mr. Robbins has been president of Farmers Bank and Trust, NA, in Great Bend, Kansas, since 1971. Mr. Robbins was 1996 president of the Kansas Bankers Association and is a member of the American Bankers Association, the Golden Belt Bankers Association and the Small Business Administration. He serves on the Great Bend Chamber of Commerce board and the Central Kansas Development board and is a member of the Fort Hays State University Investment Committee. Robbins earned an associate's degree from Dodge City Community College and a bachelor's degree in education from Fort Hays State University.

Tom Seth Smith
President and CEO, Rural Enterprises of Oklahoma, Inc., Durant, Oklahoma
Appointed 2003

With more than 22 years in economic development, Mr. Smith has a wide variety of experience in his field, including banking, service with Red Ark Development Authority and Kiamichi Economic Development District of Oklahoma. He also served as assistant of economic development for Oklahoma's Third District Congressman Wes Watkins. Currently, he is in his 14th year as president and CEO of Rural Enterprises of Oklahoma, Inc., the state's model for a unique combination of economic development services. He is a member of numerous professional economic development organizations and the governor's economic development team. He is board member of the Leadership Oklahoma, Inc., board of directors. Mr. Smith is a graduate of Oklahoma State University.

Debbie Stafford
Colorado State Representative, District 40, Aurora, Colorado
Appointed 2003

Ms. Stafford serves as a State Representative to Colorado's 40th District. She is a founding board member of Project Heritage, a transitional housing program for homeless families. She also serves on the board of Mercy Housing and serves as an adviser to Crossroads of the Rockies, a non-profit program that works with underserved children in after school programs. She attended the Pikes Peak Institute of Medical Technology, the Nazarene Bible College, and holds a bachelor of arts equivalency as a domestic violence counselor.

B. Senior FHLBank Topeka Officers

Andrew J. Jetter, President and CEO

Mr. Jetter joined the FHLBank in 1987 as an attorney and was promoted to general counsel in 1989, vice president in 1993, senior vice president in 1996 and executive vice president and chief operating officer in 1998. He was named president and CEO of the FHLBank on September 19, 2002. Before joining the FHLBank, Mr. Jetter was engaged in the private practice of law in Omaha, Nebraska, and served as a full-time instructor in the areas of finance and management at the University of Nebraska at Omaha. He has a bachelor's degree in business administration and economics from Midland Lutheran College, Fremont, Nebraska, and juris doctor and master of business administration degrees from the University of Nebraska-Lincoln. Mr. Jetter is a member of the Topeka Chamber of Commerce Go Topeka board of directors, the Kansas Council on Economic Education board of directors, the Financial Institutions Thrift Plan board of directors and the Kansas Equity Fund management committee.

Mark E. Yardley, First Senior Vice President and CFO

Mr. Yardley graduated summa cum laude in 1977 from Washburn University of Topeka with a degree in business administration with an accounting emphasis. He worked for a national public accounting firm after graduation, holding several auditing positions including manager in the Auditing department during the seven years he was there. He joined the FHLBank as internal auditor in October 1984 and was promoted to assistant vice president in 1990, to vice president in 1991 and to first senior vice president and director of finance in 1999. He was named CFO in December 1999. A certified public accountant, Mr. Yardley is a member of the Kansas Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

Sonia R. Betsworth, Senior Vice President, Member Products

Ms. Betsworth joined the FHLBank in 1983. She has held the positions of Credit analyst and Credit and Collateral supervisor and was promoted to Collateral officer in 1990 and to Credit officer in 1992. She was named assistant vice president in 1994, vice president in 1998 and senior vice president in 1999. Ms. Betsworth has a bachelor of business administration degree in finance from Washburn University of Topeka and is a graduate of the Graduate School of Banking at Colorado.

Patrick C. Doran, Senior Vice President, General Counsel and Corporate Secretary

Mr. Doran joined the FHLBank in May 2004 as general counsel and corporate secretary. Before joining the FHLBank, he served as senior counsel and vice president of corporate and community affairs for 1st Source Bank, South Bend, Indiana. Mr. Doran has a bachelor of business administration in finance from the University of Notre Dame, Notre Dame, Indiana. He also has a juris doctorate from the University of Notre Dame Law School.

Bradley P. Hodges, Senior Vice President, Corporate Services

Mr. Hodges joined the FHLBank in 1989 as planning and projects coordinator. He was promoted to operations analyst in 1991 and to administrative officer in 1993. He was named assistant vice president of Administration and Strategic Planning in 1995 and was promoted to vice president in 1998. He was named senior vice president and director of Housing, Technology and Planning in December 2001. Before joining the FHLBank, Mr. Hodges served as vice president of banking operations for Great Southern Savings Bank in Springfield, Missouri. Mr. Hodges has an undergraduate degree from the University of Arkansas. He is also a graduate of the Western States School of Banking at the University of New Mexico, Albuquerque.

Frank M. Tiernan, PhD, Senior Vice President and Treasurer

Dr. Tiernan joined the FHLBank in 1986 as Investment manager. He was promoted to vice president in 1987 and to senior vice president/treasurer in 1994. Before joining the FHLBank, Dr. Tiernan was an associate professor of finance and director of graduate programs in business at Drake University in Des Moines, Iowa, and also an assistant professor of finance and economics at Boston University in Boston, Massachusetts. Dr. Tiernan has a bachelor of business administration degree in accounting and a doctorate in finance from The Pennsylvania State University, University Park.

Appendix A:

CAPITAL PLAN

of the

FEDERAL HOME LOAN BANK of TOPEKA

TABLE OF CONTENTS

Adopted by Board of Directors: April 9, 2004
Approved by Federal Housing Finance Board: April 14, 2004

Federal Home Loan Bank of Topeka
Capital Plan

1) **Authority**. This Capital Plan is established pursuant to the Federal Home Loan Bank Act (12 U.S.C. 1421 *et seq.*) and Title 12 of the Code of Federal Regulations (C.F.R.) promulgated by the Federal Housing Finance Board and sets forth a plan for the establishment and implementation of a new capital structure for the Federal Home Loan Bank of Topeka.

2) **Definitions**. For purposes of this Plan, all capitalized terms used but not defined elsewhere have the following meanings:

   Activity-Based Stock Purchase Requirement means the Stock purchase requirement under which a Member must acquire and hold a specific amount of Class B Common Stock as a condition of transacting business with the Bank, the aggregate amount of which is a function of the volume of particular products or services provided to that Member by the Bank.

   Acquired Member Assets (AMA) means those assets acquired from Members by the Bank in accordance with 12 C.F.R. Part 955.

   Advance has the same meaning as set forth in 12 C.F.R. 900.2.

   Asset-Based Stock Purchase Requirement means the Stock purchase requirement under which a Member must acquire and hold a specific amount of Class A Common Stock based on that Member's total assets.

   Bank means the Federal Home Loan Bank of Topeka.

   Board means the board of directors of the Bank.

   Business Day means any day on which the Bank is open to conduct business.

   Class A Common Stock means Stock issued by the Bank that has a par value of one hundred dollars ($100) per share and is redeemable at par for cash on six (6) months' written notice to the Bank, consistent with Finance Board regulations.

   Class B Common Stock means Stock issued by the Bank that has a par value of one hundred dollars ($100) per share and is redeemable at par for cash on five (5) years' written notice to the Bank, consistent with Finance Board regulations.

   Conversion Date means the date upon which the Bank's current stock is converted into Stock as provided under this Plan.

   Dividend Parity Threshold means a dividend rate expressed as a percentage per annum up to which the dividends paid per share on Class A Common Stock and Class B Common Stock must be equal.

   Excess Class B Common Stock means the amount of Class B Common Stock owned by each Member in excess of its Activity-Based Stock Purchase Requirement.

Excess Stock means the Stock held by a given Member that is in excess of that Member's then current Minimum Stock Purchase Requirement.

Exchange means the simultaneous repurchase by the Bank of excess shares of one class of Stock and the purchase of an equivalent number of shares of another class of Stock on behalf of a Member.

FHLBank Act means the Federal Home Loan Bank Act, as amended from time to time, and codified at 12 U.S.C. 1421 *et seq*.

FHLBanks means the twelve Federal Home Loan Banks created by the FHLBank Act.

Finance Board means the Federal Housing Finance Board, the regulator of the Bank, and any successor regulator of the Bank.

GAAP means generally accepted accounting principles in the United States of America.

Leverage Capital Ratio means the percentage value obtained by dividing weighted Total Capital by the Bank's total assets. For purposes of this calculation, weighted Total Capital shall be computed by multiplying Permanent Capital by 1.5 and adding to this product all other components of Total Capital.

Member means an institution that has been approved for Membership and has satisfied its Minimum Stock Purchase Requirement and all other conditions of Membership, as set forth herein or as may otherwise be applicable.

Membership means all of the rights, privileges and obligations associated with being a Member.

Minimum Stock Purchase Requirement means the total amount of Stock that must be purchased by a Member as set forth in Section 7 hereof, which requirement is based both on a Member's asset size and activity with the Bank.

Permanent Capital means the amount of retained earnings of the Bank, determined in accordance with GAAP, plus the amounts paid in for Class B Common Stock.

Plan means this Capital Plan, as amended, supplemented or modified from time to time.

Redemption means the acquisition by the Bank of outstanding shares of Stock from a Member at par value in cash, based on a written request from that Member, following the expiration of the statutory Redemption notification period for the Stock.

Redemption Cancellation Fee means the fee imposed by the Bank upon a Member that has given the Bank notice of the Member's intent to redeem Stock or its request to withdraw from Membership, and such Redemption request or request to withdraw from Membership is subsequently cancelled, revoked or withdrawn.

Regulatory Capital Requirements means the amount of Total Capital and Permanent Capital that the Bank is required to hold to comply with the Total Capital and Risk-Based Capital requirements, respectively, set forth in the FHLBank Act and 12 C.F.R. Part 932.

Repurchase means the acquisition by the Bank of shares of Excess Stock at par value in cash and at the Bank's discretion prior to the expiration of the required Redemption notification period applicable to such Excess Stock.

Risk-Based Capital means the Permanent Capital carried to mitigate the impact of credit risk, market risk, and operations risk on the Bank.

Risk Management Policy means a policy approved by the Board in accordance with the provisions of 12 C.F.R. Part 917 that addresses the Bank's management of its exposure to credit risk, market risk, liquidity risk, business risk, and operations risk.

Stock means Class A Common Stock and/or Class B Common Stock.

Total Capital of the Bank means the aggregate sum of the Bank's Permanent Capital plus the amounts paid-in for Class A Common Stock, and any general allowance for losses and any other amounts from sources available to the Bank to absorb losses incurred by the Bank that the Finance Board determines to be appropriate.

Total Capital Ratio means the percentage value obtained by dividing unweighted Total Capital by the Bank's total assets.

3) **Objectives**. The objectives of the Plan are to:

   a) Establish and maintain a capital structure that will provide for the safe and sound operation of the Bank while promoting the long-term financial viability of the Bank and the Bank's ability to support the business activities of its Members within applicable statutory and regulatory authorities and at the same time preserving the cooperative nature of the FHLBanks.

   b) Set forth provisions governing Stock in compliance with 12 C.F.R. Part 931.

   c) Provide sufficient Total Capital and Permanent Capital to comply with the Bank's Regulatory Capital Requirements.

   d) Implement a flexible capital structure that is expected to facilitate the long-term growth and profitability of the Bank and allow the Bank to provide greater value to its members. The capital structure authorized in this Plan provides for the Bank as well to Repurchase shares and for Members to request Redemption of their shares of Stock subject to compliance with the provisions of this Plan and applicable rules and regulations promulgated by the Finance Board.

4) **Capitalization**. Adequate capitalization is required in order to: (a) provide for the safe and sound operation of the Bank; (b) permit prudent leveraging into products and services of benefit to Members; (c) provide appropriate risk-adjusted Member dividend returns; (d) protect the Bank's creditors against potential loss; (e) generate earnings sufficient to meet the Bank's various community support and public purpose obligations; and (f) comply with the Bank's Regulatory Capital Requirements. The need for capital is a function of the volumes of and risks inherent in the products and services provided by the Bank to its Members.

5) **Capital Requirements and Ratios**.

   a) **Statutory and Regulatory Requirements**. The Finance Board interprets and implements statutory requirements established for the FHLBanks by the U.S. Congress. As required by the

FHLBank Act, the Finance Board has adopted regulations prescribing various minimum levels of capital that must be held by FHLBanks. The capital regulations require the Bank to maintain a Total Capital Ratio at least equal to four percent (4.0%), a Leverage Capital Ratio at least equal to five percent (5.0%) and Permanent Capital in an amount at least sufficient to cover its Risk-Based Capital requirement.

The Finance Board has adopted capital requirements that incorporate factors weighing the relative risk incurred by each FHLBank. The Bank's Risk-Based Capital requirement is equal to the sum of its capital requirements for credit risk, market risk and operations risk, each as defined by the Finance Board. The Bank must calculate its Risk-Based Capital requirement and provide such calculations to the Finance Board monthly.

b) **Capital Ratios**. In order to ensure continuing capital adequacy, and compliance with minimum regulatory Total Capital requirements and minimum Risk-Based Capital requirements, management and the Board shall review the Bank's capital position on an ongoing basis. The Total Capital Ratio, Leverage Capital Ratio and Risk-Based Capital requirement shall be presented at each scheduled business meeting of the Board.

6) **Capital Structure**. Under this Plan, the Bank's capital structure shall consist of two classes of Stock (Class A Common Stock and Class B Common Stock) which may be purchased and held only by Members. Class A Common Stock and Class B Common Stock shall only be issued, redeemed and repurchased at a par value of one hundred dollars ($100) per share. Establishment of two classes of Stock and the distinctions between them are made in the Plan to facilitate efficient monitoring and management of the Bank's capital structure on an ongoing basis.

a) **Class A Common Stock**. Class A Common Stock must be held to satisfy a Member's Asset-Based Stock Purchase Requirement. Each Member will be required to purchase and maintain a defined minimum amount of Class A Common Stock for as long as it is a Member. Dividends on shares of Class A Common Stock are non-cumulative and may be paid either in cash or as a Stock dividend in the form of shares of Class B Common Stock.

b) **Class B Common Stock**. Shares of Class B Common Stock must be held to satisfy the Activity-Based Stock Purchase Requirement. Dividends on shares of Class B Common Stock are non-cumulative and may be paid either in cash or as a Stock dividend in the form of shares of Class B Common Stock.

7) **Minimum Stock Purchase Requirement**. A Member's Minimum Stock Purchase Requirement shall consist of Stock ownership of Class A Common Stock based on the Member's asset size (Asset-Based Stock Purchase Requirement). In addition, there will be an Activity-Based Stock Purchase Requirement. The Bank will not issue fractional shares of Stock. Minimum purchase requirements for Class A Common Stock and Class B Common Stock will be rounded up to the nearest one hundred dollars ($100).

a) **Asset-Based Stock Purchase Requirement**. Each Member shall purchase and maintain, as a condition of Membership for as long as it is a Member, an amount of Class A Common Stock having a cumulative par value equal to a specified percentage of the Member's total assets as of December 31 of the preceding calendar year. The Asset-Based Stock Purchase Requirement shall be subject to minimum and maximum dollar amounts. The Board will establish the specified percentage and the maximum Asset-Based Stock Purchase Requirement from time to time and changes thereto do not require Finance Board approval, provided they fall within the parameters set forth below.

1) **Specified Percentage**. The initial specified percentage of the Member's total assets established in this Plan by the Board for the Asset-Based Stock Purchase Requirement shall be two-tenths of one percent (0.2%). Under this Plan the Asset-Based Stock Purchase Requirement may permissibly fall within a range of not less than one-tenth of one percent (0.1%) and not greater than four-tenths of one percent (0.4%) of the Member's total assets.

2) **Minimum Dollar Amount**. The minimum Asset-Based Stock Purchase Requirement shall be one thousand dollars ($1,000).

3) **Maximum Dollar Amount**. The initial maximum dollar amount established in this Plan by the Board for the Asset-Based Stock Purchase Requirement shall be one million dollars ($1,000,000). The maximum Asset-Based Stock Purchase Requirement may permissibly fall within a range of not less than five hundred thousand dollars ($500,000) and not greater than two and one-half million dollars ($2,500,000).

4) **Asset-Based Stock Purchase Requirement Determination**. The Bank shall determine the Asset-Based Stock Purchase Requirement based on the most recent end-of-year regulatory reports filed by a Member with its primary regulator and notify each Member no later than April 20 of every year of the required amount of Class A Common Stock the Member is required to purchase and hold. If a Member needs to hold additional Class A Common Stock to meet its Asset-Based Stock Purchase Requirement, the Bank will purchase such Stock at par on behalf of the Member by debiting the Member's demand deposit account on April 30 or the preceding Business Day if April 30 is not a Business Day in an amount equal to the par value of such Stock.

   In addition, the Bank shall recalculate the Asset-Based Stock Purchase_Requirement for any Member that is involved in, or the subject of, any merger or acquisition as of the date of the completion of the merger or acquisition.

   If a Member is merged into an institution that is not a Member, or if a Member sells all of its assets and liabilities to a non-Member and ceases to operate its business, the Bank may, in its discretion, upon completion of the merger or sale recalculate that Member's Asset-Based Stock Purchase Requirement, which may be zero dollars ($0) since the former Member's charter may have no remaining assets upon which to base any Asset-Based Stock Purchase Requirement. If the former Member would not be in compliance with its Activity-Based Stock Purchase Requirement after recalculation of the former Member's Asset-Based Stock Purchase Requirement, the Bank may, in its discretion, Exchange the former Member's Excess Class A Common Stock for Class B Common Stock to the extent necessary for the former Member to comply with its Activity-Based Stock Purchase Requirement. If, as a result of such recalculation and/or Exchange, Excess Class A Common Stock is found to exist, such Excess Stock may be repurchased immediately by the Bank, provided that the Bank will be in compliance after such Repurchase with its Regulatory Capital Requirements. In such circumstances, Class B Common Stock owned by the former Member to meet its Activity-Based Stock Purchase Requirements will become Excess Stock when such Stock is not required to fulfill an Activity-Based Stock Purchase Requirement and may be repurchased at that time, provided the Bank will be in compliance after such Repurchase with its Regulatory Capital Requirements.

5) **New Members**. Upon approval of an application for Membership, the Bank shall notify the applicant of its Asset-Based Stock Purchase Requirement based on the applicant's most

recent annual regulatory report filed with its primary regulator. For new de novo Members that have not yet filed an annual regulatory report with their primary regulators, the initial Asset-Based Stock Purchase Requirement shall be one thousand dollars ($1,000). The applicant shall meet its Asset-Based Stock Purchase Requirement no later than sixty (60) calendar days following notification by the Bank of the approval of its Membership application and Membership shall commence at the time the applicant purchases sufficient Class A Common Stock to meet its Asset-Based Stock Purchase Requirement. All initial Stock purchases by new Members must be initiated by authorized Member personnel in writing and will be transacted by debiting the new Member's demand deposit account for the par value of the Class A Common Stock sufficient to meet its Asset-Based Stock Purchase Requirement.

b) **Activity-Based Stock Purchase Requirement**. Each Member shall purchase and maintain, as a condition of doing business with the Bank, an amount of Class B Common Stock having a cumulative par value equal to the sum of the amounts set forth below in Section 7(b)(1) through (4), less the Member's Asset-Based Stock Requirement determined pursuant to Subsection 7(a). A Member shall meet this Activity-Based Stock Purchase Requirement for as long as the activity with the Bank requiring imposition of such Activity-Based Stock Purchase Requirement remains outstanding. The Board will establish the percentage for each Activity-Based Stock Purchase Requirement from time to time and changes thereto do not require Finance Board approval provided each is within the percentages set forth below in Subsections 7(b)(1) through 7(b)(4). The Board may apply any such revised Activity-Based Stock Purchase Requirement to all activity then outstanding or only to activity which arises after the effective date of the change. At the time a Member enters into a transaction that requires the purchase of Class B Common Stock under this provision of the Plan, the Bank will purchase such Stock on behalf of the Member in the following two ways:

- exchanging Excess Class A Common Stock held by the Member into a like number of shares of Class B Common Stock sufficient to enable the Member to meet its Activity-Based Stock Purchase Requirement; if this is insufficient to enable the Member to meet its Activity-Based Stock Purchase Requirement, then

- by debiting the Member's demand deposit account for the remaining amount of its Activity-Based Stock Purchase Requirement.

1) **Advances**. The initial requirement established by the Board for Advances is an amount equal to five percent (5.0%) of the principal amount of Advances outstanding to the Member. The amount of Stock required to support Advance activity shall be determined each time the Member is issued a new Advance and must be satisfied when the Advance is made. Under this Plan, the amount of a Member's Activity-Based Stock Purchase Requirement based on that Member's Advance activity may permissibly fall within a range of not less than four percent (4.0%) and not greater than six percent (6.0%) of the principal amount of Advances outstanding to the Member.

2) **Acquired Member Assets (AMA).** The initial requirement established by the Board for AMA, including loans from the Mortgage Partnership Finance® Program, is an amount equal to two percent (2.0%) of the current outstanding principal balance of AMA originated by or through the Member and acquired by the Bank subject to a maximum AMA requirement of one and one-half percent (1.5%) of the Member's total assets as of December 31 of the preceding calendar year.. The amount of Stock required to support AMA activity shall be determined when the AMA activity is funded by the Bank or purchased from the Member.

Under this Plan the amount of a Member's Activity-Based Stock Purchase Requirement based on that Member's AMA activity may permissibly fall within a range from zero percent (0.0%) to not greater than six percent (6.0%) of the current outstanding principal balance of AMA originated by or through that Member and acquired by the Bank and the maximum AMA requirement may permissibly fall within a range from one percent (1.0%) to three percent (3.0%) of the Member's total assets as of December 31 of the preceding year.

3) **Letters of Credit**. The initial requirement established by the Board for letters of credit is an amount equal to zero percent (0.0%) of the principal amount of letters of credit outstanding at the request of the Member. The amount of Stock required to support letter of credit activity shall be calculated each time a new letter of credit is issued on behalf of the Member and must be satisfied when the letter of credit is issued. Under this Plan the amount of a Member's Activity-Based Stock Purchase Requirement based on letters of credit issued on behalf of that Member may permissibly fall within a range from zero percent (0.0%) to not greater than one percent (1.0%) of the principal amount of letters of credit outstanding at the request of that Member.

4) **Exchange Agreements**. The initial requirement established by the Board for exchange agreements (including but not limited to interest rate swaps, currency swaps, caps, collars, floors and equity options) is an amount equal to zero percent (0.0%) of the notional principal of the outstanding exchange agreements with the Member. The amount of Stock required to support exchange agreement activity shall be calculated each time the Member enters into a new exchange agreement or transaction and must be satisfied when the new exchange agreement or transaction is effective. Under this Plan the amount of a Member's Activity-Based Stock Purchase Requirement based on exchange agreements (as defined above) may permissibly fall within a range from zero percent (0.0%) to not greater than two percent (2.0%) of the notional principal of the outstanding exchange agreements with that Member.

c) **Continuing Monitoring Requirement; Change in Stock Requirements**. To maintain prudent and ongoing compliance with Finance Board regulations, the Board shall review the Plan at least annually to determine whether adjustments are required with respect to one or more of the following: 1) specific Stock purchase requirements and/or the types of activities to which these shall apply; 2) the exercise by the Bank of its discretion to repurchase Excess Stock and the methodology employed to effect such Repurchases; 3) any increases or decreases in Redemption Cancellation Fees; and 4) the introduction of any new subclasses of Stock.

As part of this continuing obligation to monitor the Plan, the Board shall review and, as necessary, adjust the Asset-Based Stock Purchase Requirement and the Activity-Based Stock Purchase Requirement to ensure that the Stock required to be purchased and maintained by Members, along with other allowable sources of capital including Retained Earnings determined in accordance with GAAP, is sufficient to allow the Bank to comply with its Regulatory Capital Requirements. Upon notification of a change in the Asset-Based Stock Purchase Requirement or the Activity-Based Stock Purchase Requirement, a Member shall have sixty (60) calendar days from the notification date to comply with the new Minimum Stock Purchase Requirement. During said sixty (60)-day period, however, a Member will be ineligible to engage in any new activity with the Bank unless the Member is then in compliance with the new Minimum Stock Purchase Requirement. A Member may elect to reduce its outstanding business with the Bank as a means of complying with the adjusted Activity-Based Stock Purchase Requirement. For each Member that is not in compliance with the new Minimum Stock Purchase Requirement at the end of the sixty (60)-day period, the Bank will:

- exchange Excess Class A Common Stock or Excess Class B Common Stock held by each Member into a like number of shares of Class B Common Stock or Class A Common Stock sufficient to enable the Member to meet its new Minimum Stock Purchase Requirement; if this is insufficient to enable the Member to meet its new Minimum Stock Purchase Requirement, then
- purchase such amount of Class A Common Stock and/or Class B Common Stock necessary to bring the Member into compliance with the new Minimum Stock Purchase Requirement on behalf of the Member by debiting the Member's demand deposit account.

8) **Dividends**. The Board, in conformance with the FHLBank Act and applicable Finance Board regulations, may declare dividends, expressed as a percentage rate per annum based upon the par value of Stock, from time to time on the shares of Class A Common Stock outstanding and the shares of Class B Common Stock outstanding as provided below, provided the Bank will continue to meet its Regulatory Capital Requirements after such dividend payment.

   a) **Dividend Parity Threshold; Notice to Stockholders**. The Board shall establish and notify Members of the initial Dividend Parity Threshold on or before the Conversion Date. The Dividend Parity Threshold will be expressed as a negative or positive spread relative to a published interest rate index or an internally calculated reference interest rate based upon any of the Bank's assets or liabilities. The Dividend Parity Threshold may be changed from time to time at the discretion of the Board. The Bank shall notify Members of any change to the Dividend Parity Threshold at least ninety (90) calendar days prior to a dividend payment.

   b) **No Dividend Preference**. The dividend rate per annum for Class A Common Stock and Class B Common Stock will be equal up to the Dividend Parity Threshold. Dividend rates in excess of the Dividend Parity Threshold may be paid on Class A Common Stock or Class B Common Stock at the discretion of the Board; provided, however, that the dividend rate per annum paid on the Class B Common Stock shall equal or exceed the dividend rate per annum paid on the Class A Common Stock. For purposes of the establishment of dividend rates, the Bank may project for the dividend period the reference interest rate used in the Dividend Parity Threshold calculation, in the Bank's absolute discretion, and may declare and pay dividends at rates per annum based on such projection without regard to the actual reference interest rate subsequently published or calculated for the dividend period.

   c) **Calculation of Stock Dividend**. In determining the number of shares to be issued when Stock dividends are declared, the number of shares will be rounded down to the nearest one hundred dollars ($100) of par value and any fractional shares shall be distributed in the form of a cash dividend.

   d) **Compliance with Regulatory Capital Requirements**. The Bank shall not declare or pay a dividend if it is not, or if after paying the dividend it would not be, in compliance with its Regulatory Capital Requirements.

9) **Liquidation**. The claims of holders of Class A Common Stock and the claims of holders of Class B Common Stock shall be *pari passu* with respect to the assets of the Bank in any liquidation proceeding. Any cash and property remaining after the satisfaction of all valid obligations of the Bank shall be divided between the Class A Common Stockholders and the Class B Common Stockholders in proportion to the number of shares of each class of Stock outstanding. Any rights set forth in this section can be modified, restricted or eliminated by any rules, regulations or orders prescribed by the Finance Board.

10) **Voting Rights**. A Member shall have the right to vote its Class A Common Stock and Class B Common Stock in elections of members of the Board to represent Members in the particular Member's state. For each directorship that is to be filled in an election, each Member located in the state to be represented by the directorship is entitled to cast one vote for each share of Stock the Member was required to hold under this Plan as of December 31 of the calendar year immediately preceding the election year. No Member, however, may cast for any one directorship a number of votes representing that Member's shares of a class of Stock that exceeds the average number of shares of that class of Stock that all Members located in that state were required to hold as of December 31 of the calendar year immediately preceding the election year. This limitation shall be calculated separately for holdings of Class A Common Stock and Class B Common Stock.

11) **Ownership of Retained Earnings**. The owners of Class B Common Stock shall have an ownership interest in the retained earnings, surplus, undivided profits and equity reserves, if any, of the Bank, but shall have no right to receive any portion of those items, except through declaration of a dividend or capital distribution approved by the Board or through the liquidation of the Bank and provided such ownership interest shall not preclude the Bank from paying dividends to Class A Common Stockholders from retained earnings or adversely impact the right of Class A Common Stockholders to receive liquidating distributions as otherwise described in this Plan.

12) **Other Provisions Governing Stock**.

a) **Issuance**. Stock shall not be issued by the Bank other than in accordance with 12 C.F.R. 931.2 and may only be issued to Members.

b) **Transfer**. Stock may be traded only between the Bank and its Members. A Member may not transfer any Stock to any other person or entity, including another Member; provided, however, that in the event of a merger or consolidation of two or more Members the Stock of the disappearing Member or Members shall be transferred by the Bank to the surviving or consolidated Member. In the event of a merger or consolidation of one or more Members into a non-Member institution, the Bank will redeem the Stock owned by the merged or acquired Member in accordance with the provisions of Section 13(h) hereof.

c) **Repurchase at Bank's Initiative**. The Bank, in its discretion, may develop a Repurchase program as to Excess Stock held by Members. Any such Excess Stock Repurchase program adopted by the Bank will be implemented based on an objective formula and applied to all Members equally. If, in applying such formula, the Bank would fail to meet its Regulatory Capital Requirements, then the Bank will repurchase Excess Stock only up to an amount that would permit the Bank to continue to meet its Regulatory Capital Requirements. In such an event, the Bank shall repurchase such Excess Stock from affected Members on a *pro rata* basis established by the Bank in its formula. Prior to repurchasing Excess Stock on its own initiative, the Bank shall provide a Member not less than five (5) Business Days' written notice of such Repurchase.

d) **Repurchase or Exchange of Class A Common Stock**. At the request of a Member through a written Redemption request submitted to the Bank, the Bank may, in its discretion, repurchase from that Member shares of Class A Common Stock which exceed the Member's Asset-Based Stock Purchase Requirement, provided that the Bank will continue to meet its Regulatory Capital

Requirements after the Repurchase. Refer to Section 13(c) hereof for a discussion of written Redemption requests made of the Bank not in connection with a notice of withdrawal.

Likewise, at the request of a Member through a written Exchange request submitted to the Bank, the Bank may, in its discretion, Exchange for shares of Class B Common Stock shares of Class A Common Stock which exceed the Member's Asset-Based Stock Purchase Requirement, provided that the Bank will continue to meet its Regulatory Capital Requirements after the Exchange. The Bank will notify the Member within five (5) Business Days of the receipt of the written Exchange request if the Bank intends to deny the request. Any such Exchange request that is denied by the Bank becomes null and void, with the Bank under no obligation to warehouse such requests in the event that it should decide to accept and process Exchange requests at some time in the future. Absent Bank notification of its intent to deny the Member's written Exchange request within five (5) Business Days of the receipt of the written Exchange request, the Bank will exchange such stock subject to the written Exchange request.

e) **Repurchase or Exchange of Class B Common Stock**. At the request of a Member through a written Redemption request submitted to the Bank, the Bank may, in its discretion, repurchase from that Member shares of Class B Common Stock which exceed the Member's Activity-Based Stock Purchase Requirement, provided that the Bank will continue to meet its Regulatory Capital Requirements after the Repurchase. Refer to Section 13(c) hereof for a discussion of written Redemption requests made of the Bank not in connection with a notice of withdrawal.

Likewise, at the request of a Member through a written Exchange request submitted to the Bank, the Bank may, in its discretion, Exchange for shares of Class A Common Stock shares of Class B Common Stock which exceed the Member's Activity-Based Stock Purchase Requirement, provided that the Bank will continue to meet its Regulatory Capital Requirements after the Exchange. The Bank will notify the Member within five (5) Business Days of the receipt of the written Exchange request if the Bank intends to deny the request. Any such Exchange request that is denied by the Bank becomes null and void, with the Bank under no obligation to warehouse such requests in the event that it should decide to accept and process Exchange requests at some time in the future. Absent Bank notification of its intent to deny the member's written Exchange request within five (5) Business Days of the receipt of the written Exchange request, the Bank will exchange such stock subject to the written Exchange request.

f) **Bank's Election to Exchange Class B Common Stock for Class A Common Stock**. If the Bank will continue to meet its Regulatory Capital Requirements after such Exchange, the Bank may, in its discretion, elect to exchange all or a portion of the Excess Class B Common Stock held by Members for Class A Common Stock at any time the Bank determines that Members hold Excess Class B Common Stock. An Exchange of less than all Excess Class B Common Stock will be done on a *pro rata* basis. The Bank shall give Members not less than five (5) Business Days' notice of the Exchange.

g) **Regular Exchange Program**. The Bank, in its discretion, may elect to establish a regular Exchange program under subsection (f). If the Bank elects to implement a regular Exchange program, then not less than thirty (30) calendar days prior to the first Exchange, the Bank shall notify all Members: (1) that the Bank will exchange all or a portion of the Excess Class B Common Stock for Class A Common Stock at regular intervals; (2) the date on which the Bank will conduct the first Exchange; and (3) the regular interval at which subsequent Exchanges will occur. If a regular exchange program is established, the Bank shall provide all Members not less than five (5) Business Days' advance notice if the Bank is: (1) changing the regular interval for such Exchanges; or (2) terminating such regular Exchange program.

h) **Cash in Lieu of Class A Common Stock**. A Member may direct the Bank to pay cash to the Member in lieu of Class A Common Stock in any Exchange described in subsections 12(f) and 12(g) by notifying the Bank in writing. This directive will be effective for all Exchanges occurring thirty (30) calendar days after such writing is received by the Bank. Upon written request from the Member to terminate the directive to pay cash, the Bank may, in its discretion, allow such directive to be terminated.

13) **Withdrawal from Membership; Stock Redemption Requests**.

a) **Voluntary Withdrawal**. A Member may withdraw from Membership by providing the Bank with written notice of the Member's intent to withdraw from Membership consistent with 12 C.F.R. 925.26. The applicable Stock Redemption period for Class A Common Stock and Class B Common Stock shall be deemed to begin upon the Bank's receipt of such written notice. The effective date of the withdrawal will be the date on which the applicable Stock Redemption period ends relative to that Member's Class A Common Stock, unless the Member has cancelled its notice of withdrawal prior to that date. The Member shall continue to retain sufficient Class A Common Stock to meet its Asset-Based Stock Purchase Requirement until the six-month Redemption period has passed, at which time the Bank may, in its discretion, Exchange such Class A Common Stock for Class B Common Stock in an amount sufficient to meet the former Member's Activity-Based Stock Purchase Requirement with Class B Common Stock and/or, to the extent such Class A Common stock is Excess Stock and not necessary to meet the former Member's Activity-Based Stock Purchase Requirement, redeem such Class A Common Stock at par and for cash by crediting the former Member's demand deposit account, in accordance with Finance Board regulations. Such withdrawing Member shall continue to retain sufficient Class A Common Stock or Class B Common Stock to meet its Activity-Based Stock Purchase Requirement for as long as any activity creating an Activity-Based Stock Purchase Requirement remains outstanding. The Activity-Based Stock Purchase Requirement for a former Member shall always be the Activity-Based Stock Purchase Requirement in effect on the effective date of a former Member's withdrawal from Membership in accordance with the applicable provisions of this Plan. When such activity has been completed, the Bank will, if the applicable Redemption period has expired, redeem such former Member's Excess Stock at par and for cash by crediting the former Member's demand deposit account, in accordance with this Plan and Finance Board regulations, provided that the Bank will continue to meet its Regulatory Capital Requirements after the Redemption. If the applicable Redemption period has not expired, the Bank may allow the Redemption period to proceed or, in its discretion, Repurchase such former Member's outstanding Excess Stock at par and for cash by crediting the former Member's demand deposit account, in accordance with this Plan and Finance Board regulations, provided that the Bank will continue to meet its Regulatory Capital Requirements after the Repurchase.

b) **Cancellation of Withdrawal Notice**. A Member may cancel its notice of withdrawal at any time prior to the effective date of the withdrawal by providing the Bank written notice of such cancellation.

c) **Stock Redemption Request**. A Member that desires to redeem a part of its Class A Common Stock or all or part of its Class B Common Stock shall provide the Bank a written request for Redemption stating the number and class of shares to be redeemed; provided, however, that a Member may not have more than one Redemption request outstanding at one time with respect to the same share of Stock.

The Bank's receipt of a written Redemption request shall commence the six-month and five-year Stock Redemption periods for the Class A Common Stock and Class B Common Stock, respectively, subject to the Redemption request.

On each written Redemption request, the Bank will notify the Member within five (5) Business Days of the Bank's receipt of the written Redemption request if the Bank does not intend to Repurchase or cannot Repurchase the Class A Common Stock and/or Class B Common Stock that is the subject of the Redemption request. The date of such notification by the Bank will not affect the commencement of the Redemption periods, which begin on the date the written Redemption request is received by the Bank.

As to a written Redemption request made of the Bank not in connection with a notice of withdrawal, and for which the Bank has provided the above notification, the Bank reserves the right to repurchase any or all of the Excess Class A Common and/or Excess Class B Common Stock that is the subject of a Member's Redemption request at any time prior to the expiration of the applicable Redemption period, provided that the Bank furnishes one (1) Business Day's notice prior to Repurchase and, both prior to and immediately following such a Repurchase, continues to meet its Regulatory Capital Requirements.

d) **Redemption, Repurchase and Exchange Limitations**.

1) The Bank will not redeem or repurchase any Stock if doing so would cause the Bank to fail to comply with its Regulatory Capital Requirements, or would cause the Member involved in such transaction to fail to meet its Minimum Stock Purchase Requirement. As to additional provisions regarding Redemption of Stock, refer to Section 13(f) of this Plan.

2) On any day that the sum of all requested Redemptions maturing on that day equals or exceeds an amount that would cause the Bank to fall below the minimum Regulatory Capital Requirements, Redemptions will be suspended until either those requests can be honored in full or the Board establishes *pro rata* Redemption procedures.

3) If the Board reasonably believes that continued Redemptions would cause the Bank to fail to meet its Regulatory Capital Requirements, would prevent the Bank from maintaining adequate capital against a potential risk that may not be adequately reflected in its Regulatory Capital Requirements or would otherwise prevent the Bank from operating in a safe and sound manner, it may suspend any and all Redemptions. During such period of suspended Redemptions, written permission of the Finance Board shall be obtained prior to any Repurchase or Exchange. Within two (2) Business Days of such suspension, the Bank shall notify the Finance Board of the reasons for the suspension and the Bank's strategies for addressing the situation. The Finance Board has the right to order the Bank to re-institute Redemptions of Stock.

4) Written approval from the Finance Board shall be required prior to Redemption, Repurchase or Exchange if there has been a determination by the Board or the Finance Board that the Bank has incurred, or is likely to incur, losses that result in, or are likely to result in, charges against the capital of the Bank as defined in the applicable rules and regulations. This requirement shall apply even if the Bank is in compliance with its Regulatory Capital Requirements, and shall remain in effect as long as the Bank continues to incur such charges, or until the Finance Board determines that such charges are no longer expected to continue.

e) **Redemption Request Prior to Exchange**.

1) If at any time a Member has pending a Redemption request for Class B Common Stock and that Class B Common Stock is exchanged for Class A Common Stock by the Bank under Subsections 7(a), 12(f) or 12(g), the Redemption request for the amount of Class B Common Stock exchanged is automatically cancelled. In such event, the Bank shall not impose a Redemption Cancellation Fee. A new written Redemption request must be submitted by the Member for the newly issued Class A Common Stock if the Member wants to redeem that Class A Common Stock. If such an Exchange comprises only a portion of a Member's existing Redemption request for Class B Common Stock, the Redemption period for that portion of the Member's Class B Common Stock that is not exchanged is determined by and continues to run from the initial date the Redemption request was received by the Bank.

2) If a Member has pending a Redemption request for Class A Common Stock and that Class A Common Stock is exchanged for Class B Common Stock by the Bank to meet the Member's Activity-Based Stock Purchase Requirement under Subsection 7(b), the Redemption request is automatically cancelled for the amount of Class A Common Stock exchanged. In such event, the Bank shall not impose a Redemption Cancellation Fee. If such an Exchange comprises only a portion of a Member's existing Redemption request for Class A Common Stock, the Redemption period for that portion of the Member's Class A Common Stock that is not exchanged is determined by and continues to run from the initial date the Redemption request was received by the Bank.

f) **Cancellation of Stock Redemption Request or Request to Withdraw from Membership**. A Member may cancel all or a part of its request to redeem Class A Common Stock or Class B Common Stock. A Member may also cancel its request to withdraw from Membership. The cancellation of a Member's request to withdraw from Membership shall automatically constitute a cancellation of the Stock Redemption request for all of the Member's Class A Common Stock and Class B Common Stock. In the event of the cancellation of all or a part of a Stock Redemption request, either through cancellation of a request to redeem or through the cancellation of a Member's request to withdraw from Membership, unless otherwise waived under the provisions of this plan, the Member shall pay a Redemption Cancellation Fee to the Bank with respect to those shares of Stock subject to the Redemption cancellation in the following amount: one percent (1.0%) of the par value of Class A Common Stock plus an amount of the par value of Class B Common Stock equal to, depending on when the Redemption request is cancelled, one percent (1.0%) in the first year after the Redemption request is received by the Bank, two percent (2.0%) in the second year, three percent (3.0%) in the third year, four percent (4.0%) in the fourth year and five percent (5.0%) in the fifth year. A Member's Stock Redemption request shall automatically be cancelled if, within five (5) Business Days from the end of the applicable Redemption period, the Bank continues to be precluded from redeeming the Member's Stock because if the Redemption were to proceed the Member would fail to meet its Minimum Stock Purchase Requirement after the Redemption. Such automatic cancellation of a Redemption request shall have the same effect as a voluntary cancellation by the Member and the applicable Redemption Cancellation Fee shall be imposed on the Member.

g) **Involuntary Withdrawal**. The Board may terminate the Membership of any Member if, subject to regulations adopted by the Finance Board, it determines that the Member has:

1) failed to comply with any provision of the FHLBank Act, any regulation promulgated under that Act, or this Plan; or

2) been determined to be insolvent or otherwise subject to the appointment of a conservator, receiver or other legal custodian, by a Federal or State authority with regulatory and supervisory responsibility for the Member; or

3) acted in a manner that jeopardizes the safety and soundness of the operation of the Bank.

h) **Termination of Membership Resulting from Merger or Consolidation**.

1) Upon merger or consolidation of two or more Members into one institution operating under the charter of one of the merging or consolidating institutions, the Membership of the surviving institution shall continue and the Membership of each disappearing institution shall terminate on the cancellation of its charter.

2) Upon the merger or consolidation of two or more institutions, at least two of which are Members of different FHLBanks, into one institution operating under the charter of one of the merging or consolidating institutions, the Membership of the surviving institution shall continue and the Membership of the disappearing institution shall terminate on the cancellation of its charter, provided, however, that if more than eighty percent (80.0%) of the assets of the merged or consolidated institution are derived from the assets of the disappearing institution, then the merged or consolidated institution shall continue to be a Member of the FHLBank of which the disappearing institution was a Member prior to the merger or consolidation, and the Membership of the other institutions shall terminate upon the effective date of the merger or consolidation.

3) In the case of an institution the Membership of which has been terminated as a result of a merger or other consolidation into a non-Member or into a Member of another FHLBank, the applicable redemption periods for Class A Common Stock and Class B Common Stock that is not subject to a pending Redemption request shall be deemed to commence on the date on which the charter of the former Member is cancelled.

i) **Other Provisions Governing Involuntary Termination of Membership**. Involuntary termination of Membership shall constitute a Redemption request for all of the former Member's Stock not otherwise subject to a prior Redemption request, and the applicable redemption period for the former Member's Stock shall begin to run from the date the Board terminates the institution's Membership. The former Member shall continue to receive any dividends declared during the applicable redemption period, but shall not be entitled to any other rights or privileges accorded to Members after the date of the termination of Membership. The Bank will not redeem any of such former Member's Class A Common Stock or Class B Common Stock, consistent with the provisions of Section 13(a), until such Stock is not required to fulfill the former Member's Activity-Based Stock Purchase Requirement.

14) **Implementation of Plan**.

a) **Conversion Date**. After Finance Board approval of the Plan, the Board shall establish a Conversion Date for the Plan. The Conversion Date shall be not later than December 31, 2004. The Board shall establish such Conversion Date within ninety (90) calendar days after Finance Board approval of the Plan as amended, and the Bank shall notify all Members of the Conversion Date within ten (10) Business Days after it has been established by the Board.

b) **<u>Conversion of Shares</u>**. At the close of business on the Conversion Date, the Bank shall immediately convert all shares of existing stock into shares of Class A Common Stock or Class B Common Stock as provided in this paragraph. Each Member shall receive one (1) share of Class A Common Stock or one (1) share of Class B Common Stock for each share of existing stock held on the Conversion Date. The Bank first shall convert each share of existing stock held by each Member into Class A Common Stock up to an amount equal to the Member's Asset-Based Stock Purchase Requirement. All additional shares of existing stock, if any, held by the Member on the Conversion Date shall be converted into Class B Common Stock. The Bank will reflect this conversion by appropriate book entries and will notify each Member of its Minimum Stock Purchase Requirement. To the extent a Member needs to purchase additional shares of Stock to comply with the Asset-Based Stock Purchase Requirement and/or the Activity-Based Stock Purchase Requirement at the time of conversion, the Member shall have ninety (90) calendar days to purchase the additional Stock provided it had been a Member of the Bank on November 12, 1999 (Pre-1999 Member). Any Member wishing to avail itself of this option must notify the Bank in writing at least thirty (30) calendar days prior to the Conversion Date. All Members that became Members after November 12, 1999 (Post-1999 Member), and any Member failing to properly exercise the foregoing ninety (90) calendar day option if available to it, must purchase all required Stock on the Conversion Date, and the Bank will purchase all such required Stock on behalf of such Members by debiting each such Member's demand deposit account on the Conversion Date in amount equal to the par value of the Stock necessary to bring the Member into compliance with the provisions of this Plan. On the next Business Day after the Conversion Date, the Bank will notify each Member and former Member of its Minimum Stock Purchase Requirement, including the amount of any shortfall in its current Stock ownership that was purchased (in the case of Post-1999 Members), or is required to be purchased (in the case of Pre-1999 Members), and the amount of Excess Stock, if any. Notwithstanding the above, in the event a Pre-1999 Member at any time has a shortfall in its Stock ownership below its Minimum Stock Purchase Requirement, the Member must, prior to engaging in any activity with the Bank that has an Activity-Based Stock Purchase Requirement under Subsection 7(b), purchase sufficient Stock to meet its Minimum Stock Purchase Requirement.

c) **<u>Cancellation of Shares</u>**. After such conversion, the Bank shall cancel all shares of existing stock outstanding prior to the Conversion Date.

d) **<u>Opt Out</u>**. Any Member of the Bank may, in lieu of maintaining its Membership pursuant to the terms of this Plan, notify the Finance Board, with a copy to the Bank, in writing at least thirty (30) calendar days prior to the Conversion Date of its desire to withdraw from Membership. Provided such notice is given, the Bank shall, on the Conversion Date, or prior thereto if the requisite notice period has expired prior to the Conversion Date, terminate the Membership of any Member that provides such written notice of withdrawal. In addition, any withdrawal from Membership shall be subject to applicable laws, Finance Board regulations, and other provisions of this Plan.

e) **<u>Members in the Process of Withdrawing from Membership</u>**. Any Member that files its written notice to withdraw with the Finance Board less than thirty (30) calendar days prior to the Conversion Date, shall have its existing stock converted into Stock in accordance with the Plan, and the effective date of withdrawal shall be established pursuant to 12 C.F.R. 925.26; provided, however, that the applicable Stock Redemption periods calculated under such regulation shall commence on the date the Member first submitted its written notice to withdraw to the Finance Board.

f) **Orderly Liquidation**. Any former Member that has withdrawn from Membership on or before the Conversion Date, but continues to hold stock to support Advances the Bank has agreed to liquidate after the termination of Membership, shall have its shares of existing stock converted into Class B Common Stock on the Conversion Date as described above in Section 14(b), but thereafter need only comply with the Activity-Based Stock Purchase Requirement for Advances. Any such former Member shall hold Class B Common Stock sufficient to comply with the Activity-Based Stock Purchase Requirement during the period of liquidation.

g) **Failure to Opt Out**. Any Member that fails to opt out by adhering to the provisions of Section 14(d) above will automatically have its existing stock converted into Class A Common Stock and/or Class B Common Stock as described above in Section 14(b).

15) **Amendment of Plan**. Any modifications to this Plan shall require an amendment to the Plan by the Board and approval from the Finance Board.

16) **Basis for Implementation**. The Bank has made a good faith determination that it will be able to implement the Plan as submitted and that it will be in compliance with its Regulatory Capital Requirements when the Plan is implemented. The Bank bases this determination on the fact that it presented the basic provisions of this Plan to its Members at ”Customer Appreciation Events” during the Summer and Fall of 2003 to which all Members were invited to attend. In addition, the provisions of the Plan were presented in various private discussions with the Bank’s five largest Members (in terms of product usage) during the Summer and Fall of 2003. At none of these discussions or meetings has any Member raised any serious objection to any provision of the Plan, nor has any Member indicated that adoption of the Plan would result in that Member withdrawing from Membership in the Bank after the Plan is formally adopted and put into effect.

17) **Independent Accountant**. Based on the review of PricewaterhouseCoopers, an independent accounting firm, the Bank believes that the Plan ensures to the extent possible that implementation of the Plan will not result in any write-down of the redeemable stock owned by its Members.

18) **Rating Agency**. Based on the review of Standard & Poor’s, an independent nationally recognized statistical rating organization, the Bank believes that the Plan ensures to the extent possible that implementation of the Plan will not have a material effect on its credit rating.